BIOVAIL
Corporation

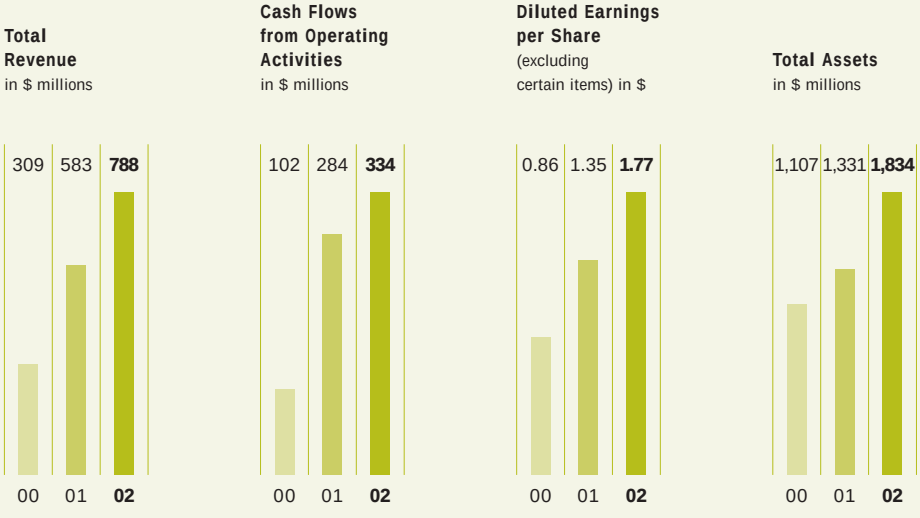
Biovail 2002 Annual Report

Making medicine easier to take

Corporate Profile Biovail Corporation is an international fully integrated pharmaceutical company specializing in the development, manufacture, sale and marketing of medications for the treatment of chronic medical conditions. Biovail has a number of proprietary drug delivery technologies that it applies to brand name drugs to produce enhanced versions. >> While Biovail continually explores all therapeutic areas, the company's main therapeutic areas are cardiovascular, central nervous system and pain management. Biovail currently markets more than 20 products in North America and a number of products throughout 55 other countries, both directly and through strategic marketing partnerships. Biovail's direct marketing efforts in North America are supported by an extensive U.S. and Canadian sales force of more than 650 sales professionals. >> Biovail maintains an active drug development pipeline and its proprietary technology platforms are currently being applied to more than 30 promising pharmaceutical products. >> Biovail Corporation, with more than 1,800 employees worldwide, trades on the New York Stock Exchange and the Toronto Stock Exchange under the symbol BVF.

Financial Highlights

Years ended December 31 [All dollar amounts expressed in thousands of U.S. dollars, except per share data]	**2002**	2001	2000
Total revenue	**$ 788,025**	$ 583,263	$ 309,170
Net income (loss)	**87,795**	87,448	(147,976)
Net income excluding certain items [1]	**284,076**	202,853	123,987
Cash flows from operating activities	**334,104**	284,121	102,494
Diluted earnings (loss) per share	**$ 0.55**	$ 0.58	$ (1.16)
Diluted earnings per share excluding certain items [1]	**$ 1.77**	$ 1.35	$ 0.86
Total assets	**$ 1,833,804**	$ 1,331,483	$ 1,107,267



[1] Certain items consist of write-down of assets, acquired research and development, other income, debt conversion premiums, extraordinary item and cumulative effect of change in accounting principle.

Making medicine better

Biovail

a better understanding

BIOVAIL Corporation

IN 2002, BIOVAIL ACHIEVED RECORD REVENUES IN EXCESS OF $750 MILLION, SIGNIFICANTLY EXPANDED ITS U.S. SALES FORCE AND LAUNCHED A NUMBER OF NEW PRODUCTS INTO THE MARKET. WE ALSO COMPLETED DEVELOPMENT OF A NUMBER OF MAJOR NEW PRODUCTS. REGULATORY APPROVAL AND LAUNCH OF THESE EXCITING PRODUCTS IN 2003 WILL FURTHER FUEL OUR GROWTH IN SALES AND REVENUE.

Controlled-Release Drug Market

Biovail Corporation is a world leader in the field of drug delivery technology. We apply our proprietary technologies to select drug compounds to produce enhanced products that offer significant clinical advances over existing products. These advantages include more consistent drug delivery, superior efficacy and lower incidence of side effects. Biovail's drug delivery technologies can be applied to improve existing products and to create new, superior innovative products in select therapeutic categories – Cardiovascular, Central Nervous System and Pain Management.

Cardiovascular

Biovail develops, manufactures and markets advanced controlled-release medications for the treatment of diseases of the cardiovascular system. We have targeted the $13.5 billion antihypertensive and the $13 billion lipid lowering agent markets in particular. Our current cardiovascular portfolio includes some of the world's best selling medications, including Tiazac® and the Cardizem® line of diltiazem products. The recent addition of Cardizem LA and Teveten® HCT will further bolster this strong portfolio. A number of other cardiovascular products are currently under development.

Controlled Release Market*
in $ billions

*oral long acting

Cardiovascular Market*
in $ billions

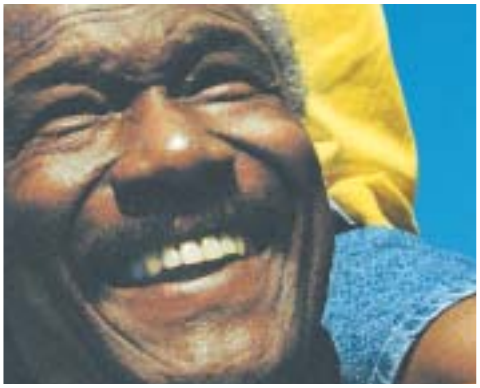
*includes antihypertensive and dyslipidemia markets

Central Nervous System (CNS)

The lead product in Biovail's current CNS portfolio is Wellbutrin XL, a once-daily version of a market leading antidepressant, co-developed in partnership with GlaxoSmithKline. This new product will compete in the $12 billion antidepressant market. Biovail has also partnered to develop a novel enhanced absorption formulation of Effexor, another leading antidepressant. Other highly successful antidepressants have also been identified and are currently in advanced development in the Biovail drug delivery pipeline.

CNS Market*
in $ billions

*includes depression and sleep disorders



Pain Management

Through the application of proprietary drug delivery technologies, Biovail develops superior products for the treatment of pain. Our tramadol ER will be a leading once-daily formulation for the treatment of the signs and symptoms of osteoarthritis. Also under development is a FlashDose® formulation of sumatriptan, the market leading anti-migraine product. FlashDose delivery technology is also being applied to other pain products in the development pipeline.

Pain Management Market*
in $ billions

*includes moderate to severe pain, osteoarthritis, back problems and migraine

Other Therapies

Biovail's mandate is to identify, develop, manufacture and market once-daily controlled-release products using our delivery technologies in select additional therapeutic categories that fulfill our clinical and business criteria. We are currently developing, both independently and through strategic partnerships, a number of carefully selected controlled-release products that will provide distinct therapeutic and competitive advantages within their specific categories. In addition, we continue to investigate promising new opportunities in the international pharmaceutical community.

Eugene Melnyk
Chairman of the Board
Chief Executive Officer

Dear Fellow Shareholders:

THE PAST YEAR HAS BEEN PERHAPS THE MOST EXCITING AND EXCEPTIONAL YEAR IN THE HISTORY OF BIOVAIL. IT WAS A YEAR MARKED NOT ONLY BY CONTINUED GROWTH IN BOTH SALES AND REVENUE, BUT ALSO BY A NUMBER OF SIGNIFICANT ACHIEVEMENTS AND MILESTONES THAT WILL POSITIVELY IMPACT BIOVAIL'S GROWTH AND PROSPERITY IN THE COMING YEAR AND THE FORESEEABLE FUTURE.

During 2002 and the latter half of 2001, Biovail effectively completed its transition from a research and development and manufacturing based organization to a fully integrated international pharmaceutical company. This was achieved through a number of key strategic initiatives.

A NORTH AMERICAN SALES NETWORK

One of the most significant strategic activities in 2002 was the continued expansion of our North American sales operation. Through aggressive recruitment and intensive training in our sales and marketing divisions in Canada and the United States, Biovail has been able to establish an extensive network of effective and motivated sales professionals across the continent. To date, Biovail has over 600 sales and marketing professionals in the U.S. and 100 in Canada.

Biovail's sales presence in the United States was further bolstered in late 2002 through a strategic alliance with Reliant Pharmaceuticals. These additional 250 sales professionals are co-promoting a number of Biovail's key cardiovascular products, including Teveten HCT and Cardizem LA.

The approval of Cardizem LA for the treatment of hypertension, received in the first quarter of 2003, marks a major milestone for Biovail. In addition to being the first Biovail-developed product launched by our own U.S. sales organization, Cardizem LA represents a clinical breakthrough. It is the first once-daily graded diltiazem product specifically formulated to provide maximum protection in the early morning hours when the risk of adverse cardiac events is highest. Cardizem LA is a significant entry into the $13.5 billion U.S. hypertension market.

NEW PRODUCTS

New product development remains a priority. We continued to build our pipeline in 2002 through ongoing research and development activities as well as acquisitions and strategic partnerships.

The acquisition of U.S. marketing rights to Teveten and Teveten HCT from Solvay Pharmaceuticals early in the year bolstered Biovail's cardiovascular portfolio. Teveten and Teveten HCT are medications for the treatment of hypertension and complement Biovail's cardiovascular product line. Through the promotion of Teveten, Biovail's sales force was able to establish relationships with key physicians throughout the United States. Teveten monthly prescriptions grew in excess of 90% in 2002 after re-launching the product in June 2002 and effectively supporting our sales efforts with a marketing and brand awareness campaign.

Biovail's cardiovascular portfolio was further enhanced in May through the acquisition of U.S. rights to the leading antihypertensive medications, Vasotec® and Vaseretic®, from Merck & Company. Together, sales of Vasotec and Vaseretic in the United States in 2002 exceeded $95 million. Opportunities to further develop these well-respected products alone, or in combination therapy with Cardizem, will provide additional leverage to Biovail's cardiovascular sales force.

STRATEGIC PARTNERSHIPS

Our agreement with the leading drug delivery company, Ethypharm, opens up a number of exciting new product opportunities. Under the terms of the agreement, we have acquired the rights to commercialize six promising Ethypharm products. These include a novel dosage format of '5 fluouracil', a modified release medication for the treatment of gliblastoma, an aggressive form of brain cancer. Phase III clinical trials of this product are expected to begin in 2004. Also included in the agreement are five other controlled-release products, including oral antivirals and treatments for pain.

The Ethypharm agreement allows Biovail to take advantage of synergies between its own controlled-release technology platforms and those of Ethypharm to develop advanced products in a number of important therapeutic categories, and provides Biovail with a point of entry into the European research and development community for sourcing promising new chemical entities.

Letter to shareholders
continued

In the first half of 2002, Biovail licensed the rights to manufacture and market a new once-daily formulation of metformin HCI for the treatment of Type II diabetes in North America. Currently undergoing Phase III clinical trials by its developer, DepoMed Inc., the new metformin GR utilizes an advanced gastro-retention (GR) delivery technology. On approval, anticipated in 2004, metformin GR will compete in the $2.2 billion metformin market – a market expected to grow significantly as an estimated 800,000 new cases of diabetes continue to be diagnosed in the U.S. each year.

During 2002, our marketing partner, GlaxoSmithKline (GSK), filed a new drug application with the U.S. Food and Drug Administration for a once-daily version of bupropion, Wellbutrin XL. Biovail developed this once-daily formulation and licensed the marketing rights to GSK for promotion worldwide, with the exception of Canada. Through this agreement, Biovail will manufacture and supply Wellbutrin XL to GSK for a significant share of this product's sales. The launch of Wellbutrin XL is expected in the second half of 2003. GSK and Biovail anticipate that this once-daily version will offer more convenient dosing and significant clinical advantages over the twice-daily version – Wellbutrin SR – currently marketed by GSK, which had sales in excess of $1.5 billion in 2002.

We also expanded our relationship with GSK by acquiring Canadian marketing rights to the antidepressant Wellbutrin SR and the smoking cessation product Zyban. The combined sales of these two products in Canada exceeded $30 million in 2002 and are expected to grow over the next five years. In addition, the agreement provides Biovail with an opportunity to market the highly promising once-daily Wellbutrin XL in Canada upon its approval. This will bolster our Canadian sales and marketing division's portfolio of products for the $450 million Canadian antidepressant market.

BUILDING THE PIPELINE

On the research and development side, our drug delivery technology and product pipeline was considerably strengthened by the fourth quarter acquisition of the Pharma Pass companies. This acquisition provides Biovail with a new novel advanced drug delivery platform, Zero Order Release System (ZORS), as well as an oral colonic drug delivery technology. As part of this transaction, Biovail also acquires a number of New Drug Application (NDA) products currently under development. These include enhanced absorption formulations of fenofibrate (Tricor) for the treatment of high cholesterol and the antidepressant medication, venlafaxine (Effexor). Currently, brand name versions of these two drugs represent over $2 billion in annual sales. We anticipate that improvements in the absorption and delivery of these two compounds will enhance their efficacy and provide significant marketing opportunities for Biovail or a partner.

Also as part of this agreement, Biovail acquires an immediate interest in a recently launched omeprazole product. This bio-equivalent version of the market leading ulcer medication Prilosec is the only formulation ruled not to infringe on the originator's patent.

DEFINING OUR STRATEGY

Each of the initiatives mentioned above and milestones achieved during 2002 are in keeping with Biovail's stated strategy, which, in turn, outlines the mechanisms by which we will sustain our future growth in the short-, mid- and long-term.

Biovail is committed to the ongoing development and commercialization of superior, enhanced drug delivery medications with strong market potential in the cardiovascular, central nervous system, pain management and niche therapeutic categories.

By applying drug delivery technologies, we strive to create better medications. This might mean medications that are easier or more convenient for patients to take, medications that work faster, drugs with a lower incidence of adverse side effects or medications that provide clinical advantages for patients. When we are successful in this process, we have created not just better medications but competitive advantages for Biovail.

We intend to complement our internal development process through the addition of leading drug delivery technologies or promising products within our target therapeutic categories. We also aim to broaden our in-market portfolio of products and capitalize on well-established medications that have good brand equity and a solid existing prescription base. Our acquisition strategy seeks to capitalize on opportunities within the global pharmaceutical industry that fulfill our clinical and business criteria.

Due to our fully integrated infrastructure, we have the option to market our products directly though our extensive sales and marketing divisions, Biovail Pharmaceuticals Inc. in the U.S. and Biovail Pharmaceuticals Canada, as well as through strategic marketing partnerships and licensing agreements with third party organizations such as GSK. In addition, we have the opportunity to sell select products in key world markets through marketing partners.

To add to the flow of promising products in the mid and long terms, Biovail Ventures, our early stage business development group, continues to explore product and technology opportunities within the core areas of cardiovascular, CNS and pain management, as well as other therapeutic categories that exhibit significant market potential and offer synergies with Biovail's products and technology platforms. These include endocrine/metabolic disorders, gastrointestinal disorders, oncology, immune system disorders, antiviral medicine and geriatric medicine, among others.

In 2002, we undertook a series of initiatives to ensure our company met or exceeded the corporate governance standards required in today's business environment. In fact, Biovail has long been a proponent of strict corporate governance and had initiated a number of standards before current regulations were invoked. Biovail is fully compliant with NYSE, TSX and SEC rules and regulations and the applicable provisions of the Sarbanes-Oxley Act of 2002 in the U.S., as well as the pending corresponding legislation in Canada. This includes CEO and CFO certification of financial information. Biovail has adopted a Charter for the Board of Directors and Executive Committee and a detailed Code of Business Conduct. In addition, Biovail has integrated a Manual of Corporate Governance that has been reviewed and approved by an independent law firm.

RECORD FINANCIAL RESULTS

From a financial standpoint, 2002 was a record year for Biovail. Total revenues for the year ended December 31, 2002 were $788 million, reflecting an increase of $204.7 million or 35% over the previous year. Net income for 2002 was $87.8 million compared to net income of $87.4 million for 2001. Excluding certain items, net income for full year 2002 increased 40% to $284.1 million versus full year 2001 net income of $202.9 million. Diluted earnings per share for full year 2002 were $0.55 versus full year 2001 diluted earnings per share of $0.58. Excluding certain items, full year 2002 diluted earnings per share increased 31% to $1.77 versus $1.35 diluted earnings per share for 2001.

AN EXCELLENT OUTLOOK

The outlook for 2003 and beyond is excellent, as Biovail will continue to progress in a number of key areas. This year will see the launch of two of the most significant products in this company's history to date. The U.S. launch of Cardizem LA provides Biovail with a truly innovative, clinically supported product that could have a significant impact in the treatment of hypertension. Similarly, the introduction of the Biovail-GSK developed once-daily antidepressant Wellbutrin XL, expected in the second half of 2003, is highly anticipated. These are just two of the exciting products expected to be commercialized in 2003.

The introduction of new products developed in-house or in-licensed from strategic partners will allow our U.S. and Canadian sales operations to further leverage an already strong portfolio and allow for continued sales growth.

These and other initiatives will be supported by a framework of controlled and strategic growth as Biovail pursues emerging opportunities in the pharmaceutical marketplace.

Reflecting on the achievements of 2002, and looking ahead with anticipation to 2003, I would like to express my appreciation, on behalf of the Board, for the continuing dedication and hard work of Biovail's employees, and acknowledge the confidence and support of shareholders.

Eugene Melnyk (SIGNED)
Chairman of the Board
Chief Executive Officer

THE CONTROLLED-RELEASE DRUG MARKET

Market size: $16 billion plus

Prof. Arnold Beckett, OBE
Millennium Pharmaceutical Scientist
World Congress of Pharmaceutical Sciences

"Controlled-release formulations are designed to optimize the supply of the drug to the sites in the body where it is needed. By scientifically controlling the rate and location of the drug's release you can limit unnecessary exposure in the body, reduce side effects and reduce the number of times per day it needs to be taken. The experience of Biovail and its supremacy in the design of controlled-release products puts Biovail in a unique position to develop effective products."

The goal is to make medications better – easier to take, producing better results with fewer side effects.

The goal is to make medications better – easier to take, producing better results with fewer side effects.

To reach this goal, we apply controlled-release and other delivery technologies to existing medications. Expertise in these technologies is Biovail's heritage.

As a pioneer in this $16 billion-plus field, we firmly established ourselves as an innovator and world leader.

We apply our proprietary controlled-release technologies to brand name drugs to produce medications that provide more predictable and consistent delivery of the drug's active ingredient throughout the day. This, in turn, results in improved therapeutic efficacy and reduced side effects. Dosing schedules are reduced, enhancing compliance and improving overall clinical results, to the benefit of the patient, the clinician and the health system.

We continue to build on this core expertise through ongoing R&D and strategic acquisitions. We currently develop advanced pharmaceutical products utilizing a number of proprietary patented drug delivery technology platforms, including: CEFORM™, Consurf, Enhanced Absorption, FlashDose and Shearform™. In addition, we have recently acquired new gastro-retentive, colonic delivery and enhanced absorption drug delivery technologies.

Through appropriate application of these advanced technology platforms, alone or in combination, Biovail's scientists can improve the delivery, and ultimately the efficacy, of a vast range of existing or new drug compounds.

	The Hypertension Market	The Cholesterol Lowering Agent Market
Market size	$13.5 billion	$13 billion
Annual growth	6%	13%
Total number of prescriptions	413 million	137 million
Annual growth	6%	11%

CARDIOVASCULAR

Dr. Joel M. Neutel
Assistant Clinical Professor of Medicine
University of California, Irvine, CA
Chief, Clinical Pharmacology and Hypertension
VA Medical Center, Long Beach, CA

"Diltiazem has an excellent dose-response curve and has been shown to provide more effective blood pressure control at higher doses. Because Cardizem LA provides a higher dose of diltiazem, but with excellent tolerability, we can take advantage of this benefit. Most importantly, Cardizem LA provides true 24 hour blood pressure control and is formulated to be especially effective during the early morning hours when the risk of adverse cardiovascular events is the greatest."

Cardizem LA is specifically formulated to provide increased protection in the early morning hours

Cardiovascular disease remains the number one cause of death in North America, claiming over one million lives each year – that's one in every three deaths.

Recent estimates say that a staggering 68 million Americans have one or more forms of cardiovascular disease. Hypertension – or high blood pressure – alone affects 50 million adults, and the numbers continue to grow.

Cardiovascular medicine is one of Biovail's primary areas of expertise. The latest addition to our strong portfolio is once-daily, graded release Cardizem LA, a novel new treatment for hypertension. Launched in the U.S. in April 2003, Cardizem LA is specifically formulated to provide increased protection in the early morning hours, when patients may be at the greatest risk of significant cardiac events, and smooth release over a full 24 hours.

This new product joins Teveten HCT, a hypertension medication that incorporates a diuretic, which we launched in early 2003.

Other key products under development include Vasotec XL, an enhanced formulation of this leading ACE inhibitor.

We are also targeting the $13 billion cholesterol lowering agent market by focusing on improved drug delivery formulations of simvastatin EA and fenofibrate SB, leading products in the treatment of high cholesterol.

The successful development of these and other products currently under investigation will further enhance Biovail's reputation as a world leader in the development and marketing of advanced drug delivery medications for the treatment of cardiovascular conditions.

	The Depression Market
Size of market	$12 billion
Annual growth	3%
Number of prescriptions	200 million
Annual growth	12%

The human nervous system is incredibly complex and susceptible to a vast variety of medical disorders.

Foremost is clinical depression. If not treated effectively, depression robs people of their health, their sense of self and even their ability to cope with daily life.

The statistics are sobering. Experts believe that one in ten men and one in four women in the developed nations will suffer from depression. Visits to physicians for depression have increased steadily for the past six years and the World Health Organization predicts this condition will soon become "the world's greatest health burden."

At Biovail, we have targeted depression as one of our core therapeutic areas. Through a strategic partnership with GlaxoSmithKline, we will commercialize Wellbutrin XL, an improved once-daily version of one of the world's best selling new generation antidepressants, which was developed by Biovail.

Other highly successful agents, including venlafaxine with its double-digit sales growth, have been identified and are currently being developed in our enhanced drug delivery pipeline.

We also continue to investigate and develop other CNS-specific products, including sleeping aids, anxiety medication, smoking cessation agents and anti-Parkinson's medications.

We have developed Wellbutrin XL, an improved once-daily version of one of the world's best selling new generation antidepressants

CENTRAL NERVOUS SYSTEM (CNS)

Dr. Richard Weisler
Adjunct Professor, Department of Psychiatry
Duke University
University of North Carolina, Chapel Hill, NC

"What separates Wellbutrin from the other effective antidepressants is that it doesn't produce the levels of sedation, fatigue, weight gain or other side effects that these products do. Wellbutrin XL has an even better side effect profile. Any concerns that clinicians may have in prescribing multiple dose antidepressants due to fears that patients won't take more than one tablet a day will be more than addressed by once-daily Wellbutrin XL."

PAIN MANAGEMENT

	The Pain Management Market	The Migraine Market
Size of market*	$4.3 billion	$1.8 billion
Annual growth	7%	7%
Number of prescriptions	160 million	13 million
Annual growth	7%	8%

*Moderate to moderately severe pain

Dr. Najib Babul
Chief Executive Officer
TheraQuest Biosciences, LLC
Member, Editorial Board
Journal of Pain & Palliative Care Pharmacotherapy

"Tramadol is a pharmacokinetically unique analgesic with dual methods of action that has gained wide acceptance from clinicians and patients. Once-daily tramadol will provide more consistent blood levels and reduced peak-to-trough fluctuations. For the patient, this means longer duration of action, more consistent pain control and reduced side effects. It will, quite simply, provide improved quality of life."

Our tramadol ER will be a leading once-daily formulation for the treatment of the signs and symptoms of osteoarthritis

An estimated 50 million people in North America alone suffer from chronic pain. Whether caused by illness or injury, pain can dramatically affect quality of life. It can restrict mobility and impair the ability to work and enjoy the simple everyday activities of life.

Pain is the reason given for a quarter of all sick days taken each year, and the annual medical costs associated with treating pain are estimated to be more than $100 billion.

At Biovail, one of our key targets is the development of new, more effective pain medications. Our tramadol ER will be the first once-daily formulation of one of the leading treatments for pain in osteoarthritis, back problems and other pain syndromes – a market that continues to expand as the North American population ages.

Another expanding therapeutic category is migraine. We are currently applying our patented technology to the development of a FlashDose formulation of sumatriptan, a market leading anti-migraine product. In an area where fast, effective pain relief is the ultimate goal, the rapid dissolve action of FlashDose may offer a distinct competitive advantage.

A FlashDose version of tramadol is also under development along with other products designed to alleviate the suffering and economic impact of pain.

Other drug delivery technologies can be applied to a vast range of medications and can provide clinical benefits for millions of patients with a variety of medical conditions.

In addition to our core therapeutic categories – Cardiovascular, CNS and Pain Management – we continue to investigate opportunities in other therapeutic areas.

We thoroughly investigate all potential opportunities through the application of a stringent screening process. An opportunity must meet our demanding clinical and business criteria. The candidate drug or technology must provide synergies with our existing technologies and clinical expertise and demonstrate significant market potential.

From a product perspective, Biovail's strategy is to develop or acquire branded pharmaceutical products that may be enhanced through the application of our drug delivery technologies. Through this process, we intend to develop products that provide a distinct therapeutic and competitive advantage within the specific category. We then have the option to develop the drug ourselves or engage in a strategic partnership. Promising examples include Biovail's collaboration on once-daily metformin XL for the management of Type II diabetes and controlled-release formulation enhancements of the successful antiviral medication acyclovir.

Additional therapeutic categories we target include: endocrine/metabolic disorders, gastrointestinal disorders, oncology, immune system disorders, antiviral medicine and geriatric medicine.

OTHER THERAPIES

Rolf Reininghaus
Senior Vice President
Corporate &
Strategic Development
Biovail Corporation

"Having a strong drug development pipeline ensures Biovail will have a steady flow of new revenue producing products in the mid to long term. Identifying and acquiring promising compounds in other chronic therapeutic categories from emerging development stage companies is an excellent way to expand our pipeline. We focus on compounds that meet well-defined medical needs in carefully targeted niche market segments and which can be commercialized."

