Prospectus
March 17, 2000

Biovail Corporation
U.S.$300,000,000
6.75% Convertible Subordinated Preferred Equivalent Debentures due March 31, 2025
(U.S.$50 principal amount per security)

The Company:

- We are an international, fully-integrated pharmaceutical company that specializes in the development, manufacture, marketing and licensing of drugs utilizing advanced controlled-release, rapid dissolve, enhanced absorption and taste masking technologies.
- Biovail Corporation
  2488 Dunwin Drive
  Mississauga, Ontario
  Canada L5L 1J9
  (416) 285-6000
- **NYSE and TSE symbol for our common shares: BVF**

The Offering:

- The Convertible Subordinated Preferred Equivalent Debentures (the "**Securities**") are convertible subordinated debentures bearing an interest rate, payable in U.S. dollars, of 6.75% per year.
- The underwriters have the option to purchase an additional U.S.$45,000,000 aggregate principal amount of Securities to cover over-allotments, if any.
- There is no existing trading market for the Securities. The Securities have been approved for listing on the NYSE under the symbol "BVF Pr", subject to official notice of issuance.
- Closing: March 22, 2000.
- We plan to use the proceeds of this offering and a concurrent offering of our common shares to repurchase our outstanding 10⅞% Senior Notes due 2005. We will use the remaining proceeds for working capital and other general corporate purposes, which may include the acquisition of products or technologies.
- Interest Deferral Option: we have the right, at any time and from time to time, to defer payment of interest on the Securities by extending the interest payment period up to 20 consecutive quarters.
- Conversion Price: U.S.$60.675 per common share (equal to an initial conversion ratio of .8241 common shares per Security, subject to adjustment).
- Conversion Right: convertible at any time into our common shares at the applicable conversion price.
- Optional Redemption: beginning on March 31, 2003, we may redeem the Securities, in whole or in part, at any time (except during an interest deferral period) at the redemption prices stated herein, plus accrued and unpaid interest.
- Special Redemption: we may redeem the Securities, in whole or in part, at a redemption price of 106.75%, plus accrued and unpaid interest, at any time and from time to time (except during an interest deferral period) prior to March 31, 2003, if the trading price for our common shares equals or exceeds U.S.$91.01 per share on the NYSE for a specified period. Additional payments will also be made by us to the holders if we exercise our redemption rights under the foregoing circumstances, whether or not the holders convert.
- Tax Redemption: we may redeem the Securities, in whole and not in part, at any time (except during an interest deferral period) upon the occurrence of certain tax events at a redemption price equal to 100% of the principal amount of the Securities plus accrued and unpaid interest.
- Concurrently with this offering and by a separate prospectus, we are offering 2,000,000 of our common shares. Completion of the common share offering is not a condition to the completion of this offering.

	Per Security	Total
Public offering price:	U.S.$50.00	U.S.$300,000,000
Underwriting fees:	U.S.$ 1.50	U.S.$ 9,000,000
Proceeds to Company:	U.S.$48.50	U.S.$291,000,000

This investment involves risk. See "Risk Factors" beginning on page 10.

These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Commission or any state securities commission passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

We are permitted to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with Canadian generally accepted accounting principles. As a result, they may be subject to Canadian auditing and auditor independence standards and may not be comparable to financial statements of United States companies.

Owning the Securities may subject you to tax consequences both in the United States and in Canada. You should read the section entitled "Taxation." This prospectus may not fully describe these tax consequences.

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because (1) we are organized under the laws of Canada, (2) some or all of our officers and directors and some or all of the underwriters or experts named in this prospectus may be residents of a foreign country, and (3) all or a substantial portion of our assets and the assets of our officers and directors and the underwriters and experts may be located outside the United States.

Donaldson, Lufkin & Jenrette

Merrill Lynch & Co.

Morgan Stanley Dean Witter

TABLE OF CONTENTS

The Securities have not been and will not be qualified for public distribution under the securities laws of any province or territory of Canada. The Securities are not being, and may not be, offered or sold, directly or indirectly, in Canada or to or for the benefit of any resident of Canada in violation of the securities laws of Canada or any province or territory of Canada.

