No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. These securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

This is a base PREP prospectus. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. This short form prospectus has been filed under procedures in each of the provinces of Canada that permit certain information about these securities to be determined after this short form prospectus has become final and that permit the omission of that information from this short form prospectus. The procedures require the delivery to purchasers of a supplemented PREP prospectus containing the omitted information within a specified period of time after agreeing to purchase any of these securities. Such omitted information shall be deemed to be incorporated by reference in the short form PREP prospectus as of the date of the supplemented PREP prospectus.

Preliminary Short Form Base PREP Prospectus

New issue **February 28, 2002**

AXCAN PHARMA INC.

US$●

4,500,000 Common Shares

This offering consists of 4,500,000 common shares issued by Axcan Pharma Inc. ("Axcan"). Axcan's common shares (the "Common Shares") are listed on The Toronto Stock Exchange Inc. (the "TSE") under the trading symbol "AXP" and on the Nasdaq National Market ("Nasdaq") under the trading symbol "AXCA". On February 27, 2002, the closing price of the Common Shares was Cdn$19.60 per share on the TSE and US$12.19 per share on Nasdaq. The offering price of the Common Shares has been determined by negotiation between Axcan and J.P. Morgan Securities Inc., Thomas Weisel Partners LLC, UBS Warburg LLC, National Bank Financial Inc. and SunTrust Capital Markets, Inc. (collectively, the "Underwriters"). This offering is being made concurrently in the United States and in Canada pursuant to the multijurisdictional disclosure system implemented by the securities regulatory authorities in the United States and Canada.

PRICE: US$ ● PER COMMON SHARE

	Price	Underwriting Discount	Net Proceeds [1]
Per Common Share [2]	US$●	US$●	US$●
Total Offering [3]	US$●	US$●	US$●

(1) Before deducting expenses of this offering which are estimated to be US$700,000 and which, together with the underwriting discounts will be paid by Axcan from its general funds. See "Underwriting".

(2) The offering price for the Common Shares offered in Canada is payable in Canadian dollars at the exchange rate for the conversion of US dollars into Canadian dollars calculated based on the inverse of the noon buying rate in the City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York on ●, 2002.

(3) Without taking into account the option granted to the Underwriters for the purchase of 675,000 additional Common Shares at the price of US$● per Common Share to cover over-allotments, if any, and for market stabilization purposes (the "Over-allotment Option"). The Over-allotment Option may be exercised within 30 days after the signing of the underwriting agreement referred to under "Underwriting". If the Over-allotment Option is exercised in full, the Price, the Underwriting Discount and the Net Proceeds will be US$●, US$● and US$●, respectively. This prospectus also qualifies the Common Shares issuable upon the exercise of the Over-allotment Option. See "Underwriting".

We, the Underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by Axcan and accepted by us in accordance with the conditions contained in the underwriting agreement referred to under "Underwriting", and subject to the approval of certain legal matters on behalf of Axcan by Lapointe Rosenstein, a general partnership, Montreal, Quebec, Leger Robic Richard, a general partnership, Montreal, Quebec, and Paul, Hastings, Janofsky & Walker LLP, Atlanta, Georgia, and on behalf of the Underwriters by Milbank, Tweed, Hadley & McCloy LLP, New York, New York and Stikeman Elliott, a general partnership, New York, New York.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Throughout the period of distribution, such transactions, if commenced, may be discontinued at any time. See "Underwriting".

Investing in the Common Shares involves risks that are described in the "Risk Factors" section beginning on page 7 of this prospectus.

National Bank Financial Inc., one of the Underwriters, is related to a Canadian chartered bank which is a member of Axcan's lending syndicate under existing credit facilities. Consequently, Axcan may be considered a connected issuer to National Bank Financial Inc. within the meaning of applicable Canadian securities legislation. See "Relationship between Axcan and the Underwriters".

Subscriptions will be received subject to rejection or allotment in whole or in part and Axcan reserves the right to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on or about ●, 2002, or such other date as may be agreed upon, but no later than ●, 2002, and that certificates evidencing the Common Shares will be available for delivery at closing.

The specific terms of the offer of Common Shares (including the aggregate price, the issue and delivery dates, the underwriting terms, the underwriting discount and the amount of the net proceeds) will be set forth in a supplemented PREP prospectus which will complete and follow this short form prospectus.

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Trademarks

The names AXCAN, AXCAN PHARMA, FIV-ASA, FLUTTER, CANASA, HELICIDE, MODULON, PHOTOFRIN, SCANDICAL, SCANDISHAKE, SALOFALK, TAGAMET, TRANSITOL, TRANSULOSE, ULTRASE, URSO 250 and VIOKASE appearing in this prospectus are trademarks of Axcan or of one of its subsidiaries. In some cases, Axcan's rights to these trademarks are restricted to certain territories.

The following names appearing in this prospectus are trademarks used under license by Axcan:

- ADEKs is a registered trademark of Carlsson-Rensselaer Corporation ("CR").
- AMPHOJEL is a registered trademark of American Home Products Corporation ("AHP").
- ARESTAL is a registered trademark of Janssen-Cilag S.A.S.

MUCAINE is a registered trademark of AHP.

In this prospectus, all references to "US$" are to United States dollars and all references to "Cdn$" are to Canadian dollars.

Exchange rate information

On February 27, 2002, the exchange rate for conversion of US dollars into Canadian dollars, based on the inverse of the noon buying rate in the city of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York, was Cdn$ 0.6217 per US$1.00.

Prospectus summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus and incorporated or deemed to be incorporated by reference in this prospectus, including the consolidated financial statements of Axcan and the notes thereto. Prospective investors should carefully consider the factors set forth under "Risk factors" and are urged to read this prospectus in its entirety.

Unless otherwise stated, references to "Axcan" in this prospectus include Axcan Pharma Inc., as well as its direct and indirect operating subsidiaries in which it owns a majority interest. Unless otherwise stated, all market size information appearing in this prospectus has been provided by IMS Health Ltd., a provider of information services specializing in medical research information.

Axcan Pharma Inc.

Axcan is a leading specialty pharmaceutical company concentrating in the field of gastroenterology, with operations in North America and Western Europe. Axcan markets and sells pharmaceutical products used in the treatment of a variety of gastrointestinal diseases and disorders. Axcan seeks to expand its gastrointestinal franchise by in-licensing and acquiring products or companies, as well as by developing additional products and expanding indications for its existing products. Axcan's current products include ULTRASE for the treatment of certain gastrointestinal symptoms related to cystic fibrosis, URSO 250 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 cancers. In addition, Axcan is currently developing three products for five indications. Approval applications for two of these products have been submitted in the United States and Canada and one of the products is in multiple Phase II studies. Axcan reported revenue of US$104.5 million and EBITDA of US$32.8 million for the fiscal year ended September 30, 2001.

Prescription drugs for gastrointestinal diseases and disorders are the pharmaceutical industry's second largest market with annual sales of over US$10 billion in North America. Of these sales, approximately US$7 billion consists of sales of proton pump inhibitors, which are drugs used in the treatment of ulcers and heartburn. Axcan competes in the remaining US$3 billion market, which includes products for the treatment of inflammatory bowel diseases and other disorders of the lower gastrointestinal tract. Despite the relatively high number of patients suffering from gastrointestinal diseases and disorders, there is only a relatively small number of gastroenterologists in North America and Western Europe. As a result, Axcan's sales and marketing force of 164 professionals is able to efficiently target this market. Axcan's focus on gastroenterology, its broad product line and its commitment to the development of safe and efficacious therapies for patients, have enabled it to cultivate a long-standing relationship with the key prescribers of Axcan's products.

In addition to its sales and marketing activities, Axcan develops late-stage products that it acquires or in-licenses from third parties. This focus on products in late-stage development enables Axcan to avoid the significant risks and expenses associated with new drug development. The combination of Axcan's development expertise and track record of regulatory approvals, along with its sales and marketing infrastructure, offers Axcan opportunities to expand indications for its existing products and to profitably acquire or in-license products that have been advanced to the late stages of development by other companies. Since 1997, Axcan has in-licensed or acquired 12 products, including ULTRASE, VIOKASE and PHOTOFRIN. Axcan has two products pending regulatory approval, PHOTOFRIN in Canada for Barrett's esophagus and HELICIDE in Canada and the United States for the eradication of the bacteria believed to be the leading cause of peptic ulcers. Axcan is also preparing an approval submission of PHOTOFRIN for Barrett's esophagus, a pre-cancerous condition caused by chronic gastro-esophageal reflux disease, and is conducting Phase II studies of URSO 250 to expand its use for new indications.

Over the past several years, Axcan has experienced rapid growth by acquiring products and businesses. In August 1999, Axcan acquired Scandipharm Inc. ("Scandipharm"), giving Axcan the line of products it

markets under the trademark ULTRASE, its single largest selling product for fiscal 2001, and substantially increasing Axcan's sales force and presence in the United States. In November 1999, Axcan acquired the 50% of the Axcan URSO, LLC ("Axcan URSO") joint venture with Schwarz Pharma, Inc. ("Schwarz") that it did not already own, enabling Axcan to leverage its newly acquired U.S. sales force to sell URSO 250, its second largest selling product for fiscal 2001 in the United States. In June 2000, Axcan acquired the worldwide rights to PHOTOFRIN, a product that Axcan is developing for the treatment of high-grade dysplasia associated with Barrett's esophagus. The PHOTOFRIN acquisition provides Axcan with a product that complements its existing products and allows it to enter the new and growing field of photodynamic, or light-based, therapy. In November 2001, Axcan acquired Laboratoires Entéris S.A.S. ("Enteris"), a French pharmaceutical company specializing in the distribution of gastrointestinal products. This acquisition provides Axcan with a platform from which it will seek to expand its business into Western Europe.

Strategy

Axcan's goal is to continue to enhance its position as a leading specialty pharmaceutical company within the field of gastroenterology. The key components of Axcan's business strategy include:

Increasing market penetration of existing products. Axcan seeks to increase the number of patients who use its existing products in two ways. First, Axcan's sales force increases gastroenterologists' awareness of the benefits of its products in order to encourage these specialists to prescribe Axcan's products to new patients and to switch their existing patients to Axcan's products. Second, Axcan educates gastroenterologists about the early symptoms associated with gastrointestinal diseases and disorders so that patients who may benefit from Axcan's products are identified sooner.

Obtaining regulatory approval for expanded indications of existing products. Axcan invests in the development of new indications and formulations of existing products. Axcan has two new indications for URSO 250 in Phase II studies, one new indication of URSO 250 where Phase II studies are complete and one new indication for PHOTOFRIN for the treatment of Barrett's esophagus where Phase III studies are complete. Axcan has submitted this indication of PHOTOFRIN for approval in Canada and expects to submit PHOTOFRIN for approval of the same indication in the United States during the first half of 2002.

Obtaining regulatory approval for products currently in Axcan's product pipeline. Axcan seeks to leverage its experience and expertise in obtaining regulatory approval for its product candidates. Since 1991, Axcan has obtained regulatory approval for several indications of URSO 250, SALOFALK and CANASA. In June 2000, Axcan obtained regulatory approval to market PHOTOFRIN in Sweden, Ireland and Italy, bringing to 11 the number of European countries in which PHOTOFRIN can be marketed. Recently, Axcan submitted HELICIDE for regulatory approval in Canada and the United States.

Increasing market coverage by in-licensing and acquiring additional products. Axcan evaluates acquisitions of companies, products and technologies. Axcan believes that the combination of its international sales and marketing force, its product development expertise and its focus on the field of gastroenterology provide it with acquisition opportunities that are not available to other pharmaceutical companies of similar size. Axcan believes it is an attractive partner for pharmaceutical companies that have strong product development capabilities but that do not have an established sales and marketing force, as well as for pharmaceutical companies that have products which are approved outside of North America and are seeking to develop and market these products in North America. Since 1997, Axcan has in-licensed or acquired 12 products, including ULTRASE, VIOKASE and PHOTOFRIN.

Recent financial developments

On February 21, 2002, Axcan announced its results of operations for the three months ended December 31, 2001, its first quarter of fiscal 2002. Revenue for this quarter was US$28.7 million, representing a 17.6% increase over revenue of US$24.4 million for the same quarter of fiscal 2001. Net earnings for the first quarter of fiscal 2002 were US$3.5 million, or US$0.09 per Common Share, as compared to net earnings of US$1.8 million, or US$0.05 per Common Share, for the same quarter of fiscal 2001. EBITDA for the quarter was US$7.3 million, as compared to US$6.9 million for the same quarter of fiscal 2001.

Corporate information

Axcan was incorporated under the *Canada Business Corporations Act* on May 6, 1982 and its head office is located at 597 Laurier Blvd., Mont Saint-Hilaire, Quebec J3H 6C4. Axcan maintains a website at www.axcan.com. Information contained on Axcan's website does not constitute part of this prospectus.

The offering

Common Shares offered.....	4,500,000 shares
Common Shares to be outstanding after the offering.....	42,960,910 shares
Nasdaq National Market Symbol.....	AXCA
Toronto Stock Exchange Symbol.....	AXP

Use of Proceeds

Of the estimated net proceeds of this offering (approximately US$51.0 million assuming a public offering price of US$12.19 per share, after deducting the estimated expenses of this offering, underwriting discounts and assuming no exercise of the Over-allotment Option), approximately US$12.0 million will be used to pay the balance of the purchase price of the Enteris acquisition, and the remaining proceeds will be used for general corporate purposes, including development of new products and future acquisitions of products and companies.

The number of Common Shares outstanding after this offering is based on 38,460,910 Common Shares outstanding on February 27, 2002, excluding:

- options outstanding to purchase up to an aggregate of 2,184,296 Common Shares at a weighted average exercise price of US$8.47 under Axcan's stock option plan;
- up to Cdn$4.0 million of Common Shares which may be issued in the future at their then current market value;
- up to Cdn$10.0 million of Series B preferred shares which may be issued in the future to QLT Inc. as milestone payments in connection with the acquisition of PHOTOFRIN, which are (i) redeemable at Axcan's option either for cash or through the issuance of a number of Common Shares determined by their then market value and (ii) convertible at the option of the holder into not more than 666,666 Common Shares. See "Description of share capital"; and
- the option granted to the Underwriters for the purchase of 675,000 Common Shares at the price of US$● per Common Share to cover over-allotments, if any, and for market stabilization purposes. If the Underwriters exercise their Over-allotment Option in full, the number of Common Shares offered would be 5,175,000 Common Shares and the total number of Common Shares to be outstanding after the offering would be 43,635,910 Common Shares.

Summary consolidated financial data

The following table presents summary consolidated financial data of Axcan for the periods indicated. This summary consolidated financial data has been derived from the audited consolidated financial statements of Axcan.

Axcan prepares its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). To the extent applicable to the consolidated financial statements of Axcan, Canadian GAAP conforms in all material respects with US GAAP, except as described in note 24 of the notes to the consolidated financial statements of Axcan for the year ended September 30, 2001. The summary historical financial data should be read in conjunction with the consolidated financial statements of Axcan and the notes thereto.

Fiscal year ended September 30, (in thousands of US dollars, except per share data)	**2001**	**2000**	**1999[1]**
Statement of earnings data:			
Amounts under Canadian GAAP			
Revenue	$104,549	$87,486	$37,549
Cost of goods sold	26,540	22,313	9,546
Selling and administrative expenses	39,101	32,127	17,771
Research and development expenses	6,129	6,174	3,175
Depreciation and amortization	12,032	10,522	3,021
Total costs and expenses	83,802	71,136	33,513
Operating income	20,747	16,350	4,036
Net financial expenses [2]	2,547	8,023	1,689
Earnings before income taxes	18,200	8,327	2,347
Net earnings	$11,472	$6,736	$1,412
Net earnings per Common Share	$0.31	$0.25	$0.09
Amounts Under US GAAP			
Net earnings	$11,825	$5,936	$652
Net earnings per Common Share	$0.32	$0.22	$0.04
Other			
EBITDA [3]	$32,779	$26,872	$7,057

As at September 30, (in thousands of US dollars, except per share data)	2001 (audited)	2001 as adjusted[4] (unaudited)
Balance Sheet Data:		
Amounts Under Canadian GAAP		
Cash and cash equivalents	$16,541	$45,679
Working capital	43,558	72,696
Total assets	249,103	300,241
Long-term debt, including current portion	215	215
Total shareholders' equity	205,141	256,279
Amounts Under US GAAP		
Total assets	$246,484	$297,622
Total shareholders' equity	200,431	251,569

(1) Historical financial data has been stated in Canadian dollars and converted to US dollars as described in note 2 of the notes to the consolidated financial statements of Axcan included in this prospectus.

(2) Net financial expenses are financial expenses net of interest income.

(3) EBITDA means earnings before financial expenses, interest income, taxes, depreciation and amortization. EBITDA is presented because Axcan believes that it is a useful indicator of its ability to meet debt service and capital expenditure requirements. EBITDA is not intended as an alternative measure of operating results or cash flow from operations as determined in accordance with Canadian GAAP. Because EBITDA is not calculated identically by all companies, the presentation herein may not be comparable to other similarly titled measures of other companies.

(4) The adjusted balance sheet data as at September 30, 2001 gives effect to this offering assuming a public offering price of US$12.19 per share and the sale of 4,500,000 Common Shares, without giving effect to the Over-allotment Option. Adjusted cash and cash equivalents reflect the net proceeds of this offering of approximately US$ 51.0 million and the payment of US$10.0 million on account of the purchase price for Enteris as well as the payment of the balance of US$12.0 million owed to Enteris expected to be paid out of the proceeds of this offering.

Risk factors

The Common Shares offered hereby involve a high degree of risk. The following risk factors and all other information contained in this prospectus and in documents incorporated or deemed incorporated by reference herein should be considered carefully before making an investment decision. If any of the following risks, as well as other risks and uncertainties that Axcan has not yet identified or that Axcan currently believes are immaterial, actually occur, the business, financial condition and results of operations of Axcan could be materially and adversely affected. In such case, the market price of the Common Shares could decline and all or part of an investment in the Common Shares offered hereby may be lost.

Risks related to Axcan's business

Axcan currently depends on three key products for a large portion of its sales, and substantial sales declines in any of them would result in Axcan being unprofitable.

Any factor that adversely affects the sale or price of Axcan's key products could significantly decrease Axcan's sales and profits. ULTRASE, URSO 250 and CANASA accounted for approximately 26%, 25% and 14%, respectively, of Axcan's total revenues for the year ended September 30, 2001. Axcan believes that sales of these products will continue to constitute a significant portion of its total revenues for the foreseeable future.

Axcan can give no assurance of continued commercial acceptance of its products.

Axcan markets products developed by it and also acquires products that other companies have successfully marketed. Axcan may not be able to maintain or increase sales of its products. Axcan also reformulates and attempts to improve products through newer delivery methods and other innovative techniques. However, patients and doctors may not accept changed products. Sales of Axcan's products may decrease if doctors and patients do not maintain loyalty to Axcan's products for treatment of chronic conditions and switch to competing products.

Part of Axcan's growth strategy is to acquire companies, which subjects Axcan to additional risk; for example, Axcan may not benefit from its acquisition of Enteris.

An element of Axcan's growth strategy is to seek to acquire companies with products that complement its current products. Axcan has evaluated and discussed such opportunities with interested parties and made acquisitions in the past. For example, Axcan has made assumptions about the benefits of acquiring Enteris, a French company it acquired in November 2001. Axcan assumes that it will benefit from sales of Enteris' products and the ability to expand sales through the promotion of certain of Axcan's products by Enteris' sales force. Axcan has assumed that it will be able to effectively pursue its objectives notwithstanding the risks inherent in expanding into a new, highly regulated market. If Axcan's assumptions or expectations are incorrect, its growth and financial position may be adversely affected.

In addition to the risks that Axcan faces in locating and integrating new business acquisitions, Axcan may face the following risks:

- Axcan may realize substantial acquisition-related expenses, including the potential impairment of goodwill, which would reduce Axcan's net income in future years;
- Axcan may lose key employees and customers as a result of changes in management at companies it acquires; and
- Axcan's investigation of potential acquisition candidates may not reveal problems and liabilities associated with the businesses, technologies or products that Axcan acquires.

In addition, if Axcan acquires companies using convertible debt or equity securities, the increased number of Common Shares could result in lower earnings per share.

Axcan may not benefit from its acquisition of PHOTOFRIN.

Axcan expects to continue to derive benefits in the future from its acquisition in June 2000 of worldwide rights to PHOTOFRIN, a product that is being developed by Axcan for the treatment of Barrett's esophagus. Axcan believes future sales growth of PHOTOFRIN depends in part on the ability of Axcan's commercial partners to market relatively affordable laser equipment to activate PHOTOFRIN, fiber optic light diffusers used in treatment and Axcan's ability to educate physicians about the benefits of PHOTOFRIN. Failure by Axcan's commercial partners to effectively market laser equipment, the failure of such commercial partners to meet demand or the failure to achieve greater market acceptance of PHOTOFRIN could reduce anticipated growth in the sales of PHOTOFRIN. Moreover, Axcan sub-contracts the manufacture of PHOTOFRIN to a third party and is currently in the process of transferring the manufacture of PHOTOFRIN to a new contract manufacturer. If the new contract manufacturer is unable to meet regulatory requirements for the manufacture of PHOTOFRIN prior to the expiration of the existing manufacturing agreement, the supply of PHOTOFRIN could be interrupted and sales would decrease.

Axcan must acquire rights to new products and integrate them successfully in order to continue to grow and be profitable.

Axcan depends on acquisitions of rights to products from others as its primary source for new products. Axcan cannot be certain that it will be able to identify appropriate products for potential acquisition. If a product candidate is identified, there can be no assurance that Axcan will be able to successfully negotiate the terms of any such acquisition, finance such acquisition or integrate such acquired product into its existing business. In addition to the risks that Axcan faces in locating and integrating new product acquisitions, Axcan may face the following risks:

- new products that Axcan finds attractive and complementary to its business may not be available;
- the price to acquire or obtain a license for these products may be high; and
- the negotiation of potential product acquisitions could divert management's time and resources and require significant financial resources to consummate.

Axcan often faces significant competition from other pharmaceutical companies in acquiring rights to products, which makes it more difficult to find attractive products on acceptable terms. Axcan believes that the activities required for product introductions, together with other duties, may cause Axcan's personnel to have insufficient time to integrate new products while simultaneously continuing to effectively market existing products. Failure to do this successfully could limit Axcan's ability to sell existing and new products.

Axcan relies on third parties for the supply and manufacture of certain products and loss of access to third party suppliers would impair Axcan's ability to conduct its business.

Axcan depends on third parties for the supply of active ingredients and for the manufacture of most of its products. Axcan may not be able to obtain the active ingredients or products from 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.

In particular, Axcan depends on Eurand International S.p.A. ("Eurand") for the supply of the enterically-coated pancreatic enzyme minitablets that Axcan markets under the trademark ULTRASE, which accounted for approximately 26% of Axcan's total revenue for fiscal 2001. Loss of this source of supply could mean that Axcan would no longer be able to market these minitablets under the trademark ULTRASE. While potential alternative sources of pancreatic enzyme supply do exist, there is no guarantee that Axcan would be able to find a suitable replacement source of supply or successfully negotiate the terms of a replacement supply.

The loss of Axcan's current source of pancreatic enzyme minitablets would have an adverse effect on its revenue and profitability.

Axcan also depends on Diomed Inc. ("Diomed") for the supply of the laser equipment and fiber optic light diffusers it uses in conjunction with PHOTOFRIN. While similar equipment is available to activate PHOTOFRIN, the Diomed laser is less expensive, more portable, and targeted as a component of the PHOTOFRIN Barrett's esophagus treatment, for which Axcan expects to seek Food and Drug Administration ("FDA") approval. Consequently, if Diomed is unable to continue to manufacture, sell or service its laser equipment and fiber optic light diffusers, it could adversely affect Axcan's ability to market PHOTOFRIN for the treatment of Barrett's esophagus.

Diomed also provides optiguide fiber optic cables that are approved for use with PHOTOFRIN. Diomed's inability to supply fiber optics would hinder Axcan's efforts to sell PHOTOFRIN and thus could have an adverse effect on Axcan's revenue and profitability.

If Axcan's products under development fail in clinical studies or if Axcan fails or encounters difficulties in obtaining regulatory approval for new products or new uses of existing products, Axcan will not successfully develop its product pipeline and will have expended significant resources for no return.

Axcan recently completed a Phase III clinical study in the United States and Canada of HELICIDE, an antibacterial product potentially used for the eradication of the bacteria causing peptic ulcers, the results of which were used to file a New Drug Application ("NDA") with the FDA and a New Drug Submission ("NDS") with the Therapeutic Products Directorate ("TPD") of Health Canada. Axcan also expects to initiate a Phase II clinical trial in the United States and Canada during fiscal 2002, in order to assess the therapeutic value of PHOTOFRIN in the treatment of early stage esophageal cancer. If Axcan cannot obtain regulatory approvals for these or other products which Axcan may seek to develop in the future, Axcan’s rate of sales growth and competitive position will suffer.

Axcan has limited experience in obtaining regulatory approvals in the United States and Canada for new products or new indications of existing products. Axcan relies on third parties to formulate, develop and manufacture some of the materials needed for clinical trials for its products under development. Axcan also relies on third parties to conduct clinical trials. If Axcan’s products are not successful in clinical trials or if Axcan does not obtain regulatory approvals, it will have expended significant resources for no return. Axcan’s ongoing clinical studies might be delayed or halted for various reasons, including:

- products are shown not to be effective;
- Axcan does not comply with requirements concerning the investigational NDA or NDS requirements or protection of the rights and welfare of human subjects;
- patients experience unacceptable side effects or die during clinical trials;
- patients do not enroll in the studies at the rate Axcan expects; or
- product supplies are delayed or are not sufficient to treat the patients in the studies.

The FDA has stated that it will require companies which market pancreatic enzyme formulations to submit NDAs for approval. If Axcan is unable to obtain FDA approval for ULTRASE, its largest selling product, Axcan's ability to generate sales and profits will be impaired.

Axcan's enterically-coated pancreatic enzyme minitablet formulation is marketed under the trademark ULTRASE and accounted for approximately 26%, or US$26.7 million, of its sales for fiscal 2001. If Axcan is unable to complete the studies which are required in order to file an NDA submission for ULTRASE or if it is unable to obtain FDA approval to market ULTRASE for any other reason, Axcan would no longer be able to sell ULTRASE.

The pharmaceutical industry is highly competitive and is subject to rapid and significant technological change that could render certain of Axcan's products and treatments obsolete or uncompetitive.

Axcan's products face intense competition. Axcan competes with companies in North America and in other countries, including major pharmaceutical and chemical companies, research and development firms, universities and other research institutions. Many of Axcan's competitors have greater financial resources and marketing capabilities than it does. Some of Axcan's competitors have greater experience in clinical testing in human clinical trials of pharmaceutical products and in obtaining regulatory approvals. Axcan's competitors and potential competitors may succeed in developing products or treatments that are more effective and less expensive to use than any products or treatments Axcan may develop or license or that may render Axcan's products or treatments obsolete. The high level of competition in the pharmaceutical industry could force Axcan to reduce the price at which it sells its products or require Axcan to spend more to market its products.

Axcan faces competition from products that could lower prices and unit sales.