Promising examples include the development of once-daily metformin XL

Biovail Product Portfolio

MARKETED PRODUCTS

Product	Indication	Current Status
BRANDED (NDA)		
Biovail Pharmaceuticals USA		
Cardizem®	Hypertension/Angina	Commercialized
Cardizem® LA	Hypertension	Commercialized
Zovirax Ointment	Herpes	Commercialized
Wellbutrin SR[4]	Depression	Commercialized
Teveten®[3]	Hypertension	Commercialized
Teveten® HCT[3]	Hypertension	Commercialized
Cedax	Respiratory Infections	Commercialized
Rondec®	Respiratory/Allergy	Commercialized
Vasotec®/Vaseretic®	Hypertension, Congestive Heart Failure	Commercialized
Biovail Pharmaceuticals Canada		
Cardizem®	Hypertension/Angina	Commercialized
Tiazac®[1]	Hypertension/Angina	Commercialized
Retavase™	Acute Myocardial Infarction	Commercialized
Celexa®[2]	Depression	Commercialized
Monocor®	Hypertension, Congestive Heart Failure	Commercialized
Wellbutrin® SR	Depression	Commercialized
Zyban®	Smoking Cessation	Commercialized
BIOEQUIVALENT (ANDA)		
Trental	Peripheral Vascular Disease	Commercialized
Cardizem® CD	Hypertension/Angina	Commercialized
Voltaren XR	Arthritis	Commercialized
Adalat CC	Hypertension/Angina	Commercialized
Procardia XL	Hypertension/Angina	Commercialized

PIPELINE PRODUCTS

Product	Indication	Current Status
BRANDED (NDA)		
Bupropion XL	Depression, Smoking Cessation	Under Development
Metformin OD	Type II Diabetes	Under Development
Tramadol XL	Chronic Pain	Under Development
Acyclovir CR	Herpes	Under Development
Simvastatin EA	High Cholesterol	Under Development
Enalapril XL	Hypertension	Under Development
d-methylphenidate	Attention Deficit-Hyperactivity Disorder	Regulatory Review
Mismatched double-stranded RNA®	Chronic Fatigue Syndrome	Under Development
Putrescine®	Surgical Scars and Burns	Under Development
Zovirax Cream	Herpes	Approved
Fenofibrate	High Cholesterol	Under Development
Venlafaxine	Depression	Under Development
5 FU	Cancer	Under Development
FlashDose® Fluoxetine	Depression	Regulatory Review
FlashDose® Zolpidem	Sleeping Disorders	Regulatory Review
FlashDose® Paroxetine	Depression, Other	Regulatory Review
FlashDose® Sumatriptan	Migraine	Under Development
Bisopropol	Hypertension	Under Development
Isosorbide-5-mononitrate	Hypertension	Under Development
Pravastatin	High Cholesterol	Under Development
Simvastatin	High Cholesterol	Under Development
BIOEQUIVALENT (ANDA)		
Dilacor XR	Hypertension/Angina	Regulatory Review
Verelan	Hypertension/Angina	Regulatory Review
Tegretol	Epilepsy	Regulatory Review
Procardia XL – 90mg	Hypertension/Angina	Regulatory Review

[1] Tiazac® is also promoted and distributed in the U.S. by licensee Forest Laboratories Inc.

[2] Co-promoted with H. Lundbeck A/S.

[3] Acquired from Solvay Pharmaceuticals Marketing & Licensing AG in February 2002.

[4] Co-promoted with GlaxoSmithKline in the U.S., January 1, 2002 to March 31, 2003.

N.B. We have also developed 11 additional products that have been successfully commercialized by various licensees in numerous world markets.

* Biovail also has numerous undisclosed pipeline products under development.

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

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in U.S. dollars]

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") prepared in accordance with U.S. generally accepted accounting principles ("GAAP") should be read in conjunction with the audited consolidated financial statements and related notes thereto prepared in accordance with U.S. GAAP.

PROFILE

We are a full-service pharmaceutical company, engaged in the formulation of pharmaceutical products utilizing advanced oral drug delivery technologies, clinical testing, registration, manufacturing, sale and promotion of pharmaceutical products targeting the cardiovascular (including Type II diabetes), central nervous system, pain management and niche therapeutic areas.

Our primary business strategy is to support the commercialization of our product development pipeline by expanding our sales and marketing presence in the United States and Canada. We intend to complement our product pipeline by acquiring established pharmaceutical products, in-licensing products in early stages of development and entering into product development collaborations with third parties.

We have research and development, clinical testing, manufacturing, sales and marketing operations in the United States, Canada, Barbados and Puerto Rico, and a research facility in Ireland.

OVERVIEW

We continue to make significant progress in terms of product approvals. In February 2003, we received U.S. Food and Drug Administration ("FDA") approval for Cardizem® LA, a graded extended-release formulation of diltiazem hydrochloride ("HCl"), for the treatment of hypertension. We launched Cardizem® LA in April 2003 in collaboration with our co-promotion partner, Reliant Pharmaceuticals LLC ("Reliant"). Reliant brings additional experienced sales representatives to the marketing of Cardizem® LA, as well as our Zovirax, Teveten®, Cedax and Rondec® products. We also received FDA approval for Zovirax Cream in January 2003 and for Teveten® HCT in February 2003. During 2002, we received tentative FDA approval for a FlashDose® formulation of zolpidem for the treatment of insomnia. In the United States, zolpidem is sold under the brand name Ambien. In August 2002, GlaxoSmithKline plc ("GSK") filed a New Drug Application ("NDA") for our once-daily formulation of bupropion HCl for the treatment of depression. GSK has applied for the trade name Wellbutrin XL. In 2001, we licensed our once-daily formulation of bupropion HCl to GSK and have been collaborating with them to seek regulatory approval of Wellbutrin XL. When, and if, FDA approval is received, we will manufacture and supply Wellbutrin XL to GSK for a share of the revenue generated by future sales of the product.

Management's Discussion and Analysis
continued

We also continue to pursue strategic business acquisitions and investments. During 2002, we extended our marketing agreement with GSK for Zovirax Ointment and Zovirax Cream from ten years to twenty years and we acquired the Canadian rights to GSK's Wellbutrin® SR and Zyban®, as well as the right to market our once-daily formulation of bupropion HCl under the Wellbutrin® XL trade name in Canada when, and if, regulatory approval is received. We also acquired the rights to Vasotec®, Vaseretic®, Teveten® and Teveten® HCT in the United States. We have begun development programs that will allow us to further exploit these brands. In December 2002, we acquired three private development companies – Pharma Pass LLC, Pharma Pass S.A. (collectively, "Pharma Pass") and Pharmaceutical Technologies Corporation ("Pharma Tech"). We believe that the products and technologies we acquired through these acquisitions will create substantial value for us in the future. During 2002, we made minority equity investments in Ethypharm S.A. ("Ethypharm") and DepoMed, Inc. ("DepoMed") and we obtained the rights to market a number of products under development by these companies.

CHANGES IN ACCOUNTING PRINCIPLES

We have adopted the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 141, all business combinations occurring after June 30, 2001 are to be accounted for under the purchase method of accounting. Under SFAS No. 142, which we adopted effective January 1, 2002, goodwill and other intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to annual impairment tests. Intangible assets with finite lives will continue to be amortized over their estimated useful lives.

Effective January 1, 2002, we identified those intangible assets that did not meet the criteria for recognition apart from goodwill, and assessed the useful lives of our remaining intangible assets. As a result, we reclassified the $5.7 million net carrying amount of workforce related intangible assets to goodwill, and determined that the useful lives of our remaining intangible assets were appropriate and consistent with those useful lives identified as at December 31, 2001. Our results for 2001 and 2000 included $6.7 million ($0.05 basic and diluted earnings per share) and $3.3 million ($0.02 basic and diluted earnings per share), respectively, of goodwill and workforce related amortization.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with U.S. GAAP, applied on a consistent basis. Our critical accounting policies relate to the use of estimates, the impact of product returns, recalls, rebates and chargebacks on revenue recognition, the recording of research and development expenses, the useful lives of intangible assets, the evaluation of goodwill, the hedge effectiveness of derivative financial instruments and the realizability of deferred tax assets.

In preparing our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We review our estimates to ensure that our estimates appropriately reflect changes in our business and new information as it becomes available. Actual results may materially differ from these estimates under different assumptions or conditions. Significant estimates we make include allowances for accounts receivable and inventories, reserves for product returns, recalls, rebates and chargebacks, the useful lives of long-lived assets, the expected cash flows used in evaluating long-lived assets and investments for impairment, the realizability of deferred tax assets and the allocation of the purchase price of acquired assets and businesses. A significant change in these estimates could have a material impact on our results of operations.

We recognize product sales revenue when the product is shipped to the customer provided that we have not retained any significant risks of ownership or future obligations with respect to the product shipped. Revenue from product sales is recognized net of reserves for estimated product returns, recalls, rebates and chargebacks. These reserves are established in the same period in which the related product sales are recorded and are based on estimates of the proportion of product sales subject to return, recall, rebate or chargeback. A significant change in these estimates could have a material impact on our results of operations.

We expense research and development costs in the period in which they are incurred. The costs of assets that are purchased from others for a particular research and development project, that have not reached technological feasibility and that have no alternative future use are expensed at the time of acquisition. We may pursue product or business acquisitions that could result in a charge for acquired research and development costs, which could have a material non-cash impact on our results of operations.

Intangible assets acquired through business combinations are initially recognized at fair value based on an allocation of the purchase price. Intangible assets acquired other than through business combinations are initially recognized at fair value based on the consideration paid. Our intangible assets are stated at cost, less accumulated amortization generally computed using the straight-line method based on their estimated useful lives ranging from eight years to twenty years. Useful life is the period over which the intangible asset is expected to contribute directly or indirectly to our future cash flows. We determine the useful lives of intangible assets based on a number of factors such as legal, regulatory or contractual limitations, known technological advances, anticipated demand and the existence or absence of competition. A significant change in these factors may warrant a revision of the expected remaining useful life of an intangible asset resulting in accelerated amortization or an impairment charge, which could have a material impact on our results of operations.

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the identifiable net assets acquired. We evaluate goodwill annually for impairment. An impairment of goodwill could have a material impact on our results of operations.

We manage our exposure to interest rate risks through the use of derivative financial instruments. We do not utilize derivative financial instruments for trading or speculative purposes. On the dates we entered into the derivative contracts, we designated the derivative financial instruments as a hedge of the fair value of an identified portion of a recognized long-term obligation. For a derivative financial instrument that is designated and qualifies as a fair value hedge, the derivative financial instrument is marked-to-market with the gain or loss on the derivative financial instrument, and the respective offsetting loss or gain on the underlying hedged item, recognized in net income (loss). A discontinuance of fair value hedge accounting could have a material impact on our results of operations.

We have recorded a valuation allowance on deferred tax assets primarily related to operating losses and tax credit carryforwards. We have assumed that these carryforwards are more likely than not to be unrealized based on estimated future taxable income and tax planning strategies in the related jurisdictions. The implementation of tax planning strategies or a change in the outlook for future taxable income in these jurisdictions could result in the recognition of some portion or all of these carryforwards, which could result in a material increase in our results of operations through the recovery of deferred income taxes.

ACQUISITIONS

In December 2002, we acquired Pharma Pass for $178.7 million. Pharma Pass is a developer of advanced oral controlled-release technologies and formulations for pharmaceutical companies, including us, in the United States and Europe. On the completion of the development of our products, we had the right to manufacture and sell the products and Pharma Pass was entitled to royalties from the net sales of each product for a period of fifteen years from the date of launch of each product. Through this acquisition we extinguished any future milestone or royalty obligations that we may have had to Pharma Pass resulting from the approval and successful commercialization of any of the products under development, pursuant to the research and development agreements previously

Management's Discussion and Analysis
continued

entered into between Pharma Pass and us. The acquisition of Pharma Pass resulted in a charge for acquired research and development of $107.2 million related to approximately twenty product development projects that were in various stages of completion but that had not yet received regulatory approval. We obtained interests in certain licensed products including Tricor (fenofibrate) and a participating interest in the gross profit on sales by a third party of a bioequivalent version of Prilosec (omeprazole). We also obtained Pharma Pass's Zero Order Release System, a drug delivery technology that controls the rate of release of a drug and/or significantly enhances the systemic absorption of a drug molecule, and its oral Colonic Delivery System, a drug delivery technology designed for the targeted release of medication into the lower intestine and upper colon.

In December 2002, we acquired Pharma Tech for $22.6 million. Pharma Tech is a development-stage company engaged in the application of drug delivery technologies to the formulation and development of a portfolio of products. Pharma Tech contracted directly with third parties, including us, to conduct the contract research and development services. We provided contract research and advisory services consistent with the contractual relationships we had with other third parties. On the completion of the development of our products, we had the right to manufacture and sell the products and Pharma Tech was entitled to royalties from the net sales of each product for a period of ten years from the date of launch of each product. Through this acquisition we extinguished any future milestone or royalty obligations that we may have had to Pharma Tech resulting from the approval and successful commercialization of any of the products under development, pursuant to the research and development agreements previously entered into between Pharma Tech and us. We had options to acquire Pharma Tech's interest in the products or to acquire Pharma Tech. The acquisition of Pharma Tech resulted in a charge for acquired research and development of $17.5 million related to a number of product development projects that were in various stages of completion but that had not yet received FDA approval.

In December 2002, we acquired from GSK the rights to Wellbutrin® SR and Zyban® in Canada, as well as the rights to market our once-daily formulation of bupropion HCl in Canada under the trade name Wellbutrin® XL when, and if, regulatory approval is received, for $72.0 million. Wellbutrin® SR is prescribed for the treatment of depression and Zyban® is administered for the treatment of nicotine addiction as an aid to smoking cessation.

In May 2002, we acquired from Merck & Co., Inc. ("Merck") the rights to Vasotec® and Vaseretic® in the United States for $245.3 million. Vasotec® is a leading angiotensin converting enzyme inhibitor indicated for hypertension and symptomatic congestive heart failure and Vaseretic® is a fixed-dose combination of Vasotec® and a diuretic. We are developing a once-daily formulation of Vasotec® and a fixed-dose combination of Vasotec® with diltiazem HCl to capitalize on the value of the acquired brand name.

In March 2002, we acquired from Solvay Pharmaceuticals Marketing & Licensing AG ("Solvay") the rights to Teveten® and Teveten® HCT in the United States for $94.3 million. Teveten® is an angiotensin-II receptor blocker for the treatment of hypertension and is indicated for use either alone or in conjunction with other antihypertensive medications and Teveten® HCT is a combination of Teveten® and a diuretic. We relaunched Teveten® in June 2002 and launched Teveten® HCT in February 2003 following receipt of FDA approval.

Effective January 1, 2002, we acquired from GSK the exclusive distribution rights to Zovirax Ointment and Zovirax Cream in the United States for $133.4 million. Zovirax is an anti-viral topical product. Zovirax Ointment is indicated for the treatment of herpes and Zovirax Cream is indicated for the treatment of cold sores. In December 2002, we agreed to pay GSK $40 million to extend the term of the Zovirax agreement from ten years to twenty years. We also agreed to pay GSK an aggregate amount of $45 million, over four years beginning in 2004, to amend several terms of the original Zovirax distribution agreement. We received FDA approval for Zovirax Cream in January 2003 and we intend to launch the product in mid-2003.

In December 2000, we completed the acquisition of Intelligent Polymers Limited ("Intelligent Polymers") for total consideration of $204.9 million. Intelligent Polymers was formed to fund the development of once-daily, controlled-release branded products for chronic disease states, such as anxiety, depression, pain management and diabetes. Prior to September 29, 2000, we were developing the products on behalf of Intelligent Polymers pursuant to a development and license agreement. The acquisition of Intelligent Polymers resulted in a charge

for acquired research and development of $208.4 million. An NDA has been filed by GSK for one of the products under development (bupropion HCl), two other products (tramadol and metformin) are now in Phase III clinical trials, and the development of another product (buspirone) was discontinued in March 2003.

In December 2000, we acquired the North American rights to Cardizem® from Aventis for total consideration of $409.5 million. Cardizem® is a leading calcium channel blocker prescribed for the treatment of hypertension and angina. We are capitalizing on the competitive advantage of the Cardizem® brand name by attaching it to our improved once-daily graded extended release formulation – Cardizem® LA.

In October 2000, we acquired DJ Pharma, Inc. ("DJ Pharma"), a pharmaceutical sales and marketing company located in the United States, for total consideration of $165.1 million plus the assumption of $34.2 million of debt. As a result of this acquisition, we obtained the rights to DJ Pharma's portfolio of products, as well as a trained workforce and infrastructure. The acquisition of DJ Pharma was significant to our strategy of becoming a fully integrated pharmaceutical company because, prior to the acquisition of DJ Pharma, we had no direct access to the United States market and were reliant on our marketing partners. The acquisition of DJ Pharma enhanced the value of our product pipeline through the ability to market directly to physicians, and provided an infrastructure on which we are building to meet the marketing needs of our increasing portfolio of products.

RESULTS OF OPERATIONS

Total revenue was $788.0 million in 2002 compared to $583.3 million in 2001 and $309.2 million in 2000. Total revenue increased by 35% in 2002 compared to 2001 and by 89% in 2001 compared to 2000. Net income in 2002 was $87.8 million, or diluted earnings per share of $0.55, compared to net income in 2001 of $87.4 million, or diluted earnings per share of $0.58, and a net loss in 2000 of $148.0 million, or a diluted loss per share of $1.16.

We utilize a measure of net income and diluted earnings per share that excludes certain items. This measure is a non-GAAP measure that does not have a standardized meaning and, as such, is not necessarily comparable to similarly titled measures presented by other companies. We have consistently applied this measure when discussing earnings or earnings guidance. This measure is provided to assist our investors in assessing our operating performance. We understand that many of our investors prefer to analyze our results based on this measure, as it is consistent with industry practice. The items were excluded because they were considered to be of a non-operational nature in the applicable year. The excluded items are also disclosed to give investors the ability to further analyze our results. Investors should consider this non-GAAP measure in the context of our U.S. GAAP results. The following table reconciles, for each year indicated, our net income (loss) in accordance with U.S. GAAP with our net income excluding certain items, and displays our diluted earnings (loss) per share and diluted earnings per share excluding certain items.

Years ended December 31 [In 000s, except per share data]	**2002**	2001	2000
Net income (loss)	**$ 87,795**	$ 87,448	$ (147,976)
Add (deduct) certain items			
Write-down of assets	**31,944**	80,482	—
Acquired research and development	**167,745**	—	208,424
Other income	**(3,408)**	—	—
Debt conversion premiums	**—**	34,923	—
Extraordinary item	**—**	—	20,039
Cumulative effect of change in accounting principle	**—**	—	43,500
Net income excluding certain items	**$ 284,076**	$ 202,853	$ 123,987
Diluted earnings (loss) per share	**$ 0.55**	$ 0.58	$ (1.16)
Diluted earnings per share excluding certain items	**$ 1.77**	$ 1.35	$ 0.86

Management's Discussion and Analysis
continued

Net income excluding certain items was $284.1 million, $202.9 million and $124.0 million in 2002, 2001 and 2000, respectively. Diluted earnings per share excluding certain items were $1.77, $1.35 and $0.86 in 2002, 2001 and 2000, respectively. Net income excluding certain items and diluted earnings per share excluding certain items increased by 40% and 31%, respectively, for 2002 compared to 2001, and by 64% and 57%, respectively, for 2001 compared to 2000. For 2002, the items excluded consist of a write-down of assets of $31.9 million primarily related to the write off of the Adalat product rights and corresponding long-term obligation as a result of a settlement reached between the U.S. Federal Trade Commission ("FTC"), Elan Corporation plc ("Elan") and us regarding the introduction of bioequivalent versions of Adalat CC, acquired research and development of $167.7 million arising from the acquisitions of Pharma Pass and Pharma Tech as well as from the termination of Pharma Tech's development of one of its products under development and any royalty obligation we may have had based on future sales of the product when, and if, approved by the FDA, and other income of $3.4 million related to the ineffective portion of the fair value hedge of a portion of our 7⅞% Senior Subordinated Notes due April 1, 2010 ("Notes"). For 2001, the items excluded consist of a write-down of assets of $80.5 million primarily related to the Keftab and Dura-Vent product rights and debt conversion premiums of $34.9 million related to the surrender and redemption of our 6.75% Convertible Subordinated Preferred Equivalent Debentures due March 31, 2025 ("Debentures"). For 2000, the items excluded consist of acquired research and development of $208.4 million arising from the acquisition of Intelligent Polymers, a premium of $20.0 million paid to extinguish our 10⅞% U.S. Dollar Senior Notes due November 15, 2005 ("Senior Notes") and a charge of $43.5 million for the cumulative effect of the adoption of the U.S. Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101").

REVENUE

Our revenue is derived from sales of pharmaceutical products, providing research and development services, and the co-promotion of pharmaceutical products, as well as from royalties and license fees. Product sales include sales of products developed and manufactured by us for distribution by our licensees and direct marketing to physicians in the United States and Canada of proprietary and in-licensed products. Research and development revenue relates to product development activity in collaboration with third parties and pharmaceutical contract research services. Fees for co-promotion services are earned on sales of co-promoted products developed by other companies. Royalties primarily arise on sales of the products we developed or acquired and from our interests in certain licensed products of Pharma Pass. License fees are derived from the license of our technologies or product rights.

The following table displays, for each year indicated, the percentage of each source of revenue to total revenue, and the percentage change in the dollar amount of each source and the total as compared to the prior year. Revenue for 2001 and 2000 reflects the reclassification of co-promotion revenue from product sales to co-promotion, royalty and licensing to conform to the presentation adopted in 2002.

	Years Ended December 31						Percentage Change	
[In 000s]	**2002**		2001		2000		2001 to 2002	2000 to 2001
Product sales	**$ 645,986**	**82%**	$ 521,154	89%	$ 217,004	70%	24%	140%
Research and development	**28,425**	**4**	14,596	3	66,834	22	95	(78)
Co-promotion, royalty and licensing	**113,614**	**14**	47,513	8	25,332	8	139	88
	$ 788,025	**100%**	$ 583,263	100%	$ 309,170	100%	35	89

Product sales

Product sales were $646.0 million in 2002 compared to $521.2 million in 2001 and $217.0 million in 2000. Product sales comprised 82% of total revenue in 2002 compared to 89% in 2001 and 70% in 2000. The following table displays the approximate percentage of each product category to total product sales.

Product Category	**2002**	2001	2000
Tiazac®	**15%**	20%	40%
Cardizem®	**25**	35	—
Bioequivalent	**30**	30	40
All other	**30**	15	20
	100%	100%	100%

In August 2002, we received final approval by the FDA for our 90mg bioequivalent version of Adalat CC (once-daily nifedipine). Our marketing partner, Teva Pharmaceuticals USA, Inc., immediately launched this product in the United States.

Product sales increased by 24% in 2002 compared to 2001 mainly due to the continuing strong performance of Tiazac® and Cardizem®, combined with the contribution from Zovirax Ointment, Teveten®, Vasotec®, Vaseretic® and our 90mg bioequivalent version of Adalat CC.

Product sales increased by 140% in 2001 compared to 2000 mainly due to the additions of Cardizem® and DJ Pharma's product portfolio. Product sales growth also came from a higher contribution from bioequivalent products, reflecting the 2001 launch of our 30mg bioequivalent version of Procardia XL and the late 2000 launches of our 60mg bioequivalent versions of Procardia XL and Adalat CC.

Our product sales and gross margins for 2002 and 2001 were adversely impacted by lost sales and costs associated with the voluntary recall of Keftab tablets, which was initiated by Eli Lilly & Company ("Lilly") in March 2001 because of undefined problems Lilly had with the product's stability. Lilly manufactured and supplied the product to us for marketing in the United States. In March 2003, we successfully settled our legal action against Lilly regarding the recall of Keftab.

We expect our product sales to increase in 2003 compared to 2002 due to the contribution from the products we acquired in 2002, the launches of Cardizem® LA, Teveten® HCT and Zovirax Cream during 2003 and the anticipated launch of Wellbutrin XL in the second half of 2003 when, and if, approved by the FDA.

Research and development

Research and development activities generated revenue of $28.4 million in 2002 compared to $14.6 million in 2001 and $66.8 million in 2000. Research and development activities comprised 4% of total revenue in 2002 compared to 3% in 2001 and 22% in 2000.

In the ordinary course of business we enter into research and development collaborations with third parties whereby we provide contract research, formulation development and other services to those third parties. We are typically compensated through a combination of fees for service, milestone payments, royalties from future sales of the products and/or co-promotion revenue.

Research and development revenue increased by 95% in 2002 compared to 2001 mainly due to the inclusion of revenue associated with the development of Wellbutrin XL in collaboration with GSK. During 2002, we completed the development of Wellbutrin XL, resulting in GSK's filing of an NDA for the product in August 2002.

Research and development revenue declined by 78% in 2001 compared to 2000, as we did not earn any revenue from Intelligent Polymers after September 29, 2000. We earned revenue of $52.9 million from Intelligent Polymers for the period ended September 29, 2000.

In the years presented, our remaining research and development revenue was primarily generated from clinical research and laboratory testing services provided to external customers by our contract research operation.

In 2003, we expect research and development revenue to decline compared to 2002 mainly due to the completion of the development of Wellbutrin XL.

Management's Discussion and Analysis
continued

Co-promotion, royalty and licensing

Co-promotion, royalty and licensing activities generated revenue of $113.6 million, $47.5 million and $25.3 million in 2002, 2001 and 2000, respectively. Co-promotion, royalty and licensing revenue comprised 14% of total revenue in 2002 and 8% in both 2001 and 2000.

Co-promotion, royalty and licensing revenue increased by 139% in 2002 compared to 2001 and by 88% in 2001 compared to 2000. In 2002, co-promotion revenue was related to the co-promotion of GSK's Wellbutrin SR in the United States and the co-promotion of H. Lundbeck A/S's Celexa in Canada. During 2002, we received four quarterly increments of $10 million each under the Wellbutrin SR co-promotion agreement with GSK. We earned the last quarterly increment of $10 million in the first quarter of 2003. The receipt of each of the quarterly increments was dependent on our performing prescribed detailing activity during each quarter and the amount was determined based on a percentage of net sales of Wellbutrin SR in the United States during each quarter. In 2001 and 2000, co-promotion revenue was related entirely to the co-promotion of Celexa.

Royalty revenue increased in 2002 compared to 2001 due to the contribution from our interest in the gross profit on sales of a bioequivalent version of Prilosec. Royalty revenue increased in 2001 compared to 2000 due to higher Tiazac® sales by our marketing partner, Forest Laboratories Inc., and the inclusion of a royalty associated with sales of bioequivalent versions of Cardizem® by third parties.

We expect the level of co-promotion, royalty and licensing revenue in 2003 to be higher than in 2002 due to the contribution from our interest in the gross profit on sales of a bioequivalent version of Prilosec, partly offset by the loss of revenue following the conclusion of our co-promotion of Wellbutrin SR in the United States.

OPERATING EXPENSES

The following table displays, for each year indicated, the percentage of each expense item to total revenue, and the percentage change in the dollar amount of each item and the total as compared to the prior year. Prior to 2001, we included amortization expense as a component of cost of goods sold, research and development expenses and selling, general and administrative expenses. In 2001, amortization increased substantially due to the additions made to intangible assets and acquisitions of businesses and consequently we decided to present amortization as an individual line item within operating expenses. Operating expenses for 2000 reflect the reclassification of amortization to conform to the presentation adopted in 2001.