CURRENCY TRANSLATION

We report our financial statements in U.S. dollars, while the currency of measurement for our operations varies depending upon location. Unless otherwise indicated, references to dollars, "**U.S.$**" or "**$**" are to U.S. dollars and references to "**Cdn$**" are to Canadian dollars.

TRADEMARKS

Biovail, the Biovail word logo, Tiazac®, Viazem and Crystaal are all trademarks of Biovail which are registered in Canada, the United States and/or other jurisdictions. Intelligent Polymers is a trademark of Intelligent Polymers Limited, a Bermuda corporation ("**Intelligent Polymers**"). CEFORM®, Shearform® and Flash Dose® are registered trademarks of Biovail Technologies Ltd. ("**Biovail Technologies**").

All other product names referred to in this document are the property of their respective owners.

SUMMARY

The following is a summary of the more detailed information appearing elsewhere in this prospectus and in the documents incorporated herein by reference. You should read the entire prospectus, including "Risk Factors" and the financial statements (including all of the notes). Unless the context otherwise requires, "we," "us," "our" and similar terms, as well as references to "Biovail" or the "Company," include all of our predecessor companies and all of our consolidated subsidiaries. Unless we indicate otherwise, the information contained in this prospectus assumes the underwriters will not exercise their over-allotment option. Unless we state otherwise, information in this prospectus has been adjusted to give retroactive effect to a two-for-one stock split that was effected by articles of amendment dated December 31, 1999. Unless we state otherwise, we have used reports from IMS America, Ltd., a widely accepted provider of on-line database information services specializing in medical research information, as our source for all market and market share data.

BIOVAIL

We are an international, fully-integrated pharmaceutical company specializing in the development of drugs utilizing advanced controlled-release, rapid dissolve, enhanced absorption and taste masking technologies. Our proprietary technologies are used to develop products which are either (1) generically equivalent to existing once-daily branded products or (2) branded products that improve upon conventional multiple daily dose immediate-release forms of existing products by providing the therapeutic benefits of controlled-release drug delivery. As a fully-integrated company, we control all facets of the drug development process from formulation development to clinical testing, manufacturing and obtaining regulatory approval. This integrated approach results in operational synergies, flexibility and cost efficiencies. In Canada, we market our products directly, while in the rest of the world we market our products through strategic licensing partners. We do not engage in basic research to discover new chemical entities **("NCEs")**.

For the year ended December 31, 1999, our revenues came from the following areas:

- 14.0% from developing and licensing oral controlled-release products using our proprietary drug delivery technologies;
- 56.4% from manufacturing such products for sale to licensees and wholesalers and from direct marketing of proprietary and in-licensed products in Canada; and
- 29.6% from providing pharmaceutical contract research services to Intelligent Polymers and other third parties.

For the year ended December 31, 1999, our revenues were $176.5 million, our net income was $62.5 million and our earnings per share were $1.22.

In the past, we licensed our controlled-release products early in the development cycle to pharmaceutical companies who developed, manufactured and sold our products in a number of international markets. Today, we develop, manufacture, market and out-license our own products once they have reached an advanced state of development. We have developed fifteen products that we sell under license in more than 55 countries. We manufacture four of these products, Tiazac® and generic versions of Trental, Cardizem CD and Voltaren XR, for sale by our licensees in the United States and Europe. We also market a generic version of Verelan under agreements with Mylan Pharmaceuticals Inc. ("**Mylan**"), pending final regulatory approval of our product. Tiazac® is sold in Canada by our Crystaal marketing division ("**Crystaal**"). Tiazac® is currently our principal product, representing approximately 43.8% of our revenues for the year ended December 31, 1999. See "Business—Licensed and Marketed Products—Tiazac®."

Biovail Corporation was established under the Business Corporations Act (Ontario) on March 29, 1994 as a result of the amalgamation of Trimel Corporation and its then subsidiary, Biovail Corporation International. The head and principal office of Biovail is located at 2488 Dunwin Drive, Mississauga, Ontario L5L 1J9, telephone (416) 285-6000.

Industry

We believe that the total prescription drug market in the United States was approximately $106 billion for the twelve months ended September 30, 1999, while the oral controlled-release segment of this market was approximately $7.9 billion for that period. There are approximately 60 controlled-release branded products that have been approved for sale in the United States by the Food and Drug Administration (the "**FDA**"). By the end of 2000, the patents and exclusivity periods will have expired on 95% of these products. Because of the significant technological barriers associated with the development of controlled-release drugs, fewer controlled-release generic products have been introduced than immediate-release generic products.