URSO 250, Axcan's product for the treatment of certain cholestatic liver diseases, competes with ACTIGALL™, a product developed by Novartis A.G. and sold in the United States by Watson Pharmaceuticals, Inc., and generic versions thereof that have been approved by the FDA. These competing products are marketed for the dissolution of gallstones but could also be prescribed for primary biliary cirrhosis ("PBC") (a chronic cholestatic liver disease that progresses slowly towards a terminal phase characterized by jaundice, signs of decompensated cirrhosis, ascites and variceal bleeding). ULTRASE and VIOKASE, Axcan's pancreatic replacement enzyme products, are not protected by patents and therefore compete with similar products. SALOFALK and CANASA are mesalamine-based products marketed by Axcan for the treatment of certain inflammatory bowel diseases ("IBDs"), including ulcerative colitis and Crohn's Disease (an inflammatory disease affecting the wall of the gastrointestinal tract). Because the use of mesalamine for the treatment of IBDs is not patented, SALOFALK and CANASA compete with several products containing mesalamine in controlled release tablets or capsules.

Third-party payors and pharmacists can substitute generics for Axcan's products even if physicians prescribe them. Government agencies and third-party payors often put pressure on patients to purchase generic products instead of brand-name products as a way to reduce healthcare costs. An increase in the amount of generic competition against any one or more of Axcan's products could lower prices and unit sales.

Axcan must be able to manage rapid growth.

Largely as a result of the acquisition of Scandipharm, now known as Axcan Scandipharm Inc. ("Axcan Scandipharm"), Axcan has experienced a substantial increase in sales and in its number of employees. Sales have increased to approximately US$104.5 million for fiscal 2001 from approximately US$87.5 million for fiscal 2000. Since September 30, 1998, the number of Axcan's employees increased from 79 to over 275. Axcan's failure to manage such growth effectively and to continue to improve its management controls, reporting systems and procedures may reduce its profitability.

Axcan may not be able to obtain third-party reimbursement for the cost of its products and related medical treatments.

Axcan's ability to successfully market its products depends, in part, on whether appropriate reimbursement levels for its products and related treatments are available from government authorities, managed care organizations and other third-party payors. Third-party payors increasingly challenge the pricing of pharmaceutical products. In addition, the trend toward managed health care in the United States and legislative proposals to reform health care and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. New legislation or regulation may affect the health care industry or third-party coverage and reimbursement, and Axcan cannot predict the effect or timing of such legislation or regulation.

In particular, on October 28, 2000, the United States Congress passed the *Medicine Equity and Drug Safety Act* (the "Reimportation Act"). The Reimportation Act permits pharmacists and wholesalers to import prescription drugs from Australia, Canada, Israel, Japan, New Zealand, Switzerland, South America and the countries forming part of the European Union and the European Free Trade association, that were made originally in the United States and then exported to other countries, or to import drugs made overseas. Currently, due to concerns about public safety by the Secretary of Health and Human Services, the Reimportation Act is not being applied. Prior to the law being applied by the FDA, safeguards must be put in place to ensure that the drugs imported comply with existing United States legislative norms (including with respect to safety and effectiveness for their intended use) and with other applicable requirements of the United States *Food, Drug and Cosmetics Act*. In addition, the Secretary of Health and Human Services must demonstrate to Congress that the implementation of the law will pose no additional risk to the public's health and safety and result in a significant reduction in the cost of covered products to the American consumer. Axcan does not know whether this law will be applied in the future. Currently, Axcan sells PHOTOFRIN in Japan and ULTRASE and URSO 250 in Canada and South America. Typically, prices for pharmaceutical products tend to be lower outside the United States and reimportation of these Axcan products under the Reimportation Act, if this law becomes effective, could affect the demand for Axcan's products sold in the United States or affect the price at which they are sold, which in turn could reduce Axcan's revenues or profitability.

Uncertainty also exists about the reimbursement status of certain newly-approved pharmaceutical products and reimbursement may not be available for some of Axcan's products. Any reimbursement granted may not be maintained or limits on reimbursement available from third-party payors may reduce the demand for, or negatively affect the price of, these products. If Axcan's products do not qualify for reimbursement, or if reimbursement levels diminish or reimbursement is denied, Axcan's sales and profitability may be adversely affected.

Axcan depends on key scientific, sales and managerial personnel for continued success.

Much of Axcan's success to date has resulted from the skills of certain of its officers, scientific personnel and sales force, particularly Léon Gosselin, its President, Chief Executive Officer and Chairman of the Board. If these individuals were no longer employees, Axcan might not be able to attract or retain employees with similar skills or carry out its business plan.

Axcan is uncertain of the risks of future litigation and of the outcome of current litigation.

Axcan primarily markets pharmaceutical products in Canada and in the United States. In general, and subject to the terms of each specific agreement, Axcan has agreed to indemnify its licensors for product liability claims and there is a risk that Axcan will be subject to product liability claims and claims for indemnification from licensors. Following the acquisition of Axcan Scandipharm in August 1999, a substantial portion of Axcan's revenues are derived and will continue to be derived from activities in the United States, where pharmaceutical companies are exposed to a higher risk of litigation than in other jurisdictions.

Currently, Axcan maintains claims-based product liability insurance coverage in respect of the commercialization of ULTRASE, PHOTOFRIN, URSO and VIOKASE. Axcan cannot be certain that existing or future insurance coverage available to it will be adequate to satisfy any or all current or future product liability claims and defense costs.

Axcan Scandipharm has been named as a defendant in 11 product liability lawsuits in the United States alleging, among other things, that the enzyme products that it markets under the trademark ULTRASE cause fibrosing colonopathy (a disease affecting the colon and characterized by the formation of scar tissue) in cystic fibrosis ("CF") patients. Of the 11 lawsuits to date, Axcan Scandipharm was dismissed from one, non-suited in another, settled eight and has one lawsuit, containing two plaintiffs, pending. At this time, it is difficult to predict the potential number of future fibrosing colonopathy-related claims against Axcan Scandipharm. It is estimated there are approximately 30,000 CF patients in the United States. In an article published in 1997 in the *New England Journal of Medicine* which analyzed results from 114 CF care centers in the United States, representing approximately 20,000 patients in the CF population, 29 cases of fibrosing

colonopathy were identified as having occurred from September 1991 to December 1994. An article presented at the Cystic Fibrosis Foundation's annual meeting in the Fall of 2001 identified 37 new cases of fibrosing colonopathy as reported to the Cystic Fibrosis Foundation for the period 1995 to 1999. The identities of patients in the articles discussed above have not been disclosed and therefore Axcan Scandipharm does not know whether the 11 lawsuits are from these groups. Therefore, the total amount of Axcan Scandipharm's product liability exposure is uncertain.

In addition, Eurand and its parent at the time, AHP, filed suit against Axcan Scandipharm and CR (the product's licensor) in the Philadelphia County Court of Common Pleas in March 1998, seeking reimbursement of defense costs and settlement amounts in fibrosing colonopathy lawsuits previously settled by Eurand and AHP as well as a declaration that Axcan Scandipharm or CR must provide indemnification against future claims. The parties have agreed to settle this dispute through arbitration, which is currently proceeding. Currently, the amount at issue is in excess of US$8 million. Both Axcan Scandipharm and CR have filed cross-claims against each other and counterclaims against Eurand and AHP. The outcome of this arbitration is uncertain.

Axcan Scandipharm has recorded provisions in the amount of approximately US$2.9 million to cover any future liabilities in connection with indemnification claims by Eurand and AHP, as well as those lawsuits discussed above, that may not be covered by insurance. While Axcan believes that the insurance coverage and provisions taken to date are adequate, an adverse determination of any such claims or of any future claims could exceed insurance coverage and provisions made to date, which may adversely affect Axcan's operating results and its ability to conduct its business.

Axcan's business is subject to limitations imposed by government regulations.

Governmental agencies in the countries in which Axcan conducts business regulate pharmaceutical products intended for human use. Regulations require extensive clinical trials and other testing in addition to governmental review and final approval before products can be marketed. Governmental authorities in such countries also regulate the research and development, manufacture, testing and safety of products and therefore the cost of complying with governmental regulation can be substantial.

Requirements for approval can vary widely from country to country. A product must be approved by regulatory authorities in each country in which a company intends to market it prior to the commencement of marketing in such country. There can be long delays in obtaining required clearances from regulatory authorities in any country after applications are filed. There can be no assurance that Axcan will obtain regulatory approvals in such countries or that it will not incur significant costs in obtaining or maintaining such regulatory approvals. Moreover, the regulations applicable to Axcan's existing and future products may change.

Government regulations also require detailed inspection and control of research and laboratory procedures, clinical studies, manufacturing procedures and marketing and distribution methods, all of which significantly increase the level of difficulty and the costs involved in obtaining and maintaining the regulatory approval for marketing new and existing products. Moreover, regulatory measures adopted by governments provide for the possible withdrawal of products from the market and suspension or revocation of the required approvals for their production and sale in certain cases.

Failure to obtain necessary regulatory approvals, the restriction, suspension or revocation of existing approvals, or any other failure to comply with regulatory requirements, may restrict or impair Axcan's ability to market its products and conduct its business.

Axcan relies on the intellectual property of others and may not be able to protect its own intellectual property.

Axcan's continued success will depend, in part, on its ability to protect and maintain intellectual property rights in and licensing arrangements for its products. Proprietary rights in certain of Axcan's products are held by third parties. Axcan cannot be certain that all licenses, rights or patents used by it will not be contested by third parties.

To protect its own intellectual property, Axcan has historically relied on patents and trade secrets, know-how and other proprietary information, as well as requiring its employees and other vendors and suppliers to sign confidentiality agreements. However, confidentiality agreements may be breached, and Axcan may not have adequate remedies for any breach. Third parties may gain access to Axcan's proprietary information or may independently develop substantially equivalent proprietary information. Axcan's inability to protect and maintain intellectual property rights in its products would impair its competitive position and adversely affect its growth. If a lawsuit is commenced with respect to any alleged patent or trademark infringement by Axcan, the uncertainties inherent in such litigation make the outcome difficult to predict and the costs that Axcan may incur as a result may have an adverse effect on its profitability.

Axcan's quarterly results may fluctuate.

Axcan's quarterly operating results have fluctuated in the past and may continue to fluctuate in the future. Factors, many of which are outside Axcan's control, that could cause quarterly operating results to decline include the size and timing of product orders, which can be affected by customer budgeting and buying patterns. Often customers will buy in advance of pre-announced price increases or in anticipation of price increases, thus shifting revenue from one fiscal quarter to another. Axcan's quarterly selling, general and administrative and research and development expenses are relatively fixed. As a result, if customer buying patterns cause revenue shifts from one fiscal quarter to another, Axcan's net income the subsequent quarter may not meet the market's expectations.

Additional financing will cause increased dilution or an increase in debt levels or both.

The acquisition of new products and the research, development, manufacturing and marketing of products require the application of considerable financial resources, while the revenues generated from such products may not be realized for a number of years. If Axcan requires additional capital to fund such activities, it may seek additional debt or equity financing. If Axcan issues additional equity, holders of Common Shares will suffer dilution of their ownership interest, which could be substantial. If Axcan increases its debt levels, it may be restricted in its ability to raise additional capital and may be subject to various financial and restrictive covenants which may impede its ability to grow or carry on its business.

As of September 30, 2001, Axcan had total outstanding indebtedness of US$0.2 million or less than 1% of its total capitalization. After this offering, Axcan may incur additional indebtedness to implement its growth strategy. Significant debt could:

- limit Axcan's operating flexibility or its acquisitions of products or companies as a result of restrictive covenants imposed by lenders; and

- require Axcan to use a large portion of its cash flow from operations for debt payments, which would reduce the availability of its cash flow to fund operations, product acquisitions, the expansion of its sales force and facilities and research and development efforts.

In November 2001, Axcan entered into a US$55.0 million credit facility with a syndicate of lenders (see "Management’s discussion and analysis of financial condition and results of operations - Liquidity and capital resources"). There can be no assurance that existing credit facilities will suffice or that Axcan will be successful in securing any additional financing.

Axcan expects to require additional financing, and if Axcan cannot obtain it, its sales, profits, acquisitions and development projects could suffer.

Following this offering, Axcan may need additional funds to acquire or obtain licenses for new products, develop and test new products and potentially to acquire other companies in the event that Axcan finds an attractive opportunity which exceeds the proceeds of this offering. Axcan may seek additional funding through public and private financing and may seek to incur debt or to issue Common Shares either to finance the transaction or as consideration for a transaction. Adequate funds for these purposes, whether through the financial markets or from other sources, may not be available when Axcan needs them or on terms acceptable to Axcan. Insufficient funds could cause Axcan to delay, scale back or abandon some or

all of its product acquisitions, licensing opportunities, marketing, product development programs, potential business acquisitions or manufacturing opportunities.

Risks related to the offering

Axcan's share price may be volatile and could decline.

The market prices for securities of drug companies are highly volatile. Various factors, including factors that are not related to Axcan's operating performance, may cause significant volume and price fluctuations in the market. The following factors may cause fluctuations in Axcan's share price:

- fluctuations in operating results;
- rates of product acceptance;
- timing or delay of regulatory approvals;
- Axcan's third-party manufacturers experience interruptions in the supply of raw materials or encounter regulatory problems;
- failure to meet financial estimates or expectations of securities analysts;
- developments in or disputes regarding patent or other proprietary rights; and
- future sales of substantial amounts of Common Shares by Axcan’s existing shareholders.

Future sales of Common Shares in the public market after this offering could cause the price of Axcan's Common Shares to decline.

Axcan's shareholders could sell substantial amounts of Common Shares in the public market following this offering. As a result, the aggregate number of Common Shares available to the public would increase and, consequently, the price of the Common Shares could fall. Axcan cannot predict the timing or amount of future sales of Common Shares or the effect, if any, that market sales of Common Shares, or the availability of Common Shares for sale, will have on the prevailing market price of the Common Shares. Upon completion of this offering (assuming the sale of 4,500,000 Common Shares), Axcan will have 42,960,910 Common Shares issued and outstanding, assuming no exercise of the Over-allotment Option. The 4,500,000 Common Shares sold in this offering and 28,046,247 of Axcan’s currently outstanding Common Shares will be freely tradeable. This leaves 14,914,663 currently outstanding Common Shares that will be eligible for sale in the public market after expiration of lock-up agreements ending 90 days after the effective date of this offering, subject in some cases to volume and other restrictions for officers, directors and affiliates.

In addition, 2,184,296 Common Shares are issuable upon the exercise of currently outstanding options. Of these Common Shares, 939,359 will be eligible for sale after expiration of lock-up agreements ending 90 days after the effective date of this offering subject in some cases to restrictions imposed on officers and directors. Axcan has registered the Common Shares issuable upon exercise of options and other grants under Axcan’s stock option plan which may be issued at any time to its employees in the United States, subject in some cases to volume and other restrictions for officers and directors.

If a large number of Common Shares are sold after this offering, or if there is the perception that such sales could occur, the market price of the Common Shares may decline.

Anti-takeover provisions could discourage a third party from making a takeover offer that could be beneficial to shareholders.

Axcan has adopted a shareholder rights plan designed to protect shareholders from unfair and coercive takeover strategies. This plan could have the effect of preventing a takeover bid by substantially increasing the number of Common Shares outstanding if a bid is made (unless the board of directors waives the operation of the plan or the bid complies with the terms of the shareholder rights plan), thus rendering a takeover bid prohibitively expensive or dilutive for the bidder. In addition, the rights plan could dissuade a potential bidder from even making a bid. See "Shareholder rights plan".

Furthermore, some of the provisions in Axcan's articles of incorporation and bylaws could delay or prevent a third party from acquiring Axcan or replacing members of Axcan's board of directors, even if the acquisition or the replacements would be beneficial to Axcan's shareholders. Such provisions include the following:

- shareholders cannot amend Axcan’s articles of incorporation unless at least two-thirds of the shares entitled to vote approve the amendment;

- Axcan’s board of directors can issue preferred shares without shareholder approval under any terms, conditions, rights and preferences that the board determines; and

- shareholders must give advance notice to nominate directors or to submit proposals for consideration at shareholders' meetings.

These provisions could also reduce the price that certain investors might be willing to pay for Common Shares and result in this market price being lower than it would be without these provisions.

Axcan's management will have broad discretion in the use of net proceeds of this offering and may allocate such proceeds in ways that shareholders may not agree with.

The net proceeds from the offering may be allocated in ways with which shareholders may not agree. Management will have significant flexibility in applying the net proceeds of this offering. Therefore, management could use these proceeds for purposes other than those contemplated at the time of the offering.

Special note regarding forward-looking statements

Certain statements contained under the headings "Prospectus summary", "Risk factors", "Use of proceeds", "Business", "Management's discussion and analysis of financial condition and results of operations" and elsewhere in this prospectus, and in certain documents incorporated or deemed to be incorporated by reference in this prospectus, constitute "forward-looking statements". When used in this document, the words "anticipate", "believe", "estimate", "expect", "plan", "future", "intend", "may", "will", "should", "predicts", "potential", "continue" and similar expressions, as they relate to Axcan or its management, are intended to identify forward-looking statements. Such statements reflect the current views of Axcan with respect to future events and are subject to certain known and unknown risks, uncertainties and assumptions. These statements should not be relied upon. Many factors could cause the actual results, performance or achievements of Axcan to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, those which are discussed in this prospectus under the heading "Risk factors". These risks include:

- Axcan currently depends on three key products for a large portion of its sales, and substantial sales declines in any of them would result in Axcan being unprofitable;
- Axcan can give no assurance of continued commercial acceptance of its products;
- Part of Axcan’s growth strategy is to acquire companies, which subjects Axcan to additional risks;
- Axcan may not benefit from its acquisition of PHOTOFRIN; and
- Axcan must acquire rights to new products and integrate them successfully in order to continue to grow and be profitable.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

Use of proceeds

The net proceeds of this offering of 4,500,000 Common Shares are estimated to be US$51.0 million, based upon an assumed price to the public of US$12.19 per Common Share and after deducting the estimated expenses of the offering and the underwriting discounts, assuming the Underwriters do not exercise their Over-allotment Option.

Of the net proceeds of this offering, approximately US$12.0 million will be used to pay the balance of the purchase price of Enteris and the balance will be used for general corporate purposes, including development of new products and future acquisitions of products and companies.

Axcan will retain broad discretion over the use of the net proceeds of this offering. The amounts and timing of the expenditures may vary significantly depending on numerous factors, such as the progress of Axcan's development efforts, technological advances and the competitive environment for its products.

Pending use of the net proceeds, Axcan intends to invest the net proceeds in short-term, interest-bearing, investment-grade securities.

Price range of Common Shares and dividend policy

The Common Shares are listed on The Toronto Stock Exchange Inc. (the "TSE") under the symbol "AXP" and, since June 28, 2000, on the Nasdaq National Market Inc. ("Nasdaq") under the symbol "AXCA". The following table sets forth, for the periods indicated, the high and low sale prices of the Common Shares.

	Nasdaq		TSE	
	High	Low	High	Low
	(In US dollars)		(In Canadian dollars)	
2000				
First quarter	-	-	$9.25	$5.75
Second quarter	-	-	10.95	6.70
Third quarter	$7.00	$6.87	11.25	8.70
Fourth quarter	16.25	6.50	18.50	9.45
2001				
First quarter	$11.00	$8.50	$16.45	$13.15
Second quarter	11.90	9.00	18.30	14.20
Third quarter	11.81	9.16	18.40	14.07
Fourth quarter	14.58	10.00	23.40	15.86
2002				
First Quarter (through February 27)	$14.58	$11.40	$23.40	$18.25

On February 27, 2002, the closing price of the Common Shares was US$12.19 per share on Nasdaq and Cdn$19.60 per share on the TSE.

Axcan has not paid any dividends on its Common Shares to date. Axcan currently intends to retain earnings to finance the growth and development of its business and, therefore, Axcan does not anticipate paying dividends in the foreseeable future. Axcan's dividend policy will be reviewed from time to time in the context of Axcan's earnings, financial condition and other relevant factors.

Consolidated capitalization

The following table sets forth Axcan's cash, cash equivalents and capitalization as at September 30, 2001, as adjusted to give effect to this offering of 4,500,000 Common Shares (assuming a public offering price of US$12.19 per share and without giving effect to the Over-allotment Option) and the use of the net proceeds to Axcan. This table is presented in US dollars and in accordance with Canadian GAAP and should be read in conjunction with Axcan's consolidated financial statements for the year ended September 30, 2001.

As at September 30, 2001 (in thousands of US dollars)	**Actual**	**As adjusted[1]**
	(audited)	**(unaudited)**
Cash and cash equivalents	$16,541	$45,679
Long-term debt (including current portion)	215	215
Shareholders' equity		
Equity component of purchase price [2]	2,704	2,704
Share capital		
Common Shares [3]	186,650	241,505
	(38,412,133)	(42,912,133 shares)
Retained earnings	16,914	13,197
Accumulated foreign currency translation adjustments	(1,127)	(1,127)
Total shareholders' equity	205,141	256,279
Total capitalization	$205,356	$256,494

(1) The adjusted consolidated capitalization as at September 30, 2001 gives effect to this offering, without giving effect to the Over-allotment Option. Adjusted cash and cash equivalents reflect the estimated net proceeds of this offering of approximately US$51.0 million and the payment of US$10.0 million on account of the purchase price for Enteris as well as the payment of the balance of US$12.0 million owed to Enteris expected to be paid out of the proceeds of this offering.

(2) The purchase price of PHOTOFRIN includes a balance of US$2,704,000 (Cdn$4,000,000) payable four years after the closing or the receipt of a specific approval from a regulatory authority, either in cash or in Common Shares, at Axcan's sole discretion. See note 16 of the notes to Axcan's consolidated financial statements for the year ended September 30, 2001.

(3) Excludes (1) options outstanding to purchase up to an aggregate of 2,184,296 Common Shares under Axcan's stock option plan; (2) up to Cdn$4.0 million of Common Shares which may be issued in the future in connection with the acquisition of PHOTOFRIN at their then current market value (as described above in note 1); and (3) up to Cdn$10.0 million of Series B preferred shares which may be issued in the future to QLT Inc. as milestone payments and which are (i) redeemable at Axcan's option either for cash or through the issuance of a number of Common Shares determined by their then market value and (ii) convertible at the option of the holder into not more than 666,666 Common Shares. See "Description of share capital".

Selected consolidated financial data

The following table presents selected historical consolidated financial data of Axcan for the periods indicated. This selected historical consolidated financial data has been derived from the audited consolidated financial statements of Axcan.

Axcan prepares its consolidated financial statements in accordance with Canadian GAAP. To the extent applicable to the consolidated financial statements of Axcan, Canadian GAAP conforms in all material respects with US GAAP, except as described in note 24 of the notes to the consolidated financial statements of Axcan for the year ended September 30, 2001. The selected historical financial data should be read in conjunction with the consolidated financial statements of Axcan and the notes thereto.

Fiscal year ended September 30, (in thousands of US dollars, except per share data)	**2001**	**2000**	**1999[1]**
Statement of earnings data: ***Amounts Under Canadian GAAP***			
Revenue	$104,549	$87,486	$37,549
Cost of goods sold	26,540	22,313	9,546
Selling and administrative expenses	39,101	32,127	17,771
Research and development expenses	6,129	6,174	3,175
Depreciation and amortization	12,032	10,522	3,021
Total costs and expenses	83,802	71,136	33,513
Operating income	20,747	16,350	4,036
Financial expenses	3,528	9,095	2,800
Interest income	(981)	(1,072)	(1,111)
	2,547	8,023	1,689
Earnings before income taxes	18,200	8,327	2,347
Income taxes	6,728	3,387	1,348
Net earnings from continuing operations	11,472	4,940	999
Net earnings from discontinued operations	-	1,796	413
Net earnings	$11,472	$6,736	$1,412
Per Common Share			
Net earnings from continuing operations	$0.31	$0.18	$0.06
Net earnings from discontinued operations	-	0.07	0.03
Net earnings	$0.31	$0.25	$0.09

Fiscal year ended September 30, (in thousands of US dollars, except per share data)	2001	2000	1999[1]
Amounts Under US GAAP			
Net earnings	$11,825	$5,936	$652
Net earnings per Common Share	$0.32	$0.22	$0.04
Other			
EBITDA[2]	$32,779	$26,872	$7,057

As at September 30, (in thousands of US dollars, except per share data)	2001 (audited)	2001 as adjusted[3] (unaudited)
Balance Sheet Data:		
Amounts Under Canadian GAAP		
Cash and cash equivalents	$16,541	$45,679
Working capital	43,558	72,696
Total assets	249,103	300,241
Long-term debt, including current portion	215	215
Total shareholders' equity	205,141	256,279
Amounts Under US GAAP		
Total assets	$246,484	$297,622
Total shareholders' equity	$200,431	$251,561

(1) Historical financial data has been stated in Canadian dollars and converted to US dollars as described in note 2 of the notes to the consolidated financial statements of Axcan included in this prospectus.

(2) EBITDA means earnings before financial expenses, interest income, taxes, depreciation and amortization. EBITDA is presented because Axcan believes that it is a useful indicator of its ability to meet debt service and capital expenditure requirements. EBITDA is not intended as an alternative measure of operating results or cash flow from operations as determined in accordance with Canadian GAAP. Because EBITDA is not calculated identically by all companies, the presentation herein may not be comparable to other similarly titled measures of other companies.

(3) The adjusted balance sheet data as at September 30, 2001 gives effect to this offering assuming a public offering price of US$12.19 per share and the sale of 4,500,000 Common Shares, without giving effect to the Over-allotment Option. Adjusted cash and cash equivalents reflect the net proceeds of this offering of approximately US$ 51.0 million and the payment of US$10.0 million on account of the purchase price for Enteris as well as the payment of the balance of US$12.0 million owed to Enteris expected to be paid out of the proceeds of this offering.

Management's discussion and analysis of financial condition and results of operations

This discussion should be read in conjunction with the information contained in Axcan's consolidated financial statements and the related notes thereto.

Overview

Axcan is a leading specialty pharmaceutical company concentrating in the field of gastroenterology, with operations in North America and Western Europe. Axcan markets and sells pharmaceutical products used in the treatment of a variety of gastrointestinal diseases and disorders. Axcan seeks to expand its gastrointestinal franchise by in-licensing and acquiring products or companies, as well as by developing additional products and expanding indications for its existing products. Axcan's current products include ULTRASE for the treatment of certain gastrointestinal symptoms related to cystic fibrosis, URSO 250 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 cancers. In addition, Axcan is currently developing three products for five indications. Approval applications for two of these products have been submitted and one of the products is in multiple Phase II studies. Axcan reported revenue of US$104.5 million and EBITDA of US$32.8 million for the fiscal year ended September 30, 2001.

For fiscal 2001, sales of Axcan's two principal products, ULTRASE and URSO 250, accounted for approximately 26% and 25%, respectively, of Axcan's total revenue. Much of Axcan's recent sales growth is derived from sales in the United States. Revenue from sales of Axcan's products in the United States was US$84.6 million for fiscal 2001, compared to US$71.5 million for fiscal 2000, and US$22.6 million for fiscal 1999. In Canada, revenue was US$18.5 million for fiscal 2001, compared to US$16.0 million for fiscal 2000 and US$15.0 million for fiscal 1999. Axcan's exposure to exchange rate fluctuation is reduced because in general, Axcan's US dollar denominated revenue is matched by a corresponding amount of US dollar denominated costs, and Axcan expects this matching to continue.