	Years Ended December 31						Percentage Change	
[In 000s]	**2002**		2001		2000		2001 to 2002	2000 to 2001
Cost of goods sold	**$ 164,706**	**21%**	$ 125,995	21%	$ 67,980	22%	31%	85%
Research and development	**52,150**	**7**	51,017	9	51,709	17	2	(1)
Selling, general and administrative	**165,697**	**21**	110,100	19	51,857	17	50	112
Amortization	**71,499**	**9**	44,513	8	7,232	2	61	516
	$ 454,052	**58%**	$ 331,625	57%	$ 178,778	58%	37	85

Cost of goods sold and gross margins

Cost of goods sold was $164.7 million in 2002 compared to $126.0 million in 2001 and $68.0 million in 2000. Cost of goods sold includes royalties on product sales payable to third party licensors that owned and/or developed the products. Costs of goods sold increased by 31% in 2002 compared to 2001 and by 85% in 2001 compared to 2000. The year over year increases in cost of goods sold were the result of increased sales volumes from new product launches and product acquisitions, and higher sales levels of certain existing products.

Gross margins based on product sales were 75%, 76% and 69% in 2002, 2001 and 2000, respectively. Gross margins are impacted year to year by sales volumes, pricing, product mix, and manufacturing volumes. The

gross margin in 2002 was affected by a lower proportion of higher margin Cardizem® sales in the overall product mix and the additions of Zovirax Ointment and Teveten® sales, which had lower margins relative to other of our products, offset by the inclusion of Vasotec® and Vaseretic® sales, which generated higher margins relative to other of our products. The increase in gross margin in 2001 compared to 2000 reflected the impact of the higher margin earned on Cardizem® relative to other of our products.

We expect gross margins on product sales in 2003 to be comparable to 2002.

Research and development

Research and development expenses were $52.2 million in 2002 compared to $51.0 million in 2001 and $51.7 million in 2000. As a percentage of total revenue, research and development costs declined to 7% in 2002 compared to 9% in 2001 and 17% in 2000.

In the ordinary course of business, we enter into research and development collaborations with third parties to provide formulation and other services for our products under development. These collaborations target our therapeutic areas of focus – cardiovascular (including Type II diabetes), central nervous system, pain management and niche opportunities. These third party developers are typically compensated through a combination of fees for service, milestone payments and/or royalty payments from future sales of the products under development. The developers may utilize their own technology and, in other cases, we will allow access to our technology for the formulation and development of the products. In some cases, we have an ownership interest or an option to take an ownership position in the developer. In no case are we responsible for any of the developers' third party liabilities, nor have we guaranteed any debts, nor are we required under any circumstances to exercise any of our options.

Research and development expenses reflect direct spending on the development of branded and bioequivalent products utilizing advanced oral drug delivery technologies. We completed a Phase III clinical trial to support the submission of a supplemental NDA for an angina indication for Cardizem® LA. The results of this clinical trial were favourable and we expect to file the supplemental NDA for Cardizem® LA in mid-2003. In addition, we have completed, or are in the process of completing, a number of comparative Phase IV studies involving Cardizem® LA. We are developing a once-daily formulation of Vasotec® and we are also working on a fixed-dose combination of Vasotec® with diltiazem HCl. Two ongoing Phase III trials are progressing to support an NDA submission for our once-daily formulation of tramadol, for the signs and symptoms of osteoarthritis. We expect to file an NDA for tramadol in the second half of 2003. One Phase III clinical trial has been successfully completed on our once-daily formulation of metformin, for the treatment of Type II diabetes, through a collaborative effort with DepoMed, and a second Phase III clinical trial is in progress. We expect to file an NDA for metformin in the first half of 2004. We have evaluated the results of a Phase III clinical trial involving buspirone, for the treatment of depression, and have decided to discontinue the development of this product in light of the unsatisfactory results from this trial.

A number of other research and development activities are ongoing, including feasibility studies, formulation development and optimization, formulation scale-up and clinical studies. We are also working on the development of enhanced formulations of a number of disclosed compounds (fenofibrate, simvastatin, paroxetine, venlafaxine, sumatriptan and acyclovir), as well as a number of undisclosed compounds.

We expect research and development expenses to increase significantly in 2003 compared to 2002 due to an expected increase in clinical activity.

Selling, general and administrative

Selling, general and administrative expenses were $165.7 million, $110.1 million and $51.9 million in 2002, 2001 and 2000, respectively. Selling, general and administrative expenses were 21% of total revenue in 2002 compared to 19% in 2001 and 17% in 2000.

During 2002, our sales capability in the United States was significantly increased. Our U.S. sales organization more than doubled in size as we added sales and marketing management and regional and district sales management and hired over 200 sales representatives across the country. We devoted considerable attention and resources to

Management's Discussion and Analysis
continued

increasing our sales force capabilities by adhering to specific selection criteria during the hiring process and by locating new sales representatives in territories with high prescribing physicians. In addition, in November 2002 we entered into a co-promotion agreement with Reliant. Reliant's sales force has experience detailing cardiovascular products across the United States, has established relationships with high prescribing physicians and will be working in tandem with our existing sales force. We benefited from this approach to building our sales organization when we relaunched Teveten® in June 2002. After promoting Teveten® for six months, in collaboration with Reliant for the final three months of 2002, we saw December prescriptions increase substantially over June prescription levels.

Selling, general and administrative expenses increased by 50% in 2002 compared to 2001 mainly due to the expansion of our sales organization in the United States and the incremental sales and marketing costs associated with Zovirax Ointment and Teveten®, as well as costs associated with the co-promotion of Wellbutrin SR in the United States. We recorded Teveten® sales and marketing costs net of a related marketing allowance of $10 million paid by Solvay in 2002. In addition, we have expensed a portion of the costs associated with the development of the Cardizem® LA promotional program. In 2002, selling, general and administrative expenses also include fees payable to Reliant related to the co-promotion of Teveten® and Cedax during the fourth quarter of 2002.

Selling, general and administrative expenses increased by 112% in 2001 compared to 2000, mainly due to the inclusion of our U.S. sales organization in our results for a full year. In addition, with the acquisition of Cardizem® the level of sales and marketing activity increased in both the United States and Canada.

We expect selling, general and administrative expenses to increase as a percentage of total revenue in 2003 compared to 2002 due to the costs associated with the launches of Cardizem® LA, Teveten® HCT and Zovirax Cream during 2003.

Amortization

Amortization expense was $71.5 million, $44.5 million and $7.2 million in 2002, 2001 and 2000, respectively. Amortization expense was 9% of total revenue in 2002 compared to 8% in 2001 and 2% in 2000.

The increase in amortization expense in 2002 compared to 2001 reflected the incremental amortization associated with the acquisitions of the rights to Zovirax, Teveten®, Vasotec® and Vaseretic®, and Wellbutrin® and Zyban® in Canada, as well as the amortization of our interest in the gross profit on sales of a bioequivalent version of Prilosec. In 2002, amortization expense was reduced by the elimination of goodwill and workforce related amortization as a result of the adoption of SFAS No. 142.

The increase in amortization expense between 2001 and 2000 reflected the amortization of product rights and goodwill associated with the acquisition of DJ Pharma and the amortization of the Cardizem® brand name.

We expect that amortization expense will increase in 2003 compared to 2002 due to a full year of amortization related to the intangible assets acquired during 2002.

Write-down of assets

In 2002, we recorded a $31.9 million non-cash charge primarily related to the write-down of the following assets:

As a result of a settlement reached with the FTC regarding the introduction of bioequivalent versions of Adalat CC, we agreed with Elan to terminate our agreements related to the licensing and supply of Elan's 30mg and 60mg bioequivalent versions of Adalat CC. The FTC consent order effectively nullifies our long-term obligation to make minimum license payments to Elan under the licensing and supply agreement for Elan's 30mg bioequivalent version of Adalat CC. We have been in negotiations to have Elan reacquire the rights to its bioequivalent versions of Adalat CC that had previously been sold to us. As there has been no meaningful progress in these negotiations, and as we are unable to ascertain the eventual outcome of these negotiations, in December 2002 we determined that we should write off the net book value of the Adalat product rights, net of the corresponding long-term obligation to Elan. We recorded a related non-cash charge of $22.4 million. We are considering whether or not to pursue litigation against Elan to obtain fair compensation for the loss of these products. Elan is required to continue to supply us with its 30mg bioequivalent version of Adalat CC until May 31, 2003.

In 2002, we also recorded other non-cash asset write-downs of $9.5 million, primarily related to an unrealized holding loss on our investment in DepoMed.

In 2001, we recorded an $80.5 million non-cash charge related to the write-down of the following assets:

At December 31, 2001, Lilly had not resolved the manufacturing problems associated with Keftab that arose in March 2001. The supply interruption had resulted in a deterioration of customer awareness of the product, which would have required substantial promotional efforts to restore if the product were to be re-launched. Due to these conditions that existed at December 31, 2001, we determined that the Keftab product right had been permanently impaired and should be written down to its estimated recoverable value of $10 million. We recorded a related non-cash charge of $54.6 million.

We believed Lilly was responsible for manufacturing and supplying commercially acceptable products to us, as well as for the cost of the recall. In this regard, we commenced a legal action against Lilly in which we were seeking damages as a result of Lilly's voluntary recall of Keftab. In March 2003, we settled our legal action with, and received compensation from, Lilly for the recoverable value of the Keftab intangible asset, the cost of the Keftab inventory that was destroyed, the lost margin on sales of Keftab and the expenses incurred with respect to the Keftab recall. In the first quarter of 2003, we recorded an aggregate net recovery from the settlement of the Lilly action, together with the settlement of an unrelated action against Mylan Pharmaceuticals, Inc., of $24.8 million plus interest.

In November 2000, the FDA requested a voluntary recall of products containing phenylpropanolamine ("PPA"). We immediately stopped shipments of our Dura-Vent products containing PPA and initiated a recall of these products from wholesalers and pharmacies. During 2001, we experienced supply interruptions resulting from manufacturing issues associated with our remaining Dura-Vent products that did not contain PPA. Dura-Vent is manufactured and supplied to us by a third party. These supply interruptions caused our revenues and gross margins for the remaining Dura-Vent products to significantly deteriorate. We evaluated the current and forecasted market share for the products and determined that the Dura-Vent product right had been permanently impaired and the remaining net book value should be written off. We recorded a related non-cash charge of $19.0 million.

In 2001, we also recorded other non-cash asset write-downs of $6.9 million, primarily related to an intangible asset associated with the acquisition of Intelligent Polymers.

Acquired research and development

In 2002, we incurred non-cash charges for acquired research and development of $107.2 million and $17.5 million arising from our acquisitions of Pharma Pass and Pharma Tech, respectively. Through each of these acquisitions, we acquired a portfolio of products that were in various stages of development, had not reached technological feasibility and had no alternative future use. The efforts required to develop the acquired research and development into commercially viable products include the completion of the development stages of the products, clinical-trial testing, regulatory approval and commercialization. The principal risks relating to the products in development are the outcomes of the formulation development, clinical studies and regulatory filings. Since pharmaceutical products cannot be marketed without regulatory approvals, we will not receive any benefits unless regulatory approval is obtained.

We also incurred a non-cash charge for acquired research and development of $43.1 million related to the termination of the development by Pharma Tech of one of its products under development and any royalty obligation we may have had to Pharma Tech based on future sales of the product when, and if, approved by the FDA. We are continuing the development program for this product.

In 2000, we incurred a non-cash charge for acquired research and development of $208.4 million arising from our acquisition of Intelligent Polymers.

Management's Discussion and Analysis
continued

OPERATING INCOME OR LOSS

Operating income was $134.3 million in 2002 compared to operating income of $171.2 million in 2001 and an operating loss of $78.0 million in 2000. Operating income excluding write-down of assets and acquired research and development was $334.0 million in 2002 compared to $251.6 million in 2001 and $130.4 million in 2000. Operating income excluding write-down of assets and acquired research and development increased by 33% in 2002 compared to 2001 and by 93% in 2001 compared to 2000. As a percentage of total revenue, operating income excluding write-down of assets and acquired research and development was 42% in 2002 compared to 43% in 2001 and 42% in 2000.

The increase in operating income excluding write-down of assets and acquired research and development in 2002 compared to 2001 was mainly due to the additions of Zovirax, Teveten®, Vasotec®, Vaseretic® and our 90mg bioequivalent version of Adalat CC product sales. Also contributing to the increase was the inclusion of Wellbutrin SR co-promotion revenue and our interest in the gross profit on sales of a bioequivalent version of Prilosec, combined with a reduction in research and development expenses as a percentage of total revenue. Operating income excluding write-down of assets and acquired research and development in 2002 was reduced by an offsetting increase in cost of goods sold and sales and marketing costs, as well as expenses related to the expansion of our U.S. sales organization and incremental amortization expense related to additions to intangible assets.

The increase in operating income excluding write-down of assets and acquired research and development in 2001 compared to 2000 was mainly due to the additions of Cardizem® and DJ Pharma's product portfolio. Operating income excluding write-down of assets and acquired research and development in 2001 was reduced by an offsetting increase in cost of goods sold and sales and marketing costs, as well as expenses related to the inclusion of our U.S. sales organization and incremental amortization expense related to new products.

NON-OPERATING ITEMS

Interest income and expense

Interest income of $3.6 million, $2.7 million and $23.7 million in 2002, 2001 and 2000, respectively, was earned on our investment portfolio, which is comprised primarily of high-grade government and corporate securities. Higher interest income in 2000 reflected a larger average investment portfolio following our concurrent offering of common shares and Debentures in March 2000, and prior to our acquisitions of Intelligent Polymers, Cardizem® and DJ Pharma.

Interest expense was $32.0 million, $36.2 million and $20.7 million in 2002, 2001 and 2000, respectively. In 2002, interest expense was primarily related to our Notes issued in March 2002. During 2002, we entered into interest rate swap contracts of aggregate $200 million notional amount, which are designated as a fair value hedge of one-half of our Notes. The contracts involve the receipt of fixed rate amounts in exchange for floating rate interest payments based on six-month London Interbank Offering Rate ("LIBOR") plus a spread. Net receipts or payments relating to the contracts are recorded as an adjustment to interest expense. Interest expense also included interest on advances under our credit facility and the amortization of the discounts on the Adalat and Vasotec® obligations. The non-cash amortization of these discounts amounted to $5.3 million.

Prior to March 2000, interest expense was primarily related to our Senior Notes. In March 2000, we redeemed our Senior Notes using the proceeds from our concurrent offering of common shares and Debentures and, accordingly, interest expense from this time primarily related to our Debentures until their surrender and redemption during the second half of 2001. In addition, interest expense in 2001 reflected interest on advances under our credit facility and the amortization of the discounts on the Adalat and Cardizem® obligations. The non-cash amortization of these discounts amounted to $11.0 million.

Other income

The change in the fair values of the interest rate swap contracts and the offsetting change in the fair value of the portion of our Notes being hedged are recognized in other income. The net gain recognized in 2002 related to the ineffective portion of the fair value hedge.

Debt conversion premiums

In 2001, we recorded a debt conversion premium of $23.7 million on the surrender of $173.8 million aggregate principal amount of our outstanding Debentures. The premium represented the market value of the additional common shares issued in excess of the number of common shares that would have been issued under the terms of the conversion ratio provided for in the indenture governing our Debentures.

We recorded an additional debt conversion premium of $11.2 million on the remaining $126.1 million aggregate principal amount of our outstanding Debentures that had been called for redemption in November 2001. The additional premium represented the aggregate amount of interest that would have been paid on our Debentures from the redemption date to March 31, 2003.

Provision for income taxes

Our tax rate was affected by the relative profitability of our operations in various foreign tax jurisdictions. We recorded provisions for income taxes of $21.5 million, $15.3 million and $9.4 million in 2002, 2001 and 2000, respectively. The low effective tax rate was mainly due to a substantial portion of our income being derived from foreign subsidiaries with lower statutory tax rates than those that apply in Canada. In addition, our effective tax rate was affected by the low profitability of our operations in the United States due to the expansion of our sales organization in advance of the launch of Cardizem® LA and sales and marketing expenses related to products launched during 2002.

Our future effective tax rate will depend on the relative profitability of our domestic and foreign operations, the statutory tax rates of the related tax jurisdictions, and the timing of the release, if any, of the valuation allowance. In 2003, we expect our effective tax rate to reflect the anticipated low profitability of our operations in the United States due to launch costs and sales and marketing activities related to products to be launched during 2003.

Extraordinary item

In 2000, we paid total consideration of $141.0 million to repurchase our Senior Notes, of which $16.0 million was an inducement premium to the holders. We classified the premium paid and the unamortized deferred financing costs related to our Senior Notes as an extraordinary item.

Cumulative effect of change in accounting principle

Effective January 1, 2000, we adopted SAB 101 and, accordingly, we changed our revenue recognition accounting policy for up-front research and development, product license and certain other fees. Historically, we recognized these fees as revenue when all the conditions to payment had been met and there were no further performance contingencies or conditions to our receipt of payment. These fees were not creditable against future payments. We now defer and amortize these fees over the terms of the related agreements. At January 1, 2000, the cumulative effect of the change in accounting principle on prior years resulted in a charge of $43.5 million. A corresponding amount was recorded in deferred revenue, of which $4.8 million, $6.3 million and $9.3 million was amortized to revenue in 2002, 2001 and 2000, respectively.

Management's Discussion and Analysis
continued

EBITDA

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is a non-GAAP measure that does not have a standardized meaning and, as such, may not be comparable to similarly titled measures presented by other companies. We utilize a measure of EBITDA that excludes certain items. The items were excluded because they were considered to be of a non-operational nature in the applicable year. We disclose this measure of EBITDA because we understand that certain investors use it as an indicator of a company's ability to meet debt service and capital expenditure requirements. This measure should not be considered in isolation or as a substitute for operating income or loss, or as an indicator of our operating performance, or compared to cash flows from operating activities as a measure of liquidity. The following table displays the calculation of EBITDA and reconciles EBITDA with EBITDA excluding certain items.

Years ended December 31 [In 000s]	**2002**	2001	2000
Net income (loss)	**$ 87,795**	$ 87,448	$ (147,976)
Net interest expense (income)	**28,397**	33,500	(2,955)
Provision for income taxes	**21,500**	15,285	9,360
Depreciation and amortization	**82,368**	55,287	20,988
EBITDA	**220,060**	191,520	(120,583)
Write-down of assets	**31,944**	80,482	—
Acquired research and development	**167,745**	—	208,424
Other income	**(3,408)**	—	—
Debt conversion premiums	**—**	34,923	—
Extraordinary item	**—**	—	20,039
Cumulative effect of change in accounting principle	**—**	—	43,500
EBITDA excluding certain items	**$ 416,341**	$ 306,925	$ 151,380

EBITDA excluding certain items was $416.3 million, $306.9 million and $151.4 million in 2002, 2001 and 2000, respectively. As a percentage of total revenue, EBITDA excluding certain items was 53% in both 2002 and 2001 and 49% in 2000.

We disclose the ratio of EBITDA excluding certain items compared to interest expense because we understand that certain investors use it as an indicator of a company's ability to meet debt service requirements. This ratio is not necessarily comparable to similarly titled measures presented by other companies. The ratio of EBITDA excluding certain items to interest expense was 13.0 times, 8.5 times and 7.3 times for 2002, 2001 and 2000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, we had cash and cash equivalents of $56.1 million compared to $434.9 million at December 31, 2001. We also maintain a revolving term credit facility, which may be used for general corporate purposes, including acquisitions. In June 2001, our credit facility was successfully syndicated and was increased from $300 million to $400 million. In July 2002, our credit facility was further increased from $400 million to $600 million and in December 2002 we renewed our credit facility for an additional one-year period. All other material terms and conditions are unchanged. At December 31, 2002, we were in compliance with all financial and non-financial covenants associated with our credit facility.

Borrowings under our credit facility may be by way of U.S. dollar, LIBOR or U.S. base rate advances or Canadian dollar prime rate or bankers' acceptance ("BA") advances or letters of credit. Interest is charged at the quoted bank rate plus a borrowing margin of 1.375% to 2% in the case of LIBOR and BA advances, and 0.375% to 1% in the case of base rate and prime rate advances, depending on our credit rating at the time of such borrowing. At December 31, 2002, our corporate credit ratings were BB+ with Standard & Poor's Rating Services ("S&P") and Ba3 with Moody's Investors Service. The effective rate of interest at December 31, 2002 was 3.74%. At December 31, 2002, we had advances of $110 million borrowed under our credit facility and we had a letter of credit with a balance

of $93.2 million issued under our credit facility. The letter of credit secures the remaining semi-annual payments we are required to make under the Vasotec® and Vaseretic® agreement. At December 31, 2002, we had a remaining balance of $396.8 million available to borrow under our credit facility. At March 31, 2003, we have repaid $100 million of the advances borrowed under our credit facility.

Cash provided by operating activities was $334.1 million, $284.1 million and $102.5 million in 2002, 2001 and 2000, respectively. Net income, after adjustments for items not involving cash, was $376.0 million, $262.8 million and $149.7 million in 2002, 2001 and 2000, respectively. Net changes in non-cash operating items used cash of $41.9 million and $47.2 million in 2002 and 2000, respectively, mainly due to increases in accounts receivable offset by increases in accounts payable and accrued liabilities. Net changes in non-cash operating items provided cash of $21.3 million in 2001, mainly due to increases in accrued liabilities and income taxes payable offset by an increase in inventories.

Net cash used in investing activities was $792.5 million, $57.7 million and $582.3 million in 2002, 2001 and 2000, respectively. In 2002, we acquired the rights to Zovirax and Teveten® for $133.4 million and $94.3 million, respectively, and we paid initial instalments of $145.7 million to acquire Vasotec® and Vaseretic®, and $2.0 million to acquire Wellbutrin® and Zyban® in Canada. In 2001, we acquired other product rights for $27.4 million, offset by $15 million recovered as a reduction to the minimum license payments otherwise payable to Elan under the licensing and supply agreement for Elan's 30mg bioequivalent version of Adalat CC. In 2000, we acquired the remaining rights to the Dura-Vent, Keftab and Rondec® products, and other product rights for $27.8 million. Business acquisitions, net of cash acquired, totaled $240.6 million in 2002, comprising $178.7 million paid to acquire Pharma Pass, $43.1 million paid to terminate Pharma Tech's development of one of its products under development and any royalty obligation we may have had based on future sales of the product when, and if, approved by the FDA, and $18.8 million paid to acquire Pharma Tech. Business acquisitions, net of cash acquired, totaled $622.1 million in 2000, comprising $239.7 million for Cardizem®, $202.4 million for Intelligent Polymers, $162.8 million for DJ Pharma and $17.2 million of additional consideration paid for Fuisz Technologies Ltd. ("Fuisz"). In 2002, we acquired long-term investments of $85.1 million including equity investments in Ethypharm, DepoMed and Procyon Biopharma Inc. of $67.8 million, $13.7 million and $2.5 million, respectively. We acquired long-term investments of $0.9 million and $2.5 million in 2001 and 2000, respectively. Additions to property, plant and equipment were $61.4 million, $44.4 million and $15.8 million in 2002, 2001 and 2000, respectively, and were primarily related to the expansion of our manufacturing facilities. In 2002, we advanced $30 million to Reliant under a secured credit facility established by us and certain of Reliant's existing lenders. The net activity in short-term investments provided cash of $65.9 million in 2000. During 2000, as our short-term investments matured we converted them into cash equivalents with original maturities of 90 days or less. In 2000, we received proceeds of $20 million on the disposal of Clonmel Healthcare Limited, a subsidiary of Fuisz.

Net cash provided by financing activities was $79.5 million, $83.6 million and $427.1 million in 2002, 2001 and 2000, respectively. Proceeds from the issue of common shares on the exercise of stock options and through our Employee Stock Purchase Plan were $19.6 million, $29.2 million and $14.3 million in 2002, 2001 and 2000, respectively. Net proceeds from our equity offerings in November 2001 and March 2000 were $560.0 million and $95.3 million, respectively. We repurchased common shares on the open market, under our stock repurchase programs, for $503.1 million and $120.0 million in 2002 and 2001, respectively. We received proceeds of $112.8 million, $29.1 million and $6.0 million on the exercise of warrants in 2002, 2001 and 2000, respectively, and we collected the remaining $2.3 million of the warrant subscription receivable in 2000. In 2001, we made loans in an aggregate amount of $10.0 million to certain executive officers under our Executive Stock Purchase Plan. In 2002, we received net proceeds of $384.3 million on the issue of our Notes. In 2002, we borrowed $110 million under our credit facility and paid $2.1 million of additional financing costs related to the increase in our credit facility from $400 million to $600 million. In 2001, we made repayments of $210 million under our credit facility and paid $1.3 million of additional financing costs related to the increase in our credit

Management's Discussion and Analysis
continued

facility from $300 million to $400 million. In 2000, we borrowed $210 million from our credit facility and paid $3 million of arrangement fees. In 2002, we repaid $34.5 million of the Vasotec® obligation and $7.5 million of the Adalat obligation. In 2001, we repaid $193.4 million of other long-term obligations, including the $170 million Cardizem® obligation and $22.9 million of the Adalat obligation. In 2000, we repaid the debt assumed on the acquisition of DJ Pharma and other long-term obligations of $45.6 million. In 2000, we received net proceeds of $288.8 million from the issue of our Debentures and we repurchased our Senior Notes for $141.0 million.

Overall, our cash and cash equivalents decreased by $378.8 million and $52.9 million in 2002 and 2000, respectively, and increased by $309.7 million in 2001.

In 2002, non-cash investing and financing activities included a $99.6 million discounted obligation related to the acquisition of Vasotec® and Vaseretic®, an $80.7 million discounted obligation related to the amendments to the terms of the Zovirax distribution agreement, and a $70.0 million discounted obligation related to the acquisition of Wellbutrin® and Zyban® in Canada. In 2001, non-cash investing and financing activities included the issuance of common shares valued at $314.3 million on the surrender and redemption of our Debentures. In 2000, non-cash investing and financing activities included a $161.8 million discounted obligation related to the acquisition of Cardizem® and a $58.1 million discounted obligation related to the acquisition of the Adalat product rights.

Obligations and other matters

At December 31, 2002, we had total long-term obligations of $747.4 million, including the current portion thereof, consisting of the carrying value of our Notes of $412.6 million, borrowings under our credit facility of $110 million, the Zovirax obligation of $80.7 million, the Wellbutrin® obligation of $70.0 million, the Vasotec® obligation of $67.9 million and deferred compensation of $6.2 million. At March 31, 2003, we have paid $40 million of the Zovirax obligation to GSK.

The following table summarizes our contractual obligations at December 31, 2002.

		Maturities by period			
[In 000s]	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term obligations	$ 737,350	$ 122,590	$ 170,462	$ 25,507	$ 418,791
Operating lease obligations	22,475	6,667	10,655	4,046	1,107
Total contractual cash obligations	$ 759,825	$ 129,257	$ 181,117	$ 29,553	$ 419,898

In addition, we agreed to make milestone payments under certain research and development collaborations. These milestone payments are generally contingent on receiving regulatory approval for the products under development. We also agreed to make certain contingent payments to GSK for Zovirax in the event of the termination of the Wellbutrin XL development agreement by either GSK or us.

In November 2001, we filed a $1.5 billion base shelf prospectus with the Canadian provincial securities commissions covering the potential sale of any combination of common shares, debt securities or warrants. On the same date, we filed a registration statement on Form F-10 covering those securities with the SEC under the multijurisdictional disclosure system. We may offer one or more of these types of securities in one or more offerings during the succeeding 25 months. One or more shareholders may also sell common shares pursuant to the base shelf prospectus. We will not receive any of the proceeds from any sale of common shares by the selling shareholders.