Controlled-release products are formulations which release bio-active drug substances in the body gradually and predictably over a 12 to 24 hour period and which therefore only need to be taken once or twice daily. Controlled-release products typically provide numerous benefits over immediate-release drugs, including (1) greater effectiveness in the treatment of chronic conditions due to a more consistent delivery of medication over time; (2) reduced side effects; (3) greater convenience (only taken once or twice a day); and (4) higher levels of patient compliance due to a simplified dosing schedule.

Products

We develop two categories of controlled-release products. The first category includes generic controlled-release and rapid dissolve versions of major brand name drugs which are already available in a once-daily dose. The second category includes branded controlled-release once-daily versions of existing multi-dose products. The following table lists our branded drugs and our generic versions of branded drugs of others, each of which we currently license to others or market or are developing:

	Branded		**Generic Versions of**
Marketed Products	Tiazac® Oruvail Norpace Theo-24 Isoket Retard Elantan Long	Sirdalud CR Gastro-Timelets Novagent Beta-Timelets Tiamon Mono Regenon Retard	Cardizem CD Trental Verelan(1) Voltaren XR
Pipeline Products	*Under Development:* Bupropion Buspirone(2) Metformin Tramadol Citalopram		*Approved by FDA:* Adalat CC(3) *Filed with FDA:* Verelan(1) Procardia XL(4) Dilacor XR *Under Development:* Controlled Release: four products Rapid Dissolve: six products

(1) We are marketing Mylan's version of this product pending final regulatory approval of our product. See "Business—Generic Product Pipeline—Generic Version of Verelan."

(2) We recently initiated Phase III clinical trials for our controlled-release formulation of buspirone.

(3) We have received tentative approval from the FDA for this product. See "Business—Generic Product Pipeline—Generic Version of Adalat CC."

(4) We acquired this product from Intelligent Polymers in December 1999.

Generic Products

A "generic" pharmaceutical product is a copy of a branded product whose chemical patent or exclusivity period has expired. The FDA will approve a generic version of a branded product only after bioequivalence to the original branded product has been established. Bioequivalence means that the generic product produces the same rate of release and concentration of the drug in the blood over time as the original branded product. If the generic product is bioequivalent to the reference product, it can be substituted by pharmacists for the reference branded product prescribed by physicians. Increasingly, pharmacists are substituting generic products for branded products because generic products are generally sold at a discount to the corresponding branded product. Although discounted relative to branded products, controlled-release generic products have not typically been subject to the deep price discounts of immediate-release generics. Generic substitution is commonly required by managed care organizations ("**MCOs**"), health maintenance organizations ("**HMOs**") and other third-party payors.

We currently sell generic versions of Trental, Cardizem CD and Voltaren XR through a licensee and a generic version of Verelan through agreements with Mylan. As of September 30, 1999, these four drugs, including generics, accounted for aggregate U.S. sales of approximately $1.0 billion. See "Business—Generic Product Pipeline—Generic Version of Verelan." In addition, we are developing fourteen generic controlled-release and rapid dissolve versions of major brand name drugs and have filed applications with the FDA in respect of four of these versions (including Verelan). These products are used in the treatment of chronic cardiovascular disorders. We have received tentative FDA approval for one of these four (Adalat CC). The three filed products awaiting approval are generic formulations of Verelan, Procardia XL and Dilacor XR, all of which are calcium channel blockers used for the treatment of hypertension and/or angina. Historically, the FDA reviews and approves these generic products in an average twenty-four month timeframe, unless the generic filer is subject to patent infringement litigation by the innovator, in which case the FDA is precluded from approving the product until the earlier of the end of a thirty-month period or resolution of the patent infringement litigation. The branded versions of our four generic pipeline drugs which have been filed with the FDA had aggregate U.S. sales of approximately $1.1 billion for the twelve months ended September 30, 1999. See "Business—Generic Product Pipeline."