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 ensure that Axcan maintains good relations with wholesalers, Axcan typically gives wholesalers prior notice of price increases to enable them to purchase products that they will later sell at higher prices. 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, impacts Axcan's revenues by driving the level and timing of prescriptions for its products.

In 1999, Axcan bought Scandipharm, giving it control over an established United States sales force and the products marketed as ULTRASE, and purchased from Schwarz the 50% of the Axcan URSO joint venture that Axcan did not already own. In 2000, Axcan acquired PHOTOFRIN. As a result of the acquisition of Axcan Scandipharm and the redemption of Schwarz's 50% interest in the Axcan URSO joint venture, a growing proportion of Axcan's operations now are in the United States. Therefore, as of October 1, 1999, Axcan changed its currency of display and its currency of measurement to the United States dollar.

In 2001, the Canadian Institute of Chartered Accountants approved new standards, similar to the U.S. FASB 141 and 142, modifying the method of accounting for business combinations entered into after June 30, 2001 and addressing accounting for goodwill and other intangible assets. The new standards on goodwill and other intangible assets must be applied for fiscal years beginning on or after January 1, 2002. Axcan elected to adopt these standards early and as of October 1, 2001, it no longer amortizes goodwill and trademarks with indefinite life, but evaluates goodwill and trademarks with indefinite life for impairment

annually. Axcan anticipates the effect of implementation to be a reduction of depreciation and amortization expense of approximately US$6.4 million during fiscal 2002. Assuming there is no impairment, the application of these new standards and considering the acquisition of amortizable assets will increase fiscal 2002 earnings by approximately US$3.0 to US$3.5 million.

Year ended September 30, 2001 compared to year ended September 30, 2000

Revenue

Revenue increased US$17 million (19.4%) to US$104.5 million for the year ended September 30, 2001 from US$87.5 million for the preceding fiscal year. This increase is primarily due to the acquisition of PHOTOFRIN, acquired by Axcan in June of 2000, and increased sales in the United States.

Cost of goods sold

Cost of goods sold increased US$4.2 million (18.8%) to US$26.5 million for the year ended September 30, 2001 from US$22.3 million for the preceding fiscal year. As a percentage of revenue, cost of goods sold for the year ended September 30, 2001 was relatively the same as for the preceding fiscal year, at 25.4% and 25.5%, respectively.

Selling and administrative expenses

Selling and administrative expenses increased US$7 million (21.8%) to US$39.1 million for the year ended September 30, 2001 from US$32.1 million for the preceding fiscal year. These increases were mainly due to further additions to the field sales force in the United States, to increased marketing efforts following the integration of URSO 250 and VIOKASE in Axcan Scandipharm's product line, as well as to worldwide marketing expenses related to PHOTOFRIN. The newly-launched CANASA suppositories in the United States also contributed to this increase.

Research and development expenses

Research and development expenses decreased US$0.1 million (1.6%) to US$6.1 million for the year ended September 30, 2001 from US$6.2 million for the preceding fiscal year. During fiscal 2001, Axcan prepared for the filing of regulatory approvals for the use of PHOTOFRIN for the treatment of high-grade dysplasia associated with Barrett's esophagus and also prepared for regulatory filings for HELICIDE, which were submitted in both Canada and the United States.

Depreciation and amortization

Depreciation and amortization increased US$1.5 million (14.3%) to US$12.0 million for the year ended September 30, 2001 from US$10.5 million for the preceding fiscal year. The increase resulted primarily from the amortization of the worldwide PHOTOFRIN rights acquired in June 2000.

Financial expenses

Financial expenses consist principally of interest and fees paid in connection with money borrowed for acquisitions. Financial expenses decreased US$5.6 million (61.5%) to US$3.5 million for the year ended September 30, 2001 from US$9.1 million for the preceding fiscal year. The unusually high financial expenses for the year ended September 30, 2000 were primarily attributable to interest expenses paid on aggregate loans of approximately US$93 million used to acquire Axcan Scandipharm and of approximately US$52 million used to acquire the 50% interest of Schwarz in the Axcan URSO joint venture. These loans have since been repaid.

Earnings

Earnings from continuing operations increased US$6.6 million (134.7%) to US$11.5 million, or US$0.31 per share, for the year ended September 30, 2001 from US$4.9 million, or US$0.18 per share, for the preceding fiscal year.

Net earnings increased US$4.8 million (71.6%) to US$11.5 million, or US$0.31 per share, for the year ended September 30, 2001 from US$6.7 million, or US$0.25 per share, for the preceding fiscal year. The basic weighted average number of Common Shares outstanding used to establish the per share amounts increased from 26.6 million for the year ended September 30, 2000 to 35.8 million for the year ended September 30, 2001, following public equity offerings in fiscal 2000 and 2001.

Year ended September 30, 2000 compared to year ended September 30, 1999

Revenue

Revenue increased US$50 million (133.3%) to US$87.5 million for fiscal 2000 from US$37.5 million for fiscal 1999. The increase was primarily due to the inclusion of 12 months of results of Axcan Scandipharm compared to two months for fiscal 1999 and the effect on Axcan's sales of the acquisition of the 50% interest in Axcan URSO that Axcan did not already own.

Cost of goods sold

Cost of goods sold increased US$12.8 million (134.7%) to US$22.3 million for fiscal 2000 from US$9.5 million for fiscal 1999. The increase was primarily due to increased sales in the United States. Cost of goods sold as a percentage of revenue remained stable at 25.5% for fiscal 2000, compared to 25.4% for fiscal 1999.

Selling and administrative expenses

Selling and administrative expenses increased US$14.3 million (80.3%) to US$32.1 million for fiscal 2000 from US$17.8 million for fiscal 1999. The increase was primarily due to the inclusion of 12 months of selling and administrative expenses of Axcan Scandipharm, compared to two months for fiscal 1999.

Research and development expenses

Research and development expenses increased US$3.0 million (93.7%) to US$6.2 million for fiscal 2000 from US$3.2 million for fiscal 1999. The increase was primarily due to the cost of the Phase III studies of HELICIDE, which began in September 1999.

Depreciation and amortization

Depreciation and amortization increased US$7.5 million (250%) to US$10.5 million for fiscal 2000 from US$3.0 million for fiscal 1999. The significant increase primarily resulted from the depreciation of intellectual property acquired as part of the acquisitions of Axcan Scandipharm and the 50% remaining interest in Axcan URSO.

Financial expenses

Financial expenses increased US$6.3 million (225%) to US$9.1 million for fiscal 2000 from US$2.8 million for fiscal 1999. The significant increase in financial expenses was primarily attributable to interest paid on two loans for approximately US$93.0 million in the aggregate used to acquire Axcan Scandipharm, and which were repaid in full on June 30, 2000, and interest paid on a loan of approximately US$52.0 million used to acquire the 50% remaining interest in Axcan URSO.

Earnings

Axcan's earnings from continuing operations increased US$3.9 million to US$4.9 million, or US$0.18 per share, for fiscal 2000 from US$1.0 million, or US$0.06 per share, for fiscal 1999 due to the inclusion of 12 months of results of Axcan Scandipharm.

Axcan's net earnings increased US$5.3 million (378.6%) to US$6.7 million, or US$0.25 per share, for fiscal 2000, from US$1.4 million, or US$0.09 per share, for fiscal 1999. Net earnings include earnings from discontinued operations of US$1.8 million, or US$0.07 per share, attributable principally to the sale by Axcan of its interest in Althin Biopharm Inc. in May 2000.

Liquidity and capital resources

Axcan's cash, cash equivalents and short-term investments decreased US$4.4 million (21.1%) to US$16.5 million at September 30, 2001 from US$20.9 million at September 30, 2000. At September 30, 2001, working capital was US$43.6 million, as compared to US$28.2 million at September 30, 2000.

Cash flow from continuing activities increased US$4.4 million (36.7%) to US$16.4 million for fiscal 2001, from to US$12.0 million for fiscal 2000.

For the year ended September 30, 2001, Axcan used US$47.1 million net cash for the repayment of long-term debt and US$4.3 million for the acquisition of capital assets. Issues of shares resulted in US$31.0 million in net cash, enabling Axcan, along with the proceeds from the disposal of short-term investments, to repay its debt owed to Schwarz. For the year ended September 30, 2001, cash and cash equivalents increased by US$5.4 million to US$16.5 million.

Total long-term debt decreased US$47.1 million (99.67%) to US$0.2 million at September 30, 2001 from US$47.3 million at September 30, 2000. Debt during fiscal 2000 was comprised of approximately US$46.9 million owed to Schwarz which was reimbursed in full out of the proceeds of a US$33.3 million public equity offering completed in May 2001 and proceeds from the disposal of short-term investments.

Total assets decreased US$5.0 million (2%) to US$249.1 million at September 30, 2001 from US$254.1 million at September 30, 2000. Shareholders' equity increased US$43.4 million (26.8%) to US$205.1 million at September 30, 2001 from US$161.7 million at September 30, 2000.

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 US$172.0 million from sales of its equity and has borrowed from financial institutions to finance the acquisition of Axcan Scandipharm and from Schwarz to finance the acquisition of Axcan URSO (these amounts have since been reimbursed).

Axcan's research and development spending totalled US$6.1 million for fiscal 2001 and US$6.2 million for fiscal 2000. Axcan believes that its cash, operating cash flow and the net proceeds of this offering to Axcan (net of the payment of the balance of the purchase price for Enteris) 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.

On November 20, 2001, Axcan entered into a US$55.0 million credit agreement with two Canadian chartered banks. The credit agreement includes a US$15.0 million revolving operating facility and a US$40.0 million 364-day, extendible revolving facility with a three-year term-out option. Borrowings under these facilities are secured by a security interest in favor of the lenders on all of the assets and properties of Axcan. The credit agreement provides for customary covenants, including compliance with certain financial ratios and negative covenants in respect of prior ranking security, capital expenditures, acquisitions, investments and divestitures. Cash dividends, repurchases of shares (other than redeemable shares issued in connection with a permitted acquisition) and similar distributions to shareholders are limited to 10% of Axcan's net

income for the preceding fiscal year. Currently, no amounts have been drawn under these facilities and Axcan is in compliance with all applicable terms thereof.

Business

Overview

Axcan is a leading specialty pharmaceutical company concentrating in the field of gastroenterology, with operations in North America and Western Europe. Axcan markets and sells pharmaceutical products used in the treatment of a variety of gastrointestinal diseases and disorders. Axcan seeks to expand its gastrointestinal franchise by in-licensing and acquiring products or companies, as well as by developing additional products and expanding indications for its existing products. Axcan's current products include ULTRASE for the treatment of certain gastrointestinal symptoms related to cystic fibrosis, URSO 250 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 cancers. In addition, Axcan is currently developing three products for five indications. Approval applications for two of these products have been submitted in the United States and one of the products is in multiple Phase II studies. Axcan reported revenue of US$104.5 million and EBITDA of US$32.8 million for the fiscal year ended September 30, 2001.

Prescription drugs for gastrointestinal diseases and disorders are the pharmaceutical industry's second largest market with annual sales of over US$10 billion in North America. Of these sales, approximately US$7 billion consists of sales of proton pump inhibitors, which are drugs used in the treatment of ulcers and heartburn. Axcan competes in the remaining US$3 billion market, which includes products for the treatment of inflammatory bowel diseases and other disorders of the lower gastrointestinal tract. Despite the relatively high number of patients suffering from gastrointestinal diseases and disorders, there is only a relatively small number of gastroenterologists in North America and Western Europe. As a result, Axcan's sales and marketing force of 164 professionals is able to efficiently target this market. Axcan's focus on gastroenterology, its broad product line and its commitment to the development of safe and efficacious therapies for patients, have enabled it to cultivate a long-standing relationship with the key prescribers of Axcan's products.

In addition to its sales and marketing activities, Axcan develops late-stage products that it acquires or in-licenses from third parties. This focus on products in late-stage development enables Axcan to avoid the significant risks and expenses associated with new drug development. The combination of Axcan's development expertise and track record of regulatory approvals, along with its sales and marketing infrastructure, offers Axcan opportunities to expand indications for its existing products and to profitably acquire or in-license products that have been advanced to the late stages of development by other companies. Since 1997, Axcan has in-licensed or acquired 12 products, including ULTRASE, VIOKASE and PHOTOFRIN. Axcan has two products pending regulatory approval, PHOTOFRIN in Canada for Barrett's esophagus and HELICIDE in Canada and the United States for the eradication of the bacteria believed to be the leading cause of peptic ulcers. Axcan is also preparing an approval submission of PHOTOFRIN for Barrett's esophagus and is conducting Phase II studies of URSO 250 to expand its use for new indications.

Over the past several years, Axcan has experienced rapid growth by acquiring products and businesses. In August 1999, Axcan acquired Scandipharm, giving Axcan the line of products it markets under the trademark ULTRASE, its single largest selling product for fiscal 2001, and substantially increasing Axcan's sales force and presence in the United States. In November 1999, Axcan acquired the 50% of the Axcan URSO, joint venture with Schwarz that it did not already own, enabling Axcan to leverage its newly acquired U.S. sales force to sell URSO 250, its second largest selling product for fiscal 2001 in the United States. In June 2000, Axcan acquired the worldwide rights to PHOTOFRIN, a product that Axcan is developing for the treatment of high-grade dysplasia associated with Barrett's esophagus. The PHOTOFRIN acquisition provides Axcan with a product that complements its existing products and allows it to enter the new and growing field of photodynamic, or light-based, therapy. In November 2001, Axcan acquired Enteris, a French pharmaceutical company specializing in the distribution of gastrointestinal products. This acquisition provides Axcan with a platform from which it will seek to expand its business into Western Europe.

Strategy

Axcan's goal is to continue to enhance its position as a leading specialty pharmaceutical company within the field of gastroenterology. The key components of Axcan's business strategy include:

Increasing market penetration of existing products. Axcan seeks to increase the number of patients who use its existing products in two ways. First, Axcan's sales force increases gastroenterologists' awareness of the benefits of its products in order to encourage these specialists to prescribe Axcan's products to new patients and to switch their existing patients to Axcan's products. Second, Axcan educates gastroenterologists about the early symptoms associated with gastrointestinal diseases and disorders so that patients who may benefit from Axcan's products are identified sooner.

Obtaining regulatory approval for expanded indications of existing products. Axcan invests in the development of new indications and formulations of existing products. Axcan has two new indications for URSO 250 in Phase II studies, one new indication of URSO 250 where Phase II studies are complete and one new indication for PHOTOFRIN in a Phase III study for the treatment of Barrett's esophagus which has been completed. Axcan has submitted this indication of PHOTOFRIN for approval in Canada and it expects to submit PHOTOFRIN for approval of the same indication in the United States during the first half of 2002.

Obtaining regulatory approval for products currently in Axcan's product pipeline. Axcan seeks to leverage its experience and expertise in obtaining regulatory approval for its product candidates. Since 1991, Axcan has obtained regulatory approval for several indications of URSO 250, SALOFALK and CANASA. In June 2000, Axcan obtained regulatory approval to market PHOTOFRIN in Sweden, Ireland and Italy, bringing to 11 the number of European countries in which PHOTOFRIN can be marketed. Recently, Axcan submitted HELICIDE for regulatory approval in Canada and the United States.

Increasing market coverage by in-licensing and acquiring additional products. Axcan evaluates acquisitions of companies, products and technologies. Axcan believes that the combination of its international sales and marketing force, its product development expertise and its focus on the field of gastroenterology provide it with acquisition opportunities that are not available to other pharmaceutical companies of similar size. Axcan believes it is an attractive partner for pharmaceutical companies that have strong product development capabilities but that do not have an established sales and marketing force, as well as for pharmaceutical companies that have products which are approved outside of North America and are seeking to develop and market these products in North America. Since 1997, Axcan has in-licensed or acquired 12 products, including ULTRASE, VIOKASE and PHOTOFRIN.

Recent product and company acquisitions

Enteris

On November 7, 2001, Axcan acquired Enteris, a private pharmaceutical company located in Paris, France, specializing in the distribution and sale of gastrointestinal products through its sales and marketing force of 56 professionals. Its principal products are effervescent TAGAMET, indicated for the symptomatic treatment of gastric or duodenal ulcers, TRANSULOSE and TRANSITOL, both of which are indicated for the symptomatic treatment of constipation, and ARESTAL, which is indicated for the symptomatic treatment of acute diarrhea in adults.

The purchase price was US$22.0 million, of which US$10.0 million was paid on closing and the balance, due in May 2002, is expected to be paid out of the net proceeds of this offering. The US$10.0 million paid was financed out of Axcan's cash on hand and existing credit facilities. This acquisition broadens Axcan's product portfolio and establishes an operating base and platform from which to sell certain of its products in Western Europe.

Enteris reported revenue of approximately US$7.5 million for its fiscal year ended December 31, 2000, and net earnings of approximately US$780,000.

PHOTOFRIN

On June 8, 2000, Axcan acquired PHOTOFRIN from QLT Inc. ("QLT"). PHOTOFRIN is a light sensitive compound administered into patients and activated by a laser that is used to treat gastrointestinal and other types of cancers. The purchase price was US$26.7 million, of which US$14.8 million was paid in cash, US$9.2 million was paid through the issuance by Axcan of 13.5 million Series A preferred shares (which were redeemed in June 2001 by the issuance of 836,282 Common Shares) and the remaining US$2.7 million (the contractual amount is expressed in Canadian dollars as Cdn$4.0 million) is payable at the option of Axcan either in cash or through the issuance of Common Shares at their then current market value on the earlier of (1) June 8, 2004 or (2) the receipt of the first regulatory approval of PHOTOFRIN for the treatment of high-grade dysplasia associated with Barrett's esophagus in the United States, the United Kingdom, France, Germany or Italy. Simultaneously with this acquisition, QLT purchased 1,283,333 Common Shares of Axcan for a total subscription price of US$13.0 million.

Axcan will pay additional amounts in cash or shares, contingent upon the attainment of milestones related to product approval and sales targets (which must reach Cdn$50.0 million (US$31.1 million) in all areas of the world except Japan), which aggregate up to Cdn$15.0 million (US$9.3 million). Axcan has made a first milestone payment of US$3.4 million in cash. Axcan must, in the aggregate, make at least half of all milestone payments in cash and the balance of the payments may be made, at Axcan's option, in redeemable and convertible Series B preferred shares, which will be issued with registration rights.

Axcan Scandipharm

Axcan Scandipharm, Axcan's wholly-owned subsidiary located in Birmingham, Alabama, was acquired in August 1999. At the time of its acquisition, Scandipharm (as it was then named) was a specialty pharmaceutical company which marketed and sold in the United States ULTRASE (pancrelipase) capsules, ADEKs multivitamin supplements, tablets and pediatric drops, SCANDICAL calorie booster, SCANDISHAKE calorie-rich shake mix and FLUTTER, a mucus-clearing therapy device. These products were marketed for the treatment of symptoms related to cystic fibrosis. Axcan acquired Scandipharm for a total purchase price of US$103.7 million before deducting acquired cash and temporary investments of Scandipharm of US$34.2 million. Axcan financed its acquisition through a bridge loan of US$90.5 million, which it has since repaid along with accumulated interest thereon.

Axcan acquired Scandipharm to benefit from its established sales and marketing organization in the United States. Axcan Scandipharm has 123 employees, including 91 sales and marketing professionals. In addition, this acquisition increased Axcan's portfolio of products and furthered Axcan's strategic goals of expanding its product line within the field of gastroenterology, including cystic fibrosis, and increasing its presence in the United States.

Axcan URSO

Axcan URSO was formed as a joint venture in January 1997 by Axcan and Schwarz. The joint venture was intended to leverage the United States sales and marketing organization of Schwarz to market ursodiol for the treatment of various diseases. Under the joint venture arrangement, Axcan was primarily responsible for manufacturing and supplying URSO 250 to Axcan URSO on an exclusive basis and for the development of additional indications. Schwarz was primarily responsible for the marketing and sale of URSO 250 in the United States.

On November 19, 1999, after Axcan's acquisition of Scandipharm, Axcan acquired Schwarz's 50% interest in Axcan URSO for US$52.0 million plus the assumption of certain liabilities. The purchase price was financed by a loan from Schwarz in the amount of US$52.0 million, which, together with the interest accumulated thereon, was repaid in full by Axcan prior to its term, from the proceeds of a public equity offering completed in May 2001. Axcan made this acquisition to leverage Axcan Scandipharm's sales force to sell URSO 250 in the United States.

Axcan products

Axcan's focus is in the field of gastroenterology, which includes gastrointestinal and liver diseases and disorders such as symptoms related to cystic fibrosis. The following table presents an overview of Axcan's principal products approved or under development, setting forth for each product (1) the indication for which the product is approved or under development, (2) the territory in which Axcan is focusing, and (3) the regulatory status of the product:

Product and Indication	Territory	Regulatory status
ULTRASE		
Exocrine pancreatic insufficiency and pancreatic enzyme deficiency	United States, Canada	Marketed
URSO 250 and related products		
Cholestatic liver diseases	Canada	Marketed
Primary Biliary Cirrhosis	United States	Marketed
Primary Sclerosing Cholangitis	United States	Phase II studies completed
Non-Alcoholic Steatohepatitis	United States, Canada	Phase II studies
Recurrence of colorectal polyps	United States, Canada	Phase II studies
SALOFALK		
Inflammatory bowel diseases and proctitis	Canada	Marketed
CANASA mesalamine suppositories (previously FIV-ASA)		
Active ulcerative proctitis	United States	Marketed
VIOKASE		
Exocrine pancreatic insufficiency and pancreatic enzyme deficiency	United States, Canada	Marketed
PHOTOFRIN		
Esophageal cancer	United States, Canada, Japan, United Kingdom, France, Portugal, Poland, Ireland, Austria, Israel, China	Marketed
	Netherlands, Finland, Iceland, Denmark, Italy, Belgium	Approved
	Spain, Sweden, Greece, Norway, Luxembourg	MAA submitted(1)
Barrett's esophagus	United States, Europe	Phase III studies completed
	Canada	SNDS filed(2)
Bladder cancer	Canada	Approved
Gastric and cervical cancers and cervical dysplasia	Japan	Marketed

Product and Indication	Territory	Regulatory status
Lung cancer	United States, Canada, Japan, France, United Kingdom, Portugal, Austria, Poland, Germany, Israel, China	Marketed
	Netherlands, Finland, Iceland, Denmark, Italy, Ireland, Belgium,	Approved
	Spain, Sweden, Greece, Norway, Luxembourg	MAA submitted(1)
MODULON		
Pain predominant irritable bowel syndrome ("IBS")	Canada	Marketed
IBS	Canada	Preclinical studies
HELICIDE		
Helicobacter pylori eradication	United States, Canada	NDA/NDS(3) filed
	Europe, Australia	Phase III studies completed

(1) Marketing Authorization Application - application required to receive approval to market products in the European Union.

(2) Supplemental New Drug Submission in Canada - application required to receive approval to market an approved product for expanded indications.

(3) New Drug Application (United States), New Drug Submission (Canada) - applications required to receive approval to market new products.

Market sizes appearing in the descriptions below refer to actual or potential annual aggregate sales for the relevant drug and not actual or potential annual sales of Axcan. Axcan's potential share of the market size for a particular drug will depend on important factors such as successful product development, competition and the degree of Axcan's success in marketing its products.

ULTRASE

Axcan markets under the trademark ULTRASE certain enterically-coated pancreatic enzyme minitablet formulations designed to help patients with exocrine pancreatic insufficiency (decreased production and release of enzymes in the pancreas), associated with, but not limited to, cystic fibrosis, to better digest their food.

In the United States, the total market for enterically-coated pancreatic enzymes is estimated to be US$114.0 million. Sales of ULTRASE were approximately US$26.7 million for fiscal 2001.

There are a number of competing pancreatic enzyme formulations, including PANCREASE® (Ortho-McNeil Pharmaceutical) and CREON® (Solvay Pharmaceuticals, Inc.).

In anticipation of new FDA regulations, Axcan has recently completed a Phase III study of ULTRASE which shall serve as the basis of an anticipated NDA submission by Axcan during fiscal 2002 for the treatment of exocrine pancreatic insufficiency and pancreatic enzyme deficiency.

URSO 250 and related products

Existing indications

Ursodeoxycholic acid is commonly referred to as ursodiol, the active ingredient in Axcan's URSO 250 product. In the United States, Axcan is marketing URSO 250 for the treatment of primary biliary cirrhosis ("PBC") (a liver disease that slowly destroys the bile ducts). URSO 250 was granted orphan drug status by the FDA in December 1997, giving Axcan seven-year marketing exclusivity for the treatment of PBC. In Canada, Axcan is marketing URSO 250 for the treatment of cholestatic liver diseases and disorders (whereby the bile flow from the liver is impaired), including PBC.

In the United States, the total market for ursodiol is approximately US$90.0 million. Sales of URSO 250 in the United States amounted to approximately US$20.7 million for fiscal 2001.

In the United States, there is currently no therapy specifically approved to be marketed for the treatment of PBC other than URSO 250. However, other products are being prescribed. ACTIGALL™, a product developed by Novartis A.G. and sold in the United States by Watson Pharmaceuticals, Inc., is approved to be marketed for gallstone dissolution as associated with active weight loss but is being prescribed for the treatment of various liver diseases, including PBC. Generic versions of ACTIGALL™ are also being marketed for the dissolution of gallstones but could also be prescribed for PBC.

In Canada, Axcan is the only company which markets ursodiol for the treatment of cholestatic liver diseases.

New indications

Axcan's research and development program for URSO 250 targets the following indications: primary sclerosing cholangitis, non-alcoholic steatohepatitis and the prevention of the recurrence of colorectal polyps.

Primary Sclerosing Cholangitis (PSC): PSC is a liver disorder characterized by a progressive reduction in the diameter of bile ducts, often leading to liver cirrhosis, portal hypertension and sometimes death. Axcan has just completed a Phase II study illustrating that a high dose of ursodiol can serve as an effective treatment for patients with PSC in the United States. Axcan is currently evaluating the feasibility of conducting a large, multicenter Phase III study on the efficacy and safety of URSO 250 administered in concentrations of between 25 and 30 milligrams per kilogram per day in the treatment of PSC. In Canada, URSO 250 currently is approved for the treatment of cholestatic liver diseases, including PSC.

Non-Alcoholic Steatohepatitis (NASH): NASH is a condition characterized by elevated blood levels of liver enzymes and the accumulation of fat in the liver and fibrosis, which can progressively lead to cirrhosis and death. The prevalence of NASH is difficult to identify with sufficient precision. Based on scientific reviews of NASH within the last three years, Axcan estimates that approximately 7% to 9% of patients who underwent a liver biopsy are affected. A small pilot study supported by Axcan and conducted without a control group on 24 NASH patients treated with ursodiol for a one-year period demonstrated biochemical and histologic improvement in such patients. Axcan is conducting a double blind Phase II study against placebo in which 172 patients have been randomized. The study involves centers in the United States and in Canada. Once the study is completed in 2002, and assuming positive results, Axcan will undertake a Phase III study, which, if favorable, will be combined with the first study as the basis to seek regulatory approval to market Axcan's ursodiol product for the treatment of NASH in the United States and in Canada.