In November 2001, we issued 12,500,000 common shares for gross proceeds of $587.5 million under our base shelf prospectus. In addition, the underwriters exercised in full an over-allotment option, which was granted in connection with the offering, to purchase an additional 1,875,000 of our common shares from Eugene Melnyk, Chairman of the Board and Chief Executive Officer, for $88.1 million. We did not receive any of the proceeds from the sale of the additional common shares by Mr. Melnyk.

In March 2002, we issued $400 million aggregate principal amount of unsecured Notes under our base shelf prospectus. Interest on our Notes is payable semi-annually in arrears on April 1 and October 1 of each year. Our Notes were issued at a price of 99.27% of their aggregate principal amount for an effective yield, if held to maturity, of 8%. At December 31, 2002, our Notes had a BB– credit rating with S&P.

At any time on or after April 1, 2006, we may redeem all or any of our Notes at prescribed prices, plus accrued and unpaid interest to the date of redemption. Before April 1, 2005, we may redeem up to 35% of the original principal amount of our Notes, with the net cash proceeds of certain sales of our common shares, at 107.875% of the principal amount plus accrued and unpaid interest to the date of redemption.

We have a balance of $424.4 million available under our base shelf prospectus to offer at our discretion. Our base shelf prospectus will expire in December 2003.

In February 2002, by resolution of the Board of Directors we implemented a stock repurchase program pursuant to which we were able to repurchase up to 5% of our issued and outstanding common shares. In May 2002, the Board of Directors increased the amount to 10% of our issued and outstanding common shares. We repurchased an aggregate of 12,872,300 common shares under this program, through open market transactions on the New York Stock Exchange and Toronto Stock Exchange, at an average purchase price of $39.08 per share for total consideration of $503.1 million. The excess of the cost of the common shares acquired over the stated capital thereof, totaling $388.2 million, was charged to deficit. The program was terminated in July 2002.

In April 2002, we acquired a 15% equity interest in Ethypharm and we have an option to purchase up to an additional 5% interest in Ethypharm. At April 30, 2003, we had not exercised our option. We also licensed the marketing rights to six products from Ethypharm for commercialization in the United States, Canada and Mexico. We are obligated to pay Ethypharm up to $61 million in milestone payments on the first regulatory approval of the products within the United States, Canada or Mexico, as well as royalties on the net sales of the products. We have also entered into a cross-license agreement with Ethypharm whereby we grant to each other non-exclusive licenses to use our CEFORM™ technology and Ethypharm's Flashtab technology, respectively, relating to the development of new rapid dissolve pharmaceutical products. At April 30, 2003, we had not made any milestone payments to Ethypharm.

In July 2002, we acquired newly issued common shares (15% of the issued and outstanding common shares) of DepoMed and we have options to purchase up to an additional 5% interest in DepoMed. At April 30, 2003, we had not exercised any of our options. We also licensed from DepoMed the rights to manufacture and market a once-daily metformin product that is currently undergoing Phase III clinical trials.

In November 2002, together with certain of Reliant's existing lenders, we established an $85 million secured credit facility in favour of Reliant. At December 31, 2002 and March 31, 2003, we had advanced $30 million to Reliant out of our total commitment to fund up to $40 million of the credit facility. The credit facility is available to Reliant for general corporate purposes. Interest is calculated daily on outstanding advances at U.S. prime rate plus a margin of 2%. Commencing March 31, 2005, the outstanding advances are repayable in instalments with the final instalment due on December 31, 2006.

We believe we have adequate capital resources and sources of financing to support our ongoing operational and interest requirements and investment objectives, and to meet our obligations as they become due. We believe we will be able to raise additional capital, if necessary, to support our objectives; however, there can be no assurance that, if required, we would be able to raise such capital on favourable terms.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in foreign currency exchange rates, interest rates on investments and debt obligations and equity market prices on long-term investments. We currently use derivative financial instruments to manage our exposure to interest rate risk. We use derivative financial instruments as a risk management tool and not for trading or speculative purposes.

Inflation has not had a significant impact on our results of operations.

Foreign currency risk

We operate internationally but a majority of our revenue and expense activities and capital expenditures are transacted in U.S. dollars. Our only other significant transactions are in Canadian dollars, and we do not believe we have a material exposure to foreign currency risk because of the relative stability of the Canadian dollar in relation to the U.S. dollar. A 10% change in foreign currency exchange rates would not have a material effect on our consolidated results of operations, financial position or cash flows.

Interest rate risk

The primary objective of our investment policy is the protection of principal and, accordingly, we invest in high-grade government and corporate securities with varying maturities, but typically less than 90 days. External independent fund administrators manage our investments. As it is our intent and policy to hold these investments until maturity, we do not have a material exposure to interest rate risk.

We are exposed to interest rate risk on borrowings under our credit facility. Our credit facility bears interest based on LIBOR, U.S. dollar base rate, Canadian dollar prime rate or Canadian dollar BA. At our option we may lock in a rate of interest for a period of up to one year.

The imputed rates of interest used to discount our Zovirax, Vasotec® and Wellbutrin® long-term obligations are fixed and therefore not subject to interest rate risk.

The fair value of our fixed rate Notes is affected by changes in interest rates. We manage this exposure to interest rate changes through the use of interest rate swap contracts, which are recorded at fair value in our consolidated balance sheets. In June 2002, we entered into three contracts of aggregate $200 million notional amount, which effectively modifies our exposure to interest rate fluctuations by converting one-half of our fixed rate Notes to floating rate. At December 31, 2002, the carrying value and marked-to-market value of the contracts was $18.6 million in our favour, which has been recorded in other assets, and the respective offsetting fair value adjustment to the carrying value of our Notes was $15.2 million, which has been recorded in long-term obligations.

Based on our overall interest rate exposure at December 31, 2002, a 10% change in interest rates would not have a material effect on our consolidated results of operations, financial position or cash flows.

Investment risk

We are exposed to investment risks on our cost method and available-for-sale investments in other companies. The fair values of our investments are subject to significant fluctuations due to stock market volatility and changes in general economic conditions. We regularly review the carrying values of our investments and record losses when events and circumstances indicate that there have been declines in their fair values. At December 31, 2002, we had cost method investments of $72.4 million and available-for-sale investments at fair value of $6.9 million. Based on the carrying values of our available-for-sale investments at December 31, 2002, adverse changes of 25% and 50% in equity market prices would result in a corresponding decline in the total fair value of these investments of approximately $2 million and $3.5 million, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires any gain or loss on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item. We adopted SFAS No. 145 effective January 1, 2003 and, accordingly, we will reclassify the extraordinary item resulting from the extinguishment of our Senior Notes in 2000 to other expense for all comparative figures presented. The adoption of SFAS No. 145 will have no impact on our net results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that the liability should be measured initially at fair value. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Effective January 1, 2003, we will account for any exit costs or disposal activities in accordance with SFAS No. 146.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 clarifies and expands on existing disclosure requirements for a guarantor regarding its obligations under certain guarantees it has issued. FIN No. 45 also requires that the guarantor must recognize a liability for the fair value of its obligations under certain guarantees. The disclosure requirements are effective for fiscal years ending after December 15, 2002. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued after December 31, 2002. We have adopted the disclosure requirements of FIN No. 45 effective December 31, 2002, and will adopt the recognition and measurement provisions for guarantees issued after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board Opinion ("APB") No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. We have elected to continue to use the intrinsic value based method under the provisions of APB No. 25, "Accounting for Stock Issued to Employees", and have adopted the required disclosures of SFAS No. 148 effective December 31, 2002.

FORWARD-LOOKING STATEMENTS

To the extent any statements made or incorporated by reference in this MD&A contain information that is not historical, these statements are essentially forward-looking. As such, these statements are subject to risks and uncertainties, including the difficulty of predicting FDA and Canadian Therapeutic Products Programme approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new product development and launch, reliance on key strategic alliances, availability of raw materials, production interruptions or supply delays at third party suppliers or at our own manufacturing facilities, the outcome of litigation, the regulatory environment, fluctuations in operating results and other risks detailed from time to time in our filings with the SEC, including the risks set forth in Item 3 of our Annual Report on Form 20-F for the fiscal year ended December 31, 2002, and securities commissions or other securities regulatory authorities in Canada.

Management Report

The Company's management is responsible for preparing the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles ("GAAP"). In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the consolidated financial statements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded and that transactions are executed and recorded in accordance with the Company's policies for doing business. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff; and by a continuous planning and monitoring program.

Ernst & Young LLP has been engaged by the Company's shareholders to audit the consolidated financial statements. During the course of their audit, Ernst & Young LLP reviewed the Company's system of internal controls to the extent necessary to render their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out the responsibility principally through its Audit Committee. The members of the Audit Committee are outside Directors. The Committee considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors. Ernst & Young LLP has full and free access to the Audit Committee.

Management acknowledges its responsibility to provide financial information that is representative of the Company's operations, is consistent and reliable, and is relevant for the informed evaluation of the Company's activities.

The Company's Chief Executive Officer and Chief Financial Officer will be certifying the Company's annual disclosure document filed with the U.S. Securities and Exchange Commission (Form 20-F) as required by the new Sarbanes-Oxley Act in the United States.

Eugene N. Melnyk (SIGNED)
Chairman of the Board and
Chief Executive Officer

Brian H. Crombie (SIGNED)
Senior Vice President and
Chief Financial Officer

Auditors' Report

To the Shareholders of Biovail Corporation

We have audited the consolidated balance sheets of Biovail Corporation as at December 31, 2002 and 2001 and the consolidated statements of income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. 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 Canadian and United States generally accepted auditing standards. 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 December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with United States generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, during 2002 the Company changed its method of accounting for goodwill and intangible assets.

On April 9, 2003, we reported separately to the shareholders of Biovail Corporation on the consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
April 9, 2003

Ernst & Young LLP (SIGNED)
Chartered Accountants

Consolidated Balance Sheets

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in thousands of U.S. dollars]

As at December 31	**2002**	2001
ASSETS		
Current		
Cash and cash equivalents	**$ 56,080**	$ 434,891
Accounts receivable	**190,980**	96,556
Inventories	**53,047**	38,506
Deposits and prepaid expenses	**21,524**	6,643
	321,631	576,596
Long-term investments	**79,324**	2,355
Property, plant and equipment, net	**136,784**	85,581
Goodwill, net	**102,212**	96,477
Intangible assets, net	**1,080,503**	556,360
Other assets, net	**113,350**	14,114
	$ 1,833,804	$ 1,331,483
LIABILITIES		
Current		
Accounts payable	**$ 71,641**	$ 31,811
Accrued liabilities	**95,289**	59,989
Income taxes payable	**35,691**	17,318
Deferred revenue	**19,947**	27,030
Current portion of long-term obligations	**122,590**	12,592
	345,158	148,740
Deferred revenue	**18,200**	23,100
Long-term obligations	**624,760**	33,569
	988,118	205,409
SHAREHOLDERS' EQUITY		
Common shares, no par value, unlimited shares authorized,		
158,120,144 and 157,496,407 issued and outstanding at December 31, 2002 and 2001, respectively	**1,433,624**	1,407,507
Stock options outstanding	**4,856**	5,067
Executive Stock Purchase Plan loans	**(9,988)**	(9,988)
Warrants outstanding	**—**	6,221
Deficit	**(580,413)**	(280,004)
Accumulated other comprehensive loss	**(2,393)**	(2,729)
	845,686	1,126,074
	$ 1,833,804	$ 1,331,483

Commitments and contingencies [notes 3, 20, 23, 24 and 25]

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

On behalf of the Board:

Eugene N. Melnyk (SIGNED)
Chairman of the Board and
Chief Executive Officer

Paul W. Haddy (SIGNED)
Director

Consolidated Statements of Income (Loss)

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in thousands of U.S. dollars, except per share data]

Years ended December 31	**2002**	2001	2000
REVENUE			
Product sales	**$ 645,986**	$ 521,154	$ 217,004
Research and development	**28,425**	14,596	66,834
Co-promotion, royalty and licensing	**113,614**	47,513	25,332
	788,025	583,263	309,170
EXPENSES			
Cost of goods sold	**164,706**	125,995	67,980
Research and development	**52,150**	51,017	51,709
Selling, general and administrative	**165,697**	110,100	51,857
Amortization	**71,499**	44,513	7,232
Write-down of assets	**31,944**	80,482	—
Acquired research and development	**167,745**	—	208,424
	653,741	412,107	387,202
Operating income (loss)	**134,284**	171,156	(78,032)
Interest income	**3,608**	2,742	23,693
Interest expense	**(32,005)**	(36,242)	(20,738)
Other income	**3,408**	—	—
Debt conversion premiums	**—**	(34,923)	—
Income (loss) before provision for income taxes	**109,295**	102,733	(75,077)
Provision for income taxes	**21,500**	15,285	9,360
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	**87,795**	87,448	(84,437)
Extraordinary item	**—**	—	(20,039)
Income (loss) before cumulative effect of change in accounting principle	**87,795**	87,448	(104,476)
Cumulative effect of change in accounting principle	**—**	—	(43,500)
Net income (loss)	**$ 87,795**	$ 87,448	$ (147,976)
Basic earnings (loss) per share			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	**$ 0.58**	$ 0.64	$ (0.66)
Extraordinary item	**$ —**	$ —	$ (0.16)
Cumulative effect of change in accounting principle	**$ —**	$ —	$ (0.34)
Net income (loss)	**$ 0.58**	$ 0.64	$ (1.16)
Diluted earnings (loss) per share			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	**$ 0.55**	$ 0.58	$ (0.66)
Extraordinary item	**$ —**	$ —	$ (0.16)
Cumulative effect of change in accounting principle	**$ —**	$ —	$ (0.34)
Net income (loss)	**$ 0.55**	$ 0.58	$ (1.16)
Weighted average number of common shares outstanding (000s)			
Basic	**151,960**	136,928	128,824
Diluted	**160,463**	150,690	143,512

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

Consolidated Statements of Shareholders' Equity

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in thousands of U.S. dollars]

	Common shares								
	Shares [000s]	Amount	Stock options outstanding	Executive Stock Purchase Plan loans	Warrants outstanding	Warrant subscription receivable	Deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2000	124,392	$ 363,579	$ 10,383	$ —	$ 8,244	$ (2,287)	$ (113,843)	$ 1,260	$ 267,336
Issued on the exercise of stock options	2,436	17,027	(3,302)	—	—	—	—	—	13,725
Issued under									
Employee Stock Purchase Plan	5	150	—	—	—	—	—	—	150
Issued pursuant to equity offering	4,000	101,125	—	—	—	—	—	—	101,125
Issue costs	—	(5,782)	—	—	—	—	—	—	(5,782)
Issued on conversion of Convertible									
Subordinated Preferred Equivalent									
Debentures	—	15	—	—	—	—	—	—	15
Issued on exercise of warrants	601	6,342	—	—	(332)	—	—	—	6,010
Issue of non-employee options	—	—	590	—	—	—	—	—	590
Fuisz Technologies Ltd.:									
Additional shares issued on acquisition	27	386	—	—	—	—	—	—	386
DJ Pharma, Inc.:									
Fair value of unvested options									
granted to employees on acquisition	—	—	7,480	—	—	—	—	—	7,480
Unearned compensation									
relating to future service period									
at acquisition date	—	—	(5,721)	—	—	—	—	—	(5,721)
Compensation cost for									
employee stock options	—	—	461	—	—	—	—	—	461
Collection of warrant									
subscription receivable	—	—	—	—	—	2,287	—	—	2,287
	131,461	482,842	9,891	—	7,912	—	(113,843)	1,260	388,062
Net loss	—	—	—	—	—	—	(147,976)	—	(147,976)
Other comprehensive loss									
Foreign currency translation adjustment	—	—	—	—	—	—	—	(1,735)	(1,735)
Unrealized holding loss on									
long-term investments	—	—	—	—	—	—	—	(893)	(893)
Other comprehensive loss	—	—	—	—	—	—	—	(2,628)	(2,628)
Comprehensive loss									(150,604)
Balance, December 31, 2000	131,461	$ 482,842	$ 9,891	$ —	$ 7,912	$ —	$ (261,819)	$ (1,368)	$ 237,458

Consolidated Statements of Shareholders' Equity continued

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in thousands of U.S. dollars]

	Common shares								
	Shares [000s]	Amount	Stock options outstanding	Executive Stock Purchase Plan loans	Warrants outstanding	Warrant subscription receivable	Deficit	Accumulated other comprehensive income (loss)	Total
Issued on the exercise of stock options	2,906	$ 33,650	$ (4,826)	$ —	$ —	$ —	$ —	$ —	$ 28,824
Issued under Employee Stock Purchase Plan	6	280	—	—	—	—	—	—	280
Cancelled under stock repurchase program	(2,871)	(14,354)	—	—	—	—	(105,633)	—	(119,987)
Issued pursuant to equity offering	12,500	587,500	—	—	—	—	—	—	587,500
Issue costs	—	(27,454)	—	—	—	—	—	—	(27,454)
Issued on surrender and redemption of Convertible Subordinated Preferred Equivalent Debentures	10,433	314,259	—	—	—	—	—	—	314,259
Issued on exercise of warrants	3,061	30,784	—	—	(1,691)	—	—	—	29,093
Cancellation of non-employee options	—	—	(735)	—	—	—	—	—	(735)
Compensation cost for employee stock options	—	—	737	—	—	—	—	—	737
Executive Stock Purchase Plan loans	—	—	—	(9,988)	—	—	—	—	(9,988)
	157,496	1,407,507	5,067	(9,988)	6,221	—	(367,452)	(1,368)	1,039,987
Net income	—	—	—	—	—	—	87,448	—	87,448
Other comprehensive loss									
Foreign currency translation adjustment	—	—	—	—	—	—	—	(2,254)	(2,254)
Unrealized holding loss on long-term investments	—	—	—	—	—	—	—	(72)	(72)
Reclassification adjustment for loss on long-term investment included in net income	—	—	—	—	—	—	—	965	965
Other comprehensive loss	—	—	—	—	—	—	—	(1,361)	(1,361)
Comprehensive income									86,087
Balance, December 31, 2001	157,496	1,407,507	5,067	(9,988)	6,221	—	(280,004)	(2,729)	1,126,074
Issued on the exercise of stock options	2,197	21,506	(2,210)	—	—	—	—	—	19,296
Issued under Employee Stock Purchase Plan	17	463	—	—	—	—	—	—	463
Cancelled under stock repurchase program	(12,872)	(114,896)	—	—	—	—	(388,204)	—	(503,100)
Issued on exercise of warrants	11,282	119,044	—	—	(6,221)	—	—	—	112,823
Compensation cost for employee stock options	—	—	1,999	—	—	—	—	—	1,999
	158,120	1,433,624	4,856	(9,988)	—	—	(668,208)	(2,729)	757,555
Net income	—	—	—	—	—	—	87,795	—	87,795
Other comprehensive income									
Foreign currency translation adjustment	—	—	—	—	—	—	—	336	336
Other comprehensive income	—	—	—	—	—	—	—	336	336
Comprehensive income									88,131
Balance, December 31, 2002	**158,120**	**$1,433,624**	**$ 4,856**	**$ (9,988)**	**$ —**	**$ —**	**$ (580,413)**	**$ (2,393)**	**$ 845,686**

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

Consolidated Statements of Cash Flows

In accordance with U.S. generally accepted accounting principles

[All dollar amounts expressed in thousands of U.S. dollars]

Years ended December 31	**2002**	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	**$ 87,795**	$ 87,448	$ (147,976)
Add (deduct) items not involving cash			
Depreciation and amortization	**82,368**	55,287	20,988
Amortization of deferred financing costs	**2,267**	1,580	538
Amortization of discounts on long-term obligations	**5,329**	10,999	—
Compensation cost for employee stock options	**1,999**	737	461
Write-down of assets	**31,944**	80,482	—
Acquired research and development	**167,745**	—	208,424
Debt conversion premiums, net of cash paid	**—**	23,574	—
Interest paid through the issuance of common shares	**—**	1,250	—
Extraordinary item	**—**	—	20,039
Cumulative effect of change in accounting principle	**—**	—	43,500
Other	**(3,408)**	1,450	3,750
	376,039	262,807	149,724
Net change in non-cash operating items	**(41,935)**	21,314	(47,230)
Cash provided by operating activities	**334,104**	284,121	102,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets	**(375,385)**	(27,445)	(27,752)
Acquisitions of businesses, net of cash acquired	**(240,581)**	—	(622,145)
Acquisitions of long-term investments	**(85,119)**	(866)	(2,454)
Additions to property, plant and equipment	**(61,382)**	(44,436)	(15,845)
Increase in loan receivable	**(30,000)**	—	—
Proceeds on reduction in intangible assets	**—**	15,000	—
Maturity of short-term investments, net	**—**	—	65,893
Proceeds from sale of assets held for disposal	**—**	—	20,000
Cash used in investing activities	**(792,467)**	(57,747)	(582,303)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares, net of issue costs	**19,615**	589,150	109,604
Repurchase of common shares	**(503,100)**	(119,987)	—
Proceeds from exercise of warrants	**112,823**	29,093	6,010
Collection of warrant subscription receivable	**—**	—	2,287
Advance of Executive Stock Purchase Plan loans	**—**	(9,988)	—
Issuance of Senior Subordinated Notes, net of financing costs	**384,280**	—	—
Advances (repayments) under revolving term credit facility, including financing costs	**107,895**	(211,300)	207,000
Repayments of other long-term obligations	**(41,980)**	(193,366)	(45,602)
Issuance of Convertible Subordinated Preferred Equivalent Debentures, net of financing costs	**—**	—	288,772
Repurchase of U.S. Dollar Senior Notes	**—**	—	(141,017)
Cash provided by financing activities	**79,533**	83,602	427,054
Effect of exchange rate changes on cash and cash equivalents	**19**	(229)	(187)
Net increase (decrease) in cash and cash equivalents	**(378,811)**	309,747	(52,942)
Cash and cash equivalents, beginning of year	**434,891**	125,144	178,086
Cash and cash equivalents, end of year	**$ 56,080**	$ 434,891	$ 125,144

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

Notes to Consolidated Financial Statements

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

1. GOVERNING STATUTE AND NATURE OF OPERATIONS

Biovail Corporation ("Biovail" or the "Company") is incorporated under the laws of the Province of Ontario, Canada. The Company is a full-service pharmaceutical company engaged in the formulation of pharmaceutical products utilizing advanced oral drug delivery technologies, clinical testing, registration, manufacturing, sale and promotion of pharmaceutical products targeting the cardiovascular (including Type II diabetes), central nervous system, pain management and niche therapeutic areas. The Company's common shares trade on the New York Stock Exchange ("NYSE") and the Toronto Stock Exchange ("TSX").

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared by the Company in U.S. dollars and in accordance with U.S. generally accepted accounting principles ("GAAP"), applied on a consistent basis. Consolidated financial statements prepared in U.S. dollars and in accordance with Canadian GAAP are made available to all shareholders and filed with various regulatory authorities.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and those of all its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of estimates

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates made by management include allowances for accounts receivable and inventories, reserves for product returns, recalls, rebates and chargebacks, the useful lives of long-lived assets, the expected cash flows used in evaluating long-lived assets and investments for impairment, the realizability of deferred tax assets and the allocation of the purchase price of acquired assets and businesses. Actual results could differ from these estimates.

Fair value of financial instruments

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. The estimated fair values of cash equivalents, accounts receivable, accounts payable, accrued liabilities and income taxes payable approximate their carrying values due to the short maturity periods of these instruments. The fair values of long-term investments and long-term obligations are estimated based on quoted market prices, if available, or other valuation methods such as a present value technique. The fair values of derivative contracts are estimated based on the amount that would have been received or paid to settle the contracts.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of 90 days or less when purchased.

Inventories

Inventories comprise raw materials, work in process and finished goods, which are valued at the lower of cost and market, on a first-in, first-out basis. The cost of raw materials and acquired finished goods inventories includes direct costs, less trade discounts. The cost of manufactured inventory includes the cost of raw materials, direct labour and attributable overheads.

Long-term investments

Long-term investments in other companies with readily determinable market values, where the Company does not have the ability to exercise significant influence, are accounted for as being available-for-sale. These investments are reported at fair value with temporary unrealized gains and losses on these investments included in accumulated other comprehensive loss in shareholders' equity. Unrealized losses on these investments that are considered to be other than temporary are recognized in net income (loss).

Long-term investments in other companies without readily determinable market values, where the Company does not have the ability to exercise significant influence, are accounted for under the cost method. Declines in the fair value of these investments below their cost basis that are considered to be other than temporary are recognized in net income (loss).

Property, plant and equipment

Property, plant and equipment are reported at cost, less accumulated depreciation. Cost includes interest costs attributable to major capital projects prior to the assets becoming available for productive use. Depreciation is computed using the straight-line method, commencing when the assets become available for productive use, based on the following estimated useful lives:

Buildings	25 years
Machinery and equipment	5–10 years
Other equipment	3–10 years
Leasehold improvements	Term of lease

Goodwill and intangible assets

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the identifiable net assets acquired. Intangible assets acquired through business combinations are initially recognized at fair value based on an allocation of the purchase price. Intangible assets acquired other than through business combinations are initially recognized at fair value based on the consideration paid.

The Company has adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 141, all business combinations occurring after June 30, 2001 are to be accounted for under the purchase method of accounting. Under SFAS No. 142, which has been adopted effective January 1, 2002, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized, but are subject to annual impairment tests. Intangible assets with finite lives continue to be amortized over their estimated useful lives.

Effective January 1, 2002, the Company identified those intangible assets that did not meet the criteria for recognition apart from goodwill, and assessed the useful lives of its remaining intangible assets. As a result, the Company reclassified the $5,722,000 net carrying amount of workforce related intangible assets to goodwill and determined that the useful lives of its remaining intangible assets were appropriate and consistent with those useful lives identified as at December 31, 2001. During 2002, the Company completed the transitional and annual evaluation of its goodwill and determined that none of its goodwill was impaired.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

A reconciliation of reported net income (loss) and earnings (loss) per share, assuming SFAS No. 142 was applied retroactively, is as follows:

	2002	2001	2000
Net income (loss) as reported	**$ 87,795**	$ 87,448	$ (147,976)
Goodwill amortization	**—**	5,583	2,850
Workforce amortization	**—**	1,071	421
Adjusted net income (loss)	**$ 87,795**	$ 94,102	$ (144,705)
Basic earnings (loss) per share			
Net income (loss) as reported	**$ 0.58**	$ 0.64	$ (1.16)
Goodwill amortization	**$ —**	$ 0.04	$ 0.02
Workforce amortization	**$ —**	$ 0.01	$ —
Adjusted net income (loss)	**$ 0.58**	$ 0.69	$ (1.14)
Diluted earnings (loss) per share			
Net income (loss) as reported	**$ 0.55**	$ 0.58	$ (1.16)
Goodwill amortization	**$ —**	$ 0.04	$ 0.02
Workforce amortization	**$ —**	$ 0.01	$ —
Adjusted net income (loss)	**$ 0.55**	$ 0.63	$ (1.14)

Intangible assets are reported at cost, less accumulated amortization. Amortization is generally computed using the straight-line method based on the following estimated useful lives:

Brand names	20 years
Product rights	8–20 years
Core technology	15 years

The Company evaluates intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. This evaluation is performed by comparing the carrying amounts of the assets to the related estimated undiscounted future net cash flows. If the undiscounted future net cash flows are less than the carrying amount of the asset, then the carrying amount of the asset is written down to its fair value.