Currently Marketed Brand Name	Filing Date	Indication	Total U.S. Product Sales (in millions)
Verelan(1)	1997	angina, hypertension	$ 91(2)
Procardia XL(3)	1998	angina, hypertension	539
Adalat CC(4)	1998	hypertension	372
Dilacor XR	1998	angina, hypertension	115(2)

(1) We are marketing this product under agreement with Mylan. See "Business—Generic Product Pipeline—Generic Version of Verelan."

(2) Includes generic versions.

(3) We acquired this product from Intelligent Polymers in December 1999.

(4) We have received tentative approval from the FDA for this product. See "Business—Generic Product Pipeline—Generic Version of Adalat CC."

Branded Products

Our "branded" pharmaceutical products include the same basic chemical compounds as the original branded products combined with our controlled-release technology. We currently sell through licensees twelve branded controlled-release products (of which Tiazac® is currently our principal product and one which we manufacture for our licensee). We are working to develop, on behalf of Intelligent Polymers, once-daily controlled-release branded versions of the compounds in the following table (other than citalopram), whose

chemical patents and/or exclusivity periods have or are about to expire. These five drugs (including citalopram) had aggregate U.S. sales of approximately $2.9 billion for the twelve months ended September 30, 1999.

Compound	Currently Marketed Brand Name	U.S. Marketer	Indication	Total U.S. Product Sales (in millions)
Bupropion	Wellbutrin/Zyban	Glaxo Wellcome	depression, smoking cessation	$700
Buspirone	Buspar	Bristol-Myers Squibb	anxiety, depression	512
Metformin	Glucophage	Bristol-Myers Squibb	diabetes	978
Tramadol	Ultram	Johnson & Johnson	chronic pain	434
Citalopram	Celexa	Forest	depression	239(1)

(1) Product sales from October 1998 (when the product was launched in the United States) to September 30, 1999.

In addition, we have an agreement with H. Lundbeck A/S of Copenhagen, Denmark ("**Lundbeck**") for the development of a novel controlled-release formulation of the anti-depressant citalopram. See "Business—Branded Product Pipeline."

Branded products are subject to approval by the FDA on the basis of more extensive regulatory requirements than those for generic products. Once such products are approved, they may be marketed as distinct brands in competition for doctors' prescriptions against other brand name products.

Technology

We have six proprietary drug delivery technologies that enable us to apply controlled-release, rapid dissolve, enhanced absorption, and taste masking attributes to a wide range of products. By combining these technologies, we can develop drugs that offer significant benefits relative to our competitors' drugs, thereby allowing us to provide an improved and differentiated product offering. In certain instances, our technologies also enable us to develop smaller capsule sizes and a wider range of dosage strengths than our competitors' drugs.

We have used our proprietary technologies to develop fifteen products (not including Verelan) that are currently marketed and the thirteen controlled-release products and six rapid dissolve products that are currently in our development pipeline (including the three generic products awaiting FDA approval). With the addition of the proprietary technologies that we recently acquired, we believe we have a number of attractive market opportunities for new products and customer segments. In addition, we believe that combining these technologies may provide an opportunity to significantly extend product life cycles by mitigating the threat of generics.

Rapid Dissolve

Rapid dissolve formulations contain the same basic chemical compound found in original branded products. The drug compounds are encapsulated in microspheres utilizing our CEFORM® technology. See "Business—Technology—CEFORM®." The microspheres are nearly perfectly spherical in shape and allow for high drug content.

Depending on the desired release characteristics and oral dosage formula, CEFORM® microspheres can be formulated for controlled-release, enhanced absorption and taste masking capabilities. Enhanced absorption allows the drug to be absorbed faster and more efficiently by the body. Taste masking and taste isolation prevents a bitter tasting drug or burning sensation from occurring by stopping raw drug from touching the tongue or mouth.

Our Shearform® technology is used to produce matrices that are subsequently processed into amorphous fibers which, when blended with the CEFORM® microspheres, are compressed into rapid dissolve formulations, including Flash Dose® tablets. See "Business—Technology—Shearform®."

Although the Flash Dose® tablet looks like a regular tablet, it readily dissolves with or without water after being placed in the mouth and releases the drug contained in the microspheres. The benefits of rapid dissolve

formulations include the ease of administration for the elderly, young children or people with disease states who may have difficulty swallowing tablets or capsules. We are currently working on six rapid dissolve formulations.