Recurrence of Colorectal Adenomateous Polyps: According to the National Cancer Institute, there are an estimated 3.5 million cases of colorectal cancer in the United States, and approximately 160,000 new cases are diagnosed each year. This type of cancer is responsible for 60,000 deaths each year in the United States. Published pre-clinical data indicates that ursodiol may prevent the recurrence of colorectal adenomateous polyps (small, tumor-like growths which are considered precursors to colorectal cancer) after removal, by decreasing the concentration of fecal bile acids which are associated with higher risks of developing adenomateous polyps. In a high number of patients, these polyps of the intestinal mucosa are precursors of colorectal cancer. Axcan is conducting a Phase II study of the effectiveness of URSO 250 in

preventing the recurrence of colorectal adenomateous polyps in the United States and in Canada, for which 792 patients have been randomized. An interim statistical analysis was completed during the first quarter of fiscal 2001. The interim analysis indicates that the proportion of large lesion recurrence after 12 months is twice as high in the placebo group, at 6%, as the recurrence rate for those patients treated with URSO 250, at 3%. Furthermore, in patients who had an early-stage adenocarcinoma at baseline, polyp recurrence occurred in 44% of placebo patients, compared to 25% for patients treated with URSO 250, and the size of recurring polyps was smaller for patients treated with URSO 250 (approximately 0.07 centimetres on average), as compared to the size of recurring polyps of the placebo patients (approximately 0.31 centimetres on average). While the results of the interim analysis are favorable, they must be confirmed by a final statistical analysis, given that the interim results have been derived from the results obtained from a small number of patients. Axcan anticipates that the results of the final statistical analysis will be made available in May 2002. Assuming favorable results, Axcan will evaluate how to best continue development of a treatment for this indication, given its recent acquisition of rights to a new generation of ursodiol as described below.

New generation of ursodiol

On September 20, 2000, Axcan entered into a licensing agreement with the Children's Hospital Research Foundation ("CHRF"), an operating division of Children's Hospital Medical Center of Cincinnati, Ohio, for a series of sulfated derivatives of ursodeoxycholic acid compounds ("SUDCA"). CHRF's compounds are currently in pre-clinical trials and may constitute a significant improvement over regular ursodeoxycholic acid for the prevention of recurrence of colorectal adenomateous polyps. They could also be a useful means to prevent cholestasis induced by total parenteral nutrition. See "Business - Licensing and intellectual property protection".

As of January 1, 2001, Axcan acquired from Alfa Wassermann S.p.A. ("Alfa") the rights to a series of patents relating to a ursodeoxycholic acid sodium bicarbonate combination for Canada, the United States, South Korea, Indonesia and Taiwan. Ursodiol bicarbonate is a new formulation of ursodiol containing ursodeoxycholic acid and sodium bicarbonate. This salt is more water-soluble than URSO 250 and consequently leads to better absorption. Axcan intends to develop this new formulation as an optimized version of ursodiol in the treatment of PBC. Axcan intends to initiate pharmacokinetic and pharmacodynamic clinical studies during fiscal 2002. See "Business - Licensing and intellectual property protection".

SALOFALK and CANASA (previously FIV-ASA)

SALOFALK and CANASA (previously FIV-ASA suppositories) are mesalamine-based products sold by Axcan for the treatment of certain inflammatory bowel diseases, such as Crohn’s Disease and ulcerative colitis. In the United States, Axcan was requested by the FDA to sell the CANASA (initially as FIV-ASA) mesalamine brand of suppositories initially under a temporary, emergency measure due to the lack of any other reliable source of supply and since April 2001 pursuant to an approved NDA. In conjunction with this approval, Axcan agreed to perform a clinical trial in children aged 12-18 years with active or quiescent disease, since in many cases, inflammatory bowel disease is also diagnosed at a young age. In long-standing ulcerative proctitis, the major concern is the risk of developing colon cancer, which increases significantly when the disorder begins in childhood. Axcan will initiate a Phase IV clinical trial in the course of fiscal 2002. CANASA is being marketed through Axcan's own sales and marketing organization.

In the United States, the total market for rectal mesalamine is approximately US$60.0 million. Sales of CANASA were approximately US$14.6 million for fiscal 2001.

In Canada, Axcan markets SALOFALK for the treatment of certain IBDs, including ulcerative colitis and Crohn's Disease. The market in Canada for existing mesalamine therapeutic products is approximately US$35.5 million. Sales of SALOFALK were approximately US$8.0 million for fiscal 2001.

Competition comes principally from oral or topical corticosteroids and steroid enemas. However, since these products are associated with significant side effects, other products are known to be used as well. Sulfasalazine, for example, has been shown to be effective in preventing relapses in both ulcerative colitis

and Crohn's Disease. However, it has been associated with a significant incidence of side effects. Free 5-aminosalicylic acid (5-ASA, also known as mesalamine) is a safer therapy for the treatment of IBDs and is being used as a single entity in controlled release dosage forms. As the use of mesalamine for the treatment of IBDs is not patented, several products containing mesalamine in controlled release tablets or capsules are on the Canadian market, including Asacol™ (The Proctor & Gamble Company), Mesasal™ (SmithKline Beecham Plc), and Dipentum™ (Pharmacia Corporation).

VIOKASE

Axcan markets VIOKASE, which are non-enterically-coated pancreatic replacement enzymes, both in the United States and in Canada, as digestive aids for the treatment of exocrine pancreatic insufficiency and pancreatic enzyme deficiency associated with, but not limited to, chronic pancreatitis and surgical ablation of the pancreas.

In the United States, the total market for uncoated pancreatic enzymes is estimated to be approximately US$31.0 million. Sales of VIOKASE in the United States were US$11.3 million for fiscal 2001.

Axcan has initiated a Phase II study of VIOKASE during the second quarter of fiscal 2001. This study is expected to be completed during 2002 and will serve as the basis of any NDA submission by Axcan.

There are a number of competing pancreatic enzyme formulations, including PANCREASE® (Ortho-McNeil Pharmaceutical) and CREON® (Solvay Pharmaceuticals, Inc.).

PHOTOFRIN

Existing indications

Axcan markets (directly or through distributors) PHOTOFRIN in the United States, Canada, Europe, Israel and China for the treatment of esophageal and lung cancer, as well as certain types of gastric cancers and cervical dysplasia. PHOTOFRIN is the first photosensitizer commercially approved for use in photodynamic therapy, an innovative medical therapy based on the use of light-activated drugs. As a treatment for cancer, PHOTOFRIN is injected into a patient intravenously and, after a short period of time, selectively accumulates in tumor cells. Activation of PHOTOFRIN by a non-thermal laser light at the tumor site produces a toxic form of oxygen that destroys cancer cells. Unlike other currently available therapies, PHOTOFRIN offers a lower risk of damage to adjacent healthy tissue thereby allowing for repeated treatment without limiting future therapeutic options.

In April 2001, the U.K. health authorities granted Axcan full marketing authorization to sell PHOTOFRIN for the palliative treatment of late-stage non-small cell lung cancer and advanced esophageal cancer. Axcan markets PHOTOFRIN in the U.K. and distributes it through a U.K. distributor. Axcan has also signed distribution agreements for PHOTOFRIN in France and in Germany. There are currently over 150 photodynamic therapy ("PDT") centers using PHOTOFRIN worldwide.

According to statistics published in a February 2001 article in Scrip, a pharmaceutical industry newsletter, the incidence of non-small cell lung cancer in the United States is approximately 152,000 patients per year, and that of esophageal cancer is approximately 12,300 patients per year.

Total sales of PHOTOFRIN were US$7.8 million for fiscal 2001. There are currently no other photosensitizers approved in the United States, Canada or Europe for the treatment of esophageal and lung cancer, gastric cancer or cervical dysplasia (a pre-cancerous condition of cells in the cervix).

New indications

Axcan's research and development program for PHOTOFRIN, which is being carried out in collaboration with QLT, targets the treatment of high-grade dysplasia associated with Barrett's esophagus.

Based on scientific studies carried out to date, Axcan estimates that approximately 20 million Americans suffer from chronic heartburn and that approximately 10% to 20% of them are likely to develop Barrett's esophagus. Of these, approximately 90% are likely to have metaplasia, an early-stage abnormal transformation of tissue, and approximately 10% are likely to have dysplasia. These scientific studies also indicate that patients with Barrett's esophagus have a probability of developing esophageal cancer which is 50% greater than people without this condition. There is currently no approved treatment to reverse the condition and decrease the risk of developing cancer. Symptoms can be treated with a variety of acid suppressants, but surgical removal of the esophagus, called an esophagectomy, is currently the only curative treatment for patients with high-grade dysplasia or Barrett's esophagus.

Axcan has recently concluded a large clinical study of the effectiveness of PHOTOFRIN, used in conjunction with omeprazole, in the treatment of Barrett's esophagus in North America and the United Kingdom, for which 208 patients were enrolled. Results indicate that biopsy-proven high-grade dysplasia was eliminated in 72% of patients treated with PHOTOFRIN in conjunction with omeprazole as compared to 31% of patients treated only with omeprazole. In addition, the therapeutic effect is sustained in most patients treated with PHOTOFRIN in conjunction with omeprazole, as compared to no therapeutic effect observed in patients treated only with omeprazole, three months after treatment. Furthermore, only 10% of patients treated with PHOTOFRIN in conjunction with omeprazole developed esophageal cancer, as compared to 19% of patients treated only with omeprazole, a 47% reduction of the incidence of cancer through the use of PHOTOFRIN. In July 2001, Axcan filed an SNDS application with the TPD of Health Canada, for the use of PHOTOFRIN in the treatment of high-grade dysplasia as associated with Barrett's esophagus, which was granted priority review status by Health Canada. Axcan intends to submit for approval in the United States and Europe during the first half of calendar 2002.

PHOTOFRIN is already approved in various countries for the palliative treatment of esophageal cancer. Axcan intends to evaluate the efficacy of PHOTOFRIN for the treatment of early stage esophageal carcinoma. The incidence of adenocarcinomas of the esophagus has been rising dramatically since 1970 in both the United States and Europe. This rise is mainly due to Barrett’s esophagus. Roughly 13,000 Americans develop this cancer each year and 12,000 die from it. Axcan intends to initiate a Phase II North American clinical trial during fiscal 2002 in order to assess the therapeutic value of PHOTOFRIN in the treatment of early stage esophageal cancer.

MODULON

MODULON, a motility regulator, is Axcan's product candidate for the treatment of IBS. Axcan intends to initiate a pharmacokinetic study to assess the profile of a slow-release formulation of MODULON during fiscal 2002 which Axcan is developing in collaboration with a partner. If results of this study are positive, Axcan will evaluate the economics of initiating a Phase II study. This new slow-release formulation of MODULON would allow patients to take medication once a day instead of the current rate of three times a day.

MODULON is indicated in Canada for the treatment of pain predominant IBS and had sales of US$2.5 million for fiscal 2001.

HELICIDE

HELICIDE is Axcan's product candidate for the eradication of the *Helicobacter pylori (Hp)* bacterium.

Scientific studies have identified *Hp* as the most important known cause of peptic ulcers, a disease that affects at least 10% of the North American population at some time in their lives. Existing treatment regimens cannot prevent a high recurrence rate. Based on scientific studies, Axcan estimates that gastric and duodenal ulcers recur within a year following treatment in approximately 40% to 80% of patients. According to Scott-Levin, a pharmaceutical market research firm, the total market for pre-packaged multiple therapies for the eradication of *Hp* is approximately US$103.0 million in the United States.

HELICIDE is a patented bismuth-based single capsule triple therapy having the potential to be used for the eradication of *Hp*, containing colloidal bismuth subcitrate, metronidazole and tetracycline. In September

1999, Axcan began Phase III studies in the United States and Canada, and in March 1999 Axcan initiated Phase III studies in Europe and Australia. These studies compare Axcan's proposed 10-day treatment with a combination of HELICIDE and omeprazole, to the most prescribed eradication therapy in North America, a combination of omeprazole, amoxicillin and clarithromycin ("OAC").

In October 2000, Axcan released the results of the North American study. On a per protocol basis, the eradication rates were 92% for HELICIDE as compared to 88% for the group treated with OAC. At the beginning of the study, metronidazole resistance was observed in 40% of patients before administration of the treatment and resistance to clarithromycin was observed in 11% of patients. Metronidazole (a component of HELICIDE) resistance was overcome and *Hp* was eradicated in 80% of patients treated with HELICIDE combined with omeprazole (on an intent to treat basis). In the study, only 21% of clarithromycin-resistant patients were successfully treated with OAC (on an intent to treat basis).

The results of this Phase III study combined with the results of earlier studies have served as the basis for an NDA submission which Axcan submitted with the FDA, as well as an NDS submission submitted with the TPD of Health Canada in September 2001. Axcan intends to submit HELICIDE for approval in Europe during the first half of fiscal 2002. Axcan is currently discussing the licensing of this product with a number of potential strategic partners in several countries.

Other products marketed by Axcan

Axcan markets SCANDISHAKE and SCANDICAL, two high-energy caloric supplements which help cystic fibrosis patients gain and maintain their weight. Axcan also markets ADEKs, a fat-soluble multivitamin supplement specially designed for cystic fibrosis patients which are available in chewable tablets and in pediatric drops, and FLUTTER, a device that aims to improve pulmonary ventilation and expectoration by loosening mucus and liquefying mucus secretions that obstruct the airway of cystic fibrosis patients.

In Canada, Axcan also markets LANSOŸL™, a mineral-based laxative jelly, as well as the AMPHOJEL and MUCAINE antacid product lines, which are available in tablet and liquid dosage forms and are sold as over-the-counter products in pharmacies.

In France, Axcan also markets TAGAMET, indicated for the symptomatic treatment of gastric or duodenal ulcers, TRANSULOSE and TRANSITOL, both of which are indicated for the symptomatic treatment of constipation, and ARESTAL, which is indicated for the symptomatic treatment of acute diarrhea in adults.

For fiscal 2001, these products, in the aggregate, but excluding products acquired in France after the end of fiscal 2001, accounted for revenue of US$7.5 million.

Sales and marketing

Axcan's sales and marketing force is comprised of 164 professionals, of which 149 are sales representatives and managers and 15 are in marketing. Of these 164 professionals, 17 are located in Canada, 91 in the United States and 56 in France.

Axcan sells its products to most major wholesale drug companies and distributors, who in turn distribute them to chain and independent pharmacies, hospitals and mail order organizations. Axcan's major products are included in drug benefit formularies and are promoted by Axcan to gastroenterologists and internal medicine specialists with a particular interest in gastrointestinal diseases, as well as to colorectal surgeons. Axcan's sales force will typically call on high-volume prescribing physicians and cystic fibrosis centers, as well as potential and current PHOTOFRIN centers, hepatologists, liver transplant centers with a specialized group targeting third-party payors, clinical pharmacists and formularies administrators. For the fiscal year ended September 30, 2001, the following three pharmaceutical wholesalers accounted for over 50% of Axcan's total sales: Cardinal Health, Inc. (30%), AmerisourceBergen Corporation (16%) and McKesson HBOC, Inc. (13%).

Axcan's sales and marketing efforts are complemented by Axcan's sponsorship of high-level international medical meetings on topics related to Axcan's products and product development activities. Two of these

medical meetings, "Trends in Inflammatory Bowel Disease Therapy" and "*Helicobacter pylori*: Basic Mechanisms to Clinical Cure" have gained worldwide recognition and allow researchers and gastroenterologists from around the world to meet and exchange information. As a consequence, Axcan is recognized not only as a supplier of quality products, but also as an important link in the continuous medical education process.

Product development

Axcan's product development strategy concentrates on two main areas: further development of acquired products and development of existing products, including testing the efficacy of products in other indications. This strategy allows Axcan to minimize the level of risk associated with new product development and also to reduce the amount of time typically required to develop and obtain new product approvals.

Axcan typically uses its own scientific affairs staff of 16 persons to carry out clinical trial protocol development, validation of case report forms and monitoring of clinical trial sites. Axcan also coordinates the financial aspects of clinical studies conducted by third parties. Specific tasks, such as data entry and the compilation of biostatistics, are contracted out to third parties. Pre-clinical toxicology and pharmacology studies are contracted out to contract research organizations. The preparation and submission of INDs or NDAs is contracted out to a consulting firm with whom Axcan's research and development personnel maintains an open and regular line of communication.

Research and development expenses were US$6.1 million for fiscal 2001, compared to approximately US$6.2 million for fiscal 2000. For fiscal 1999, research and development expenses were approximately US$3.2 million.

Licensing and intellectual property protection

A patent is a statutory monopoly that grants to the patentee the exclusive right to make use of the patented invention during the term of the patent. In Canada and in the United States, as in most other countries, the term of patent protection is 20 years from the date of filing of the patent application. A drug will be patentable if it meets the criteria of being "new", "useful" and "non-obvious". Depending on whether a particular drug is patentable and the relative costs associated with obtaining a patent, an inventor will either apply for a patent in order to protect the drug or rely on the common law protection afforded to trade secrets.

Historically, Axcan has acquired or licensed patents of others. It is the policy of Axcan to take appropriate measures in order to maintain the confidentiality of ongoing research and product development activities until it files for patent protection. To this end, Axcan requires third parties to execute non-disclosure agreements before entering into formal discussions with respect to any project involving the disclosure of confidential information. Axcan also requires that its employees and outside consultants provide confidentiality undertakings and, where appropriate, invention disclosure and assignment agreements, as a condition of their employment or the retention of their services.

As of February 19, 2002, Axcan owns 132 patents and 236 registered trademarks worldwide and has 29 patent applications and 24 trademark applications pending worldwide.

A company may also enter into licensing agreements with third-party licensors in order to obtain the right to make, use and sell certain products, therefore gaining access to know-how, secret formulas and, often, patented technology. The value of a license will generally be enhanced by the existence of one or more patents. A license gives the licensee access to a developed and, in many cases, tested technology and provides the licensee faster and often less expensive entry into the market. Licensing also establishes a relationship which may provide access to additional products or technology or may lead to joint ventures or alliances affording the licensor and the licensee an opportunity to evaluate each other's products and technology. This is also true, to a lesser extent, for distribution relationships. Axcan has entered into several of these types of agreements.

ULTRASE: Axcan Scandipharm is the owner of the trademark ULTRASE and markets certain pancrelipase minitablets as ULTRASE and ULTRASE MT. Under a supply agreement entered into in 1991, Eurand

granted to CR the right to register, manufacture and market ULTRASE on an exclusive basis in the United States and Canada. CR sublicensed its rights to Axcan Scandipharm under a supply agreement which terminated in 2001.

Pursuant to a letter agreement dated May 16, 2000, Eurand has agreed to continue to supply to Axcan Scandipharm the current formulation of ULTRASE previously sublicensed by Axcan Scandipharm from CR under the 1991 CR agreement, until the earlier of: (a) the termination of the new product agreement entered into between the parties on the same date discussed below; (b) three years after the new generation of enterically-coated pancreatic enzymes to be marketed under the trademark ULTRASE are launched; (c) two and one-half years from the effective date of the new product agreement if Axcan Scandipharm has not launched the new enterically-coated pancreatic enzymes to be marketed under the trademark ULTRASE in the United States by that date and an NDA is not required; or (d) five and one-half years from the effective date of the new product agreement if Axcan Scandipharm has not launched the new generation of enterically-coated pancreatic enzymes to be marketed under the trademark ULTRASE in the United States by that date and an NDA is required. Axcan Scandipharm pays to Eurand a royalty based on net sales of ULTRASE. The letter agreement may be terminated upon the failure by either party to perform fully any material provision of the agreement if such failure continues for a period of 60 days after written notice of such non-performance.

On May 16, 2000, Axcan Scandipharm also entered into a new development, license and supply agreement directly with Eurand which grants Axcan Scandipharm the right to market a new generation of pancrelipase minitablets with a new enteric coating to be manufactured by Eurand and marketed and sold by Axcan Scandipharm on an exclusive basis in North America and Central and South America under the trademark ULTRASE. This agreement is for a period of 10 years with automatic renewals for subsequent periods of two years and contains similar termination provisions as the Eurand letter agreement discussed above. Axcan Scandipharm will pay Eurand licensing fees totalling US$3.5 million over a period of three years from the date of the agreement, contingent on the attainment of certain milestones in connection with the development of the new enterically-coated pancreatic enzymes to be marketed under the trademark ULTRASE. Axcan Scandipharm will pay to Eurand royalties on a sliding scale based on net sales, subject to minimum royalty payments of US$0.75 million, US$1.0 million and US$1.5 million in the first three years, respectively, following the launch of the new generation of pancrelipase enzymes to be marketed under the trademark ULTRASE.

Ursodiol: For Canada, Axcan acquired full ownership of the patent relating to ursodiol for the treatment of PBC, which expires in 2010. In March 1999, Axcan entered into two agreements with Sanofi-Synthélabo S.A. of France ("Synthélabo") that secured Axcan’s right to use, manufacture and market ursodiol as URSO 250 for the treatment of PBC in Canada and the United States. These agreements effectively renew Axcan's rights over this drug, which were the result of a previous 10-year agreement with Synthélabo, which expired in 2000. The new license agreement for the United States is valid until the expiration of the patents in 2007. Axcan developed ursodiol for the Canadian market in collaboration with Falk Pharma GmbH ("Falk") and acquired the right to use, manufacture and market ursodiol in the United States on March 23, 1993, through the acquisition from Falk of the shares of Axcan Pharma U.S., Inc. that it did not already own. In 1994, Axcan, Mitsubishi-Tokyo Pharmaceuticals, Inc., a Japanese pharmaceutical company which manufactures ursodiol, and a research institute entered into an agreement to undertake various research projects with respect to ursodiol. Thus far, these projects have resulted in Axcan being granted an exclusive license (except for Japan) to (1) use ursodiol with respect to the treatment of a cholestatic liver disease (which is the object of a United States patent application) and (2) use, subject to the payment of royalties, ursodiol for the treatment of colorectal cancer (which is also the object of a United States patent application). In both instances, the term of the license is the greater of 10 years or the life of such patent and the research institute reserves the right to terminate the license if it is not confident of Axcan's intent to develop ursodiol commercially for the treatment of the diseases.

On September 20, 2000, Axcan entered into a licensing agreement with the CHRF for SUDCA. According to the terms of this agreement, Axcan has the exclusive worldwide right to commercially exploit a series of patented SUDCA developed by CHRF in consideration of (i) a one-time licensing fee of US$589,000, which was paid in full on January 23, 2002; (ii) payments of up to US$425,000 upon validation of the proof of concept by CHRF in connection with the use of SUDCA to prevent the recurrence of colorectal adenomatous

polyps; (iii) royalties based on a certain percentage of sales; and (iv) bonus payments upon achievement of certain milestones. CHRF's compounds are currently in pre-clinical trials and may constitute a significant improvement over regular ursodeoxycholic acid for the prevention of recurrence of colorectal adenomatous polyps. These compounds could also be a useful means to prevent cholestasis induced by total parenteral nutrition.

Axcan believes that one of the main advantages of these sulfated compounds is that they can be delivered in high concentrations to the colon. They also have a powerful stimulatory effect on bile flow and their high water solubility could make them particularly well-suited for intravenous administration for the treatment of liver-related cholestatic diseases.

As of January 1, 2001, Axcan acquired from Alfa the rights to a series of patents relating to a ursodeoxycholic acid sodium bicarbonate combination for Canada, the United States, South Korea, Indonesia and Taiwan. Axcan and Alfa have also entered into a collaboration and licensing agreement, pursuant to which Axcan has undertaken to share with Alfa clinical data and information collected as part of regulatory approval filings in respect of the development of ursodiol bicarbonate and to grant to Alfa the exclusive right to use such clinical data and information in the countries forming the European Union and Japan, subject to the payment by Alfa to Axcan of royalties based on a percentage of sales. Ursodiol bicarbonate is a new formulation of ursodiol containing ursodeoxycholic acid and sodium bicarbonate. The release of both products in the duodenum leads to the formation of sodium salts of ursodeoxycholic acid. This salt is more water-soluble than URSO 250 and consequently leads to better absorption. Axcan is seeking to develop this new formulation as an optimized version of ursodiol in the treatment of PBC. Axcan intends to initiate pharmacokinetic and pharmacodynamic clinical studies during fiscal 2002.

SALOFALK and CANASA: Axcan developed SALOFALK in collaboration with Falk. Axcan owns the trademark SALOFALK in Canada and CANASA in the United States and Canada. The product line marketed under these trademarks is not subject to a patent.

VIOKASE: In 1997, Axcan acquired from Wyeth-Ayerst Canada Inc. the worldwide rights to VIOKASE and the right to market the product in Canada. That year Axcan also acquired marketing rights for the United States and the trademark VIOKASE for Canada, the United States and certain other countries from AHP and A.H. Robins Company, Incorporated. Axcan owns the trademark VIOKASE for North, Central and South America and the product is not subject to a patent.

PHOTOFRIN: Axcan has purchased from QLT the trademark PHOTOFRIN for the United States, Canada and all other countries where it has been registered as a trademark or used in marketing. Axcan also purchased, licensed or sublicensed from QLT, as the case may be, the worldwide rights of QLT to PHOTOFRIN. As part of the transaction, Axcan acquired a European subsidiary of QLT which holds the European registration rights for PHOTOFRIN. The last of the patents which form part of the acquired assets expires in April 2013. As part of the acquisition, Axcan has agreed to assume QLT's obligation to pay royalties based on net sales of PHOTOFRIN to Health Research Inc., pursuant to arrangements under which Axcan will be a sublicensee of the technology that QLT has licensed from Health Research Inc.

In August 2000, Axcan and Diomed entered into a five-year exclusive development and supply agreement following FDA clearance of a new laser developed by Diomed. According to the terms of this agreement, Diomed will supply clients for PHOTOFRIN with 630 PDT diode lasers and optical delivery fibers for use in photodynamic therapy (PDT) in conjunction with PHOTOFRIN. The FDA clearance of the Diomed laser is the first approval of a diode laser for use with PHOTOFRIN in PDT. Pursuant to the terms of the transaction between Axcan and QLT, as a result of the FDA clearance, Axcan has paid to QLT a milestone cash payment of US$5 million. On November 2, 2000, Axcan advanced approximately US$1.0 million to Diomed to enable Diomed to acquire components necessary in the manufacture of the 630 PDT diode lasers. In September 2001, Diomed executed a promissory note, whereby Diomed has until January 1, 2004 to reimburse the amounts so advanced by Axcan. The sums outstanding under the promissory note bear interest at an annual rate of 8.5% and are secured by Diomed's inventory. Diomed can prepay amounts due without penalty. The promissory note contains usual terms and conditions, including in respect of early termination and remedies upon default.

In January 2002, Axcan entered into a sublicense agreement for a 10-year period with Grupo Ferrer Internacional, S.A. ("Grupo Ferrer"), a Spanish company based in Barcelona, for the distribution of PHOTOFRIN in Spain, Portugal and Greece. As part of the agreement, Grupo Ferrer will assume responsibility for completing the regulatory approval of PHOTOFRIN in all countries that are part of its exclusive territory. Axcan was granted a right of first refusal for a five-year period with respect to the distribution of a gastrointestinal product developed or acquired by Grupo Ferrer in Canada and the United States. Grupo Ferrer has also agreed to provide gastrointestinal products to Czet Pharma, Axcan's Polish affiliate, for sale by Czet Pharma in Poland. Discussions are ongoing between Axcan and Grupo Ferrer in order to have Grupo Ferrer assume the distribution of PHOTOFRIN as well as responsibility for completing regulatory approvals in all Central and South American countries. However, there can be no guarantee that an agreement to this effect will be concluded.