Deferred financing costs

Deferred financing costs are reported at cost, less accumulated amortization. Amortization is computed using the straight-line method over the term of the following related obligations:

Revolving term credit facility	3 years
Senior Subordinated Notes	8 years
Convertible Subordinated Preferred Equivalent Debentures	25 years

Amortization expense related to deferred financing costs is included as a component of interest expense.

During 2001, in connection with the surrender and redemption of the Company's 6.75% Convertible Subordinated Preferred Equivalent Debentures due March 31, 2025 ("Debentures"), as described in note 16 – Debt Conversion Premiums, the related unamortized deferred financing costs were included in the valuation of the common shares issued.

Derivative financial instruments

The Company manages its exposure to interest rate risks through the use of derivative financial instruments that are designated as a fair value hedge of an identified portion of a recognized long-term obligation. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company accounts for derivative financial instruments as either assets or liabilities at fair value. For a derivative financial instrument that is designated and qualifies as a fair value hedge, the derivative financial instrument is marked-to-market with

the gain or loss on the derivative financial instrument, and the respective offsetting loss or gain on the underlying hedged item, recognized in net income (loss). Net receipts or payments relating to the derivative financial instruments are recorded as an adjustment to interest expense.

Foreign currency translation

The financial statements of the Company's operations having a functional currency other than U.S. dollars are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date for asset and liability accounts and at the average rate of exchange for the reporting period for revenue and expense accounts. The cumulative foreign currency translation adjustment is reported as a component of accumulated other comprehensive loss in shareholders' equity. The net change in the cumulative foreign currency translation adjustment in the periods presented is primarily due to fluctuations in the exchange rates between the U.S. dollar and the Canadian dollar and the euro.

Foreign currency transaction gains and losses are included in selling, general and administrative expenses and are immaterial for all periods presented.

Revenue recognition

Effective January 1, 2000, the Company implemented the provisions of the U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Accordingly, the Company changed its method of accounting to that described below for up-front research and development, product license and certain other fees. The Company historically recognized these fees as revenue when all the conditions to payment had been met and there were no further performance contingencies or conditions to the Company's receipt of payment. These fees were not creditable against future payments. At January 1, 2000, the cumulative effect of the change in accounting principle on prior years resulted in a charge of $43,500,000, which was included in the net loss for 2000. A corresponding amount was recorded in deferred revenue, of which $4,800,000, $6,300,000 and $9,300,000 was amortized to revenue in 2002, 2001, and 2000, respectively.

Product sales – Product sales revenue is recognized when the product is shipped to the customer, provided that the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped. Revenue from product sales is recognized net of reserves for estimated sales discounts and allowances, returns, recalls, rebates and chargebacks. Amounts received from customers as prepayments for products to be shipped in the future are reported as deferred revenue.

Research and development – Research and development revenue attributable to the performance of contract services is recognized as the services are performed, in accordance with the terms of the specific development contract. On long-term research and development collaborations, revenue is recognized relative to the total level of effort necessary to meet all regulatory and developmental requirements. Costs and related profit margin in excess of amounts billed are included in accounts receivable. Amounts billed in excess of costs and related profit margin are included in deferred revenue. Non-refundable, up-front fees for access to the Company's proprietary technology in connection with certain research and development collaborations are deferred and recognized as revenue on a straight-line basis over the term of the related collaboration.

Co-promotion – Co-promotion revenue is recognized when the co-promotion partner records sales of the co-promoted product and is based on a percentage of the co-promotion partner's net sales of the co-promoted product. Sales and marketing costs related to co-promotion revenue are included in selling, general and administrative expenses.

Royalty and licensing – Royalty revenue is recognized in accordance with the contractual agreements and when the Company has no future obligations pursuant to the royalty fee. Royalty revenue is recognized net of amounts payable to sublicensees where the Company is simply acting as an agent for the sublicensee. Licensing revenue is deferred and recognized on a straight-line basis over the license period.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

Research and development

Research and development costs are expensed in the period in which they are incurred. The costs of assets that are purchased from others for a particular research and development project that have not reached technological feasibility and that have no alternative future use are expensed at the time of acquisition. The costs associated with research and development collaborations and with providing contract research services are included in research and development expenses and were $11,570,000, $7,596,000 and $41,522,000 in 2002, 2001 and 2000, respectively.

Advertising

Advertising costs related to new product launches are expensed on the first showing of the product. Deferred advertising costs of $8,866,000 are included in deposits and prepaid expenses at December 31, 2002. The Company had not deferred any advertising costs at December 31, 2001. Advertising costs expensed in 2002, 2001 and 2000 were $18,795,000, $3,957,000 and $3,434,000, respectively.

Co-promotion fees

Co-promotion fees payable by the Company to its co-promotion partner are accrued based on a percentage of the net sales of the co-promoted products. Co-promotion fees are included in selling, general and administrative expenses.

Stock-based compensation

Under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", companies can either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value based method or can continue to recognize compensation cost using the intrinsic value based method under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". However, if the provisions of APB No. 25 are applied, pro forma disclosure of net income (loss) and earnings (loss) per share must be presented in the financial statements as if the fair value method had been applied. For all periods presented, the Company recognized compensation costs under the provisions of APB No. 25 and has provided the expanded disclosure required by SFAS No. 123.

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation.

	2002	2001	2000
Net income (loss) as reported	**$ 87,795**	$ 87,448	$ (147,976)
Total stock-based compensation expense determined under fair value based method	**14,254**	12,216	16,680
Pro forma net income (loss)	**73,541**	75,232	(164,656)
Basic earnings (loss) per share			
As reported	**$ 0.58**	$ 0.64	$ (1.16)
Pro forma	**$ 0.48**	$ 0.55	$ (1.28)
Diluted earnings (loss) per share			
As reported	**$ 0.55**	$ 0.58	$ (1.16)
Pro forma	**$ 0.46**	$ 0.50	$ (1.28)

The fair values of all stock options granted during 2002, 2001 and 2000 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2002	2001	2000
Expected option life [years]	**3.8**	4.0	4.2
Volatility	**46.8%**	36.9%	41.1%
Risk-free interest rate	**4.5%**	5.2%	5.8%

The Black-Scholes model, used by the Company to calculate option values, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

Income taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the differences between the financial statement and income tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to be unrealized. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

Earnings (loss) per share

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period after giving effect to dilutive potential common shares. The dilutive effects of warrants and stock options are determined using the treasury stock method. The dilutive effects of convertible securities are determined using the if-converted method.

Comprehensive income (loss)

Comprehensive income (loss) comprises net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and unrealized holding gains and losses on available-for-sale investments. Accumulative other comprehensive loss is recorded as a component of shareholders' equity.

Recent accounting pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires any gain or loss on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item. The Company will adopt SFAS No. 145 effective January 1, 2003. The extraordinary item resulting from the extinguishment of the 10⅞% U.S. Dollar Senior Notes due November 15, 2005 ("Senior Notes") in 2000 will be reclassified as other expense for all comparative figures presented. The adoption of SFAS No. 145 will have no impact on the Company's net results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that the liability should be measured initially at fair value. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Effective January 1, 2003, the Company will account for any exit costs or disposal activities in accordance with SFAS No. 146.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 clarifies and expands on existing disclosure requirements for a guarantor regarding its obligations under certain guarantees it has issued. FIN No. 45 also requires that the guarantor must recognize a liability for the fair value of its obligations under certain guarantees. The disclosure requirements are effective for fiscal years ending after December 15, 2002. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued after December 31, 2002. The Company has adopted the disclosure requirements of FIN No. 45 effective

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

December 31, 2002, and will adopt the recognition and measurement provisions for guarantees issued after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. The Company has elected to continue to use the intrinsic value based method under the provisions of APB No. 25 and has adopted the required disclosures of SFAS No. 148 effective December 31, 2002.

3. ACQUISITIONS

Acquisitions of intangible assets

During 2002, the Company acquired the rights to Wellbutrin® and Zyban® in Canada and Vasotec®, Vaseretic®, Teveten® and Zovirax in the United States. Total consideration was allocated based on the fair values on the respective dates of acquisition as follows:

	Wellbutrin® and Zyban®	Vasotec® and Vaseretic®	Teveten®	Zovirax	**Total**
Acquired assets					
Prepaid expenses	$ 2,609	$ —	$ —	$ —	**$ 2,609**
Product rights	45,000	79,500	94,340	173,364	**392,204**
Trademarks	24,349	165,804	—	—	**190,153**
	$ 71,958	$ 245,304	$ 94,340	$ 173,364	**$ 584,966**
Consideration					
Cash paid, net of gross profit on acquired assets	$ 1,997	$ 145,684	$ 94,340	$ 133,364	**$ 375,385**
Long-term obligations	69,961	99,620	—	40,000	**209,581**
	$ 71,958	$ 245,304	$ 94,340	$ 173,364	**$ 584,966**

Wellbutrin® and Zyban®

On December 26, 2002, Biovail acquired from GlaxoSmithKline plc ("GSK") the Canadian rights to Wellbutrin® SR and Zyban®, as well as the rights to market Biovail's once-daily formulation of bupropion hydrochloride ("HCl") in Canada under the trade name Wellbutrin® XL when, and if, regulatory approval is received. Wellbutrin® SR is prescribed for the treatment of depression and Zyban® is administered for the treatment of nicotine addiction as an aid to smoking cessation. Both products are formulations of bupropion HCl. Biovail obtained the beneficial rights to Wellbutrin® and Zyban® effective December 1, 2002 and will obtain full legal rights on March 2, 2004 following the completion of the payments described below.

GSK will continue to manufacture and supply Wellbutrin® SR and Zyban® for the period from December 31, 2002 to December 31, 2006. GSK will assist in qualifying a Biovail facility to achieve the transition of the manufacturing process. GSK will also continue to market Wellbutrin® SR and Zyban® in Canada for the period from December 1, 2002 to December 31, 2003 and, in consideration, Biovail will pay GSK a tiered royalty on the net sales of the products. Biovail will also pay GSK a royalty on the net sales of Wellbutrin® XL in Canada for twenty years from the date of commercial launch of the product.

The purchase price for Wellbutrin® and Zyban® comprised initial cash consideration of $1,997,000, including costs of acquisition, plus remaining payments of $72,072,000 payable in four quarterly instalments from June 1, 2003 to March 1, 2004. The remaining payments were present valued using an imputed interest rate comparable

to Biovail's available borrowing rate at the date of the transaction. Accordingly, the present value of the remaining payments was determined to be $69,961,000.

Prepaid expenses will be amortized over the one-year period from January 1, 2003 during which GSK will market Wellbutrin® SR and Zyban® in Canada. The trademarks and product rights will be amortized over their estimated useful lives of twenty years and fifteen years, respectively. The estimated weighted average useful life of the acquired assets is approximately sixteen years.

Vasotec® and Vaseretic®

On May 10, 2002, Biovail acquired Vasotec® (enalapril) and Vaseretic® (enalapril with hydrochlorothiazide) from Merck & Co., Inc. ("Merck"), and also acquired the fixed-dose combination New Drug Application ("NDA") of enalapril in combination with diltiazem malate. The agreement calls for Merck to manufacture and supply Vasotec® and Vaseretic® and to temporarily provide distribution services. Biovail will make semi-annual payments to Merck over a five-year term for minimum product quantities and a minimum fixed royalty (regardless of the actual product supplied). Merck will also receive royalties on the future sales of any life cycle products developed and marketed in the United States.

Biovail also entered into a separate agreement with Merck to develop, license and supply a new dosage format of a Merck product under development as described in note 25 – Research and Development Collaborations.

The purchase price for Vasotec® and Vaseretic® comprised cash consideration, including costs of acquisition, of $155,634,000, less Merck's gross profit on the acquired assets from April 1, 2002 (the effective date of the transaction) to May 10, 2002 (the closing date of the transaction) of $9,950,000, plus the minimum fixed royalty payments required to be made by Biovail to Merck of $109,276,000. The minimum fixed royalty payments were present valued using an imputed interest rate comparable to Biovail's available borrowing rate at the date of the transaction. Accordingly, the present value of the minimum fixed royalty payments was determined to be $99,620,000.

The trademarks and product rights will be amortized over their estimated useful lives of twenty years and fifteen years, respectively. The estimated weighted average useful life of the acquired assets is approximately nineteen years.

A letter of credit was issued to Merck to secure the remaining semi-annual payments Biovail is required to make under the Vasotec® and Vaseretic® agreement. The letter of credit was issued under Biovail's revolving term credit facility (the "Credit Facility") and had a balance remaining of $93,170,000 as at December 31, 2002. The fees incurred to issue the letter of credit are amortized to interest expense over the related term of the letter of credit.

Teveten®

On March 18, 2002, Biovail acquired from Solvay Pharmaceuticals Marketing & Licensing AG ("Solvay") the rights to Teveten® (eprosartan mesylate) and Teveten® HCT (eprosartan mesylate and hydrochlorothiazide combination) in the United States. Teveten® is an angiotensin-II receptor blocker for the treatment of hypertension and is indicated for use either alone or in conjunction with other antihypertensive medications.

The purchase price for Teveten® comprised cash consideration of $94,340,000, including costs of acquisition. The product rights will be amortized over an estimated useful life of twenty years.

Solvay will manufacture and supply Teveten® and Teveten® HCT, and will assist in qualifying a Biovail facility to achieve the transition of the manufacturing process. Solvay will continue to manufacture and market Teveten® and Teveten® HCT in areas outside of the United States. Solvay will pay a marketing allowance to Biovail, of up to $20,000,000, to reimburse Biovail for the agreed on direct costs related to the re-launch and marketing of Teveten® and Teveten® HCT in the United States. During 2002, Biovail recorded $10,000,000 of the marketing allowance as a reimbursement of a portion of the agreed on direct costs associated with the re-launch of Teveten®. Biovail has formed a joint business development committee with Solvay to discuss future clinical and product development options that can enhance the performance or expand the utilization of Teveten®. Solvay has the option to acquire all potential future modifications and innovations developed by Biovail for Teveten® for worldwide markets excluding the United States.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

Zovirax

Effective January 1, 2002, Biovail acquired from GSK the exclusive distribution rights for Zovirax (acyclovir) Ointment and, on approval by the U.S. Food and Drug Administration ("FDA"), Zovirax Cream in the United States. Zovirax is an anti-viral topical product. Zovirax Ointment is indicated for the treatment of herpes and Zovirax Cream is indicated for the treatment of cold sores.

The purchase price for Zovirax comprised cash consideration of $133,364,000, including costs of acquisition. The product rights were being amortized over an estimated useful life of ten years, based on the original term of the distribution agreement.

Biovail and GSK also entered into a development and co-promotion agreement for Biovail's once-daily formulation of bupropion HCl in the United States ("Wellbutrin XL") as described in note 24 – Co-Promotion Arrangements. In the event of the termination of the Wellbutrin XL development agreement by either party, Biovail would be required to pay GSK additional payments for the rights to the Zovirax products of $22,000,000 per year for calendar years 2002 through 2006, with an aggregative cumulative total of all additional rights payments not to exceed $99,000,000, and for calendar years 2007 through 2011, Biovail would be required to pay GSK additional payments based on a percentage of Biovail's gross sales of the Zovirax products during the immediately preceding calendar year. GSK will manufacture and supply Zovirax Ointment and, on FDA approval, Zovirax Cream to Biovail.

On December 23, 2002, Biovail and GSK agreed to a ten-year extension of the Zovirax distribution agreement. In consideration for the extension, Biovail will pay GSK $40,000,000 on or before March 31, 2003. The amount was added to the value of the unamortized Zovirax product rights and, subsequent to the date of amendment, the Zovirax product rights will be amortized over a revised estimated remaining useful life of nineteen years.

Adalat

On December 29, 2000, Biovail and Elan agreed to certain amendments to the licensing and supply agreement for Elan's 30mg bioequivalent version of Adalat CC (as amended, the "Adalat Agreement"). Under the terms of the Adalat Agreement, Biovail was to pay Elan annual minimum license payments, exclusive of the direct manufacturing cost of the 30mg product purchased from Elan.

The minimum license payments were capitalized as a product right, with a corresponding long-term obligation to Elan. The value assigned to the product right and obligation was the present value of the minimum license payments based on an imputed interest rate comparable to Biovail's available borrowing rate as at the date of the transaction. Accordingly, the present value of the minimum license payments was determined to be $64,720,000. The product right was being amortized over its estimated useful life of fifteen years, which was the remaining initial term of the Adalat Agreement. Under the terms of the Adalat Agreement, Biovail was entitled to recover $15,000,000 in the form of a 50% reduction of the minimum license payments otherwise payable to Elan. During 2001, this amount was recorded as a reduction in intangible assets.

In October 2001, Biovail paid $12,750,000 to Elan to acquire the license to distribute Elan's 60mg bioequivalent version of Adalat CC.

In June 2002, Biovail, Elan and the U.S. Federal Trade Commission ("FTC") entered into a settlement related to bioequivalent versions of Adalat CC. Under the terms of the FTC's consent order, Biovail and Elan agreed to terminate their licensing and supply agreements such that Biovail and Elan will be responsible for the manufacturing and marketing of their own 30mg and 60mg products. Until May 31, 2003, the FTC settlement grants Biovail a guaranteed supply of the 30mg product from Elan during Biovail's transition to internal production.

In December 2002, the Company wrote off the net book value of the Adalat product rights as described in note 15 – Write-Down of Assets.

Acquisitions of businesses

During 2002, Biovail completed the acquisitions of Pharmaceutical Technologies Corporation ("Pharma Tech") and Pharma Pass LLC and Pharma Pass S.A. (collectively, "Pharma Pass"). These acquisitions were accounted for under the purchase method of accounting. Total consideration, including costs of acquisition, was allocated based on the estimated fair values on the respective dates of acquisition as follows:

	Pharma Tech	Pharma Pass	**Total**
Acquired assets			
Acquired research and development	$ 60,558	$ 107,187	**$ 167,745**
Product rights	5,000	63,800	**68,800**
Core technology	—	7,700	**7,700**
Current liabilities	(3,664)	—	**(3,664)**
Cash paid, net of cash acquired	$ 61,894	$ 178,687	**$ 240,581**

PHARMA TECH

Background

Pharma Tech is a development-stage company engaged in the application of drug delivery technologies to the formulation and development of a portfolio of products. Pharma Tech contracted directly with third parties, including Biovail, to conduct the contract research and development services. Biovail provided contract research and advisory services consistent with contractual relationships it had with other third parties. On the completion of the development of Biovail's products, Biovail had the right to manufacture and sell the products and Pharma Tech was entitled to royalties from the net sales of each product for a period of ten years from the date of launch of each product. Biovail had options to acquire Pharma Tech's interest in the products or to acquire Pharma Tech.

Prior to the acquisition, Biovail earned revenue from providing advisory and contract research services to Pharma Tech of $2,844,000 and $2,189,000 in 2002 and 2001, respectively. The costs of providing these services to Pharma Tech were $2,053,000 and $1,679,000 in 2002 and 2001, respectively, and Biovail was also reimbursed amounts at cost of $2,509,000 and $1,395,000 in 2002 and 2001, respectively.

Description of acquisition

On December 17, 2002, Biovail paid $43,080,000 to Pharma Tech to terminate the development of one of the products under development and the associated royalties on future sales of the product when, and if, approved by the FDA. At the date of termination, the product had not reached technological feasibility, had no known alternative uses and had not yet been submitted for approval by the FDA. Accordingly, the termination payment was expensed as acquired research and development. Biovail is continuing the development program for this product.

On December 31, 2002, Biovail acquired 100% of the outstanding shares of Pharma Tech for $22,600,000, including costs of acquisition. Through the acquisition of Pharma Tech, Biovail extinguished any future milestone or royalty obligations that Biovail may have had to Pharma Tech resulting from the approval and successful commercialization of any of the products under development, pursuant to the research and development agreements previously entered into between Biovail and Pharma Tech. Pharma Tech has been included in Biovail's consolidated financial statements from the date of acquisition.

The acquired assets of Pharma Tech were fair valued using an income approach. The discount rates used to present value the estimated cash flows related to each asset were determined based on the relative risk of achieving the assets' estimated cash flows and were in the range of 30% to 45%.

Acquired research and development

At the date of acquisition, Pharma Tech was involved in a number of product development projects that had not been submitted for approval by the FDA. An additional product development project has received an approvable

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

letter from the FDA; however, significant technical issues require resolution before final approval will be granted. The products under development were in various stages of completion, had not reached technological feasibility and had no known alternative uses, and were considered to be acquired research and development. The efforts required to develop the acquired research and development into commercially viable products include the completion of the development stages of the products, clinical-trial testing, FDA approval and commercialization. The principal risks relating to the products in development are the outcomes of the formulation development, clinical studies and regulatory filings. Since pharmaceutical products cannot be marketed without regulatory approvals, Biovail will not receive any benefits unless regulatory approval is obtained.

Product rights

At the date of acquisition, Pharma Tech was involved with an additional product development project that had been submitted for approval by the FDA. The product has received an approvable letter from the FDA and Biovail believes that the remaining issues can be successfully resolved and that final approval will be granted. However, since pharmaceutical products cannot be marketed without regulatory approvals, Biovail will not receive any benefits unless regulatory approval is obtained. The product rights will be amortized over an estimated useful life of fifteen years.

Pro forma information (unaudited)

The following unaudited pro forma information presents a summary of the consolidated results of operations of Biovail and Pharma Tech as if the acquisition had occurred on January 1, 2001. Included in the consolidated results for 2001 is the write-off of acquired research and development. All transactions between Biovail and Pharma Tech have been eliminated.

	2002	2001
Total revenue	**$ 778,492**	$ 579,815
Net income	**105,741**	5,411
Basic earnings per share	**$ 0.70**	$ 0.04
Diluted earnings per share	**$ 0.66**	$ 0.04

These unaudited pro forma consolidated results have been prepared for comparative purposes only. They do not purport to be indicative of the results of operations which actually would have resulted had Pharma Tech been included in Biovail's consolidated financial statements from January 1, 2001. In addition, they do not purport to be indicative of future consolidated results of operations of Biovail.

PHARMA PASS

Background

Pharma Pass is a developer of advanced oral controlled-release technologies and formulations for pharmaceutical companies, including Biovail, in Europe and the United States. On the completion of the development of Biovail's products, Biovail had the right to manufacture and sell the products and Pharma Pass was entitled to royalties from the net sales of each product for a period of fifteen years from the date of launch of each product.

Description of acquisition

On December 6, 2002, Biovail acquired 100% of the outstanding interests of Pharma Pass LLC and 100% of the outstanding shares of Pharma Pass S.A. for $178,687,000 including costs of acquisition. Through the acquisition of Pharma Pass, Biovail extinguished any future milestone or royalty obligations that Biovail may have had to Pharma Pass resulting from the approval and successful commercialization of any of the products under development, pursuant to the research and development agreements previously entered into between Biovail and Pharma Pass. Pharma Pass has been included in Biovail's consolidated financial statements from the date of acquisition.

The acquired assets of Pharma Pass were fair valued using an income approach. The discount rates used to present value the estimated cash flows related to each asset were determined based on the relative risk of achieving the assets' estimated cash flows and were generally in the range of 9% to 45%. The estimated weighted average useful life of the acquired assets is approximately four years.

Acquired research and development

At the date of acquisition, Pharma Pass was involved in approximately twenty product development projects for a number of pharmaceutical companies including Biovail. At the date of acquisition, a number of the products had been submitted for approval by the FDA. The remaining products are expected to be submitted for approval by the FDA, and/or other regulatory authorities, over approximately the next three years. The products under development were in various stages of completion, had not reached technological feasibility and had no known alternative uses, and were considered to be acquired research and development. The efforts required to develop the acquired research and development into commercially viable products include the completion of the development stages of the products, clinical-trial testing, regulatory approval and commercialization. The principal risks relating to the products in development are the outcomes of the formulation development, clinical studies and regulatory filings. Since pharmaceutical products cannot be marketed without regulatory approvals, the Company will not receive any benefits unless regulatory approval is obtained.

Product rights

Biovail obtained interests in certain licensed products including Tricor (fenofibrate) and a bioequivalent version of Prilosec (omeprazole). Biovail is entitled to royalties on sales of Tricor and a participating interest in the gross profit on sales of a bioequivalent version of Prilosec.

The interest in Tricor will be amortized over an estimated useful life of eight years. The interest in the gross profit on sales of a bioequivalent version of Prilosec will be amortized over its estimated useful life using a variable charge method to reflect the pattern in which the economic benefits of the asset are consumed. The estimated weighted average useful life for the product rights is approximately three years.

Core technology

Biovail obtained the patents related to Pharma Pass' Zero Order Release System ("ZORS"), a drug delivery technology that controls the rate of release of a drug and/or significantly enhances the systemic absorption of a drug molecule. Biovail believes the ZORS technology has application to products currently in formulation and to the future development of controlled-release products.

Biovail also obtained Pharma Pass's oral Colonic Delivery System ("CDS"), a drug delivery technology designed for the targeted release of medication into the lower intestine and upper colon. Biovail also has the option to continue the development of four products utilizing the CDS technology. Biovail will pay up to $10,000,000 in milestone fees subject to the successful completion of the development of the colonic products. Biovail will obtain ownership of the CDS patents following the net payment of $10,000,000 less the sum of the milestone fees paid.

The core technology will be amortized over an estimated useful life of fifteen years.

Pro forma information (unaudited)

The following unaudited pro forma information presents a summary of the consolidated results of operations of Biovail and Pharma Pass as if the acquisition had occurred on January 1, 2001. Included in the consolidated results for 2001 is the write-off of acquired research and development. All transactions between Biovail and Pharma Pass have been eliminated.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

	2002	2001
Total revenue	**$ 794,827**	$ 587,408
Net income (loss)	**198,004**	(19,672)
Basic earnings (loss) per share	**$ 1.30**	$ (0.14)
Diluted earnings (loss) per share	**$ 1.23**	$ (0.14)

These unaudited pro forma consolidated results have been prepared for comparative purposes only. They do not purport to be indicative of the results of operations which actually would have resulted had Pharma Pass been included in Biovail's consolidated financial statements from January 1, 2001. In addition, they do not purport to be indicative of future consolidated results of operations of Biovail.

During 2000, the Company completed the acquisitions of Intelligent Polymers Limited ("Intelligent Polymers"), the Cardizem® product line ("Cardizem®") and DJ Pharma, Inc. ("DJ Pharma"). These acquisitions were accounted for under the purchase method of accounting. Total consideration, including costs of acquisition, was allocated based on estimated fair values on the respective dates of acquisition, as follows:

	Intelligent Polymers	Cardizem®	DJ Pharma	**Total**
Acquired research and development	$ 208,424	$ —	$ —	**$ 208,424**
Current assets	3,287	—	14,705	**17,992**
Equipment	—	—	672	**672**
Deferred compensation trust fund	—	—	8,268	**8,268**
Assembled workforce	—	—	5,200	**5,200**
Brand names and product rights	5,000	406,070	130,500	**541,570**
Goodwill	—	—	70,497	**70,497**
Current liabilities	(14,270)	—	(22,844)	**(37,114)**
Deferred compensation obligation	—	—	(8,268)	**(8,268)**
Debt assumed	—	—	(34,169)	**(34,169)**
	$ 202,441	$ 406,070	$ 164,561	**$ 773,072**
Consideration				
Cash paid, net of cash acquired	$ 202,441	$ 239,652	$ 162,802	**$ 604,895**
Issue of non-employee options	—	590	—	**590**
Fair value of options granted to employees	—	—	1,759	**1,759**
Accrued acquisition costs	—	4,000	—	**4,000**
Cardizem® obligation	—	161,828	—	**161,828**
	$ 202,441	$ 406,070	$ 164,561	**$ 773,072**

INTELLIGENT POLYMERS

Background

In July 1997, Intelligent Polymers, a Bermuda corporation, was formed primarily to develop once-daily, controlled-release branded versions of selected drugs whose chemical patents and/or exclusivity periods had or were about to expire and which were marketed only in immediate-release form or in controlled-release form requiring multiple daily dosing.

In September 1997, the Company concluded a development and license agreement (the "Development Contract") and a services agreement with Intelligent Polymers, whereby the Company would develop the designated products on Intelligent Polymers' behalf.

In an initial public offering in October 1997, 3,737,500 units of Intelligent Polymers were sold to the public, resulting in net proceeds to Intelligent Polymers, after offering costs, of approximately $69,500,000. The proceeds of the offering were used by Intelligent Polymers to make payments to the Company under the Development Contract.

For the period ended September 29, 2000, payments received by the Company from Intelligent Polymers pursuant to the Development Contract were $55,200,000 and the cost of providing those services to Intelligent Polymers was $35,200,000.

The Company, as the holder of all of the issued and outstanding special shares of Intelligent Polymers, was entitled, at its sole discretion, to purchase all, but not less than all, of the outstanding common shares of Intelligent Polymers commencing on the closing date of the offering and ending on the earlier of September 30, 2002, or the 90th day after the date Intelligent Polymers provided the Company with quarterly financial statements showing cash or cash equivalents of less than $3,000,000. The purchase price calculated on a per share basis would have been as follows:

	Purchase price
Before October 1, 2000	$ 39.06
On or after October 1, 2000 and on or before September 30, 2001	48.83
On or after October 1, 2001 and on or before September 30, 2002	61.04

Description of acquisition

On September 29, 2000, the Company sold all of its interest in and to the special shares of Intelligent Polymers to IPL Acquireco 2000 Ltd., a British Virgin Islands company ("IPL Acquireco"), in exchange for 12,000 non-voting common shares of IPL Acquireco, valued at $12,000. In addition, the Company invested $141,500,000 in non-voting Class A shares of IPL Acquireco. On the same date, IPL Acquireco, as holder of the special shares of Intelligent Polymers, consummated the purchase of all the issued and outstanding common shares of Intelligent Polymers and thereby Intelligent Polymers became a wholly-owned subsidiary of IPL Acquireco. As a result of IPL Acquireco's acquisition of Intelligent Polymers, certain provisions of the Development Contract were amended such that Intelligent Polymers took over the development of the designated products, including directly contracting with, and making payments to, third parties.

The Company, as holder of all of the non-voting common shares of IPL Acquireco, was entitled, at its sole discretion, to purchase all of the voting common shares of IPL Acquireco at any time prior to October 1, 2002. IPL Acquireco had 6,500,000 voting common shares issued and outstanding.

On December 29, 2000, the Company purchased all the voting common shares of IPL Acquireco for total consideration of $6,750,000. Contemporaneously with the acquisition of IPL Acquireco, the Company repaid the bank credit facility of Intelligent Polymers, which amounted to $56,616,000. Accordingly, the total consideration for the acquisition of IPL Acquireco, including the value of the Class A and special shares, was $204,878,000. The assets, liabilities and expenses of IPL Acquireco and Intelligent Polymers have been included in the Company's consolidated financial statements from December 29, 2000.

Acquired research and development

At the date of acquisition, the products under development were in various stages of completion, had not reached technological feasibility and had no known alternative uses, and were considered to be acquired research and development. The efforts required to develop the acquired research and development into commercially viable products include the completion of the development stages of the products, clinical-trial testing, FDA approval, and commercialization. The principal risks relating to the products in development are the outcomes of the formulation development, clinical studies and regulatory filings. At the date of acquisition, none of the products had been submitted for approval by the FDA. Since pharmaceutical products cannot be marketed without regulatory approvals, the Company will not receive any benefits unless regulatory approval is obtained.

Biovail is continuing the development programs for the various products previously being developed for Intelligent Polymers. At December 31, 2002, three of these developmental programs (tramadol, metformin and buspirone) were in Phase III clinical trials and an NDA has been filed by GSK with the FDA for another (bupropion HCl) as described in note 24 – Co-Promotion Arrangements.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

Intangible asset

Intelligent Polymers had acquired as part of its development activities the rights to a cardiovascular product. This product right was included in the value of the net liabilities assumed of Intelligent Polymers. In 2001, the Company wrote off the net book value of the product right as described in note 15 – Write-Down of Assets.

CARDIZEM®

Description of acquisition

On December 28, 2000, the Company acquired the North American rights to Cardizem® from Aventis Pharmaceuticals, Inc. and its affiliates ("Aventis"). Cardizem® is a leading calcium channel blocker prescribed for the treatment of hypertension and angina. The Company acquired all of the intangible assets associated with the products including the patents, regulatory files, trademarks, manufacturing know-how, copyrights and other intellectual property. The Company obtained the beneficial rights to and the interest in Cardizem® effective December 31, 2000 and obtained full legal rights and title on December 31, 2001, following the completion of the payments described below.

The purchase price for Cardizem® was $409,500,000 in cash comprised of an initial payment of $239,500,000 and the balance of $170,000,000 payable equally over the four quarters of 2001. The remaining payments were present valued based on an imputed interest rate of approximately 8%, which was comparable to the Company's available borrowing rate as at the date of the transaction. Accordingly, the present value of the remaining payments was determined to be $161,828,000, resulting in a discount of $8,172,000. The total discounted purchase price was $406,070,000, including costs of acquisition of $4,742,000, and was allocated entirely to intangible assets. The intangible assets will be amortized over their estimated useful lives of twenty years.

Manufacturing and transitional services agreements

In connection with the acquisition, the Company entered into manufacturing and transitional services agreements with Aventis. The terms of these agreements are summarized as follows:

Aventis will manufacture and package, or cause another party to manufacture and package, Cardizem® for sale by the Company. The term of the agreement is from January 1, 2001 to December 31, 2003, with a right to extend the term at the Company's option, subject to certain conditions, if by the end of the term the Company is unable to successfully manufacture Cardizem® on its own behalf, or is unable to reach an agreement with a second source supplier. In addition to the manufacturing supply price, the Company agreed to pay additional amounts under the manufacturing agreement of $5,000,000, $3,000,000 and $2,000,000 on January 2, 2001, 2002 and 2003, respectively, which are not directly attributable to any specified manufacturing volume and are incremental to the existing fair value supply price per unit.

Aventis agreed to reimburse the Company the sum of $21,000,000 for transitional expenses incurred by the Company. During 2002 and 2001, the Company applied $4,331,000 and $11,275,000, respectively, of the sum to recompense the amounts paid under the manufacturing agreement, as described above, and the balance as a reimbursement of other incremental transitional costs incurred. The remaining $5,394,000 has been recorded in accrued liabilities and has been specifically allocated to the payment due January 2, 2003 under the manufacturing agreement and for other unconditional obligations assumed from Aventis at the time of the acquisition.

DJ PHARMA (RENAMED BIOVAIL PHARMACEUTICALS, INC.)

Description of acquisition

On October 6, 2000, the Company acquired DJ Pharma for $165,127,000, including costs of acquisition of $868,000 and the fair value of unvested DJ Pharma employee stock options. The total fair value of the unvested options granted to employees of DJ Pharma was determined to be $7,480,000, of which $1,759,000 was allocated to the purchase price, and $5,721,000 was allocated to deferred compensation, based on the ratios of the past and future service periods divided by the total service period, respectively. The assets, liabilities, revenue and expenses of DJ Pharma have been included in the Company's consolidated financial statements from October 6, 2000.

DJ Pharma was organized to market and sell patented and branded generic prescription pharmaceutical products for the treatment of respiratory and allergy conditions, and for skin and soft tissue infections. DJ Pharma obtained the rights to certain products from Dura Pharmaceuticals, Inc. and one of its subsidiaries ("Dura"). The products obtained from Dura included a patented broad-spectrum antibiotic ("Keftab") used primarily for the treatment of respiratory and skin infections developed by Eli Lilly & Company ("Lilly"); a line of prescription cough, cold and allergy branded generic products ("Dura-Vent") developed by Dura; and a line of prescription cough, cold and allergy branded generic products ("Rondec®") developed by Abbot Laboratories. DJ Pharma also had the exclusive rights to sell and market Schering Corporation's ("Schering") antibiotic Cedax in the United States. Cedax is an antibiotic indicated for the treatment of chronic bronchitis, middle ear infection and tonsillitis.

DJ Pharma had an assembled workforce mainly involved in the sales and marketing of its products.

Assembled workforce

At the acquisition date, the Company obtained the services of approximately 300 DJ Pharma employees, consisting primarily of sales account managers and representatives. The assembled workforce was fair valued using a cost approach, and was estimated to have a useful life of six years.

Effective January 1, 2002, the Company reclassified the net book value of the assembled workforce to goodwill.

Product rights

At the acquisition date, DJ Pharma had various purchase, licensing and supply agreements covering branded products and product families such as Keftab, Dura-Vent, Rondec® and Cedax. These contracts provided the Company with a stream of identifiable benefits resulting from the sale of these products. Under the agreement with Dura, DJ Pharma obtained exclusive rights to Keftab, Dura-Vent and Rondec® through to December 31, 2002, in return for payment of certain license fees based on a percentage of net sales, subject to annual minimums and maximums (the "Dura Agreement"). At the expiration of the Dura Agreement, DJ Pharma was to obtain Dura's rights to Dura-Vent worldwide, and its rights to Rondec® and Keftab within the United States. Under the agreement with Schering, DJ Pharma obtained the co-exclusive right to market Cedax in the United States. At the termination of the agreement, all rights to the product revert to Schering. The products under the license agreements were valued using an income approach, based on the present value of the incremental revenue and corresponding cash flow that could be lost in the absence of these contracts. The discount rate used was an after-tax market-derived rate of 18%. The fair value of the Keftab, Dura-Vent and Rondec® products was determined to be $96,500,000, with estimated useful lives of twenty years. The fair value of the Cedax product was determined to be $34,000,000, with an estimated useful life of ten years, based on the remaining term of the Schering agreement.

On December 27, 2000, DJ Pharma and Dura agreed to amend certain provisions of the Dura Agreement, with the effect that the second closing date under the agreement was accelerated from December 31, 2002. Consequently, DJ Pharma obtained the ownership to the Dura-Vent and Rondec® product lines, including the trademarks, regulatory history, formulations, manufacturing know-how and marketing information, and the assignment of Dura's license rights to the Keftab product line, as of the amendment date. In consideration, DJ Pharma agreed to make the maximum remaining license payments under the Dura Agreement and to settle the promissory note payable and the product acquisition notes payable to Dura plus accrued interest to the amendment date. The remaining maximum license payments amounted to $19,800,000 and have been capitalized to product rights, and the settlement of the principal plus interest due under the notes amounted to $28,100,000.

In 2001, the Company recorded a write-down of the net book values of the Keftab and Dura-Vent product rights as described in note 15 – Write-Down of Assets.

Deferred compensation

DJ Pharma initiated an Executive Deferred Compensation Plan to provide certain employees with the opportunity to supplement their retirement income through the deferral of pre-tax income. The initial funding of the plan was

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

through compensation deferrals by the plan participants. Those funds, totalling $8,268,000, were placed in trust and invested to purchase life insurance policies (recorded at the cash surrender value) in the names of each participant. The terms of the trust agreement state that the assets of the trust are available to satisfy the claims of general creditors of the company in the event of bankruptcy, thereby qualifying the trust as a rabbi trust for income tax purposes. The assets of the trust have been recorded in other assets with a corresponding amount recorded as a deferred compensation obligation in long-term obligations. Changes in the value of the assets held by the trust are recorded in net income (loss) each period, with a corresponding charge (or credit) to compensation expense, to reflect the fair value of the amount owed to the participants.

FUISZ TECHNOLOGIES LTD. (RENAMED BIOVAIL TECHNOLOGIES LTD.)

Biovail acquired Fuisz Technologies Ltd. ("Fuisz") on November 12, 1999. During 2000, Biovail paid $17,250,000 to settle a pre-acquisition contract of Fuisz. A $10,000,000 reserve for the settlement of the pre-acquisition contract was included in the determination of the net assets of Fuisz acquired. The settlement of the contract was a contingency that existed prior to the acquisition of Fuisz, and the amount of the reserve was based on the information available to Biovail at that time. Also during 2000, Biovail issued 27,000 additional common shares related to the acquisition of Fuisz with a fair value of $386,000. The excess of the cash settlement of the contract over the amount of the reserve and the issuance of the common shares resulted in an additional amount of $7,460,000 that was allocated to goodwill.

Effective January 4, 2000, Biovail entered into an agreement to sell all of the issued share capital of a subsidiary of Fuisz, Clonmel Healthcare Limited ("Clonmel"), a pharmaceutical and antibiotic manufacturer and distributor located in Ireland, for proceeds of $20,000,000. Biovail recognized no gain or loss on this transaction as Clonmel was included at its fair value in the determination of the net assets of Fuisz acquired.

4. CASH AND CASH EQUIVALENTS

	2002	2001
Cash and bank certificates of deposit	**$ 39,111**	$ 235,038
Money market funds and corporate debt securities	**16,969**	70,729
Canadian and U.S. government securities	**—**	129,124
	$ 56,080	$ 434,891

The Company invests its excess cash in high quality (investment grade 'AA' or better) government and corporate debt securities.

5. ACCOUNTS RECEIVABLE

	2002	2001
Trade (net of allowance for doubtful accounts of $3,440,000 and $7,085,000 at December 31, 2002 and 2001, respectively)	**$ 141,308**	$ 86,325
Royalties	**30,104**	6,313
Other	**19,568**	3,918
	$ 190,980	$ 96,556

The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. Four customers accounted for 53% of trade and royalties receivable at December 31, 2002, and three customers accounted for 51% of trade and royalties receivable at December 31, 2001. The Company believes that there is no unusual exposure associated with the collection of these receivables.

6. INVENTORIES

	2002	2001
Raw materials	**$ 14,949**	$ 12,110
Work in process	**11,901**	5,818
Finished goods	**26,197**	20,578
	$ 53,047	$ 38,506

7. LONG-TERM INVESTMENTS

	2002	2001
Ethypharm S.A.	**$ 67,802**	$ —
DepoMed, Inc.	**6,277**	—
Other	**5,245**	2,355
	$ 79,324	$ 2,355

Ethypharm S.A.

On April 12, 2002, Biovail invested $67,802,000, including costs of acquisition, to acquire 9,794,118 common shares (15% of the issued and outstanding common shares) of Ethypharm S.A. ("Ethypharm"). In addition, Biovail obtained a three-year option to purchase up to 4,080,882 additional common shares of Ethypharm for $6.66 per share plus 10% per annum, compounded annually. To December 31, 2002, Biovail had not exercised its option. The investment in Ethypharm is being accounted for under the cost method.

Biovail also licensed the marketing rights to six products from Ethypharm as described in note 25 – Research and Development Collaborations.

DepoMed, Inc.

On July 9, 2002, Biovail invested $13,675,000, including costs of acquisition, to acquire 2,465,878 newly issued common shares (15% of the issued and outstanding common shares) of DepoMed, Inc. ("DepoMed"). In addition, Biovail obtained a one-year option to purchase up to 821,959 additional common shares of DepoMed for $5.125 per share, subject to a termination provision if DepoMed's common stock price exceeds $6.50 per share for 20 out of 30 consecutive trading days any time after November 6, 2002. Biovail also obtained a three-year option to purchase additional common shares of DepoMed, in an amount sufficient for Biovail to increase its investment up to 20% of DepoMed's issued and outstanding common shares (calculated following the exercise of the option), for $5.00 per share plus 20% per annum, compounded monthly. To December 31, 2002, Biovail had not exercised its options.

Biovail's initial investment was allocated between the value of common shares acquired of $12,344,000 and the value of the options to purchase additional common shares of $1,331,000. The investment in DepoMed has been classified as being available-for-sale. At December 31, 2002, the fair value of the common shares, based on the quoted market price, was $6,092,000 and the fair value of the options was $185,000. In 2002, Biovail recognized an other than temporary decline in the value of the investment of $7,398,000, as described in note 15 – Write-Down of Assets.

Biovail also licensed the rights to manufacture and market a once-daily metformin HCl product as described in note 25 – Research and Development Collaborations.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

8. PROPERTY, PLANT AND EQUIPMENT

	2002		2001	
	Cost	**Accumulated depreciation**	Cost	Accumulated depreciation
Land	**$ 10,477**	**$ —**	$ 7,357	$ —
Buildings	**59,341**	**6,959**	27,154	5,116
Machinery and equipment	**62,736**	**16,920**	43,225	14,168
Other equipment and leasehold improvements	**42,401**	**14,292**	37,603	10,474
	174,955	**$ 38,171**	115,339	$ 29,758
Less accumulated depreciation	**38,171**		29,758	
	$ 136,784		$ 85,581	

At December 31, 2002 and 2001, the cost of property, plant and equipment included $54,365,000 and $24,701,000, respectively, of assets under construction, or awaiting FDA approval, and not available for productive use. Interest capitalized amounted to $513,000 and $1,089,000 in 2002 and 2001, respectively.

Depreciation expense amounted to $9,794,000, $9,386,000 and $8,096,000 in 2002, 2001 and 2000, respectively.

9. INTANGIBLE ASSETS

	2002		2001	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Brand names	**$ 596,223**	**$ 47,794**	$ 406,070	$ 20,932
Product rights	**571,105**	**55,531**	175,296	19,342
Core technology	**18,885**	**2,385**	11,185	1,639
Workforce	**—**	**—**	7,241	1,519
	1,186,213	**$ 105,710**	599,792	$ 43,432
Less accumulated amortization	**105,710**		43,432	
	$ 1,080,503		$ 556,360	

Amortization expense amounted to $72,574,000, $40,318,000 and $10,042,000 in 2002, 2001 and 2000, respectively. Estimated annual amortization expense, related to intangible assets recorded as at December 31, 2002, for each of the five succeeding years ending December 31 is as follows:

2003	$ 100,000
2004	62,000
2005	62,000
2006	62,000
2007	62,000

Product rights have an estimated weighted average useful life of approximately sixteen years. Total intangible assets have an estimated weighted average useful life of approximately eighteen years.

10. OTHER ASSETS

	2002	2001
Deferred financing costs	**$ 17,348**	$ 4,300
Less accumulated amortization	**3,536**	1,260
	13,812	3,040
Zovirax distribution agreement	**40,656**	—
Loan receivable	**30,000**	—
Interest rate swap contracts	**18,647**	—
Deferred compensation trust fund	**5,681**	6,520
Long-term receivable	**4,554**	4,554
	$ 113,350	$ 14,114

Amortization expense related to deferred financing costs amounted to $2,267,000, $1,580,000 and $538,000 in 2002, 2001 and 2000, respectively.

Zovirax distribution agreement

In consideration for several amendments to the original terms of the Zovirax distribution agreement effective October 1, 2002, Biovail will pay GSK $11,500,000 per year in four annual instalments on March 31 of each year beginning in 2004. If approval of Wellbutrin XL is not granted by the FDA by September 30, 2003, the original terms specified in the distribution agreement will once again become effective. If approval of Wellbutrin XL is not granted by the FDA by December 31, 2003, Biovail will be required to repay GSK an aggregate amount equal to the value derived from the amended terms for the period from October 1, 2002 to September 30, 2003.

The annual instalment payments were present valued using an imputed interest rate comparable to Biovail's available borrowing rate at the date of the transaction. Accordingly, the present value of the payments was determined to be $40,656,000, and the amount will be amortized over the period of benefit from the amended terms. The value derived from the amended terms for the period from October 1, 2002 to December 31, 2002 was recorded in deferred revenue at December 31, 2002 and will be amortized to revenue beginning when, and if, Wellbutrin XL is approved by the FDA.

Loan receivable

On November 13, 2002, in connection with a co-promotion agreement between Biovail and Reliant Pharmaceuticals, LLC ("Reliant"), as described in note 24 – Co-Promotion Arrangements, Biovail, together with certain of Reliant's existing lenders, established an $85,000,000 secured credit facility in favour of Reliant. Biovail has committed to fund up to $40,000,000 of the credit facility. The credit facility is available to Reliant, subject to certain financial and non-financial covenants, for general corporate purposes. The credit facility is secured by a first charge over certain property and assets of Reliant.

Interest is calculated daily on the outstanding advances at U.S. prime plus a margin of 2% and is payable in arrears on the first day of each calendar quarter. Prior to March 31, 2005, Reliant may elect to accrue but not make cash payments of interest. Such accrued interest will be added to the principal amount of the outstanding advances at March 31, 2005.

Reliant is entitled to prepay any or all of the outstanding advances at any time without penalty. Commencing March 31, 2005, Reliant is to begin repayment of the outstanding advances in eight equal quarterly instalments, with the final instalment due on December 31, 2006.

At December 31, 2002, Biovail had advanced $30,000,000 to Reliant under the credit facility.

Interest rate swap contracts

In June 2002, the Company entered into three interest rate swap contracts of aggregate $200,000,000 notional amount, which have been designated as a hedge of the 7⅞% Senior Subordinated Notes due April 1, 2010 ("Notes").

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

The interest rate swaps effectively modify the Company's exposure to interest rate fluctuations by converting the interest payable on one-half of the fixed rate Notes to a floating rate. These transactions involve the receipt of amounts based on a fixed rate of 7⅞% in exchange for floating rate interest payments, based on six-month London Interbank Offering Rate ("LIBOR") plus a spread of 2.69% to 2.99%, without an exchange of the underlying principal amount.

Due to a decline in the benchmark LIBOR rates, the marked-to-market value of the interest rate swaps at December 31, 2002 was an asset of $18,647,000 with a respective offsetting $15,239,000 fair value adjustment added to the carrying value of the Notes in long-term obligations. For the period ended December 31, 2002, the Company recognized a net gain of $3,408,000, as other income, related to the ineffective portion of the interest rate swaps.

11. ACCRUED LIABILITIES

	2002	2001
Product returns, rebates and chargebacks	**$ 42,976**	$ 27,945
Employee costs	**12,690**	9,708
Interest	**9,512**	2
Inventory	**7,974**	1,638
Cardizem® transitional expenses	**5,394**	9,725
Other	**16,743**	10,971
	$ 95,289	$ 59,989

12. DEFERRED REVENUE

	2002	2001
Up-front research and development fees	**$ 13,000**	$ 33,289
Up-front licensing fees and other	**21,559**	14,022
Customer prepayments	**3,588**	2,819
	38,147	50,130
Less current portion	**19,947**	27,030
	$ 18,200	$ 23,100

At December 31, 2001, up-front research and development fees included $11,500,000 of fees received from GSK related to the development of Wellbutrin XL, as described in note 24 – Co-Promotion Arrangements, and $6,689,000 of fees received from Pharma Tech. During 2002, these fees were recognized in research and development revenue.

13. LONG-TERM OBLIGATIONS

	2002	2001
Senior Subordinated Notes	**$ 400,000**	$ —
Unamortized discount	**(2,646)**	—
Fair value adjustment	**15,239**	—
	412,593	—
Revolving term credit facility	**110,000**	—
Zovirax obligation	**80,656**	—
Wellbutrin® obligation	**69,961**	—
Vasotec® obligation	**67,942**	—
Adalat obligation	**—**	38,626
Deferred compensation	**6,198**	7,535
	747,350	46,161
Less current portion	**122,590**	12,592
	$ 624,760	$ 33,569

Interest expense on long-term obligations amounted to $28,564,000, $20,195,000 and $3,059,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Interest expense in 2002 and 2001 included the amortization of the discounts on long-term obligations of $5,329,000 and $10,999,000, respectively.

Senior Subordinated Notes

Pursuant to a supplement to its base shelf prospectus dated March 25, 2002, the Company issued, under an indenture dated March 28, 2002, $400,000,000 aggregate principal amount of unsecured Notes. Interest on the Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The Notes were issued at a price of 99.27% of their aggregate principal amount for an effective yield, if held to maturity, of 8%. Proceeds from the issue amounted to $384,280,000, net of discount and financing costs.

At any time on or after April 1, 2006, the Company may redeem all or any of the Notes at the following prices, plus accrued and unpaid interest to the date of redemption, if redeemed during the twelve months beginning April 1 of the years indicated below:

Year	Percentage of principal amount
2006	103.938%
2007	101.969
2008 and thereafter	100.000

Before April 1, 2005, the Company may redeem up to 35% of the original principal amount of the Notes, with the net cash proceeds of certain sales of the Company's common shares, at 107.875% of the principal amount plus accrued and unpaid interest to the date of redemption.

At December 31, 2002, the aggregate market value of the Notes, based on the quoted market price, was $402,000,000.

Revolving term Credit Facility

On December 27, 2000, the Company entered into a definitive agreement with The Bank of Nova Scotia (the "Bank") for a $300,000,000 Credit Facility. The Credit Facility was fully underwritten by the Bank in anticipation of syndication by the Bank to other financial institutions (collectively, the "Lenders"). Effective June 22, 2001, the Credit Facility was increased to $400,000,000 when the Bank and the Lenders committed to portions of the Credit Facility which, in aggregate, exceeded the original commitment. Effective July 25, 2002, the Credit Facility was further increased to $600,000,000. The Credit Facility is revolving in nature for a term of 364 days and may be extended at the request of the Company and at the sole discretion of the Lenders for additional periods of up to 364 days. Such an extension was requested by the Company and agreed to by the

Lenders for the 364-day period ending December 25, 2003. If the Lenders elect not to further extend the revolving period of the Credit Facility, the Company may elect to convert amounts then outstanding to a non-revolving facility with a final maturity date two years from the then current revolving period maturity date. In this event, advances shall be repaid by equal quarterly instalments through the term period. Accordingly, the Credit Facility has been classified as a long-term obligation.

Borrowings under the Credit Facility are secured by a charge over substantially all of the assets and undertakings, including intellectual property, of the Company. The credit agreement includes certain financial and non-financial covenants. The financial covenants require the Company to meet or exceed certain minimum thresholds for shareholders' equity and interest coverage, and not to exceed a maximum threshold in respect of the ratio of debt to earnings before interest, taxes, depreciation and amortization. Non-financial covenants include, but are not limited to, restrictions on investments and dispositions, as well as capital and debt restructuring activities, exceeding established thresholds. On a change in control, the holder of the Credit Facility has the right to require the Company to settle the entire Credit Facility, plus accrued and unpaid interest at the date of settlement.