MODULON: In 1997, Axcan acquired gastroenterology products previously marketed in Canada by Jouveinal Canada Inc. which included MODULON. Axcan owns the trademark in Canada and the product is not under patent.

HELICIDE: In January 2000, Axcan entered into a worldwide (except Australia and New Zealand) licensing agreement, which was amended in November 2000 to provide Axcan exclusive rights in the territories covered by the agreement for a series of patents covering triple and quadruple therapies for *Hp* eradication with Exomed Australia PTY Limited, Gastro Services PTY Limited, Ostapat PTY Limited, and Capability Services PTY Ltd., all of which are Australian companies and co-owners of the patents. The agreement expires on the later of (1) the date the patents expire or (2) December 31, 2008. The claims of these patents cover the treatment of duodenal ulcer disease (and in some countries reflux esophagitis and gastric ulcer) through the eradication of *Hp* using a bismuth compound together with two or more antibiotics. Axcan has paid US$1,636,000 cash for the license and will pay a royalty based on sales once the product is approved.

In May 1999, Axcan acquired the rights to a single capsule technology to be used for HELICIDE that it did not already own from Gephar S.A., in an asset swap transaction whereby Axcan sold to Gephar S.A. its interest in Axcan Ltd., a manufacturer and distributor of the PROTECTAID™ contraceptive sponge.

Other drugs marketed by Axcan: Axcan acquired distribution rights to SCANDISHAKE, SCANDICAL, FLUTTER and ADEKs for Canada in 1997 from Jouveinal Canada Inc. In 1999, it acquired the rights to these products for the United States by acquiring Scandipharm. Axcan owns these trademarks and the products are not subject to a patent except for FLUTTER, which is the subject of patent protection in several countries, the last of which expires in August 2016.

In 1997, Axcan acquired gastroenterology products previously marketed in Canada by Jouveinal Canada Inc., including LANSOŸL™. Axcan owns the trademarks in Canada and these products are not subject to a patent. In 1994, Axcan acquired the rights to the formulation and the Canadian regulatory authorisation of the products sold under the AMPHOJEL and MUCAINE trademarks as well as a license from Wyeth-Ayerst Canada Inc. to use these trademarks in Canada.

Axcan acquired rights to the gastrointestinal products marketed by Enteris, including ARESTAL (treatment of acute diarrhea in adults), TAGAMET (treatment of gastric or duodenal ulcers), TRANSITOL and TRANSULOSE (both of which are for the treatment of constipation), as part of its acquisition of Enteris. Axcan markets ARESTAL under a co-marketing agreement between Enteris and Janssen-Cilag S.A.S., the owner of the trademark. Axcan owns, through Enteris, the trademark TAGAMET for France and the Principality of Monaco. Axcan owns, through Enteris, the trademarks TRANSITOL and TRANSULOSE. TAGAMET is the object of a patent held by SmithKline Beecham Laboratories and Enteris was granted a license by the patent owner. TRANSULOSE and TRANSITOL are the object of patents held by Schwarz Pharma S.A. and Enteris was granted licenses by the patent owner.

Human resources

As at February 4, 2002, Axcan employed 282 persons, of whom 34 work in production and quality control, 16 in research and development, 149 in sales, 15 in marketing, and the balance in administration. Of these employees, 96 are located in Canada, 123 are located in the United States and 63 are located in France.

In Canada, Axcan has a collective agreement having a term of 10 years and expiring in March 2007 which covers 37 employees, all of whom are non-management employees. Pursuant to the terms of the collective agreement, salary disputes are settled through binding arbitration. Salary levels will be reviewed in March 2002. In France, Axcan's employees are subject to the *Convention Collective Nationale de l'Industrie Pharmaceutique*, a collective agreement which applies to the entire pharmaceutical industry. Axcan believes that relations with both its unionized and non-unionized employees are good.

Facilities

Axcan owns a 31,000 square foot building located in Mont Saint-Hilaire, Quebec. This building houses the administrative, marketing (for Canada only) and pharmaceutical manufacturing operations as well as the research and development facilities of Axcan. In fiscal 1998, Axcan acquired a 115,000 square foot vacant property next to its Mont Saint-Hilaire facilities which will be used to expand Axcan's facilities if needed. The building and real estate owed by Axcan is subject to a mortgage in favor of its lenders under credit facilities described under "Management's discussion and analysis of financial condition and results of operations - Liquidity and capital resources".

Axcan Scandipharm leases approximately 20,000 square feet of office space in Birmingham, Alabama under a lease expiring in December 31, 2005. Under this lease, Axcan Scandipharm pays an annual rent which escalates over the term of the lease and averages between US$345,000 and US$385,000, plus an amount equal to a *pro rata* share of operating expenses.

Enteris leases approximately 4,750 square feet of office space in Paris, France under a lease expiring in September 2007. Under this lease, Enteris pays an annual rent of approximately US$115,127.

Environment

Axcan generates a small amount of hazardous waste at its Canadian manufacturing facilities which is disposed of by certified third-party carriers. Compliance with environmental regulations has no material impact on capital expenditures, earnings or Axcan's competitive position.

Legal proceedings

Axcan Scandipharm is a party to several legal proceedings related to the product line it markets under the trademark ULTRASE.

In 1994, the FDA received complaints that certain enzyme supplements may cause strictures in the colon (later identified as fibrosing colonopathy). In May 1997, the *New England Journal of Medicine* published an article co-authored by the Cystic Fibrosis Foundation and the FDA in which they conducted a retrospective analysis of 29 cystic fibrosis patients with fibrosing colonopathy compared to 105 control cystic fibrosis patients between 1991 and 1994. The study concluded that in young children with cystic fibrosis, there was a strong relation between high daily doses of pancreatic enzyme supplements and the development of fibrosing colonopathy. The study's findings supported recommendations that the daily dose of pancreatic enzymes for most patients should remain below 10,000 units of lipase per kilogram of body weight.

In the Fall of 2001, an article was presented at the Cystic Fibrosis Foundation's annual meeting entitled *Fibrosing Colonopathy (FC) - A Retrospective Analysis of U.S. Cases 1995 - 1999*, detailing that during such five-year span, 37 new cases of fibrosing colonopathy were diagnosed. This article also concluded that fibrosing colonopathy cases are associated with prolonged ingestion of high doses of pancreatic enzyme supplements.

Axcan Scandipharm has been named as a defendant in 11 product liability lawsuits (one suit contains two plaintiffs), alleging among other things, that Axcan Scandipharm's enzyme products caused fibrosing colonopathy in cystic fibrosis patients. Of the 11 lawsuits to date, Axcan Scandipharm was dismissed from one, non-suited in another, settled eight and has one (containing two plaintiffs) pending.

At this time, it is difficult to predict the potential number of future fibrosing colonopathy-related claims against Axcan Scandipharm. It is estimated that there are 30,000 cystic fibrosis patients in the United States. The *New England Journal of Medicine* article discussed above identified 29 cystic fibrosis patients with fibrosing colonopathy between 1991 and 1994 from a survey sent to 114 cystic fibrosis care centers in the U.S. representing a total of 20,000 cystic fibrosis patients. The article entitled *Fibrosing Colonopathy (FC) - A Retrospective Analysis of U.S. Cases 1995 - 1999* discussed above identified 37 new fibrosing colonopathy cases between 1995 to 1999 as reported to the Cystic Fibrosis Foundation from 1995 to 1999. The identities of the patients in the articles discussed above have not been disclosed, and Axcan Scandipharm does not know whether the 11 lawsuits to date are from these groups. Therefore, the total amount of Axcan Scandipharm's product liability exposure is uncertain.

Axcan Scandipharm's insurance carriers have defended the lawsuits to date and Axcan expects them to continue to defend Axcan Scandipharm (to the extent of its product liability insurance) should lawsuits be filed in the future. The settlements paid to date in the eight settled claims have reduced the insurance coverage available in some policy years.

Eurand (the supplier of the pancreatic enzymes) and its parent at the time, AHP, filed suit against Scandipharm and CR (the product's licensor) in the Philadelphia County Court of Common Pleas on March 6, 1998 seeking reimbursement of defense costs and settlement amounts in fibrosing colonopathy lawsuits previously settled by Eurand and AHP, as well as a declaration that Scandipharm or CR must provide indemnification against future claims. This lawsuit is based on contractual and common law indemnity issues and the parties have agreed to settle their dispute through arbitration. Currently, the amount at issue is in excess of US$8 million. Both Axcan Scandipharm and CR have filed cross-claims against each other and counterclaims against Eurand and AHP. Axcan Scandipharm denies that such reimbursement is owed. Axcan Scandipharm paid to AHP and Eurand approximately US$1.2 million with respect to two previous lawsuits under threat of product supply termination and denial of access to inspection of Eurand's manufacturing facility (a requirement imposed by a former merger partner of Axcan Scandipharm). Axcan Scandipharm had previously settled with one of its insurance carriers the contractual liability claims related to this issue and, to date, one of Axcan Scandipharm's insurance carriers is denying coverage for the AHP and Eurand claims.

As of September 30, 2001, Axcan Scandipharm has recorded provisions in the amount of approximately US$2.9 million to cover any future liabilities in connection with the indemnification claims of Eurand and AHP as well as those lawsuits discussed above, which may not be covered by insurance proceeds.

If Axcan Scandipharm is not successful in its defense of these claims or future lawsuits, losses could exceed its insurance coverage and provisions made to date and would be borne directly by it. If Axcan's losses exceed its insurance coverage and its provisions, Axcan could experience a material adverse impact on its results of operations and its financial condition.

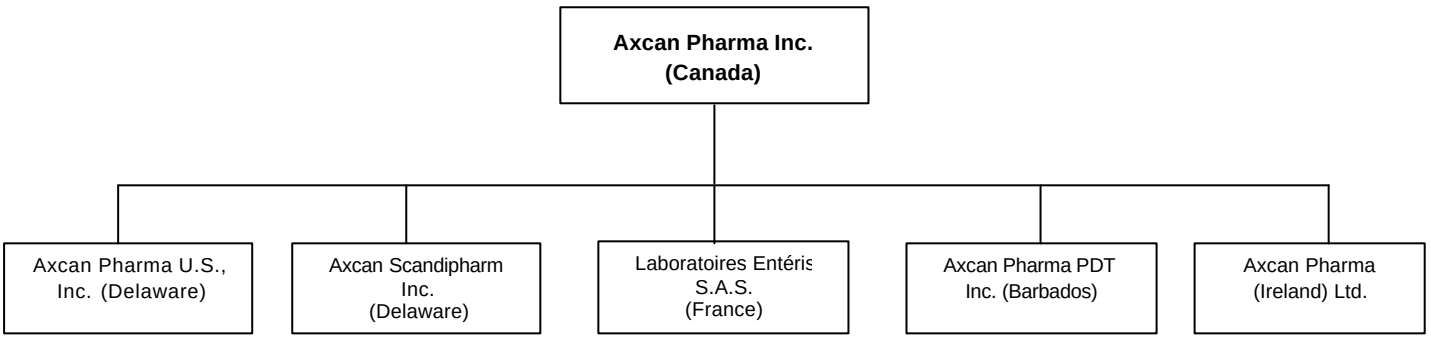
In June 2000, Axcan entered into a license agreement with Lym-Med Nutritional Products, LLC ("Lym-Med") of Byfield, Massachusetts, which granted Axcan exclusive worldwide rights to market LYM-X-SORB™ until the later of (1) the date the last of the patents expire or (2) 2018. Consideration paid by Axcan included milestone payments of up to US$225,000, of which US$100,000 has been paid upon the execution of the license agreement, and the payment of royalties on a sliding scale based on gross sales. On September 14, 2001, Axcan sent a notice of termination of this agreement because it is of the view that the pediatric formulation of LYM-X-SORB™ would not be marketable within the time-frame provided for in the license agreement, a view not shared by Lym-Med. Axcan cannot predict whether this dispute will result in litigation.

Axcan is involved in other routine litigation matters which Axcan believes not to be material.

The company

Axcan was incorporated under the *Canada Business Corporations Act* on May 6, 1982 and its head office is located at 597 Laurier Blvd., Mont Saint-Hilaire, Quebec J3H 6C4.

The following chart shows Axcan's operating subsidiaries and their respective jurisdictions of incorporation. All of the outstanding shares of such subsidiaries are owned directly or indirectly by Axcan.



Management

The following table sets forth the name, age and principal position of each of Axcan's directors and principal officers:

Name	Age	Principal position with Axcan
Léon F. Gosselin	56	President and Chief Executive Officer and Chairman of the Board
David W. Mims	39	Executive Vice-President and Chief Operating Officer and Director
John R. Booth	54	President and General Manager of Axcan Scandipharm
Dr. François Martin	63	Senior Vice-President, Scientific Affairs
Patrick L. McLean	54	Vice-President, General Manager, Canada and Europe
Jean Vézina	46	Vice-President, Finance and Chief Financial Officer
François Painchaud[(1)]	38	Secretary and Director
Jacques Gauthier[(1) (2)]	74	Director
Louis P. Lacasse[(3) (1)]	44	Director
Colin R. Mallet[(3) (2)]	59	Director
Liza Page Nelson[(3)]	42	Director
Dr. Claude Sauriol[(3)]	60	Director
Jean Sauriol	56	Director
Michael M. Tarnow[(1) (2)]	57	Director

(1) Member of the Compensation Committee.

(2) Member of the Corporate Governance Committee.

(3) Member of the Audit Committee.

Léon F. Gosselin. Mr. Gosselin received a Bachelor of Science degree in biology from the University of Montreal in 1966 and a Masters in Business Administration degree from the University of Sherbrooke in 1971. He has held various positions within the pharmaceutical industry, including Assistant General Manager at Nordic Laboratories Inc., which is now part of Aventis S.A. Mr. Gosselin has also acted as a consultant in the pharmaceutical industry and was the co-founder of Interfalk Canada Inc., the predecessor of Axcan.

David W. Mims. Mr. Mims received a Bachelor of Science degree in accounting from Auburn University in 1985 and he has been licensed in the State of Alabama as a Certified Public Accountant since July 1987. He started his career as a staff accountant at a major accounting firm. Mr. Mims is a member of the American Institute of Certified Public Accountants and the Alabama Society of Certified Public Accountants. From 1987 to 1989, he was Accounting Services Manager with Russ Pharmaceuticals, Inc. In 1991, he joined Scandipharm as Vice-President and Chief Financial Officer and left in March 1998 to join Cebert Pharmaceuticals, Inc. as Executive Vice-President and Chief Operating Officer. Mr. Mims joined Axcan in 2000.

John R. Booth. Mr. Booth received a Bachelor of Science degree in pharmacy from the University of Mississippi in 1970. Mr. Booth is a licensed Registered Pharmacist in the states of Alabama, Mississippi and North Carolina and a member of the Alabama and Mississippi Pharmacy Associations. Prior to joining Scandipharm, he was Vice-President of Sales and Marketing for the United States at Medicopharma N.V. and Director of Marketing at D.M. Graham Laboratories, a contract manufacturer. He joined Scandipharm in 1992 as Director of Product Development and Quality Control and was appointed to his new position in September 1999.

Dr. François Martin. Dr. Martin received a Doctorate in Medicine degree from the University of Montreal in 1964. He was a professor of medicine at the University of Montreal and a gastroenterologist at St-Luc Hospital in Montreal from 1970 until 1997, when he joined Axcan. He has published over 50 research articles and received the Academic and Scientific Excellence Award from the Quebec Gastroenterologists Association in 1995. Since he joined Axcan, he has held the position of Honorary Professor of Medicine at the University of Montreal and still practices gastroenterology one day a week at the St-Luc Gastroenterology Clinic.

***Patrick L. McLean*.** Mr. McLean received a Bachelor of Science degree in chemistry from the University of Minnesota in 1968. He has over 20 years of marketing experience, most recently with the Health Group of Cossette Communications Marketing Inc. as Managing Director. He has designed and implemented innovative marketing strategies for numerous pharmaceuticals products on behalf of clients such as Roche Diagnostics, Schering Canada Inc. and Janssen-Ortho Inc., a company with gastrointestinal drug products. He was also a lecturer at McGill University from 1980 to 1981 and was, from August 1999 to July 2000, the President of the Pharmaceutical Marketing Club of Quebec. Mr. McLean joined Axcan in May 1999.

Jean Vézina. Mr. Vézina received a Bachelor of Science degree in accounting from the University of Sherbrooke in 1977 and is a member of the Quebec Order of Certified General Accountants. Mr. Vézina started his career with a major Montreal-based accounting firm in 1977 and has since acted in various financial capacities with several different companies prior to joining Axcan in 1992.

François Painchaud. Mr. Painchaud, Esq. received a Bachelor of Civil Law degree from the University of Montreal in 1985 and was admitted to the Quebec Bar in 1986. Mr. Painchaud is a partner of the law firm of Léger Robic Richard, a general partnership, and of the patent and trademark agent firm of Robic, a general partnership. These Montreal professional services firms are specialized in business law and intellectual property, including patent law, and Mr. Painchaud has oriented his practice towards the field of commercial law, with particular emphasis on licensing of intellectual property and technology transfers. Mr. Painchaud became the Secretary of Axcan in 1995.

Jacques Gauthier. Mr. Gauthier received a Bachelor of Science degree in chemistry from the University of Montreal in 1949 and a Masters in Business Administration degree from the University of Western Ontario in 1964. Mr. Gauthier has held various senior management positions within Upjohn Laboratories Inc. and Upjohn International Inc., predecessor corporations to Pharmacia Corporation, both in Canada and abroad. In 1984, Mr. Gauthier joined Bio-Méga/Boehringer Ingelheim Research Inc. and served as President and General Manager until 1996. Mr. Gauthier is currently an advisor to management of the Montreal Clinical Research Institute and sits on the board of directors of a variety of medical and pharmaceutical companies and associations.

Louis P. Lacasse. Mr. Lacasse received a Bachelor of Finance degree from the *École des Hautes Études Commerciales* (H.E.C.) of the University of Montreal in 1978 and a Masters in Business Administration degree from McGill University in 1985. Mr. Lacasse began his career in 1978 as a financial analyst for a Canadian chartered bank. Mr. Lacasse joined the *Caisse de dépôt et placement du Québec* organization in 1987 and his last position within this organization was as the Vice-President of Healthcare and Biotechnology of *Société financière d'innovation Sofinov Inc.* ("Sofinov"), a principal subsidiary. He spent a total of 10 years with the *Caisse de dépôt et placement du Québec*, during which time he was responsible for numerous investments in small and medium-size businesses in industries such as biotechnology, software and telecommunications. Mr. Lacasse has also been a member of the board of directors of several privately-held and publicly-traded companies, including BioChem Pharma Inc. and Targeted Genetics Corp.

In 1997, he became president of Genechem Management Inc., a venture capital fund specialized in biotechnology.

Colin R. Mallet. Mr. Mallet received a Bachelor of Arts degree in economics from Cambridge University in 1965 and graduated from the Advanced Management Program of Harvard University in 1983. From 1967 through 1995, Mr. Mallet held various positions within the Sandoz Pharmaceutical Corporation group of companies, both in Canada and abroad. Mr. Mallet is now a business consultant and serves on the board of directors of various public companies.

Liza Page Nelson. Ms. Nelson received a Bachelor of Arts degree in economics from Wesleyan University in 1981 and a Masters in Business Administration degree from the Yale School of Management in 1986. Ms. Nelson began her career with E.M. Warburg, Pincus, a venture capital firm, and with The Boston Consulting Group. Ms. Nelson held several positions with Pfizer Inc. Ms. Nelson is Managing Director of Investor Growth Capital, Inc., an affiliate of Investor AB, Investors Growth Capital Limited and Investors Growth Capital, L.P. She currently serves on the Audit Committee of the board of directors of IntraBiotics Pharmaceuticals, a U.S. public biopharmaceutical company, as well as on the board of directors of two private U.S. life science technology companies.

Dr. Claude Sauriol. Dr. Sauriol received a Bachelor of Science degree from the Faculty of Pharmacy of the University of Montreal in 1964, a Masters of Science degree in medicinal chemistry from the Faculty of Pharmacy, University of Montreal in 1966, a Ph.D. degree in pharmacology from the Faculty of Medicine, University of Montreal in 1972 and a Management diploma from the H.E.C. of the University of Montreal in 1976. Dr. Sauriol founded Biopharm Laboratories Inc. in 1971. He was responsible for Axcan's research and development program until 1997 and now sits on the board of directors of several pharmaceutical and biotechnology companies.

Jean Sauriol. Mr. Sauriol received a Bachelor of Science degree from the School of Pharmacy of the University of Montreal in 1969, a Masters of Science degree from the Department of Pharmacology, Faculty of Medicine of the University of Montreal in 1973 and a Management diploma from the H.E.C. of the University of Montreal in 1981. Mr. Sauriol began working for Biopharm Laboratories Inc. in 1971. He was Axcan's Vice-President, Manufacturing until 1996 and now is President of Althin Biopharm Inc., a medical device company.

Michael M. Tarnow. Mr. Tarnow received a *Juris Doctor* (doctorate in law) degree from the University of Illinois in 1968. From 1973 to 1994, Mr Tarnow held various positions with Merck & Co., Inc., including as President and Chief Executive Officer of Merck Frosst Canada from 1990 to 1994. From 1995 to 2000, he was President and CEO of Creative BioMolecules, Inc. (now CURIS, Inc.), a biotechnology company. Currently, he serves on the board of directors of several private and public healthcare and biotechnology companies.

Board of directors

Axcan currently has a board of directors comprised of 10 persons. In accordance with the provisions of the *Canada Business Corporations Act*, the directors are authorized from time to time to fill vacancies of the board of directors, and to fix the number of directors, up to the maximum of 12 persons currently provided under the articles of Axcan, without the prior consent of the shareholders. One quarter of directors must be resident Canadians. Each director is elected at the annual meeting of shareholders to serve until the next annual meeting or until a successor is elected or appointed. The board of directors has established three committees: the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

The Audit Committee's mandate is to assist the board of directors in fulfilling its functions relating to corporate accounting and reporting practices as well as financial and accounting controls, to provide effective oversight of the financial reporting process, and to review financial statements as well as proposals for the issuance of securities. Messrs. Mallet, Lacasse and Sauriol and Ms. Nelson are members of the Audit Committee. Pursuant to the rules for inclusion on the Nasdaq National Market as set forth in the NASD manual, the Audit Committee is composed of at least three independent directors, currently Messrs. Mallet

and Lacasse and Ms. Nelson, and is governed by a formal written Audit Committee charter duly adopted in November 2000.

The Compensation Committee's mandate is to review Axcan's compensation arrangements for its senior officers and directors and make recommendations to the board of directors with respect to such compensation arrangements, as well as to oversee succession planning. The Compensation Committee is also responsible for preparing an annual report on executive compensation for receipt and approval by the board of directors and for purposes of disclosure to shareholders. Messrs. Painchaud, Lacasse, Gauthier and Tarnow are members of the Compensation Committee.

The Corporate Governance Committee's mandate is to review, oversee and suggest processes and structures to direct and manage the business and affairs of Axcan, including increasing accountability within Axcan's management structure in respect of strategic planning, risk assessment and management as well as internal control and information dissemination. Messrs. Gauthier, Mallet and Tarnow are members of the Corporate Governance Committee.

Compensation of Executive Officers

The table below details compensation information for the fiscal years ended September 30, 2001, 2000 and 1999 for the Chief Executive Officer and Chairman of the Board of Axcan, and the five other most highly compensated executive officers who were serving as executive officers at the end of the most recently completed fiscal year or at any time during such fiscal year (the "Named Executive Officers"), as measured by base salary and incentive bonuses. All monetary amounts shown are in Canadian dollars.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (Cdn$)	Bonus (Cdn$)	Other annual compensation (Cdn$)	Long-term compensation: Securities under options (#)	All other compensation (Cdn$)
Léon F. Gosselin	2001	$273,330	$95,927	--	22,183	--
President and	2000	239,558	70,555	--	139,500	--
Chief Executive Officer	1999	228,791	48,758	--	10,000	--
David W. Mims	2001	292,014	92,118	--	17,800	--
Executive Vice-President and	2000	221,235[1]	45,168	--	130,000	--
Chief Operating Officer	1999	--	--	--	--	--
Dr. François Martin	2001	168,422	41,250	--	13,350	--
Senior Vice-President, Scientific	2000	159,165	36,492	--	30,553	--
Affairs	1999	153,612	35,853	--	35,000	--
John R. Booth	2001	245,955	80,603	--	13,350	--
President and General Manager of	2000	197,315[2]	48,316[2]	--	52,000	--
Axcan Scandipharm	1999	--	--	--	--	--
Patrick L. McLean	2001	159,762	50,000	--	13,350	--
Vice-President and General	2000	138,907	31,797	--	50,156	--
Manager, Canada and Europe	1999	135,200[3]	6,851	--	35,000	--
Jean Vézina	2001	142,993	33,305	--	8,900	--
Vice-President, Finance and	2000	123,100	27,762	--	31,767	--
Chief Financial Officer	1999	104,486	18,857	--	32,600	--

(1) Annualized amount - David W. Mims' employment commenced in March 2000.

(2) Amounts have been stated only since the acquisition of Scandipharm by Axcan in August 1999.

(3) Annualized amount - Patrick McLean's employment commenced in May 1999.

Compensation of Directors

Axcan offers to each director who is not an officer or employee of Axcan a fee of US$1,000 for each meeting of the board of directors (US$667 for each meeting by way of conference call) and US$500 for each meeting of any committee thereof attended by such director (US$333 for each meeting by way of conference call). The chairperson of a committee is offered US$750 for each meeting (US$500 for each meeting by way of conference call). During the fiscal year ended September 30, 2001, the total amount paid to outside directors by Axcan was US$70,448. Options to acquire 20,000 Common Shares are granted upon the commencement of service as a director, and a lump sum of US$2,500 as well as options to acquire 7,500 Common Shares are granted each year to each director who is not an employee of Axcan. During the fiscal year ended September 30, 2001, options to acquire a total of 60,000 Common Shares were granted to outside directors at an exercise price equal to the closing price of Axcan's Common Shares on the day prior to such grant.

Employment contracts

Léon F. Gosselin's employment agreement with Axcan expires on September 30, 2003. This agreement provides that in the event Mr. Gosselin is terminated without cause, Axcan must pay his full salary for the balance of the term of the agreement.

Principal shareholders

As of February 27, 2002, to the knowledge of Axcan's management, no persons owned, directly or indirectly, or exercised control or direction over more than 10% of the outstanding Common Shares of Axcan.

The following table sets out the shareholdings in Axcan of its top five shareholders, as well as those of the directors and officers of Axcan as a group:

		Percentage of Common Shares	
Name of beneficial owner	**Number of Common Shares beneficially owned[(1)]**	**Before offering**	**After offering[(2)]**
Sofinov	3,671,787	9.5%	8.5%
Investor Growth Capital Limited[(3)]	2,333,334	6.1%	5.4%
Investor Group L.P.[(3)]	1,000,000	2.6%	2.3%
Léon F. Gosselin (directly and through Axcan Holdings Inc.)	2,939,236	7.6%	6.8%
Perseus-Soros BioPharmaceutical Fund, L.P.	2,500,000	6.5%	5.8%
Placements JenClo Inc.[(4)]	2,209,410	5.7%	5.1%
Directors and officers as a group (excluding those already listed above)	260,896	0.7%	0.6%

(1) Including options exercisable within 60 days of the date of this prospectus.

(2) Without giving effect to the Over-allotment Option and assuming that no additional Common Shares are acquired as part of this offering or otherwise.

(3) These companies are sister companies and both are affiliates of Investor AB, a diversified industrial holding company based in Sweden.

(4) A holding company controlled by Jean Sauriol and Dr. Claude Sauriol, both of whom are directors of Axcan.

Related party transactions

During negotiations leading to their investment in the Common Shares of Axcan as part of Axcan's public offering in June 2000, Axcan granted to each of Investor AB and Perseus-Soros BioPharmaceutical Fund, L.P., two of Axcan's shareholders, the right to designate one person to the board of directors of Axcan. The obligation of Axcan is subject to such designated person being acceptable to Axcan's board of directors, acting reasonably, and is limited to his initial appointment to the board of directors and to the inclusion of his name in the list of management nominees for election to the board of directors at shareholders' meetings held for such purposes. The rights of these shareholders to such appointment are personal to each of them and are not assignable and shall terminate, in respect of each shareholder, upon such shareholder ceasing to own at least 6% of the outstanding Common Shares. Currently Investor AB and Perseus-Soros BioPharmaceutical Fund, L.P. hold, directly or indirectly, 8.7% and 6.5%, respectively, of the issued and outstanding Common Shares of Axcan and will hold approximately 7.8% and 5.8% of the issued and outstanding Common Shares following completion of this offering, assuming neither shareholder acquires additional Common Shares as part of this offering or otherwise.

Sofinov exercises control over approximately 9.5% of Axcan's outstanding Common Shares and has appointed two of its nominees to its board of directors pursuant to an agreement which terminated after Axcan's last annual meeting of shareholders.

During the last three years, Axcan has not entered into any material transactions or arrangements with insiders other than a financing of approximately US$90.5 million entered into with Sofinov in 1999 in order to acquire Axcan Scandipharm (which has since been repaid in full) and the purchase by Sofinov of 2.2 million Common Shares as part of a previous public offering of Common Shares by Axcan in December 1999.

Relationship between Axcan and the Underwriters

National Bank Financial Inc., one of the Underwriters of this offering (the "Connected Underwriter"), is related to a Canadian chartered bank which is a member of Axcan's lending syndicate under the credit facilities described under the heading "Management's discussion and analysis of financial condition and results of operation - Liquidity and capital resources". The Connected Underwriter has participated in decisions related to this offering only in its capacity as underwriter and shall receive its *pro rata* share of the underwriting commission and expenses of this offering. See "Underwriting". The Canadian chartered bank which is related to the Connected Underwriter has not participated in decisions related to this offering and will not receive any direct benefit as a result of this offering.

Description of share capital

The authorized share capital of Axcan consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series, of which 14,175,000 Series A preferred shares and 12 million Series B preferred shares have been created and authorized for issuance. On February 27, 2002, 38,460,910 Common Shares and no Series A or Series B preferred shares were issued and outstanding.

Common Shares

Each Common Share carries one vote at all meetings of shareholders and, subject to the prior rights attached to the preferred shares, participates ratably in any dividends declared by the directors on the Common Shares and is entitled, on the liquidation, dissolution, winding-up or other distribution of assets of Axcan for the purpose of winding-up its affairs, to a *pro rata* share of the assets of Axcan after payment of all its liabilities and obligations.

Preferred Shares as a class

The preferred shares may be issued from time to time in one or more series, with the terms of each series, including the number of shares, the designation of rights, preferences, privileges, priorities, restrictions, conditions and limitations, to be determined at the time of creation of each such series by the board of directors of Axcan without any requirement to obtain further shareholder approval. With respect to dividends and return of capital in the event of liquidation, dissolution, winding-up or other distribution of assets of Axcan for the purpose of winding-up its affairs, the preferred shares as a class rank ahead of the Common Shares and equally as among themselves.

The Series A and Series B preferred shares were created in connection with Axcan's acquisition of PHOTOFRIN in June 2000.

Series A Preferred Shares

In addition to the rights, preferences, privileges, priorities, restrictions, conditions and limitations applicable to preferred shares as a class, holders of Series A preferred shares are entitled to an annual, preferential, cumulative dividend of 5% calculated on their redemption value of Cdn$1.00 per share. The Series A preferred shares have limited transfer rights and must be redeemed by Axcan on or prior to the first anniversary of the closing of the PHOTOFRIN transaction for an amount (the "Redemption Price") equal to their redemption value plus all accrued and unpaid dividends thereon as of such date, payable at the option of, and in the proportions determined by, Axcan in cash or by the issuance of that number of Common Shares as is obtained by dividing the Redemption Price by the average reported closing price of the Common Shares on any stock exchange or similar quotation system on which the Common Shares are listed during the five trading days prior to the date of redemption (or, if the Common Shares are not listed, as determined by Axcan's board of directors in good faith). In the event of a liquidation, dissolution or winding-up of Axcan, whether voluntary or forced, holders of Series A preferred shares shall be entitled, in priority to holders of Common Shares and equally with holders of any other series of preferred shares, to receive the stated redemption value of such shares, plus any accrued and unpaid dividends thereon.

Holders of Series A preferred shares shall not otherwise participate in the profits or surplus of Axcan and shall not be entitled to receive notice of, attend or vote at meetings of shareholders held for the purpose of electing directors or for any other purpose (except as required under applicable corporate law). Axcan may not create or issue shares ranking senior to or equal to the Series A preferred shares (except for Series B preferred shares) or amalgamate or merge or enter into a corporate arrangement or sell all or substantially all its assets or liquidate or be dissolved or pay dividends on Common Shares (other than stock dividends payable in Common Shares) without the approval of two-thirds of the outstanding Series A preferred shares.

Axcan redeemed all of the Series A preferred shares in June 2001.

Series B Preferred Shares

In addition to the rights, preferences, privileges, priorities, restrictions, conditions and limitations applicable to preferred shares as a class, the Series B preferred shares are non-transferable, subject to certain exceptions, and must be redeemed by Axcan on the fifth anniversary of their issuance for an amount equal to their redemption value of Cdn$1.00 per share, payable at the option of Axcan either in cash or by the issuance of that number of Common Shares as is obtained by dividing their redemption value by the average reported closing price of the Common Shares on any stock exchange or similar quotation system on which the Common Shares are listed during the five trading days prior to the date of redemption (or, if the Common Shares are not listed, as determined by Axcan's board of directors, in good faith). Holders of Series B preferred shares can convert those Series B preferred shares at any time, prior to their redemption, in whole or in part, into Common Shares, on the basis of one Common Share for each 15 Series B preferred shares so converted. If the Series B preferred shares or Common Shares are subdivided, redivided or changed into a greater or consolidated into a lesser number of shares or reclassified into different series or category of shares, or in the event of a merger, consolidation or amalgamation of Axcan with any other company by any means, the basis of conversion shall be adjusted. In the event of the liquidation, dissolution or winding-up of Axcan, whether voluntary or forced, holders of Series B preferred shares shall be entitled, in priority to holders of Common Shares and equally with holders of any other series of preferred shares, to receive the stated redemption value of such shares.

Holders of Series B preferred shares are not entitled to a dividend, shall not otherwise participate in the profits or surplus of Axcan and shall not be entitled to receive notice of, attend or vote at meetings of shareholders held for the purpose of electing directors or for any other purpose (except as required under applicable corporate law). Axcan may not create or issue shares ranking senior to or equal to the Series B preferred shares (except for Series A preferred shares) or amalgamate or merge or enter into a corporate arrangement or sell all or substantially all its assets or liquidate or be dissolved or pay dividends on Common Shares (other than stock dividends payable in Common Shares) without the approval of two-thirds of the outstanding Series B preferred shares.

Shareholder rights plan

As of January 12, 2001, Axcan has adopted a shareholder protection rights plan (the "Rights Plan"). The Rights Plan has been designed to protect shareholders of Axcan from unfair or coercive takeover strategies, including the acquisition of control of Axcan by a bidder in a transaction or series of transactions that does not treat all shareholders equally or fairly nor afford all shareholders an equal opportunity to share in the premium paid upon an acquisition of control. The Rights Plan is not intended to prevent a takeover or deter fair offers for securities of Axcan. Rather, it is designed to encourage anyone seeking to acquire control of Axcan to make an offer that represents fair value to all holders of all Common Shares. Moreover, the Rights Plan does not inhibit the use of the proxy solicitation rules to promote a change in the management or direction of Axcan.

Under the Rights Plan, Axcan is authorized to issue one share purchase right (a "Right") in respect of each outstanding Common Share to holders of record as of January 12, 2001 (the "Record Time") and one Right for each Common Share issued after the Record Time and prior to the Separation Time (as defined below). The Rights Plan provides that, until the Separation Time, the Rights will be transferred with and only with the associated Common Shares and will be represented by the outstanding Common Share certificates. Until the Separation Time (or earlier redemption or expiration of the Rights), new Common Share certificates issued after the Record Time upon the transfer of existing Common Shares or the issuance of additional Common Shares will contain a notation incorporating the Rights Plan Agreement by reference. Until the Separation Time (or earlier redemption or expiration of the Rights), the surrender or transfer of any certificates representing Common Shares outstanding as of the Record Time will also constitute the transfer of the Rights associated with such Common Shares. Promptly following the Separation Time, separate certificates evidencing the Rights (the "Rights Certificates") will be mailed to holders of record of Common Shares as of the Separation Time and the separate Rights Certificates will evidence the Rights.

The Rights will separate and trade separately from the Common Shares after the Separation Time. The "Separation Time" is the close of business on the eighth trading day following the earlier of the date an announcement is made that a person (or group of persons) has acquired 20% or more of Axcan's Common Shares or the date of an announcement of the intent to make a takeover bid.

The Rights Plan uses the "permitted bid" concept. A permitted bid is a takeover bid made in compliance with, and that is not exempt from, the applicable provisions of the *Canada Business Corporations Act* and of the *Securities Act* (Quebec) and the respective regulations made thereunder and in compliance with all other applicable laws (including the securities laws of all other relevant jurisdictions), is made to all shareholders and is subject to approval by Axcan's board of directors and independent shareholders at a duly convened meeting thereof. The bid must remain open for at least 60 days.

In the event that an acquiring person does not comply with the Rights Plan, then each Right (except for Rights beneficially owned by the acquiring person, any of his affiliates or associates or any person acting jointly or in concert with such persons or certain transferees of an acquiring person, which Rights shall be void pursuant to the terms of the Rights Plan) shall, as of the Separation Time, entitle a holder to purchase, upon the exercise thereof at the then current exercise price (as set out in the Rights Plan), that number of Common Shares having an aggregate market value equal to twice the exercise price. For example, if at the time of such announcement the exercise price is Cdn$100 and the Common Shares have a market value of Cdn$50 each, the holder of each Right would be entitled to purchase four Common Shares, being the number of Common Shares that have in the aggregate a market value of Cdn$200, for a price of Cdn$100, that is, at a 50% discount. This mechanism also applies to transactions involving the sale or exchange of assets or shares and having the same intended effect.

The Rights Plan will be submitted to shareholders for review at the first annual meeting of shareholders of Axcan held after January 12, 2006. If it is not then ratified by the shareholders, Axcan will be deemed to have redeemed the Rights.

Certain tax considerations for U.S. shareholders

The following discussion summarizes certain material Canadian and United States federal income tax consequences of the acquisition, ownership and disposition of Common Shares purchased pursuant to this prospectus. This discussion is not intended to be, nor should it be construed to be, legal or tax advice to any particular prospective purchaser. This discussion does not take into account Canadian provincial or territorial tax laws, United States state or local tax laws, or tax laws of jurisdictions outside of Canada and the United States. The following is based upon the tax laws of Canada and the United States as in effect on the date of this prospectus, which are subject to change or to different interpretation with possible retroactive effect. Prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

Canadian federal income tax considerations

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a US Holder who acquires Common Shares pursuant to this prospectus. As used in this summary of Canadian federal income tax considerations, the term "US Holder" means a holder of Common Shares who: (A) for the purposes of the *Income Tax Act* (Canada) and the regulations thereunder (the "Tax Act") (i) is not, has not been and will not be or be deemed to be, resident in Canada at any time while he or she holds or held Common Shares (or other property for which Common Shares were substituted in a tax deferred transaction), (ii) deals at arm's length with Axcan, (iii) holds the Common Shares as a capital property, (iv) owns less than 10% of the outstanding voting shares of Axcan, (v) does not use or hold and will not be deemed to use or hold the Common Shares in connection with carrying on a business in Canada, and (vi) in respect of whom the Common Shares are not "designated insurance property"; and in addition (B) for the purposes of the Canada-United States Income Tax Convention, 1980, as amended (the "Convention"), is at all relevant times a resident of the United States and does not have and has not had at any time a permanent establishment or fixed base in Canada.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act and Regulations announced by the Minister of Finance (Canada) prior to the date of this prospectus, counsel's understanding of the current published administrative policies and assessing practices of the Canada Customs and Revenue Agency and the Convention. This discussion is not exhaustive of all potential Canadian tax consequences to a US Holder and does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative decision or action, nor does it take into account the tax legislation or considerations of any province, territory or foreign jurisdiction.

Amounts paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends on Common Shares beneficially owned by a US Holder generally will be subject to Canadian withholding tax. Currently, under the Convention, the rate of withholding tax generally applicable to dividends paid to US Holders is 15%.

Under the Tax Act, a US Holder will generally not be subject to tax in respect of any capital gain, or entitled to deduct any capital loss, realized on the disposition or deemed disposition of Common Shares, unless at the time of such disposition such Common Shares constitute "taxable Canadian property" of the US Holder for the purposes of the Tax Act and the US Holder is not entitled to relief under the Convention. If the Common Shares are listed on a prescribed stock exchange (which includes the TSE and the Nasdaq National Market) at the time they are disposed of, they will generally not constitute "taxable Canadian property" of a US Holder at the time of disposition unless, at any time within the 60-month period immediately preceding the disposition, the US Holder, persons with whom the US Holder did not deal at arm's length, or the US Holder together with such persons, owned, had an interest in, or an option in respect of, 25% or more of the issued shares of any class or series of Axcan's shares. A deemed disposition of Common Shares will arise on the death of a US Holder. If the Common Shares are taxable Canadian property to a US Holder, under the Convention any capital gain realized on a disposition or deemed disposition of such shares will generally not be subject to Canadian federal income tax unless the value of

the Common Shares at the time of the disposition or deemed disposition is derived principally from "real property situated in Canada" within the meaning set out in the Convention. Axcan believes that the value of the Common Shares does not derive principally from "real property situated in Canada" within the meaning set out in the Convention. US Holders whose Common Shares are taxable Canadian property should consult with their own advisors.

United States federal income tax considerations

The following sets forth certain material United States federal income tax considerations of an investment in the Common Shares generally applicable to the following persons who invest in and hold such Common Shares as capital assets. For purposes of this discussion "United States Shareholders" are: (i) citizens or residents (as defined for United States federal income tax purposes) of the United States, (ii) corporations, partnerships or other entities created or organized in the United States or under the laws of the United States or of any potential subdivision thereof, (iii) estates, the income of which is subject to United States federal income taxation regardless of its source, (iv) any trust if (x) a United States court is able to exercise primary supervision over the administration of the trust and (y) one or more United States persons have the authority to control all substantial decisions of the trust, and (v) certain trusts in existence on August 20, 1996 which were treated as United States persons under the law in effect immediately prior to such date and which make a valid election to be treated as a "United States Person" under the Internal Revenue Code of 1986 (the "Code"). "Non-United States Shareholders" are beneficial owners of the Common Shares that are not United States Shareholders. This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a United States Shareholder's decision to acquire Common Shares. In particular, this summary does not address (a) the tax treatment of special classes of United States Shareholders, such as banks, insurance companies, tax-exempt organizations or dealers in securities, or United States Shareholders subject to the alternative minimum tax, (b) the tax treatment of United States Shareholders that own (directly or indirectly by attribution) 10% or more of the total combined voting power of all classes of stock of Axcan, (c) the tax treatment of United States Shareholders whose functional currency is not the US dollar or United States Shareholders who hold Common Shares as part of a straddle, conversion transaction or other integrated investment, (d) the tax treatment of United States Shareholders that carry on a business in Canada through a permanent establishment, or (e) any aspect of state, local or non-United States tax laws. This discussion is based on the tax laws of the United States including the Code, judicial decisions, administrative pronouncements, and existing and proposed Treasury regulations as of the date hereof, changes to any of which after the date of this prospectus could have retroactive effect.

Prospective investors should consult their tax advisors as to the tax consequences of an investment in the Common Shares in light of their particular circumstances, including the effect of any foreign, United States state or local tax laws.

Distributions on Common Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution by Axcan (including any Canadian taxes withheld therefrom) with respect to Common Shares generally should be included in the gross income of a United States Shareholder as foreign source dividend income to the extent paid out of current or accumulated earnings and profits of Axcan, as determined under United States federal income tax principles. To the extent that the amount of any distribution exceeds Axcan's current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital to the extent of the United States Shareholder's adjusted tax basis in the Common Shares and to the extent that such distribution exceeds the United States Shareholder's adjusted tax basis in the Common Shares, will be taxed as a capital gain. Such dividends will not be eligible for the dividends received deduction generally allowed to corporations under the Code. If a United States Shareholder receives a dividend in Canadian dollars, the amount of the dividend for United States federal income tax purposes will be the US dollar value of the dividend (determined at the spot rate on the date of such payment) regardless of whether the payment is later converted into US dollars. In such case, the United States Shareholder may recognize United States source ordinary income or loss as a result of currency fluctuations between the date on which the dividend is paid and the date the dividend amount is converted into US dollars.

A Non-United States Shareholder generally will not be subject to United States federal income or withholding tax on dividends received on Common Shares, unless such income is effectively connected with the conduct of a trade or business of such Non-United States Shareholder in the United States (and are attributable to a permanent establishment maintained in the United States by such Non-United States Shareholder, if an applicable income tax treaty so requires as a condition for such Non-United States Shareholder to be subject to United States taxation on a net income basis in respect of income from Common Shares). "Effectively connected" dividends received by a corporate Non-United States Shareholder may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if an income tax treaty applies.

Sale, exchange, or other disposition of Common Shares

Subject to the passive foreign investment company rules discussed below, gain or loss, if any, realized by a United States Shareholder on the sale or other disposition of Common Shares will generally be subject to United States federal income taxation as capital gain or loss in an amount equal to the difference between the United States Shareholder's adjusted tax basis in the Common Shares and the amount realized on the disposition. Net capital gains (i.e. capital gain in excess of capital loss) recognized by a non-corporate United States Shareholder upon a disposition of Common Shares that have been held for more than 12 months will generally be subjected to a maximum US federal income tax rate of 20% or in the case of Common Shares that have been held for 12 months or less, will be subject to tax at ordinary income tax rates. Such gain or loss will generally constitute United States source gain or loss for foreign tax credit purposes. The deduction for capital losses is subject to certain limitations.

A Non-United States Shareholder generally will not be subject to United States federal income tax or withholding tax in respect of gain recognized on a disposition of Common Shares unless such gain is effectively connected with a trade or business of the Non-United States Shareholder in the United States (and is attributable to a permanent establishment maintained in the United States by such Non-United States Shareholder, if an applicable income tax treaty so requires as a condition for such Non-United States Shareholder to be subject to United States taxation on a net income basis in respect of gain from the sale or other disposition of Common Shares), or in the case of an individual Non-United States Shareholder, such Non-United States Shareholder is present in the United States for 183 or more days in the calendar year in which such disposition of Common Shares takes place and such Non-United States Shareholder either (i) has a tax home (as defined in the Code) in the United States, or (ii) such gain is attributable to an office or other fixed place of business in the United States. "Effectively connected" gains recognized by a corporate Non-United States Shareholder may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if an income tax treaty applies.

Credit for foreign taxes withheld

Subject to the limitations set forth in Sections 901 and 904 of the Code (including certain holding period requirements), the foreign tax withheld or paid with respect to dividends on the Common Shares generally will be eligible for credit against a United States Shareholder's federal income tax liability. Alternatively, a United States Shareholder may claim a deduction for such amount of withheld foreign taxes, but only for a year for which such United States Shareholder elects to do so with respect to all foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. United States Shareholders should consult their own tax advisors with respect to the availability of a foreign tax credit or deduction for Canadian taxes withheld.

Passive foreign investment company discussion

In general, a foreign corporation is a passive foreign investment company (a "PFIC") for any taxable year in which (i) 75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties, or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. Axcan believes that it will not satisfy either of the PFIC tests in the current or subsequent taxable years. However, because the PFIC determination is made annually on the basis of Axcan's income and assets, including goodwill and because the principles and methodology for

applying the PFIC tests are not entirely clear, there can be no assurance that Axcan will not be a PFIC in the current or subsequent taxable years.

If Axcan were a PFIC in any taxable year and a United States Shareholder held Common Shares, such shareholder generally may be subject to additional taxes and interest charges on certain distributions and on any gain recognized on the disposition of the Common Shares. This tax is assessed at the highest rate applicable for corporate or individual taxpayers for the relevant periods. These additional taxes and interest charges will not apply to a United States Shareholder if either (i) the shareholder elected, generally for the first taxable year for which shares of a PFIC were considered to be held, to be taxed currently on a pro rata portion of Axcan's income, whether or not such income was distributed in the form of dividends or otherwise, and Axcan made available certain information, or (ii) if such shareholder elected to include in income each year an amount equal to the excess, if any, of the fair market value of the Common Shares as of the close of the tax year over the shareholder's adjusted basis in the Common Shares.

Information reporting and backup withholding

In general, information reporting requirements will apply to dividends in respect of the Common Shares and the proceeds received on the disposition of Common Shares paid within the United States (and in certain cases, outside the United States) to United States Shareholders other than certain exempt recipients (such as corporations), and backup withholding may apply to such amounts if the United States Shareholder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its federal income tax returns. The amount of any backup withholding from a payment to a United States Shareholder will be allowed as a credit against the United States Shareholder's federal income tax liability.

Underwriting

Axcan and the Underwriters named below have entered into an underwriting agreement covering the Common Shares to be offered in this offering. Each Underwriter has severally agreed to purchase on ●, 2002, or such other date as may be agreed upon, but no later than ●, 2002, the number of Common Shares set forth opposite its name in the following table.

Underwriters	Number of Common Shares
J.P. Morgan Securities Inc.	●
Thomas Weisel Partners LLC	●
UBS Warburg LLC	●
National Bank Financial Inc.	●
SunTrust Capital Markets, Inc.	●
Total	4,500,000

The underwriting agreement provides that if the Underwriters take any of the Common Shares presented in the table above, then they must take all of these Common Shares. No Underwriter is obligated to take all of these Common Shares. No Underwriter is obligated to take any Common Shares allocated to a defaulting Underwriter except under limited circumstances. The obligations of the Underwriters under the underwriting agreement may be terminated at their sole discretion based on their assessment of the financial markets and may also be terminated upon the occurrence of certain stated events.

The Underwriters, as principals, are conditionally offering the Common Shares subject to their prior sale, if, as and when such shares are delivered to and accepted by them in accordance with the conditions contained in the underwriting agreement and subject to the approval of certain legal matters on behalf of Axcan by Lapointe Rosenstein, a general partnership, Montreal, Quebec, Leger Robic Richard, a general partnership, Montreal, Quebec, and Paul, Hastings, Janofsky & Walker LLP, Atlanta, Georgia and on behalf of the Underwriters by Milbank, Tweed, Hadley & McCloy LLP, New York, New York and Stikeman Elliott, a general partnership, New York, New York. The offering price has been determined by negotiation between Axcan and the Underwriters. The Underwriters will initially offer to sell Common Shares to the public at the initial public offering price shown on the cover page of this prospectus. The Underwriters may sell Common Shares to securities dealers at a discount of up to US$● per Common Share from the initial public offering price. Any such securities dealers may resell Common Shares to certain other brokers or dealers at a discount of up to US$● per Common Share from the initial public offering price. After the initial public offering, the Underwriters may vary the public offering price and other selling terms.

This offering is being made concurrently in the United States and in all of the provinces of Canada pursuant to the multijurisdictional disclosure system implemented by the securities regulatory authorities in the United States and Canada. Subject to applicable law, the Underwriters may offer Common Shares outside of the United States and Canada.

If the Underwriters sell more Common Shares than the total number shown in the table above, the Underwriters have the Over-allotment Option, pursuant to which they may buy up to an additional 675,000 Common Shares from Axcan at the public offering price to cover such sales and for market stabilization. They may exercise the Over-allotment Option during the 30-day period from the date of the signing of the underwriting agreement. If any shares are purchased with the Over-allotment Option, the Underwriters will purchase shares in approximately the same proportions as shown in the table above.

The following table shows the per share and total underwriting discounts and commissions that Axcan will pay to the Underwriters. These amounts are shown assuming both no exercise and full exercise of the Over-allotment Option.

Underwriting discounts	Without over-allotment exercise	With over-allotment exercise
Per share	US$●	US$●
Total	US$●	US$●

The Common Shares are listed on Nasdaq and on the TSE.

The Underwriters may make short sales of Common Shares in connection with this offering, resulting in the sale by the Underwriters of a greater number of Common Shares than they are required to purchase pursuant to the underwriting agreement. The short position resulting from those short sales will be deemed a "covered" short position to the extent that it does not exceed the 675,000 Common Shares subject to the Over-allotment Option and will be deemed a "naked" short position to the extent that it exceeds that number. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the trading price of the Common Shares in the open market that could adversely affect investors who purchase Common Shares in this offering. The Underwriters may reduce or close out their covered short position either by exercising the Over-allotment Option or by purchasing shares in the open market. In determining which of these alternatives to pursue, the Underwriters will consider the price at which Common Shares are available for purchase in the open market as compared to the price at which they may purchase Common Shares through the Over-allotment Option. Any "naked" short position will be closed out by purchasing Common Shares in the open market. Similar to the other stabilizing transactions described below, open market purchases made by the Underwriters to cover all or a portion of their short position may have the effect of preventing or retarding a decline in the market price of the Common Shares following this offering. As a result, the Common Shares may trade at a price that is higher than the price that otherwise might prevail in the open market. The Underwriters are not required to engage in these activities and may end these activities at any time.

The Underwriters have advised Axcan that, pursuant to Regulation M under the *Securities and Exchange Act of 1934*, as amended (the "Exchange Act") they may engage in transactions, including stabilizing bids or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the Common Shares at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of Common Shares on behalf of the Underwriters for the purpose of fixing or maintaining the price of the Common Shares. A "penalty bid" is an arrangement permitting the Underwriters to claim the selling concession otherwise accruing to an Underwriter or syndicate member in connection with the offering if the Common Shares originally sold by that Underwriter or syndicate member is purchased by the Underwriters in the open market pursuant to a stabilizing bid or to cover all or part of a syndicate short position. The Underwriters have advised Axcan that stabilizing bids and open market purchases may be effected on Nasdaq, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Pursuant to policy statements of Canadian securities regulatory authorities, neither Axcan nor the Underwriters may, throughout the period of distribution, bid for or purchase Common Shares in Canada. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSE relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. These transactions may be commenced or interrupted at any time during the period of distribution.