Borrowings may be by way of U.S. dollar, LIBOR or U.S. base rate advances or Canadian dollar prime rate or bankers' acceptance ("BA") advances or letters of credit. Interest is charged at the Bank's quoted rate plus a borrowing margin of 1.375% to 2% in the case of LIBOR and BA advances, and 0.375% to 1% in the case of base rate and prime rate advances, depending on the Company's credit rating at the time of such borrowing. The effective rates of interest at December 31, 2002 and 2001 were 3.74% and 3.25%, respectively.

As at December 31, 2002, the Company had advances of $110,000,000 borrowed under the Credit Facility and a letter of credit of $93,170,000 issued under the Credit Facility. The Company had a remaining balance of $396,830,000 available to borrow under the Credit Facility.

Zovirax obligation

The obligation relates to the amendments to the Zovirax distribution agreement. The non-interest bearing obligation was discounted based on an imputed interest rate of 3.74%. The payment related to the extension of the Zovirax distribution agreement of $40,000,000 is due on or before March 31, 2003. The remaining payments are payable annually in four gross instalments of $11,500,000 on March 31 of each year, beginning in 2004.

Wellbutrin® obligation

The obligation relates to the acquisition of the Canadian rights to Wellbutrin® and Zyban®. The non-interest bearing obligation was discounted based on an imputed interest rate of 3.74%. The payments are payable quarterly beginning June 1, 2003 in the following gross annual amounts: 2003 – $53,562,000; and 2004 – $18,509,000.

Vasotec® obligation

The obligation reflects the minimum fixed royalty payments assumed on the acquisition of Vasotec® and Vaseretic®. The non-interest bearing obligation was discounted based on an imputed interest rate of 5.75%. The Company has made the first two payments of $17,240,000 each. The remaining payments are payable semi-annually, on April 1 and October 1 of each year, in the following gross annual amounts: 2003 – $25,782,000; 2004 – $19,747,000; 2005 – $15,256,000; and 2006 – $14,011,000.

Adalat obligation

The obligation reflected the minimum license payments payable under the Adalat Agreement. The non-interest bearing obligation was discounted based on an imputed interest rate of approximately 8%. In December 2002, the Company wrote off the remaining Adalat obligation as described in note 15 – Write-Down of Assets.

Maturities

Aggregate maturities of long-term obligations for the years ending December 31 are as follows:

2003	$ 122,590
2004	46,034
2005	124,428
2006	24,361
2007	11,146
Thereafter	418,791
	$ 747,350

14. SHAREHOLDERS' EQUITY

Authorized and issued shares

Share offerings

In November 2001, the Company completed a share offering by issuing 12,500,000 common shares for gross proceeds of $587,500,000 less issue costs of $27,454,000.

In March 2000, concurrent with the offering of Debentures, the Company completed a share offering by issuing 4,000,000 common shares for gross proceeds of $101,125,000 less issue costs of $5,782,000.

Stock repurchase programs

In February 2002, by resolution of the Board of Directors, the Company implemented a common share repurchase program pursuant to which the Company was able to repurchase up to 5% of its issued and outstanding common shares. In May 2002, the Board of Directors increased the amount to 10% of the Company's issued and outstanding common shares. An aggregate of 12,872,300 common shares were repurchased under this program, through open market transactions on the NYSE and TSX, at an average purchase price of $39.08 per share, for total consideration of $503,100,000. The excess of the cost of the common shares acquired over the stated capital thereof, totalling $388,204,000, was charged to deficit. The program was terminated with no further common shares repurchased.

In September 2001, by resolution of the Board of Directors, the Company implemented a common share repurchase program pursuant to which the Company was able to repurchase up to $120,000,000 of its issued and outstanding common shares. In total, 2,871,200 common shares were repurchased under this program, through open market transactions on the NYSE, at an average purchase price of $41.79 per share, for total consideration of $119,987,000. The excess of the cost of the common shares acquired over the stated capital thereof, totalling $105,633,000, was charged to deficit.

Stock Option Plan

Under the Company's Stock Option Plan, as amended (the "Plan"), the Company may grant to directors, officers, employees, consultants and advisors, options to purchase common shares of the Company. The purpose of the Plan is to provide long-term incentives and rewards to the Company's directors, officers, employees, consultants and advisors. The aggregate number of shares reserved for issuance under the Plan, taking into consideration stock splits, shall not exceed 28,000,000 common shares. The number of shares reserved for issuance to any one person under the Plan, together with shares which that person may acquire under any similar plan of the Company, may not exceed 5% of the total issued and outstanding common shares. Under the Plan, the Company designates the maximum number of shares that are subject to an option. The exercise price per share of an option is the closing market price at which the common shares are traded on the NYSE on the day prior to the date the option is granted, or if not so traded, the average between the closing bid and ask prices thereof as reported for that day.

The options' vesting terms vary based on the type of options. Management options granted prior to January 1, 1999 vest as to one-third each year commencing on the first anniversary of the grant and will expire on a date not later than five years from the date of the grant.

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

Options granted after January 1, 1999 vest as follows: executive options vest pursuant to the terms and conditions of the employment agreement; special options vest on the second anniversary date of the grant; management options vest as to one-fourth each year commencing on March 1 and expire not later than seven years from the date of the grant.

The following table summarizes the Company's stock option activity for the three years ended December 31, 2002:

	Options [000s]	Weighted average exercise price
Outstanding balance, December 31, 1999	10,447	$ 10.81
Granted	2,345	27.06
Exercised	(2,436)	5.79
Forfeited	(307)	18.29
Outstanding balance, December 31, 2000	10,049	15.58
Granted	314	43.03
Exercised	(2,906)	9.92
Forfeited	(1,204)	17.69
Outstanding balance, December 31, 2001	6,253	18.53
Granted	2,068	36.84
Exercised	(2,197)	8.71
Forfeited	(199)	28.48
Outstanding balance, December 31, 2002	5,925	$ 28.23
Weighted average fair value of stock options granted during the period		$ 13.58

The following table summarizes information about options outstanding at December 31, 2002:

Range of exercise prices	Outstanding [000s]	Weighted average remaining contractual life [years]	Weighted average exercise price	Exercisable [000s]	Weighted average exercise price
$ 0.81 – $ 3.52 [1]	138	7.0	$ 3.05	93	$ 2.89
7.59 – 10.50	601	1.1	9.35	601	9.35
12.77 – 17.50	206	2.0	17.37	206	17.37
22.50 – 31.00	2,887	4.2	25.59	1,883	23.10
36.00 – 45.00	2,093	4.4	40.01	741	38.94
	5,925	4.0	$ 28.23	3,524	$ 23.22

[1] These options represent the converted DJ Pharma unvested employee stock options pursuant to the merger agreement as described in note 3 – Acquisitions.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("EPP") was approved by the shareholders at the Special Shareholders' Meeting held on January 1, 1996 and was established in 1996. The purpose of the EPP is to provide a convenient method for full-time employees of the Company to participate in the share ownership of the Company or to increase their share ownership in the Company via payroll or contractual deduction. Directors, senior officers or insiders of the Company are not eligible to participate in the EPP. The aggregate number of shares reserved for issuance under the EPP, taking into consideration stock splits, shall not exceed 1,200,000 common shares. At the discretion of a committee of the Board of Directors that administers the EPP, the Company may issue directly from treasury or purchase shares in the market from time to time to satisfy the obligations under the EPP. A participant may authorize a payroll or contractual deduction up to a maximum of 10% of the base salary or remuneration to be received during any purchase period. The purchase price shall be 90% of the fair market value per share of stock on the date on which the eligible period ends.

Executive Stock Purchase Plan

In September 2001, the Board of Directors of the Company authorized the making of loans to certain of its executive officers in order to finance the acquisition of common shares of the Company on the open market pursuant to the Company's Executive Stock Purchase Plan ("ESPP"). During October 2001, the Company made loans in an aggregate amount of $9,988,000 to those certain executive officers under the ESPP. The loans are full recourse and are secured by the common shares purchased pursuant to the loans and bear interest at a rate equal to the Company's rate for borrowings. Interest is payable quarterly in arrears. Each loan is due on the earlier of: (a) September 30, 2003; (b) 30 days following the termination or cessation of the executive officer's employment with the Company; or (c) where the executive officer disposes of common shares of the Company with a value equal to, or greater than, the loan.

Warrants outstanding

In October 1997, Intelligent Polymers completed a public offering of 3,737,500 units. Each unit comprised one common share of Intelligent Polymers and one warrant to purchase four post-split common shares of the Company. On September 30, 1999, the units separated and Intelligent Polymers' common shares and the Company's warrants traded independently of each other. The warrants were exercisable at a per share price of $10.00 from October 1, 1999 until September 30, 2002.

During 2002, substantially all of the remaining outstanding warrants were exercised, resulting in the issue of 11,282,284 common shares, on the exercise of 2,820,571 warrants, for proceeds of $112,823,000. On September 30, 2002, any remaining warrants expired.

During 2001, the Company issued 27,600 common shares, on the exercise of 6,900 warrants, for proceeds of $276,000. In addition, the Company entered into privately negotiated agreements with certain holders of its outstanding warrants. These agreements provided for the exercise of 758,300 warrants to purchase 3,033,200 common shares. As an inducement to those certain warrant holders to exercise, the Company paid such warrant holders approximately $2 per warrant exercised. In aggregate, the Company received proceeds of $28,817,000 net of the inducement cost of $1,515,000.

During 2000, the Company issued 601,000 common shares, on the exercise of 150,250 warrants, for proceeds of $6,010,000.

15. WRITE-DOWN OF ASSETS

In 2002, the Company recorded a $31,944,000 non-cash charge related to the write-down of the following assets:

As a result of the settlement reached between Biovail, Elan and the FTC with respect to the introduction of bioequivalent versions of Adalat CC, the licensing and supply agreements between Biovail and Elan were terminated. The FTC consent order effectively nullifies Biovail's long-term obligation to make the minimum license payments to Elan under the Adalat Agreement. Biovail has been in negotiations to have Elan reacquire the rights to its bioequivalent versions of Adalat CC that had been sold to Biovail. As there has been no meaningful progress to these negotiations, and as Biovail is unable to ascertain the eventual outcome of these negotiations, in December 2002 Biovail determined that the net book value of the Adalat product rights of $55,787,000, net of the corresponding long-term obligation to Elan of $33,381,000, should be written off. The Company recorded a related non-cash charge of $22,406,000.

During 2002, the Company recorded unrealized holding losses on its investment in DepoMed and other investments of $7,398,000 and $676,000, respectively, and recorded other asset write-downs of $1,464,000.

In 2001, the Company recorded an $80,482,000 non-cash charge related to the write-down of the following assets:

On March 7, 2001, Lilly announced a voluntary recall of Keftab tablets due to problems with the product's stability. Lilly is under contract with the Company to manufacture and supply the product to the Company for marketing in the United States. At December 31, 2001, the product's manufacturing problems had yet to be

resolved by Lilly. The supply interruption has resulted in a deterioration of customer awareness of the product, which would require substantial promotional efforts to restore when, and if, the product were to be re-launched. Due to these conditions that existed at December 31, 2001, the Company determined that the Keftab product right had been permanently impaired and the net book value should be written down to the estimated recoverable value of $10,000,000. The Company recorded a related non-cash charge of $54,565,000.

The Company believes Lilly is responsible for manufacturing and supplying acceptable products to Biovail, as well as for the cost of the recall. In this regard, the Company commenced a legal action against Lilly in which Biovail is seeking damages as a result of Lilly's voluntary recall of Keftab as described in note 23 – Legal Proceedings.

In November 2000, the FDA requested a voluntary recall of products containing phenylpropanolamine ("PPA"). The Company immediately stopped shipments of its Dura-Vent products containing PPA and initiated a recall of these products from wholesalers and pharmacies. During 2001, the Company experienced supply interruptions resulting from manufacturing issues associated with its remaining Dura-Vent products that did not contain PPA. Dura-Vent is manufactured and supplied to the Company by a third party. These supply interruptions have caused the Company's revenue and gross margin for the remaining Dura-Vent products to significantly deteriorate. The Company evaluated the current and forecasted market share for the products and determined that the Dura-Vent product right had been permanently impaired and the net book value should be written off. The Company recorded a related non-cash charge of $18,966,000.

During 2001, the Company determined that the intangible asset associated with the acquisition of Intelligent Polymers was no longer necessary to its development efforts and the net book value of the intangible asset should be written off. The Company recorded a related non-cash charge of $4,000,000.

During 2001, the Company recorded other asset write-downs and an unrealized holding loss on other investments of $2,951,000.

16. DEBT CONVERSION PREMIUMS

The Company issued, under an indenture dated March 22, 2000, 6,000,000 Debentures for gross proceeds of $300,000,000. After deducting financing costs of $11,228,000, the net proceeds from the issue amounted to $288,772,000. At the holders' option, the Debentures were convertible at any time into common shares of the Company at $30.337 per common share.

During 2001, the Company entered into privately negotiated agreements with certain holders of the Debentures. These agreements provided for the issuance of 6,278,663 common shares to those certain Debenture holders on their surrender of $173,845,000 aggregate principal amount of outstanding Debentures. The Company recorded a debt conversion premium of $23,682,000, which represented the market value of the additional shares issued in excess of the number of shares that would have been issued under the terms of the conversion ratio provided for in the indenture governing the Debentures. The Company also recorded an increase to common shares of $192,623,000, which included the debt conversion premium combined with the carrying value of the Debentures on the date of surrender of $168,941,000. The carrying value of the Debentures comprised the aggregate principal amount of the Debentures plus accrued and unpaid interest to the date of surrender of $1,250,000, reduced by the proportionate unamortized deferred financing costs related to the Debentures of $6,154,000.

In October 2001, the Company announced its intention to exercise its option to redeem the remaining $126,140,000 aggregate principal amount of Debentures on November 27, 2001. Prior to the redemption date, substantially all of the remaining Debentures were converted into 4,154,564 common shares of the Company. The Company recorded a debt conversion premium of $11,241,000, which represented the aggregate amount of interest that would have been paid on the Debentures from the redemption date to March 31, 2003. The Company also recorded an increase to common shares of $121,636,000 comprising the aggregate principal amount of the remaining Debentures, reduced by $108,000 aggregate principal amount of Debentures redeemed for cash on the redemption date, and the proportionate unamortized deferred financing costs related to the Debentures of $4,396,000.

17. INCOME TAXES

The components of the provision for income taxes are as follows:

	2002	2001	2000
Current			
Domestic	**$ 1,250**	$ 3,670	$ 800
Foreign	**20,250**	10,165	4,810
	21,500	13,835	5,610
Deferred			
Domestic	**—**	—	—
Foreign	**—**	1,450	3,750
	—	1,450	3,750
	$ 21,500	$ 15,285	$ 9,360

The reported provision for income taxes differs from the expected amount calculated by applying the Company's Canadian statutory rate to income (loss) before provision for income taxes. The reasons for this difference and the related tax effects are as follows:

	2002	2001	2000
Income (loss) before provision for income taxes	**$ 109,295**	$ 102,733	$ (75,077)
Expected Canadian statutory rate	**39.42%**	42.12%	44.39%
Expected provision for (recovery of) income taxes	**43,084**	43,271	(33,327)
Non-deductible amounts			
Amortization expense	**26,130**	14,600	1,265
Acquired research and development	**66,125**	—	92,519
Foreign tax rate differences	**(126,862)**	(100,619)	(58,379)
Unrecognized income tax benefit of losses	**9,347**	24,524	5,922
Increase in valuation allowance	**—**	32,236	—
Other	**3,676**	1,273	1,360
	$ 21,500	$ 15,285	$ 9,360

The Company has provided for foreign withholding taxes on the portion of undistributed earnings of foreign subsidiaries expected to be remitted.

Deferred income taxes have been provided on the following temporary differences:

	2002	2001
Deferred tax assets		
Tax loss carryforwards	**$ 68,639**	$ 40,315
Scientific Research and Experimental Development pool	**17,544**	13,881
Investment tax credits	**15,948**	12,802
Deferred financing and share issue costs	**15,573**	19,602
Reserves	**14,601**	4,372
Plant, equipment and technology	**4,819**	4,547
Intangible assets	**—**	2,889
Other	**3,378**	4,062
Total deferred tax assets	**140,502**	102,470
Less valuation allowance	**(116,521)**	(98,685)
Net deferred tax assets	**23,981**	3,785
Deferred tax liabilities		
Intangible assets	**20,958**	3,785
Other	**3,023**	—
Total deferred tax liabilities	**23,981**	3,785
Net deferred income taxes	**$ —**	$ —

The realization of deferred tax assets is dependent on the Company generating sufficient domestic and foreign taxable income in the years that the temporary differences become deductible. A valuation allowance has been provided for the portion of the deferred tax assets that the Company determined is more likely than not to be unrealized based on estimated future taxable income and tax planning strategies. During 2002 and 2001, the valuation allowance increased by $17,836,000 and $55,435,000, respectively. The increase in the valuation allowance is mainly related to accumulated tax losses and tax credit carryforwards.

At the date of acquisition of DJ Pharma, the Company recognized deferred tax liabilities of $33,903,000 and deferred tax assets of $1,011,000 for the tax consequences of differences between the assigned values and tax bases of DJ Pharma's acquired assets and liabilities, excluding goodwill. The Company also recognized the available tax benefit of previously existing U.S. federal tax loss carryforwards, through a $32,892,000 reduction in the valuation allowance, an amount equal to the net taxable temporary differences of DJ Pharma. During 2001 and 2000, the Company utilized $1,450,000 and $3,750,000, respectively, of pre-acquisition U.S. federal tax loss carryforwards of Fuisz to reduce taxes on income earned by DJ Pharma since the date of acquisition. The utilization of these loss carryforwards resulted in a corresponding reduction in the value of the Fuisz goodwill acquired.

At December 31, 2002, the Company has accumulated tax losses of approximately $32,500,000 available for federal purposes and approximately $48,900,000 available for provincial purposes in Canada, which expire from 2004 to 2009. The Company also has approximately $15,900,000 of unclaimed Canadian investment tax credits, which expire from 2003 to 2012. The losses and investment tax credits can be used to offset future years' taxable income.

In addition, the Company has pooled Scientific Research and Experimental Development expenditures amounting to approximately $58,200,000 available to offset against future years' taxable income from its Canadian operations, which may be carried forward indefinitely.

The Company has accumulated tax losses of approximately $147,900,000 for federal and state purposes in the United States, which expire from 2007 to 2022. The losses can be used to offset future years' taxable income. There may be limitations on the annual utilization of the U.S. net operating losses as a result of certain changes in ownership that have occurred.

18. EXTRAORDINARY ITEM

In March 2000, the Company repurchased all of its outstanding Senior Notes at a redemption price of 112.820% of the principal amount, plus accrued interest. The aggregate consideration paid to repurchase the Senior Notes was $141,017,000. The $16,017,000 premium paid, together with the unamortized deferred financing costs related to the Senior Notes, were classified as an extraordinary item.

19. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share were computed as follows:

	2002	2001	2000
Net income (loss)	**$ 87,795**	$ 87,448	$ (147,976)
Basic weighted average number of common shares outstanding [000s]	**151,960**	136,928	128,824
Dilutive effect of warrants and stock options [000s]	**8,503**	13,762	—
Adjusted weighted average number of common shares outstanding [000s]	**160,463**	150,690	128,824
Basic earnings (loss) per share	**$ 0.58**	$ 0.64	$ (1.16)
Diluted earnings (loss) per share	**$ 0.55**	$ 0.58	$ (1.16)

For 2000, all warrants and stock options were excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive. For all periods presented, the potential dilutive effect of warrants and stock options on the weighted average number of common shares outstanding was as follows:

	2002	2001	2000
Basic weighted average number of common shares outstanding [000s]	**151,960**	136,928	128,824
Dilutive effect of warrants [000s]	**5,992**	10,183	9,657
Dilutive effect of stock options [000s]	**2,511**	3,579	5,031
Diluted weighted average number of common shares outstanding [000s]	**160,463**	150,690	143,512

For 2001 and 2000, the Debentures were excluded from the calculation of diluted earnings (loss) per share because the effect would have been anti-dilutive.

20. OPERATING LEASES

The Company enters into operating leases for certain facilities, vehicles and equipment. Lease payments were approximately $5,000,000, $5,200,000 and $4,800,000 in 2002, 2001 and 2000, respectively.

Future minimum annual lease payments under operating leases for the years ending December 31 are as follows:

2003	$ 6,667
2004	5,820
2005	4,835
2006	2,700
2007	1,346
Thereafter	1,107

21. CASH FLOW INFORMATION

Net change in non-cash operating items

	2002	2001	2000
Accounts receivable	**$ (93,241)**	$ 4,778	$ (35,950)
Inventories	**(14,643)**	(14,341)	(3,886)
Deposits and prepaid expenses	**(12,265)**	(1,296)	(1,673)
Accounts payable	**35,717**	1,138	(5,432)
Accrued liabilities	**36,863**	24,489	(9,840)
Income taxes payable	**17,618**	10,649	3,779
Deferred revenue	**(11,984)**	(4,103)	5,772
	$ (41,935)	$ 21,314	$ (47,230)

Non-cash investing and financing activities

	2002	2001	2000
Long-term obligation related to the acquisition of Vasotec® and Vaseretic®	**$ (99,620)**	$ —	$ —
Long-term obligation related to the amendments to the Zovirax distribution agreement	**(80,656)**	—	—
Long-term obligation related to the acquisition of Wellbutrin® and Zyban®	**(69,921)**	—	—
Issuance of common shares on the surrender and redemption of Debentures	**—**	(314,259)	—
Long-term obligation related to the acquisition of Cardizem®	**—**	—	(161,828)
Accrued acquisition costs related to Cardizem®	**—**	—	(4,000)
Long-term obligation related to the Adalat Agreement	**—**	—	(58,090)
	$ (250,197)	$ (314,259)	$ (223,918)

Notes to Consolidated Financial Statements continued

In accordance with U.S. generally accepted accounting principles

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

Cash paid during the year

	2002	2001	2000
Interest paid	**$ 14,899**	$ 22,837	$ 20,546
Income taxes paid	**5,063**	4,380	1,889
Debt conversion premium paid	**—**	11,241	—

22. RELATED PARTY TRANSACTIONS

In June 2001, the Company acquired a corporate aircraft from an entity controlled by the Chairman of the Company's Board of Directors for cash consideration of $10,475,000. The exchange amount was established based on comparable market prices for the aircraft at the time of acquisition.

In March 2001, the Company loaned $600,000 to one of its executive officers. The loan is secured by a charge on the officer's personal residence. The loan does not bear interest until March 1, 2004 and thereafter bears interest at a rate equal to the Company's rate of borrowing. The loan is due on the earlier of termination of employment or March 31, 2008.

23. LEGAL PROCEEDINGS

From time to time, the Company becomes involved in various legal proceedings, which it considers to be in the ordinary course of business. The vast majority of these proceedings involve intellectual property issues that often result in patent infringement suits brought by patent holders upon the filing of Abbreviated New Drug Applications ("ANDA"). The timing of these actions is mandated by statute and may result in a delay of FDA approval for such filed ANDAs until the final resolution of such actions or the expiry of 30 months, whichever occurs earlier. There are also ordinary course employment dismissal and related issues and other types of claims in which the Company routinely becomes involved but which individually and collectively are not material.

At different times in early 1998, the Company was sued in separate lawsuits by Bayer AG and Bayer Corporation (collectively "Bayer"), as well as by Pfizer Inc. ("Pfizer"), upon the filing by Biovail of separate ANDAs for generic versions of Procardia XL and Adalat CC. These actions make the usual, technical claims of infringement. Biovail is vigorously defending these suits and is aggressively pursuing motions for summary judgment. Biovail has denied the allegations and has pleaded affirmative defenses that the patents are invalid, have not been infringed and are unenforceable. Biovail believes that Bayer/Pfizer's claims are without merit.

On April 23, 1998, Biovail filed a four-count complaint against Bayer and Pfizer seeking a declaratory judgment that their patent is invalid, unenforceable, and not infringed by Biovail's filing of the ANDAs. Biovail has also asserted that Bayer and Pfizer have violated anti-trust laws and have interfered with Biovail's prospective economic advantage. Biovail's action has been stayed until the conclusion of the patent infringement suits.

In February 2001, Biovail commenced an action against Mylan Pharmaceuticals, Inc. ("Mylan") and Pfizer claiming damages resulting from an agreement between Mylan and Pfizer that had the effect of blocking the timely marketing of Biovail's generic version of Pfizer's 30mg Procardia XL. Biovail's action alleges that in entering into, and implementing, such agreement Mylan and Pfizer contravened various statutory provisions and common law obligations. Discovery is currently underway for this action; however, a timeline for a trial has not yet been established. While Biovail believes its action is meritorious, nevertheless, it is not possible, at this early stage, to determine the quantum of damages that may be the subject of an award.

Biovail commenced an action against Mylan with respect to Mylan's breach of contract relating to its supply of generic Verelan SR obligations to the Company. This legal proceeding was completed in January 2003. Biovail was successful in the action and was awarded judgment and interest.

The Company commenced an action against Lilly in which Biovail is seeking substantial damages as a result of Lilly's voluntary recall of Biovail's product Keftab. Lilly is under contract with Biovail to manufacture and supply the product to Biovail for marketing in the United States. Lilly had forced a recall of the product because it has been unable to supply a stable product. In March 2003, Biovail settled its action with Lilly and received compensation for lost margin on Keftab sales and expenses incurred with respect to the Keftab recall.

The net recovery from the settlement of the Mylan and Lilly actions was $24,755,000 plus interest.

In February 2002, a plaintiff commenced an action against Biovail Pharmaceuticals, Inc. ("BPI") alleging personal injuries arising from her use of Dura-Vent, a product containing PPA and formerly marketed by BPI. The Company believes that this claim is without merit and, in the event the case proceeds further, it will be vigorously defended. This case has been currently stayed.

Several consumer class action Complaints have been filed against the Company in which plaintiffs have alleged that the Company has improperly impeded the approval of a generic form of Tiazac®. The Company has filed an Answer denying any impropriety or illegality. The Company believes that the complaints are without merit and that the Company's actions were in accord with its rights as contained in the Hatch-Waxman Amendments and the law. Moreover, the Company's position is that none of its actions was responsible for the inability of that product to receive final marketing approval by the FDA since a generic version of Tiazac® did not receive FDA approval for a long period of time following the removal of all legal or regulatory impediments by the Company. Indeed, that product's failure to receive timely approval was due to its own scientific issues unrelated to any regulatory action taken by the Company. The Company will vigorously defend these actions. One such action has been voluntarily discontinued.

Several consumer class action suits have recently been commenced jointly against Biovail and Elan and against Teva Pharmaceuticals USA, Inc. ("Teva") relating to an agreement between a Biovail subsidiary and Elan for Biovail's in-licensing of Adalat CC products from Elan. The agreement in question has since been dissolved as a result of a settlement agreement with the FTC. Biovail will vigorously defend these suits in due course. Biovail believes these suits are without merit, since the delay in the marketing or out-licensing of the Adalat CC product was due to the Company's inability to manufacture the product pursuant to prescribed specifications and not because of any improper activity on its part.

RhoxalPharma Inc. ("RhoxalPharma") has filed an abbreviated new drug submission ("ANDS") in Canada, seeking approval of a generic version of Tiazac®. In an attempt to comply with the Patented Medicines (Notice of Compliance) Regulations, RhoxalPharma has alleged to Health Canada that Canadian Patent No. 2,111,085, of which Biovail is the exclusive licensee, would not be infringed by the sale in Canada of RhoxalPharma's generic version of Tiazac®. RhoxalPharma served a notice of that allegation on Biovail. In response to that notice, Biovail instituted proceedings in the Federal Court of Canada in March 2002 to prohibit the issue of a Notice of Compliance (which is needed before RhoxalPharma can market its product in Canada) to RhoxalPharma until the merits of RhoxalPharma's allegations can be determined by the Federal Court. Until those proceedings are concluded, or until the expiry of 24 months after March 2002, whichever is earlier, no Notice of Compliance will be issued to RhoxalPharma.

A Certificate of Non-Infringement was served by Torpharm, Inc. ("Torpharm") on Aventis in October 2001, in respect of its filed ANDA of a generic version of Cardizem® CD (120mg, 180mg and 300mg) with the FDA. The patents against which Torpharm certified were acquired by Biovail Laboratories Incorporated ("BLI") as part of BLI's acquisition of the Cardizem® family of products. BLI has determined that Torpharm's ANDA infringes BLI's patents and a legal suit has been commenced against Torpharm, the effect of which was to trigger the Hatch-Waxman provisions. As a result, the FDA is statutorily and automatically precluded from granting approval to Torpharm until the earlier of 30 months after the filing of the legal suit, a final court decision of non-infringement or patent invalidity or a court's decision to abbreviate the 30-month stay.

A Certificate of Non-Infringement was served by Torpharm on BLI in July 2002 in respect of Torpharm's filed ANDA for a generic version of Tiazac® as marketed in the United States. BLI has made a determination that Torpharm's formulation infringes BLI's Tiazac® patent and has therefore instituted a patent infringement suit against Torpharm, pursuant to the provisions of the Hatch-Waxman Act. As a result of BLI's suit, the FDA is

statutorily and automatically precluded from granting approval to Torpharm until the earlier of 30 months after the filing of the legal suit, a final court order of non-infringement or patent invalidity, or a court decision to abbreviate the 30-month stay.

On November 22, 2002, the Company filed an action against Verum Pharmaceuticals Inc. ("Verum") and a number of its officers and employees seeking injunctive relief and damages to enjoin these Defendants from illegally and unfairly competing with Biovail in violation of the Computer Fraud and Abuse Act, 18 U.S.C. § 1030, and Defendants' contractual, statutory and common law obligations. On February 14, 2003 the Court granted the Company's injunctive motion and ordered Defendants to cease their employment with Verum and further ordered Verum to cease its operations. The Company intends to pursue its action for damages against Verum and the personal defendants.

Glaxo Group Limited and the Company entered into a Rights Agreement, dated December 1, 2002, wherein the Company acquired the exclusive marketing rights to Zyban® and Wellbutrin® SR in Canada. Novopharm Limited ("Novopharm") has filed an ANDS in Canada, seeking approval of a generic version of Wellbutrin® SR. In an attempt to comply with the Patented Medicines (Notice of Compliance) Regulations, Novopharm has alleged to Health Canada that Canadian Patent Nos. 1,321,754, 2,142,320 and 2,168,364 are invalid and, alternatively, that they would not be infringed by the sale in Canada of Novopharm's generic version of Wellbutrin® SR. Novopharm served a Notice of Allegation on GlaxoSmithKline Inc. ("Glaxo") on February 18, 2003. The Company has the exclusive right to institute, and have carriage of, patent infringement proceedings and has determined that it will pursue a Notice of Application proceeding against Novopharm. Until the legal proceedings are concluded, or until the expiry of 24 months after March 31, 2003, the date of the Notice, whichever is earlier, no Notice of Compliance will be issued to Novopharm.

A Certificate of Non-Infringement was served by KV Pharmaceutical Company ("KV") on BLI in March 2003, in respect of KV's filed ANDA for a generic version of Tiazac® 420mg, exclusively, as marketed in the United States. The Company is currently assessing the Certificate to determine whether there is infringement. In the event the Company concludes that KV's formulation infringes the Company's patents, a patent infringement suit will be commenced pursuant to the provisions of the Hatch-Waxman Act.

24. CO-PROMOTION ARRANGEMENTS

In November 2002, Biovail and Reliant entered into an agreement to co-promote Biovail's Zovirax, Teveten®, Teveten® HCT, Rondec®, Cedax and, on approval by the FDA, Cardizem® LA products. Biovail and Reliant will detail the products to physicians in the United States during the period from October 1, 2002 to December 31, 2005. In addition, Biovail will spend a minimum prescribed amount on advertising and sales promotion of the products. In consideration of Reliant's co-promotion activities under the agreement, Biovail will pay Reliant a tiered co-promotion fee based on a percentage of the quarterly net sales of the portfolio of products covered by the agreement.

Commencing on June 30, 2003, each of Biovail and Reliant has the right to terminate the agreement for any reason. In the event that either party terminates the agreement, Biovail may elect to either pay Reliant a termination fee, as defined in the agreement, or continue to pay Reliant co-promotion fees on sales of the products through to December 31, 2008. In the event that Biovail elects to continue to pay Reliant co-promotion fees, Reliant may elect to terminate the payment of the co-promotion fees on the withdrawal from the market or sale of any of the products, in which case Biovail will pay Reliant the termination fee. The agreement expires on December 31, 2008.

In October 2001, Biovail and GSK entered into a development and co-promotion agreement for Wellbutrin XL. Under the terms of the agreement, Biovail has licensed Wellbutrin XL to GSK for sale and distribution on a worldwide basis, excluding Canada. Biovail and GSK will collaborate to direct regulatory and scientific development to seek regulatory approval of Wellbutrin XL. In August 2002, GSK filed an NDA for Wellbutrin XL with the FDA. When, and if, FDA approval is received, Biovail will manufacture and supply

Wellbutrin XL to GSK for a share of the revenue generated by future sales of Wellbutrin XL. GSK and Biovail will co-promote Wellbutrin SR in the United States and Biovail will have the option to co-promote Wellbutrin XL in the United States when, and if, FDA approval is received.

In consideration for the activities undertaken by Biovail under the agreement, GSK committed to pay Biovail up to $61,500,000 in six quarterly increments. The first increment of $11,500,000, related to the development of Wellbutrin XL, was recorded in deferred revenue at December 31, 2001. During 2002, Biovail completed the development of Wellbutrin XL and recognized the first increment in research and development revenue. During 2002, Biovail received four of the remaining quarterly increments of $10,000,000 each for the co-promotion of Wellbutrin SR. The receipt of the last quarterly increment of up to $10,000,000 is dependent on Biovail performing prescribed detailing activity related to the co-promotion of Wellbutrin SR, and the amount will be determined based on a percentage of net sales of Wellbutrin SR in the United States during the first quarter of 2003.

Either Biovail or GSK may, at its option, terminate the agreement subject to certain conditions. On termination of the agreement, each party may retain any amounts paid to them, and shall pay to each other all amounts accrued which are then due. GSK will not be obligated to pay the last quarterly increment if the termination of the agreement becomes effective during the first quarter of 2003. All rights to Wellbutrin XL granted to GSK will revert to Biovail, and GSK will permit access to all regulatory data and information related to Wellbutrin and bupropion HCl, as appropriate, for the sole purpose of enabling Biovail to obtain regulatory approval for Wellbutrin XL.

25. RESEARCH AND DEVELOPMENT COLLABORATIONS

In the ordinary course of business, the Company enters into research and development collaborations with third parties to provide formulation and other services for its products under development. These collaborations target the Company's therapeutic areas of focus – cardiovascular (including Type II diabetes), pain management, central nervous system and niche opportunities, and typically include formulation and product development services being rendered by the developer. The developer may utilize its own technology, and, in other cases, the Company will allow access to its technology for the formulation and development of the product(s). In some cases, the Company has an ownership interest or an option to take an ownership position in the developer. In no case is the Company responsible for any of the developers' third party liabilities, nor has the Company guaranteed any debts, nor is the Company required under any circumstances to exercise any of its options.

These third party developers are typically compensated on the basis of fees for service, milestone payments or royalty payments from the future sales of the products under development, or some combination of these bases. In addition, in the ordinary course of business, the Company may enter into research and development collaborations with third parties whereby the Company may provide contract research, formulation development and other services to those third parties. The Company is typically compensated on the basis of fees for service, milestone payments, royalties from future sales of the product(s) or co-promotion revenue, or some combination of these bases.

In July 2002, Biovail licensed from DepoMed the rights to manufacture and market a once-daily metformin HCl product that is currently undergoing Phase III clinical trials ("metformin GR"). The license confers to Biovail the right to market metformin GR in the United States and Canada. DepoMed will be responsible for completing the clinical development program in support of metformin GR and, subject to approval by the FDA, Biovail will pay to DepoMed a $25,000,000 milestone fee as well as royalties on the net sales of the product in the United States and Canada.

In May 2002, Biovail entered into an agreement with Merck to develop, license and supply a new dosage format of a Merck product under development. Utilizing CEFORM™ technology, Biovail and Merck will conduct the development program and, subject to approval by the FDA, Biovail will manufacture and supply this new dosage format to Merck for commercialization. Biovail is entitled to receive a milestone payment on regulatory approval of $250,000 as well as royalties on the net sales of the new dosage format.

[All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data]

In April 2002, Biovail licensed the marketing rights to six products from Ethypharm for commercialization in the United States, Canada and Mexico. Biovail is obligated to pay Ethypharm up to $61,000,000 in milestone payments on the first regulatory approval of the products within the United States, Canada or Mexico, as well as royalties on the net sales of the products. Biovail has also entered into a cross-license agreement with Ethypharm, whereby the two companies grant to each other non-exclusive licenses to use Biovail's CEFORM™ technology and Ethypharm's Flashtab technology, respectively, relating to the development of new rapid dissolve pharmaceutical products. To December 31, 2002, Biovail had made no milestone payments to Ethypharm.

In January 2002, the Company acquired the exclusive marketing rights to FIBROSTAT from Procyon Biopharma Inc ("Procyon"). FIBROSTAT is a topical therapeutic for scar management. The Company will pay aggregate fees of approximately $5,100,000 to Procyon for the development of FIBROSTAT, subject to the attainment of certain milestones. On approval and commercialization of FIBROSTAT in the United States, the Company will pay a licensing fee to Procyon of approximately $3,100,000, as well as royalties based on a percentage of net sales of FIBROSTAT. To December 31, 2002, Biovail had paid no fees to Procyon.

In December 1998, the Company entered into an agreement with H. Lundbeck A/S ("Lundbeck"), for the formulation, development, manufacture and supply of a novel, controlled-release formulation of the antidepressant citalopram. Under the terms of the agreement, Lundbeck paid the Company product development fees in an aggregate amount of $8,500,000, subject to certain milestones. In 2001, the Company completed the services with respect to the final milestone and received the remaining $2,000,000 product development fee from Lundbeck. The Company received a product development fee of $1,000,000 in 2000.

26. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

In 2002, the Company, after reviewing the way that management assesses performance and makes resource decisions, determined that it operates in one operating segment – the development and commercialization of pharmaceutical products. Substantially all of the operations of the Company are directly engaged in or support this operating segment. Other operations are not material and share many of the same economic and operating characteristics as pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting.

Geographic information

	Revenue [1]			Long-lived assets [2]		
	2002	2001	2000	**2002**	2001	2000
Canada	**$ 62,848**	$ 44,705	$ 21,110	**$ 94,519**	$ 44,139	$ 49,919
United States and Puerto Rico	**713,615**	528,722	226,559	**271,122**	231,763	298,345
Barbados and other Caribbean	**9,533**	3,448	53,224	**1,039,868**	475,381	496,853
Other countries	**2,029**	6,388	8,277	**27,340**	1,249	140
	$ 788,025	$ 583,263	$ 309,170	**$ 1,432,849**	$ 752,532	$ 845,257

[1] Revenue is attributed to countries based on the location of the customer.

[2] Consists of property, plant and equipment, goodwill, intangible and other assets, net of depreciation and amortization. Property, plant and equipment are attributed to countries based on their physical location, goodwill is attributed to countries based on the location of the related acquired business, and intangible and other assets are attributed to countries based on ownership rights.

Major customers

The following table identifies external customers accounting for 10% or more of the Company's total revenue:

	Percentage of total revenue		
	2002	2001	2000
Customer A	**12%**	16%	30%
Customer B	**23**	31	30
Customer C	**11**	9	5
Customer D	**—**	—	17

27. COMPARATIVE FIGURES

Prior to 2002, the Company included co-promotion revenue as a component of product sales. In 2002, the Company reclassified co-promotion revenue from product sales to co-promotion, royalty and licensing. The reclassification of $15,984,000 and $7,992,000 of co-promotion revenue for 2001 and 2000, respectively, to conform to the presentation adopted in 2002, did not change total revenue as previously reported.

Prior to 2001, the Company included amortization expense as a component of cost of goods sold, research and development expenses, and selling, general and administrative expenses. In 2001, the Company decided to present amortization expense as an individual line item within operating expenses. The reclassification of $7,232,000 of amortization expense for 2000, to conform to the presentation adopted in 2001, did not change total operating expenses or net operating loss as previously reported.

Eight-Year Financial Summary

[All dollar amounts expressed in thousands of U.S. dollars, except per share and share price data]

	2002	2001	2000	1999	1998 [1]	1997 [1]	1996 [1]	1995 [1]
OPERATING RESULTS								
Revenue								
Product sales	**$ 645,986**	$ 521,154	$ 217,004	$ 98,029	$ 69,154	$ 50,333	$ 54,313	$ 7,915
Research and development	**28,425**	14,596	66,834	48,232	30,891	18,809	4,374	4,333
Co-promotion, royalty and licensing	**113,614**	47,513	25,332	26,203	11,612	12,487	7,743	7,396
	788,025	583,263	309,170	172,464	111,657	81,629	66,430	19,644
Expenses								
Cost of goods sold	**164,706**	125,995	67,980	35,027	28,542	16,420	21,717	2,705
Research and development	**52,150**	51,017	51,709	32,954	17,490	14,386	10,901	7,194
Selling, general and administrative	**165,697**	110,100	51,857	36,165	19,852	15,505	10,615	7,011
Amortization	**71,499**	44,513	7,232	2,789	470	204	211	181
Write-down of assets	**31,944**	80,482	—	—	—	—	—	—
Acquired research and development	**167,745**	—	208,424	105,689	—	—	—	—
	653,741	412,107	387,202	212,624	66,354	46,515	43,444	17,091
Operating income (loss)	**134,284**	171,156	(78,032)	(40,160)	45,303	35,114	22,986	2,553
Net income (loss)	**87,795**	87,448	(147,976)	(109,978)	41,577	32,822	22,664	5,870
Net income excluding certain items [2]	**284,076**	202,853	123,987	52,162	41,577	32,822	22,664	2,253
EBITDA excluding certain items [3]	**416,341**	306,925	151,380	73,716	50,177	38,271	24,953	3,791
Depreciation and amortization	**82,368**	55,287	20,988	8,187	4,829	3,157	1,967	1,238
Diluted per share data								
Net income (loss)	**$ 0.55**	$ 0.58	$ (1.16)	$ (1.07)	$ 0.38	$ 0.31	$ 0.21	$ 0.06
Net income excluding certain items [2]	**1.77**	1.35	0.86	0.48	0.38	0.31	0.21	0.02
EBITDA excluding certain items [3]	**2.59**	2.04	1.05	0.68	0.46	0.36	0.23	0.04
Depreciation and amortization	**0.51**	0.37	0.15	0.08	0.04	0.03	0.02	0.01
Weighted average number of common shares outstanding [000s]	**160,463**	150,690	143,512	108,174	108,944	106,476	107,728	106,696
FINANCIAL POSITION								
Cash and cash equivalents	**$ 56,080**	$ 434,891	$ 125,144	$ 178,086	$ 78,279	$ 8,275	$ 4,526	$ 24,323
Working capital	**(23,527)**	427,856	(25,295)	266,068	114,898	47,663	9,606	696
Total assets	**1,833,804**	1,331,483	1,107,267	467,179	198,616	93,739	58,606	60,867
Long-term obligations and Debentures	**747,350**	46,161	738,729	137,504	126,835	4,847	6,968	10,195
Shareholders' equity	**845,686**	1,126,074	237,458	267,336	49,888	75,458	36,943	14,592
Shareholders' equity excluding certain items [2]	**1,587,858**	1,671,965	667,944	425,859	46,271	71,841	33,326	10,975
COMMON SHARE PERFORMANCE								
Market capitalization	**$ 4,176,000**	$ 8,859,000	$ 5,106,000	$ 2,915,000	$ 940,000	$ 1,041,000	$ 652,000	$ 652,000
Closing share price on New York Stock Exchange	**$ 26.41**	$ 56.25	$ 38.84	$ 23.44	$ 9.45	$ 9.77	$ 6.41	$ 6.44
Closing number of common shares issued and outstanding [000s]	**158,120**	157,496	131,461	124,392	99,444	106,644	101,708	101,308
CASH FLOWS								
Operating activities	**$ 334,104**	$ 284,121	$ 102,494	$ 51,985	$ 52,394	$ 3,566	$ (5,622)	$ 31,146
Acquisitions of intangible assets	**(375,385)**	(12,445)	(27,752)	(13,340)	(19,000)	—	—	—
Acquisitions of businesses, net of cash acquired	**(240,581)**	—	(622,145)	(43,720)	—	—	—	(5,243)
Additions to property, plant and equipment	**(61,382)**	(44,436)	(15,845)	(7,759)	(3,920)	(2,664)	(6,692)	(2,642)
Net issuance (repurchase) of common shares	**(483,485)**	469,163	109,604	223,128	(68,212)	4,464	197	702
Net issuance (repurchase/repayments) of long-term obligations and Debentures	**450,195**	(404,666)	309,153	(75,212)	117,705	(1,829)	(3,177)	(441)
Net increase (decrease) in cash and cash equivalents	**(378,811)**	309,747	(52,942)	99,807	70,004	3,749	(19,797)	21,504
RATIOS								
EBITDA excluding certain items as a percentage of revenue [3]	**52.8%**	52.6%	49.0%	42.7%	44.9%	46.9%	37.6%	19.3%
Net income excluding certain items as a percentage of revenue [2]	**36.0%**	34.8%	40.1%	30.2%	37.2%	40.2%	34.1%	11.5%
Return on equity excluding certain items [2]	**17.4%**	17.3%	22.7%	22.1%	70.4%	62.4%	102.3%	24.1%
Ratio of EBITDA excluding certain items to interest expense [3]	**13.0x**	8.5x	7.3x	5.1x	21.3x	192.3x	42.2x	5.3x
Product sales growth	**24.0%**	140.2%	121.4%	41.8%	37.4%	(7.3)%	586.2%	59.1%
Revenue growth	**35.1%**	88.7%	79.3%	54.5%	36.8%	22.9%	238.2%	18.6%
HEADCOUNT								
Number of employees, end of year	**1,857**	1,425	1,200	701	489	377	315	250

[1] Data has been derived from consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles.

[2] Certain items consist of write-down of assets, acquired research and development, other income, debt conversion premiums, extraordinary item, cumulative effect of change in accounting principle, equity loss and net gains.

[3] Earnings before interest, taxes, depreciation and amortization, and excluding write-down of assets, acquired research and development, other income, debt conversion premiums, extraordinary item, cumulative effect of change in accounting principle, equity loss and net gains.

Selected Quarterly Data

[All dollar amounts expressed in thousands of U.S. dollars, except per share and share price data]

	Q1	Q2	Q3	Q4	Total
2002					
Product sales	**$ 129,854**	**$ 157,788**	**$ 174,508**	**$ 183,836**	**$ 645,986**
Revenue	**155,253**	**185,131**	**208,944**	**238,697**	**788,025**
Expenses	**98,030**	**108,744**	**120,918**	**326,049**	**653,741**
Operating income (loss)	**57,223**	**76,387**	**88,026**	**(87,352)**	**134,284**
Net income (loss)	**53,051**	**62,557**	**74,977**	**(102,790)**	**87,795**
Net income excluding certain items [1]	**53,051**	**62,623**	**73,037**	**95,365**	**284,076**
EBITDA excluding certain items [2]	**72,327**	**93,308**	**107,755**	**142,951**	**416,341**
Depreciation and amortization	**15,104**	**16,921**	**18,360**	**31,983**	**82,368**
Diluted per share data					
Net income (loss)	**$ 0.32**	**$ 0.39**	**$ 0.49**	**$ (0.65)**	**$ 0.55**
Net income excluding certain items [1]	**0.32**	**0.39**	**0.47**	**0.60**	**1.77**
EBITDA excluding certain items [2]	**0.43**	**0.58**	**0.70**	**0.90**	**2.59**
Depreciation and amortization	**0.09**	**0.10**	**0.12**	**0.20**	**0.51**
Weighted average number of common shares outstanding [000s]	**166,493**	**161,423**	**154,016**	**158,099**	**160,463**
Common share price [3]					
High	**$ 56.40**	**$ 52.05**	**$ 30.63**	**$ 35.22**	**$ 56.40**
Low	**40.11**	**26.00**	**19.90**	**23.52**	**19.90**
2001					
Product sales	$ 108,861	$ 121,938	$ 132,676	$ 157,679	$ 521,154
Revenue	119,227	133,504	152,190	178,342	583,263
Expenses	74,839	76,372	86,168	174,728	412,107
Operating income	44,388	57,132	66,022	3,614	171,156
Net income (loss)	29,166	44,103	33,101	(18,922)	87,448
Net income excluding certain items [1]	29,166	44,103	55,832	73,752	202,853
EBITDA excluding certain items [2]	57,447	70,725	79,941	98,812	306,925
Depreciation and amortization	13,059	13,593	13,919	14,716	55,287
Diluted per share data					
Net income (loss)	$ 0.20	$ 0.30	$ 0.22	$ (0.13)	$ 0.58
Net income excluding certain items [1]	0.20	0.30	0.37	0.46	1.35
EBITDA excluding certain items [2]	0.39	0.48	0.52	0.62	2.04
Depreciation and amortization	0.09	0.09	0.09	0.09	0.37
Weighted average number of common shares outstanding [000s]	148,084	147,933	152,428	159,478	150,690
Common share price [3]					
High	$ 47.70	$ 45.10	$ 48.45	$ 57.18	$ 57.18
Low	29.03	29.10	37.70	44.46	29.03

[1] Certain items consist of write-down of assets, acquired research and development, other income and debt conversion premiums.

[2] Earnings before interest, taxes, depreciation and amortization, and excluding write-down of assets, acquired research and development, other income and debt conversion premiums.

[3] High and low per share sales prices on the New York Stock Exchange.

Board of Directors and Officers

BOARD OF DIRECTORS

Eugene N. Melnyk
Chairman of the Board
and Chief Executive Officer,
Biovail Corporation

Rolf K. Reininghaus
Senior Vice President,
Corporate and Strategic Development,
Biovail Corporation

Roger Rowan[1]
President and Chief Operating Officer,
Watt Carmichael Inc.

Wilfred Bristow[2, 3]
Vice President,
Nesbitt Burns Inc.

Paul W. Haddy[1]
Chairman and Chief Executive Officer,
London Life Bank & Trust Corporation

Laurence E. Paul, M.D.[1, 2, 3]
Managing Principal,
Laurel Crown Capital, LLC

Sheldon Plener[2, 3]
Senior Partner,
Cassels Brock & Blackwell LLP

CORPORATE OFFICERS

Eugene N. Melnyk
Chairman of the Board and
Chief Executive Officer

Brian H. Crombie
Senior Vice President and
Chief Financial Officer

Kenneth C. Cancellara, Q.C.
Senior Vice President,
Chief Legal Officer and
Corporate Secretary

Rolf K. Reininghaus
Senior Vice President,
Corporate and Strategic Development

Kenneth G. Howling
Vice President, Finance

John R. Miszuk
Vice President, Controller &
Assistant Secretary

Kristine Peterson
Senior Vice President,
Commercial Operations

Gregory J. Szpunar
Senior Vice President,
Research and Development and
Chief Scientific Officer

[1] Audit Committee
[2] Nominating and Governance Committee
[3] Compensation Committee

Corporate Governance

In 2002, Biovail instituted a sweeping review of its corporate governance practices. While in the past Biovail had complied with all relevant regulatory regimes with respect to corporate governance, in light of certain changes to the regulatory framework, most particularly the implementation of the Sarbanes-Oxley Act in the United States, Biovail's Board of Directors believed it was in the best interest of the company and its shareholders to reassess and improve existing corporate governance policies.

The result of this review was the implementation of new policies reflecting best practices with respect to all areas of corporate governance. In addition to the existing Audit Committee, whose mandate was refined, Biovail created a charter for the Board of Directors, a Nominating and Governance Committee, a Compensation Committee and an Executive Committee.

Shareholder Information

HEAD OFFICE

Biovail Corporation
7150 Mississauga Road
Mississauga, Ontario
Canada L5N 8M5

MANUFACTURING FACILITIES

Steinbach, Manitoba
Carolina, Puerto Rico
Dorado, Puerto Rico
Chantilly, Virginia

RESEARCH AND DEVELOPMENT FACILITIES

Dublin, Ireland
Toronto, Ontario
Chantilly, Virginia

SALES AND MARKETING OPERATIONS

Biovail Pharmaceuticals Canada
7150 Mississauga Road
Mississauga, Ontario
Canada L5N 8M5

Biovail Pharmaceuticals Inc.
170 Southport Drive
Morrisville, NC 27560

AUDITORS

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP
Toronto, Ontario

Cahill, Gordon & Reindel LLP
New York, New York

REGISTRARS AND TRANSFER AGENTS

CIBC Mellon Trust Company
Toronto, Canada

Mellon Investor Services LLC
New York, New York

THE ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held at 10:00 a.m.
Friday, June 20, 2003
Toronto Stock Exchange Theatre
130 King Street West
Toronto, Ontario M5X 1J2

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange

New York Stock Exchange

TRADING SYMBOLS:

Common Shares: BVF

SHARES OUTSTANDING AT DECEMBER 31, 2002

158,120,144

HOW TO REACH US FOR MORE INFORMATION

For additional copies of this report, the annual report on Form 20-F as filed with the United States Securities and Exchange Commission, quarterly reports or for further information, please contact Investor Relations.

Mail
Biovail Corporation
7150 Mississauga Road
Mississauga, Ontario
Canada L5N 8M5

Phone
(905) 286-3000

Fax
(905) 286-3050

E-mail
ir@biovail.com

Website
www.biovail.com

DESIGN: BRYAN MILLS GROUP WWW.BRYANMILLS.COM

7150 Mississauga Road,
Mississauga, Ontario L5N 8M5
www.biovail.com