One or more of the Underwriters may facilitate the marketing of this offering online directly or through one of its affiliates. In those cases, prospective investors may view offering terms and a prospectus online and, depending upon the particular Underwriter, place orders online or through their financial advisors.

Axcan estimates that the total expenses of this offering, excluding underwriting discounts, will be approximately US$700,000.

Axcan has agreed to indemnify the Underwriters against liabilities, including liabilities under the United States *Securities Act of 1933*, as amended, (the "Securities Act") and the provincial securities legislation of Canada, and to contribute to payments the Underwriters may be required to make in respect to these liabilities.

Axcan and its executive officers, directors and certain shareholders have agreed that, with limited exceptions, during the period beginning from the date of this prospectus and continuing to and including the date 90 days after the date of this prospectus, none of them will, directly or indirectly, offer, pledge, announce the intention to sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Common Shares or any of their securities which are substantially similar to the Common Shares, including but not limited to any securities that are convertible into or exchangeable for Common Shares or enter into any swap, option, future, forward or other agreement that transfers, in whole or in part, the economic consequence of ownership of Common Shares without the prior written consent of J.P. Morgan Securities Inc., other than (i) pursuant to employee stock option plans existing on the date of this prospectus; or (ii) pursuant to existing obligations currently binding on Axcan or in connection with future acquisitions by Axcan of rights, property or other assets.

It is expected that delivery of the certificates representing Common Shares issued pursuant to this offering will be made to investors on or about ●, 2002.

In connection with this offering, certain Underwriters and selling group members, if any, who are qualified market makers on the Nasdaq National Market may engage in passive market making transactions in Common Shares on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Exchange Act. In general a passive market maker must display its bid at a price not in excess of the highest independent bid of such security; if all independent bids are lowered below the passive market maker's bid, however, such bid must then be lowered when certain purchase limits are exceeded.

From time to time in the ordinary course of their respective businesses, some of the Underwriters and their affiliates may in the future engage in commercial banking and investment banking transactions with Axcan and its affiliates.

Initial sales of the Common Shares offered in the United States will be settled in US dollars and initial sales of Common Shares offered in Canada will be settled in Canadian dollars. Subsequent trading of Common Shares effected on Nasdaq will be settled in US dollars and subsequent trading of Common Shares effected on the TSE will be settled in Canadian dollars, in each case in accordance with the normal settlement practices of those markets.

Legal matters

Certain legal matters in connection with the issue and sale of the Common Shares offered hereby will be passed upon on behalf of Axcan by Lapointe Rosenstein, a general partnership, Montreal, Quebec, Leger Robic Richard, a general partnership, Montreal, Quebec, and Paul, Hastings, Janofsky & Walker LLP, Atlanta, Georgia, and on behalf of the Underwriters by Milbank, Tweed, Hadley & McCloy LLP, New York, New York and Stikeman Elliott, New York, New York.

Auditors, transfer agent and registrar

The auditors of Axcan are Raymond Chabot Grant Thornton, a general partnership, Chartered Accountants, Montreal, Quebec.

The Canadian transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices in Canada, including Montreal, Quebec and Toronto, Ontario. The United

States transfer agent and registrar for the Common Shares is American Securities Transfer & Trust Inc. at its principal office in Denver, Colorado.

Documents incorporated by reference

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Director, Investor Relations of Axcan at 597 Laurier Blvd., Mont Saint-Hilaire, Quebec J3H 6C4 (Telephone (450) 467-5138) or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. For the purposes of the Province of Quebec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Director, Investor Relations of Axcan at the above-mentioned address and telephone number.

The following documents of Axcan, filed with the securities regulatory authorities in each of the provinces of Canada, are specifically incorporated by reference and form an integral part of this prospectus:

(a) the unaudited comparative consolidated financial statements of Axcan for the three-month period ended December 31, 2001;

(b) the audited comparative consolidated financial statements of Axcan for the year ended September 30, 2001 as well as the auditor's report thereon contained in Axcan's Annual Report for the year ended September 30, 2001;

(c) Management's Discussion and Analysis of Operating Results and Financial Position for the year ended September 30, 2001 contained in Axcan's Annual Report for the year ended September 30, 2001;

(d) Axcan's Annual Information Form dated February 6, 2002 for the year ended September 30, 2001; and

(e) the Management Proxy Solicitation Circular dated January 16, 2002 for the annual meeting of the shareholders to be held on February 21, 2002, with the exception of the headings "Statement of Executive Compensation - Composition of the Compensation Committee", "Compensation Committee Report", "Corporate Governance" and "Stock Participation Plan - Performance Graph".

Any document of the type referred to above and any material change report filed by Axcan with the securities regulatory authorities in Canada after the date of this short form prospectus and prior to the end of the offering will be deemed to be incorporated by reference in this prospectus.

The information permitted to be omitted from this prospectus will be contained in a supplemented prospectus and will be deemed incorporated by reference in this prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in any subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it is made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of this short form prospectus.

Additional information

Concurrently with the filing of this prospectus, Axcan has filed with the United States Securities and Exchange Commission (the "SEC") a Registration Statement on Form F-10 (together with all amendments and supplements thereto, the "Registration Statement") under the Securities Act, with respect to the Common Shares offered hereby. This prospectus, which forms a part of the Registration Statement, does not contain all the information set forth in the Registration Statement, certain parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information with respect to Axcan, and the Common Shares offered hereby, reference is made to the Registration Statement and to the schedules and exhibits filed therewith. Statements contained in this prospectus as to the contents of certain documents are not necessarily complete and, in each instance, reference is made to the copy of the document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference. Items of information omitted from the prospectus but contained in the Registration Statement may be inspected and copied at the public reference facilities maintained at the office of the SEC described below

Axcan is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports and other information with the SEC. Under a multijurisdictional disclosure system adopted by the SEC, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Axcan is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and its officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Under the Exchange Act, Axcan is not required to publish financial statements as frequently or as promptly as US companies. Any information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the SEC's following regional offices: Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60660; and the Woolworth Building, 233 Broadway, New York, New York 10279. Copies of such material can also be obtained from the SEC at prescribed rates through its Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330.

Documents filed as part of the registration statement

The following documents have been filed with the SEC as part of the registration statement of which this prospectus forms a part: Axcan’s Form 40-F filed on January 23, 2002, Axcan’s Form 6-K filed on January 24, 2001, Axcan’s Form 40-F/A filed on February 15, 2002; consent of Raymond Chabot Grant Thornton, a general partnership; consent of Lapointe Rosenstein, a general partnership, consent of Leger Robic Richard, a general partnership, consent of Paul, Hastings, Janofsky & Walker, LLP; and Powers of Attorney.

Eligibility for investment

Eligibility of the Common Shares for investment under the statutes referred to below is subject to compliance with the prudent investment standards and general investment provisions and restrictions of such statutes (and, where applicable, the regulations thereunder) and, in certain cases, is subject to the satisfaction of additional requirements relating to investment or lending practices or goals and, in certain cases, the filing of such policies or goals under such statutes:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
An Act respecting trust companies and savings companies (Quebec) (for a trust company, as defined therein, which invests its own funds and funds received as deposits and a savings company, as defined therein, investing its own funds)
Supplemental Pension Plans Act (Quebec) (for a plan governed thereby)
An Act Respecting Insurance (Quebec) (in respect of insurers as defined therein, other than guarantee funds)
Pension Benefits Act (Ontario)
Loan and Trust Corporations Act (Ontario)
The Insurance Act (Manitoba)
Employment Pension Plans Act (Alberta)
Loans and Trust Corporations Act (Alberta)
Insurance Act (Alberta)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)

In the opinion of Lapointe Rosenstein, a general partnership, Montreal, Quebec, the Common Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, the "Plans"). The Common Shares will not, on the date of issue, constitute "foreign property" for the purposes of the tax imposed under Part XI of the Tax Act on Plans (other than registered education savings plans), registered investments and other tax exempt entities, including most registered pension funds or plans. Registered education savings plans are not subject to the foreign property rules.

Purchasers' statutory rights

Securities legislation in certain of the Canadian provinces provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation in his province. The purchaser should refer to any applicable provisions of the securities legislation of his province for the particulars of these rights or consult with a legal advisor.

AXCAN PHARMA INC.

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Auditors' Report

To the Shareholders of Axcan Pharma Inc.

We have audited the consolidated balance sheets of Axcan Pharma Inc. as at September 30, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2001 in accordance with generally accepted accounting principles in Canada.

(signed)

Raymond Chabot Grant Thornton
General Partnership
Chartered Accountants

Montreal, Quebec, Canada
November 15, 2001

Consolidated Balance Sheets

SEPTEMBER 30	**2001**	2000
in thousands of U.S. dollars	$	$
Assets		
Current assets		
Cash and cash equivalents	16,541	11,135
Short-term investments, at cost *(Note 6)*	–	9,787
Accounts receivable *(Note 7)*	22,178	14,776
Income taxes receivable	417	3,301
Inventories *(Note 8)*	16,735	13,335
Prepaid expenses and deposits	1,803	2,014
Future income taxes *(Note 9)*	3,335	2,315
Total current assets	61,009	56,663
Investments *(Note 10)*	2,579	1,838
Capital assets *(Note 11)*	162,584	168,138
Future income taxes *(Note 9)*	3,221	6,173
Goodwill *(Note 12)*	19,710	21,240
	249,103	254,052
Liabilities		
Current liabilities		
Accounts payable *(Note 14)*	16,113	15,620
Income taxes payable	782	1,722
Instalments on long-term debt	103	10,614
Future income taxes *(Note 9)*	453	467
Total current liabilities	17,451	28,423
Long-term debt *(Note 15)*	112	36,688
Future income taxes *(Note 9)*	25,704	26,655
Non-controlling interest	695	556
	43,962	92,322
Shareholders' Equity		
Equity component of purchase price *(Note 16)*	2,704	2,704
Capital stock *(Note 17)*	186,650	152,905
Retained earnings	16,914	7,195
Accumulated foreign currency translation adjustments	(1,127)	(1,074)
	205,141	161,730
	249,103	254,052

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

(signed)
Léon F. Gosselin
Director

(signed)
Claude Sauriol
Director

Consolidated Earnings

YEARS ENDED SEPTEMBER 30	**2001**	2000	1999
in thousands of U.S. dollars, except per share amounts	$	$	$
Revenue	104,549	87,486	37,549
Cost of goods sold	26,540	22,313	9,546
Selling and administrative expenses	39,101	32,127	17,771
Research and development expenses	6,129	6,174	3,175
	71,770	60,614	30,492
	32,779	26,872	7,057
Financial expenses	3,528	9,095	2,800
Interest income	(981)	(1,072)	(1,111)
Depreciation and amortization	12,032	10,522	3,021
	14,579	18,545	4,710
Earnings before income taxes	18,200	8,327	2,347
Income taxes *(Note 9)*	6,728	3,387	1,348
Earnings from continuing operations	11,472	4,940	999
Earnings from discontinued operations, including a net gain on divestiture of $1,442 in 2000 *(Note 5)*	–	1,796	413
Net earnings	11,472	6,736	1,412
Earnings per common share			
Basic and diluted			
Continuing operations	0.31	0.18	0.06
Discontinued operations	–	0.07	0.03
Net earnings	0.31	0.25	0.09
Weighted average number of common shares			
Basic	35,832,198	26,575,475	16,111,545
Diluted	36,531,052	26,791,510	16,144,329

Consolidated Retained Earnings

YEARS ENDED SEPTEMBER 30	**2001**	2000	1999
in thousands of U.S. dollars	$	$	$
Balance, beginning of year	7,195	4,166	2,868
Net earnings	11,472	6,736	1,412
Common share issue expenses, net of future income taxes in the amount of $881 for 2001 ($1,853 for 2000 and $69 for 1999).	(1,452)	(3,565)	(114)
Cumulative dividends on preferred shares	(301)	(142)	–
Balance, end of year	16,914	7,195	4,166

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Cash Flows

YEARS ENDED SEPTEMBER 30	**2001**	2000	1999
in thousands of U.S. dollars	$	$	$
Operations			
Earnings from continuing operations	11,472	4,940	999
Dividends from a company subject to significant influence	–	12	25
Non-cash items			
Non-controlling interest	(249)	–	–
Interest	–	–	1,484
Depreciation and amortization	12,032	10,995	3,966
Gain on disposal of assets	(141)	(37)	–
Foreign currency fluctuation	102	320	(69)
Future income taxes	2,515	1,934	3,986
Investment tax credits	(746)	(627)	214
Share in net loss of companies subject to significant influence	–	125	186
Changes in working capital items from continuing operations *(Note 19)*	(8,580)	(5,674)	(10,310)
Cash flows from continuing operations	16,405	11,988	481
Cash flows from discontinued operations	–	396	160
Cash flows from operating activities	16,405	12,384	641
Financing			
Notes payable	–	–	90,533
Repayment of notes payable	–	(92,017)	–
Repayment of long-term debt	(47,075)	(13,620)	–
Non-controlling interest	388	–	–
Issue of shares	33,302	88,342	10,252
Share issue expenses	(2,333)	(4,876)	(183)
Cash flows from discontinued operations	–	(12)	(17)
Cash flows from financing activities	(15,718)	(22,183)	100,585
Investment			
Acquisition of short-term investments	(48,552)	(9,787)	(34,951)
Disposal of short-term investments	58,339	19,300	43,180
Net proceeds from discontinued operations	–	4,587	–
Acquisition of investments	(961)	(99)	(128)
Disposal of investments	186	1,982	–
Acquisition of capital assets	(4,283)	(20,827)	(865)
Other	–	–	(1,041)
Net cash used for business acquisitions *(Note 4)*	–	(1,798)	(82,456)
Cash flows from discontinued operations	–	17	33
Cash flows from investment activities	4,729	(6,625)	(76,228)
Foreign exchange loss on cash held in foreign currency	(10)	–	(504)
Net increase (decrease) in cash and cash equivalents	5,406	(16,424)	24,494
Cash and cash equivalents, beginning of year	11,135	27,559	3,065
Cash and cash equivalents, end of year	16,541	11,135	27,559

The accompanying notes are an integral part of the consolidated financial statements.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

1. Governing Statutes and Nature of Operations

The Company, incorporated under the Canada Business Corporations Act, is involved in the research, development, production and distribution of pharmaceutical products, mainly in the field of gastroenterology.

2. Changes in Reporting Currency and Accounting Policies

Change in reporting currency

The consolidated financial statements of the Company were presented in Canadian dollars up to September 30, 1999. Until that date, the Canadian dollar was also considered the functional currency of the Company. Further to the acquisition of Axcan Scandipharm Inc. ("Axcan Scandipharm") and the redemption of Schwarz Pharma Inc. ("Schwarz") 50% interest in the Axcan Urso LLC (formerly Axcan Schwarz LLC, ("LLC")) joint-venture, a growing proportion of the Company's operations is in the United States. As of October 1, 1999, the Company changed its currency of display and its currency of measurement to the U.S. dollar.

The financial information for the year ended September 30, 1999 is presented in U.S. dollars in accordance with a translation of convenience method using the closing exchange rate at September 30, 1999 of U.S. $0.68 for CDN $1.00. The translated amount for Canadian non-monetary items at September 30, 1999 became the historical basis for those items subsequently.

Change in accounting policy

The company adopted, on a retroactive basis, the new recommendations issued by the Canadian Institute of Chartered Accountants ("CICA") modifying the calculation of earnings per share. Under the new recommendations, the treasury stock method is to be used, instead of the current imputed earnings approach, for determining the dilution effect of convertible debt, convertible preferred shares and options. This change in accounting policy has no impact on the Company's previously reported diluted earnings per share for all years presented.

Standards applicable for the year 2002

In 2001, the CICA approved new standards modifying the method of accounting for business combinations entered into after June 30, 2001 and address the accounting for goodwill and other intangible assets. The new standards on goodwill and other intangible assets should be applied for fiscal years beginning on or after January 1, 2002. The Company has elected to early adopt and anticipates that beginning October 1, 2001, it will no longer amortize its goodwill and trademarks with indefinite life, but will however, evaluate goodwill and trademarks with indefinite life for impairment annually. The Company anticipates the effect of implementation to be a reduction of depreciation and amortization expense of approximately $6.4 million during fiscal 2002. These standards are the same ones in the United States.

3. Accounting Policies

The financial statements are expressed in U.S. dollars and were prepared in accordance with generally accepted accounting principles in Canada, which in the case of Axcan Pharma Inc., can differ from generally accepted accounting principles in the United States, as shown in Note 24.

Accounting estimates

The preparation of financial statements in accordance with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and recognized amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Principles of consolidation

These financial statements include the accounts of the Company and its subsidiaries, the most important being Axcan Scandipharm Inc. and Axcan Pharma U.S. Inc. The Company's interest in the joint-ventures Althin Biopharm Inc. (until May 30, 2000) and Axcan Urso LLC (until November 19, 1999) is accounted for by the proportionate consolidation method.

Revenue recognition

Revenues are recognized as the Company's obligations pertaining to the deliveries are fulfilled.

Cash and cash equivalents

The Company includes in cash and cash equivalents cash and all highly liquid short-term investments with initial maturities of three months or less.

3. Accounting Policies (Continued)

Inventory valuation

Inventories of raw materials and packaging material are valued at the lower of cost and replacement cost. Inventories of work in progress and finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method.

Investments in companies subject to significant influence

The investments in shares of companies subject to significant influence are recorded using the equity method.

Research and development

Research and development expenses are charged to earnings in the year they are incurred, net of related tax credits.

Depreciation and amortization

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	Methods	Rates
Building	Diminishing balance	4%
Furniture and equipment	Diminishing balance and	20%
	straight-line	10%
Automotive and computer equipment	Diminishing balance	30%
Leasehold and building improvements	Straight-line	20%
Trademarks, trademark licenses and manufacturing rights	Straight-line	4% and 6.67%

Bond discount was amortized on a straight-line basis over a five-year period until 2000.

Goodwill is amortized on a straight-line basis over periods of 15 or 20 years.

Management evaluates the value of the unamortized portion of goodwill, trademarks, trademark licenses and manufacturing rights annually by comparing the carrying value to the future benefits of the companies' 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.

Stock options

The Company has granted stock options as described in Note 17. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to capital stock.

Foreign currency translation

The current rate method of translation of foreign currencies is followed for subsidiaries, or joint-ventures considered financially and operationally self-sustaining. Therefore, all gains and losses arising from the translation of the financial statements of subsidiaries or joint-ventures are deferred in an "Accumulated foreign currency translation adjustments" account under "Shareholders' equity".

Monetary assets and liabilities in currency other than U.S. dollars of Canadian companies and integrated foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date whereas other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenue and operating expenses in foreign currency are translated at the average rates in effect during the year. Gains and losses are included in earnings for the year.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the year. The treasury stock method is to be used for determining the dilution effect of convertible debt, convertible preferred shares and options.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

4. Business Acquisitions

a) September 30, 2000

On November 19, 1999, Axcan redeemed Schwarz's 50% interest in the Axcan Urso LLC joint-venture. The purchase price amounting to $52,000,000 was paid in cash by a loan from Schwarz Pharma Inc. This acquisition was accounted for using the purchase method. The purchase price allocated to capital assets, including trademarks, trademark licenses and manufacturing rights, is amortized using the straight-line method over a period of 25 years.

On December 22, 1999, the Company reimbursed the note payable with a par value of CDN $40,000,000 to a subsidiary of Caisse de dépôt et placement du Québec ("CDPQ") by the issuance of shares of Axcan Scandipharm representing a 40.4% interest in Axcan Scandipharm. The same day, the Company acquired this 40.4% interest for cash. The excess of the cost of the purchase over the book value of the note payable amounting to $1,495,774 was accounted for as goodwill.

On May 25, 2000, the Company acquired additional shares of a company subject to significant influence, Biozymes Inc. ("Biozymes"), a company specializing in the development and production of enzymes by extraction processes. This additional acquisition of shares increased the interest of the Company in Biozymes from 26.78% to 54.58%. The acquisition cost amounted to $574,324, of which $302,322 was paid in cash and the balance was paid in cash during year 2001.

The following table shows the breakdown of these acquisitions:

	$
Net assets acquired at the attributed values	
Assets	
Cash and cash equivalents	9
Inventories	119
Other working capital items	91
Capital assets	53,609
Goodwill	1,496
	55,324
Liabilities	
Accounts payable	311
Long-term debt	387
Non-controlling interest	556
	1,254
	54,070
Consideration	
Cash	1,798
Loan payable	52,000
Purchase price balance payable	272
	54,070

These acquisitions were accounted for using the purchase method and, consequently, the acquisition cost has been allocated to the assets and liabilities according to their estimated fair value at the acquisition dates. The operating results relating to these acquisitions have been included in the consolidated financial statements from the acquisition date.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

4. Business Acquisitions (Continued)

b) September 30, 1999

On August 2, 1999, the Company acquired the majority of the outstanding shares of Axcan Scandipharm, a distributor of gastrointestinal products. Substantially all of the remaining outstanding shares were acquired subsequently. On September 30, 1999, 12,292 shares (0.11% of the outstanding shares) were still held by third parties.

The acquisition cost, including transaction expenses amounting to $103,662,639, was paid in cash.

On August 31, 1999, the Company acquired a 50% share in the Companies Bonne Santé Sp. z o.o. and Czet Pharma Inc. (hereafter collectively called "Czet") companies specializing in the distribution of gastrointestinal products in Poland. The acquisition cost amounting to $589,507 was paid with the issuance of 75,000 common shares of the Company and $150,732 in cash.

The following table shows the breakdown of these acquisitions:

	$
Net assets acquired at the attributed values	
Assets	
Cash and cash equivalents	21,358
Short-term investments	14,135
Other working capital items	4,080
Capital assets and other assets	68,332
Goodwill	20,583
	128,488
Liabilities	
Contingency provisions	5,512
Future income taxes	18,724
	24,236
	104,252
Consideration	
Cash	103,814
Common shares issued	438
	104,252
Net cash used for the acquisitions	82,456

These acquisitions were accounted for using the purchase method and, consequently, the acquisition cost has been allocated to the assets and liabilities according to their estimated fair value at the acquisition dates. The operating results relating to the acquisition of Axcan Scandipharm have been included in the consolidated financial statements from the acquisition date, and those of Czet are accounted for under the proportionate consolidation method also from the date of acquisition.

Using the assumption that the effective date of the business acquisitions is October 1, 1998, the consolidated pro-forma results of operations of the Company would have been as follows for the years ended September 30:

	2000 (unaudited)	1999 (unaudited)
	$	$
Revenue	89,668	71,961
Net earnings (loss)	7,441	(1,525)
Net earnings (loss) per share	0.27	(0.07)

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

5. Discontinued Operations

During the third quarter of the year ended September 30, 2000, the Company decided to discontinue the operations related to Althin Biopharm Inc., a joint-venture operating in the dialysis products field. The shares of the joint-venture have been sold to the other joint-venturer for a cash consideration of $5,067,568.

During the third quarter of the year ended September 30, 1999, the Company decided to discontinue the operations related to its subsidiary, Axcan Ltée, specialized in the contraceptive field and the prevention of sexually transmitted diseases. The shares of the subsidiary have been sold to a private company for a consideration of $1,156,463 in preferred shares.

The operating results of the above subsidiary and joint-venture to the effective divestiture date, together with the net gain on divestiture were disclosed separately as "Earnings from discontinued operations" in the financial statements and the notes. The results of the discontinued operations disclosed in the statements of earnings are as follows:

	2000	1999
	$	$
Revenue	3,701	5,659
Expenses		
Cost of goods sold	2,473	4,062
Selling and administrative expenses	540	773
Research and development expenses	7	81
Financial expenses	7	17
Depreciation and amortization	68	50
Income taxes	252	263
	3,347	5,246
Contribution to the Company's earnings	354	413
Net gain on divestiture	1,442	–
Earnings from discontinued operations	1,796	413

The net gain on divestiture is as follows:

	2000	1999
	$	$
Net proceeds	5,055	1,156
Net assets sold		
Investments	463	–
Capital assets	827	693
Goodwill	227	–
Working capital items (including $468 of cash in 2000)	1,691	80
Future income taxes	–	383
Long-term debt	(465)	–
	2,743	1,156
Gain on divestiture	2,312	–
Recognized gain resulting from the disposal of the building to a joint-venture	243	–
Income taxes	(1,113)	–
Net gain on divestiture	1,442	–

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Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

6. Short-Term Investments

Short-term investments are available for sale and include debt securities maturing in the coming year. Interest rates vary between 6.61% and 6.65% in 2000.

7. Accounts Receivable

	2001	2000
	$	$
Trade accounts, net of allowance for doubtful accounts of $221,000 ($215,000 in 2000) *(a)*	19,319	13,778
Investments receivable within one year	278	146
Taxes receivable	289	508
Other	2,292	344
	22,178	14,776

(a) As at September 30, 2001, the accounts receivable include amounts receivable from four customers (a U.S. distributor and two customers in 2000) which represent approximately 72% (50% in 2000) of the Company's total accounts receivable.

8. Inventories

	2001	2000
	$	$
Raw materials and packaging material	3,628	4,141
Work in progress	3,225	3,909
Finished goods	9,882	5,285
	16,735	13,335

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

9. Income Taxes

Income taxes from continuing operations included in the statement of earnings are as follows:

	2001	2000	1999
	$	$	$
Current	4,213	1,453	(2,638)
Future			
Creation and reversal of temporary differences	746	541	4,067
Capital gains	–	62	52
Operating losses	1,724	1,331	(133)
Change in promulgated rates	45	–	–
	2,515	1,934	3,986
	6,728	3,387	1,348
Domestic	3,537	1,661	701
Foreign	3,191	1,726	647
	6,728	3,387	1,348

The future income tax assets and liabilities result from differences between the tax value and book value of the following items:

	2001	2000
	$	$
Short-term future income tax assets		
Inventories	551	122
Accounts payable	1,625	1,002
Contingency provisions	1,159	1,179
Research and development expenses	–	12
	3,335	2,315
Long-term future income tax assets		
Capital assets	–	1,708
Investments	14	15
Share issue expenses	1,732	1,581
Unused operating losses	8	1,732
Research and development expenses	94	438
Investment tax credits	1,373	699
	3,221	6,173

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

9. Income Taxes (Continued)

	2001	2000
	$	$
Short-term future income tax liabilities		
Prepaid expenses	315	328
Investments	16	17
Deferred gain	122	122
	453	467
Long-term future income tax liabilities		
Investments	31	79
Capital assets	24,865	25,809
Goodwill	682	736
Research and development expenses	126	31
	25,704	26,655

The Company's effective income tax rate differs from the combined statutory federal and provincial income tax rate in Canada. This difference arises from the following:

	2001	2000	1999
	$	$	$
Combined basic rate applied to pre-tax income	6,828	3,211	892
Increase (decrease) in taxes resulting from:			
Large corporations tax	59	35	29
Difference with foreign tax rates	(503)	(131)	24
Amortization of goodwill and other non-deductible items	569	1,175	433
Use of prior years' losses	–	–	(30)
Non-taxable items and other	(896)	(1,602)	–
Foreign withholding taxes	671	699	–
	6,728	3,387	1,348

10. Investments

	2001	2000
	$	$
Investments in a private company, at cost	1,156	1,156
Note receivable, 8.5% beginning on January 1, 2002, maturing on January 1, 2004	936	–
Other	765	828
	2,857	1,984
Investments receivable within one year	278	146
	2,579	1,838

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

11. Capital Assets

	2001		
	Cost	Accumulated depreciation	Net
	$	$	$
Land	468	–	468
Building	3,733	742	2,991
Furniture and equipment	5,931	2,576	3,355
Automotive equipment	113	32	81
Computer equipment	1,664	1,027	637
Leasehold and building improvements	832	123	709
Trademarks, trademark licenses and manufacturing rights	177,439	23,096	154,343
	190,180	27,596	162,584

	2000		
	Cost	Accumulated depreciation	Net
	$	$	$
Land	468	–	468
Building	3,669	619	3,050
Furniture and equipment	4,309	2,328	1,981
Automotive equipment	146	56	90
Computer equipment	1,151	641	510
Leasehold and building improvements	681	78	603
Trademarks, trademark licenses and manufacturing rights	174,847	13,411	161,436
	185,271	17,133	168,138

Acquisitions of capital assets amount to $5,007,190 ($85,173,050 in 2000 and $888,435 in 1999).

12. Goodwill

	2001	2000
	$	$
Cost	23,568	23,568
Accumulated depreciation	3,858	2,328
Net	19,710	21,240

13. Authorized Lines of Credit

The bank loans are secured by an assignment of book debts and inventories as well as the Canadian trademarks, trademark licenses and manufacturing rights. The authorized bank loans are for a maximum of CDN $6,000,000 and of U.S. $4,000,000. The loans in Canadian dollars bear interest at prime rate and the loans in U.S. dollars bear interest at LIBOR-Based rate plus 2.25% and both are renewable annually. As at September 30, 2001, the interest rate is 5.25% (7.5% in 2000 and 6.25% in 1999) for the loans in Canadian dollars and 4.85% (8.87% in 2000 and 8.5% in 1999) for the loans in U.S. dollars. As at September 30, 2001 and 2000, there were no amounts outstanding under these lines of credit.

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Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

14. Accounts Payable

	2001	2000
	$	$
Accounts payable	1,386	3,059
Accrued liabilities	11,827	9,519
Contingency provisions	2,900	2,900
Accrued dividend	–	142
	16,113	15,620

15. Long-Term Debt

	2001	2000
	$	$
9% loan, secured by an assignment of the acquired interest and the LLC's assets.	–	46,915
Bank loans, prime rate plus 2.25% and 2.50% (7.68% and 9.87% as at September 30, 2001 and 2000), secured by a movable hypothec on assets of a subsidiary having a net book value of $2,488,024 in 2001, payable in monthly instalments of $7,864, maturing in 2002 and 2005.	169	309
Notes payable, 9.52% to 19.84%, payable in monthly instalments, maturing on different dates until 2005.	46	78
	215	47,302
Instalments due within one year	103	10,614
	112	36,688

As at September 30, 2001, minimum instalments on long-term debt for the next four years are as follows:

	$
2002	103
2003	45
2004	35
2005	32

16. Equity Component of Purchase Price

In April 2000, Axcan entered into a series of agreements with QLT PhotoTherapeutics Inc. ("QLT"). These agreements provided for the purchase by Axcan of PHOTOFRIN, a light sensitive compound administered to patients and activated by a laser, and the purchase by QLT of 1,283,333 common shares of Axcan for a total cash consideration of CDN $19,250,000 (U.S. $13,007,000). These transactions closed on June 8, 2000.

The purchase price of CDN $39,250,000 (U.S. $26,100,000) was paid by CDN $21,750,000 (U.S. $14,800,000) in cash and by CDN $13,500,000 (U.S. $9,118,000) with the issuance of 13,500,000 Series A preferred shares of the capital stock. The balance of CDN $4,000,000 (U.S. $2,704,000) will be payable four years after the closing or upon the receipt of a specific approval from a regulatory authority, in cash or in common shares, at Axcan's sole discretion.

The balance of the purchase price of $2,704,000 has been presented as equity component.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

17. Capital Stock

Authorized

Unlimited number of shares without par value

Common shares

Preferred shares, issuable in series, rights, privileges and restrictions determined at the creation date

During the year 2000, the Company created two series of preferred shares as follows:

14,175,000 Series A, non-voting, annual preferential cumulative dividend of 5 %, redeemable on or prior to June 8, 2001 at CDN $1.00 per share payable at the option of the Company in cash or by the issuance of common shares or in any combination of cash and common shares.

12,000,000 Series B, non-voting, redeemable on the fifth anniversary of their issuance at CDN $1.00 per share payable in cash or by the issuance of common shares at the option of the Company, convertible into common shares at the holder's option on the basis of one common share for each 15 Series B preferred shares.

The issued and fully paid capital stock is as follows:

	2001		2000		1999	
	Number	**Amount**	Number	Amount	Number	Amount
		$		$		$
Common shares						
Balance, beginning of year	34,506,254	143,787	17,951,553	55,445	15,761,700	44,754
Shares issued following public offerings *(a)*	3,000,000	32,967	14,331,668	71,314	–	–
Shares issued following private investors' subscription *(a)*	–	–	1,383,333	13,443	2,103,787	10,204
Shares issued following the exercise of the underwriters' option *(a)*	–	–	787,500	3,295	–	–
Shares issued pursuant to the stock option plan *(a)*	69,597	335	52,200	290	9,000	37
Shares issued for the acquisition of assets and other	–	–	–	–	77,066	450
Shares issued for the redemption of preferred shares and cumulative dividends	836,282	9,561	–	–	–	–
Balance, end of year	38,412,133	186,650	34,506,254	143,787	17,951,553	55,445
Series A preferred shares						
Balance, beginning of year	13,500,000	9,118	–	–	–	–
Shares issued for the acquisition of assets	–	–	13,500,000	9,118	–	–
Shares redeemed by the issuance of common shares	(13,500,000)	(9,118)	–	–	–	–
Balance, end of year	–	–	13,500,000	9,118	–	–
Total		186,650		152,905		55,445

(a) Issued for cash

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

17. Capital Stock (Continued)

Common stock option plan

The common stock option plan is intended for eligible directors, principal senior executives and employees. The number of stock options that can be granted under this plan cannot exceed 2,590,000, 1,900,000 and 500,000 as at September 30, 2001, 2000 and 1999 respectively.

Granted stock options are for 1,956,441 and 1,364,348 common shares as at September 30, 2001 and 2000 respectively and may be exercised at prices between $3.80 and $11.45. These options may be exercised at a rate of 20% per year and expire ten years after the granting date.

The changes to the number of stock options outstanding are as follows:

	2001		2000		1999	
	Number of options	**Weighted Average Exercise Price**	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
		$		$		$
Balance, beginning of year	1,364,348	6.56	353,600	5.80	302,600	5.89
Granted	772,433	10.30	1,246,063	7.11	60,000	5.07
Exercised	(69,597)	4.77	(52,200)	5.59	(9,000)	4.08
Cancelled	(110,743)	7.54	(183,115)	7.26	–	–
Balance, end of year	1,956,441	7.75	1,364,348	6.56	353,600	5.80

	2001	2000	1999
Options exercisable at end of year	337,708	125,400	124,600

Stock options outstanding at September 30, 2001 are as follows:

	Options outstanding			Options exercisable	
Exercise price	Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
			$		$
$ 3.80 – $ 5.10	180,700	6.4	4.23	103,700	4.24
$ 5.11 – $ 6.40	21,000	8.5	6.33	4,200	6.33
$ 6.41 – $ 7.70	996,057	8.5	6.70	214,058	6.74
$ 7.71 – $ 9.00	3,750	5.9	7.73	2,750	7.73
$ 9.01 – $ 10.30	548,684	9.2	9.65	–	–
$ 10.31 – $ 11.60	206,250	9.4	10.96	13,000	10.35
	1,956,441	8.0	7.75	337,708	6.11

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

18. Financial Information Included in the Consolidated Statement of Earnings

	2001	2000	1999
	$	$	$
a) Financial expenses			
Interest on notes payable to CDPQ	–	2,932	1,484
Other interest on long-term debt	2,820	4,029	–
Interest on short-term debt and bank charges	55	215	353
Financing fees	–	1,278	–
Foreign exchange losses	653	158	–
Amortization of deferred debt issue expenses	–	483	963
	3,528	9,095	2,800
b) Other information			
Settlement of litigation income	–	–	1,610
Share in net loss of companies subject to significant influence	–	125	186
Depreciation of capital assets	10,502	9,124	2,779
Amortization of other assets	1,530	1,991	1,330
Amortization of bond discount	–	(52)	(81)
Tax credits applied against research and development expenses	1,114	892	522

During 2000, the Company increased its estimated accrual for contract rebates, chargebacks and for product returns by a total amount of $2,288,531.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

c) Earnings from continuing operations per common share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computations.

	2001	2000	1999
Basic			
Net earnings	$11,472	$4,940	$999
Dividends on preferred shares	(301)	(142)	–
Earnings available to common shareholders	$11,171	$4,798	$999
Weighted average number of common shares outstanding	35,832,198	26,575,475	16,111,545
Basic earnings per share	$0.31	$0.18	$0.06
Diluted			
Earnings available to common shareholders on a diluted basis	$11,171	$4,798	$999
Weighted average number of common shares outstanding	35,832,198	26,575,475	16,111,545
Effect of dilutive stock options	449,478	77,602	32,784
Effect of dilutive equity component of purchase price	249,376	138,433	–
Adjusted weighted average number of common shares outstanding	36,531,052	26,791,510	16,144,329
Diluted earnings per share	$0.31	$0.18	$0.06

Options to purchase 206,250, 1,132,948 and 145,000 common shares were outstanding in 2001, 2000 and 1999 respectively but were not included in the computation of diluted earnings per share as the exercise price of the options was greater than the average market price of the common shares.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

19. Financial Information Included in the Consolidated Statement of Cash Flows

a) Changes in working capital items from continuing operations:

	2001	2000	1999
	$	$	$
Accounts receivable	(7,270)	(1,739)	(4,975)
Income taxes receivable	2,884	(237)	(3,125)
Inventories	(3,400)	(1,837)	(4,583)
Prepaid expenses	211	(850)	(328)
Payable to a joint-venturer	–	(955)	1,903
Accounts payable	(1,673)	(432)	(3,135)
Accrued liabilities	1,608	(235)	4,524
Income taxes payable	(940)	611	(591)
	(8,580)	(5,674)	(10,310)

b) Cash flows relating to interest and income taxes of operating activities are as follows:

	2001	2000	1999
	$	$	$
Interest received	1,010	1,399	1,040
Interest paid	2,875	8,945	28
Income taxes paid	2,028	1,027	180

20. Joint-Ventures

The following accounts represent the shares of the Company in the joint-ventures:

	2001	2000	1999
	$	$	$
Current assets	186	112	3,113
Total assets	623	619	6,639
Current liabilities	220	177	9,095
Total liabilities	245	177	9,581
Revenue	696	536	4,032
Expenses	735	617	5,261
Earnings from discontinued operations	–	1,796	484
Net earnings (loss)	(39)	1,715	(745)
Cash flows from:			
Operations	(10)	385	101
Financing	25	(12)	(154)
Investment	–	4,588	35

The Company's share of undistributed earnings of the equity of one of the joint-ventures amounted to $1,687,000 as at September 30, 1999.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

21. Segmented Information

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

No customer represents more than 10% of the Company's revenue except for four customers (one U.S. distributor and one customer in 2000 and two customers in 1999) for which the sales represented 66.3% of revenue for the year ended September 30, 2001 (36.8% and 28.5% in 2000 and 1999).

Purchases from one (two in 1999) supplier represent approximately 38% of the cost of goods sold for the year ended September 30, 2001 (39% in 2000 and 34% in 1999).

The Company operates in the following geographic segments:

	2001	2000	1999
	$	$	$
Revenue			
Canada			
Domestic sales	18,485	16,001	14,976
Foreign sales, mainly in the United States	11,950	7,039	4,564
United States			
Domestic sales	79,289	64,446	20,004
Foreign sales	481	463	270
Other	7,109	–	–
Inter-segment	(12,765)	(463)	(2,265)
	104,549	87,486	37,549
Earnings before financial expenses, interest income, depreciation and amortization, income taxes and discontinued operations			
Canada	5,211	3,009	4,084
United States	25,861	23,863	2,973
Other	1,707	–	–
	32,779	26,872	7,057
Depreciation and amortization			
Canada	1,092	998	923
United States	9,479	9,524	2,098
Other	1,461	–	–
	12,032	10,522	3,021
Capital assets and goodwill			
Canada	16,154	13,938	13,108
United States	136,920	145,304	99,743
Other	29,220	30,136	–
	182,294	189,378	112,851
Total assets			
Canada	207,840	140,324	57,584
United States	181,849	195,929	159,374
Other	33,623	30,819	–
Inter-segment	(174,209)	(113,020)	(11,580)
	249,103	254,052	205,378

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

22. Financial Instruments

Fair value of the financial instruments on the balance sheet:

The estimated fair value of the financial instruments is as follows:

	2001		2000	
	Fair value	**Carrying amount**	Fair value	Carrying amount
	$	$	$	$
Assets				
Cash and cash equivalents	16,541	16,541	11,135	11,135
Short-term investments	–	–	9,787	9,787
Accounts receivable	21,611	21,611	14,122	14,122
Investments in a private company	b)	1,156	b)	1,156
Note receivable	b)	936	–	–
Other investments	765	765	828	828
Liabilities				
Accounts payable	16,113	16,113	15,620	15,620
Long-term debt	215	215	45,990	47,302

The following methods and assumptions were used to calculate the estimated fair value of the financial instruments on the balance sheet.

a) Financial instruments valued at carrying amount

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term or items whose carrying amount approximates the fair value. These financial instruments include cash and cash equivalents, short-term investments, accounts receivable, other investments and accounts payable.

b) Investments in a private company and note receivable

The fair value of investments in a private company and note receivable was not readily determinable.

c) Long-term debt

In 2000, the fair value of long-term debt has been established by discounting the future cash flows at interest rates corresponding to those the Company would currently obtain for loans with similar maturity dates and terms. In 2001, the fair value of long-term debt is equivalent to the carrying amount because most of it bears interest at a variable rate.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

23. Commitments and Contingencies

a) Commitments

The Company has entered into non-cancellable operating leases expiring on different dates until July 31, 2018 for the rental of office space, automotive equipment and equipment. One of the office space leases contains an escalation clause providing for additional rent.

Minimum future lease payments under these operating leases are as follows:

	$
2002	751
2003	576
2004	445
2005	434
2006	143
Thereafter	641
	2,990

b) Contingencies

The subsidiary Axcan Scandipharm is a party to several legal proceedings related to the product line it markets under the name ULTRASE. Lawsuits have been filed and claims have been asserted against Axcan Scandipharm and certain suppliers stemming from allegations that, among other things, certain products caused colonic strictures. Axcan Scandipharm has been named as a defendant in 11 product liability lawsuits (one suit contains two plaintiffs). Of the 11 lawsuits to date, Axcan Scandipharm was dismissed from one, nonsuited in another, settled eight and has one (containing two plaintiffs) pending. At this time, it is difficult to predict the number of potential cases, and because of the young age of the patients involved, Axcan Scandipharm's product liability exposure for this issue in the United States will remain for a number of years. Axcan Scandipharm's insurance carriers have defended the lawsuits to date and Axcan expects them to continue to defend Axcan Scandipharm (to the extent of its product liability insurance) should lawsuits be filed in the future.

In addition, suppliers have claimed a right to recover amounts paid defending and settling these claims as well as declaration that Axcan Scandipharm must provide indemnification against future claims. This lawsuit is based on contractual and common law indemnity issues and the parties have agreed to settle their dispute through arbitration. Currently, the amount at issue is in excess of $6,700,000. Axcan Scandipharm denies that such reimbursement is owed.

During the year 2000, the Company reduced its estimate of the accrual related to these claims from $5,378,231 to $2,900,000 which was included in selling and administrative expenses in the accompanying statement of earnings. While the Company believes that the insurance coverage and provisions taken to date are adequate, an adverse determination of any such claims or of any future claims could exceed insurance coverage and amounts currently accrued.

c) Milestone payments

The agreements with QLT relating to the purchase of PHOTOFRIN provided for milestone payments to be made by Axcan to QLT that could reach a maximum of CDN $20,000,000 upon receipt of certain regulatory approvals for specific or an additional indication for PHOTOFRIN or other conditions. Each milestone payment shall be made at the option of the Company either in cash or in Series B preferred shares or in a combination of cash and preferred shares provided that at least one-half of the milestone payable shall be paid in cash. During the year 2000 CDN $5,000,000 (U.S. $3,378,378) was paid by Axcan in cash upon receipt of regulatory approval to market a new laser for use in conjunction with PHOTOFRIN.

23. Commitments and Contingencies (Continued)

d) Royalties

Net sales of certain products of the Company are subject to royalties payable to unrelated third parties.

In particular, the Company must pay to CR Associates a 5% royalty on net sales of products covered under two agreements for the exclusive rights to market ULTRASE and ADEKs for a ten-year term ending December 2001.

Axcan must also pay 5% of worldwide sales of PHOTOFRIN with a maximum of $500,000 per year and a maximum total aggregate of $3,108,245 until December 2007. Until September 30, 2001, an amount of $522,820 has been accounted for ($92,244 in 2000).

Royalties amounting to $3,711,561, $3,022,414 and $718,031 respectively for years ended September 30, 2001, 2000 and 1999 were charged to earnings.

e) Licensing

During the year 2000 Axcan entered into a new licensing agreement to market a new generation of pancrelipase minitablets. Axcan will pay fees totaling $3,500,000 over a period of three years from the date of the agreement, contingent on the attainment of certain milestones in connection with development of new formulations of minitablets. As at September 30, 2001, the Company paid $1,500,000 of these fees. Axcan will pay royalties of 6% on the first $30,000,000 of annual sales and 5% on annual sales in excess of $30,000,000 subject to minimum royalty payments of $750,000, $1,000,000 and $1,500,000 in the first three years of the agreement, respectively.

Axcan also entered into licensing with the Children's Hospital Research Foundation for a series of sulfated derivatives of ursodeoxycholic acid compounds ("SUDCA"). Axcan has paid $589,000 in cash; the Company will also pay milestones for a maximum amount of $425,000 when SUDCA will be validated and a bonus when certain conditions are meet; finally, Axcan will pay royalty based on sales.

f) Employee benefit plan

A subsidiary of the Company has a defined contribution plan (the "Plan") for its U.S. employees. Participation is available to substantially all U.S. employees. Employees may contribute up to 15% of their gross pay and up to limits set by the U.S. Internal Revenue Service. During the year, the Board of Directors approved and the Company charged to earnings a contribution to the Plan totaling $231,629 ($150,514 in 2000).

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

24. Summary of Differences between Generally Accepted Accounting Principles in Canada and in the United States

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which, in the case of Axcan Pharma, conform in all material respects with GAAP in the United States (U.S. GAAP), except as set forth below:

a) Earnings and balance sheet adjustments

	2001	2000	1999
	$	$	$
Earnings adjustments:			
Net earnings in accordance with Canadian GAAP	11,472	6,736	1,412
Prepaid advertising costs (1)	404	(211)	(269)
Amortization of goodwill (2)	100	–	–
Financial expenses (2)	–	(701)	(795)
Amortization of new product acquisition costs (4)	54	50	216
Income tax impact of the above adjustments	(205)	62	102
Difference between the convenience and the current rate methods (3)	–	–	(14)
Net earnings in accordance with U.S. GAAP	11,825	5,936	652
Earnings per share in accordance with U.S. GAAP			
Earnings from continuing operations	0.32	0.15	0.01
Earnings from discontinued operations	–	0.07	0.03
Net earnings	0.32	0.22	0.04

Fully diluted earnings per share has not been disclosed as the exercise of options would have no material effect on the earnings per share.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

24. Summary of Differences Between Generally Accepted Accounting Principles in Canada and in the United States (Continued)

	2001		2000	
	Canadian GAAP	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
	$	$	$	$
Balance sheet adjustments:				
Current assets *(1) (6)*	61,009	60,366	56,663	55,690
Investments *(6)*	2,579	2,957	1,838	2,280
Capital assets *(4) (6)*	162,584	162,022	168,138	167,485
Future income tax asset *(4)*	3,221	3,221	6,173	6,173
Goodwill *(2) (6)*	19,710	17,918	21,240	19,315
Current liabilities *(1) (6)*	17,451	17,034	28,423	27,909
Future income tax liability *(4)*	25,704	25,508	26,655	26,419
Long-term debt *(7)*	112	2,816	36,688	39,392
Non-controlling interest	695	695	556	556
Shareholders' equity				
Equity component of purchase price *(7)*	2,704	–	2,704	–
Capital stock *(5)*	186,650	183,193	152,905	150,900
Retained earnings *(1) (2) (3) (4) (5) (6)*	16,914	22,521	7,195	10,997
Accumulated foreign currency translation adjustments *(3)*	(1,127)	(5,283)	(1,074)	(5,230)

(1) Under Canadian GAAP, prepaid advertising costs are deferred and amortized over a two-year period. Under U.S. GAAP, these costs are included in earnings.

(2) Under Canadian GAAP, the share of the 40.4% interest of CDPQ in Axcan Scandipharm earnings has been recorded as financial expenses. Under U.S. GAAP, additional financial expenses should be recorded. The additional financial expenses charged in earnings in 2000 and 1999 have brought a decrease in goodwill.

(3) As mentioned in Note 2, the Company adopted on October 1, 1999, the U.S. dollar as the principal currency of measurement. Under Canadian GAAP, prior years' financial statements are presented in U.S. dollars in accordance with a translation of convenience method using the closing exchange rate at September 30, 1999 of U.S. $0.68 per CDN $1. Under U.S. GAAP, prior years' financial statements are translated according to the current rate method using the year-end rate or the rate in effect at the transaction dates, as appropriate.

(4) Under Canadian GAAP, the new product development costs identified upon the acquisition of subsidiaries are deferred and amortized from the date of commencement of commercial production. Under U.S. GAAP, these costs that represent in process research and development are included in earnings as at the date of acquisition as no alternative future use has been established.

(5) Under Canadian GAAP, share issuance expenses are charged directly to retained earnings. Under U.S. GAAP, the expenses are deducted from the consideration received. The net amount is applied against the capital stock account.

(6) As required by Canadian GAAP, the Company accounts for its investment in joint-ventures by the proportionate consolidation method (Note 20). Under U.S. GAAP, these investments would be accounted for by the equity method. This difference does not impact earnings or shareholders' equity.

(7) Under Canadian GAAP, the purchase price payable in cash or in common shares, at Axcan's sole discretion, is presented in the shareholders' equity. Under U.S. GAAP, this amount is recorded as a long-term debt.

(8) Under Canadian GAAP, the research and development tax credits are applied against research and development expenses. Under U.S. GAAP, these tax credits would be applied against income taxes.

(9) Under Canadian GAAP, short-term investments are recorded at cost. Under U.S. GAAP, securities available for sale are recorded at their fair market value, unrealized gains or losses are recorded separately in shareholders' equity. As at September 30, 2000, there is no unrealized gain or loss.

Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.

24. Summary of Differences Between Generally Accepted Accounting Principles in Canada and in the United States (Continued)

b) Supplementary disclosures

(1) Accounting for stock-based compensation

Under U.S. GAAP, the Company has elected to continue to measure compensation costs related to awards of stock options using the intrinsic-value-based method of accounting. Under Statement of Financial Accounting Standards (SFAS) No. 123, the Company is also required to make pro-forma disclosures of net earnings and basic earnings per share and diluted earnings per share as if the fair-value-based method of accounting had been applied.

The fair value of granted stock options was estimated with the Black-Scholes model of evaluation of the price of options using an expected life of six years, an interest rate without risk of 5.64%, 6.2% and 5.5% for the years ended September 30, 2001, 2000 and 1999 and a volatility of 50% in 2001 and 2000, and 45% in 1999.

Accordingly, the Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced for the years ended September 30, 2001, 2000 and 1999 on a pro-forma basis, as follows:

	2001		2000		1999	
	Actual	**Pro-forma**	Actual	Pro-forma	Actual	Pro-forma
	$	$	$	$	$	$
Net earnings	11,825	10,410	5,936	5,227	652	452
Basic earnings per share	0.32	0.28	0.22	0.19	0.04	0.03
Diluted earnings per share	0.32	0.28	0.22	0.19	0.04	0.03

The average weighted fair value of granted stock options was as at September 30, 2001, 2000 and 1999, $5.69, $4.04 and $2.61 respectively.

(2) Consolidated cash flows

Under U.S. GAAP, the cash flow from the dividends from a company subject to significant influence would be classified as an investing activity rather than as an operating activity, as it is under Canadian GAAP.

(3) Consolidated comprehensive income

	2001	2000	1999
	$	$	$
Net earnings in accordance with U.S. GAAP	11,825	5,936	652
Foreign currency translation adjustments	(53)	–	816
Consolidated comprehensive income	11,772	5,936	1,468

(4) Consolidated statement of earnings

U.S. GAAP do not recognize the disclosure of a subtotal of the earnings before financial expenses, interest income, depreciation and amortization and income taxes in the consolidated statements of earnings.

25. Subsequent Events

a) Agreement to acquire Laboratoires Entéris S.A.S.

On October 30, 2001, the Company signed a definitive agreement to acquire all of the shares of Laboratoires Entéris, S.A.S. a company specializing in the distribution of gastrointestinal products in France. The purchase price, which has been set at U.S. $22,000,000, will be financed out of cash and credit facilities.

b) New credit facility

On October 16, 2001, the Company accepted a term sheet from two Canadian chartered banks relative to a proposed U.S. $55,000,000 financing. The proposed financing comprises a U.S. $15,000,000 revolving operating facility and a U.S. $40,000,000 364-days, extendible revolving facility with a three-year term-out option.

The facilities will be secured by a first security interest on all present and future acquired assets of the Company and its material subsidiaries, and will provide for the maintenance of certain financial ratios.

The interest rate will vary depending on the Company's leverage between 25 basis points to 125 basis points over prime rate and between 125 basis points and 225 basis points over the LIBOR rate or bankers acceptances. The facilities may be drawn in U.S. dollars or in Canadian dollars equivalent. Final documentation is expected to be signed before November 30, 2001.

Certificate of Axcan

February 28, 2002

This short form prospectus, together with the documents and information incorporated herein by reference will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this short form prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Quebec, this simplified prospectus, as supplemented by the permanent information record will, as of the date of the supplemented prospectus, contain no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(signed) Léon Gosselin
Chief Executive Officer

(signed) Jean Vézina
Chief Financial Officer

On behalf of the board of directors

(signed) François Painchaud
Director

(signed) Louis P. Lacasse
Director

Certificate of the Canadian Underwriter

February 28, 2002

To the best of our knowledge, information and belief, this short form prospectus, together with the documents and information incorporated herein by reference will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this short form prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Quebec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record will, as of the date of the supplemented prospectus, contain no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

NATIONAL BANK FINANCIAL INC.

(signed) Philippe Dubuc

National Bank Financial Inc. is a wholly-owned indirect subsidiary of a Canadian chartered bank.