Intelligent Polymers

We believe there is a significant opportunity for us to develop and commercialize branded once-daily controlled-release versions of products which (1) are currently available only in immediate-release form or (2) are currently available in a controlled-release form which requires multiple daily dosing. To take advantage of this opportunity, we formed and entered into contractual relationships with Intelligent Polymers in 1997. Intelligent Polymers became a public company in October 1997 through a $75 million initial public offering of 100% of its common stock. We own 100% of the special shares of Intelligent Polymers, which allows us, at any time prior to October 2002, to buy all of its common shares from the public with cash, our stock or a combination of both. Under an agreement with Intelligent Polymers, we agreed to develop certain branded products on its behalf in addition to a generic version of Procardia XL, which we acquired from Intelligent Polymers in December 1999. See "Business—Branded Product Pipeline." We perform all of Intelligent Polymers' research and other activities.

Crystaal

Our marketing division, Crystaal, performs sales and marketing activities in Canada for our products as well as for products licensed from third parties. Crystaal is dedicated to providing high quality, cost effective branded pharmaceuticals to Canadian health care professionals and their patients. Crystaal's product portfolio strategy is to focus on drugs for the primary care market, therapies for the acute care market and drugs for the treatment of central nervous system and neurological disorders. All three areas represent rapidly growing market segments. We believe our strategy of acquiring exclusive licenses from third parties to sell branded drug products, combined with our portfolio of existing and future controlled-release branded products, provides Crystaal with an opportunity to become a significant marketing presence in the Canadian market.

Contract Research Division

We also have a full-service Contract Research Division ("**CRD**") which provides clinical research and laboratory testing services for our product development projects and for third-party international and domestic pharmaceutical companies. The CRD includes a full-service bioanalytical laboratory which performs specialized bioanalytical and quality control testing and method development as well as other laboratory services. The CRD can also provide support services to its clients in the area of quality control. The CRD operates in facilities that include a fully equipped bioanalytical laboratory, a department of biopharmaceutics and statistical analysis and a live-in 200-bed study clinic.

Strategic Investments

We intend to selectively pursue strategic investments and alliances with small to medium-sized pharmaceutical companies that require additional capital to sustain specific NCE projects in the advanced stages of development as well as to fund the completion of development of novel products utilizing advanced drug delivery systems. In exchange for our investments, we expect to acquire various rights, options and licenses with respect to the manufacturing and marketing of drugs and technologies derived from these projects.

THE OFFERING

Issue	$300,000,000 of 6.75% Convertible Subordinated Preferred Equivalent Debentures due March 31, 2025. We have granted the underwriters an option, exercisable within 30 days after the date of this prospectus, to purchase up to an additional $45,000,000 of the Securities to cover over-allotments, if any. The Securities will be issued in fully-registered form only in denominations of $50 and integral multiples thereof.
Maturity	March 31, 2025.
Interest Payment Dates	March 31, June 30, September 30 and December 31 of each year, commencing June 30, 2000, subject to our right to defer payment of interest as described below.
Ranking	The Securities will be unsecured convertible subordinated debentures, and will be subordinated and junior in right of payment to all of our present and future Senior Indebtedness (as defined in this prospectus). The Securities will also be effectively subordinate to all present and future indebtedness and other liabilities of our subsidiaries, except to the extent we are a creditor of our subsidiaries ranking at least *pari passu* with such other creditors. As of December 31, 1999, after giving effect to the application of the net proceeds of this offering and the concurrent offering of our common shares, we (excluding our subsidiaries) had approximately $1.7 million of Senior Indebtedness (assuming the purchase of all our outstanding 10⅞% Senior Notes due 2005 (the "**Senior Notes**") and excluding hedging obligations and undrawn letters of credit) outstanding. As of December 31, 1999, our subsidiaries had approximately $54.0 million of liabilities (excluding intercompany liabilities and liabilities (the "**Clonmel Liabilities**") of Clonmel Healthcare Limited ("**Clonmel**"), a subsidiary which is expected to be sold prior to completion of this offering and a related term loan of approximately $10.8 million (the "**Clonmel Loan**"), which has been repaid). The Securities do not limit our ability or the ability of our subsidiaries to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Securities.
Interest Deferral	We have the right, at any time and from time to time, subject to certain conditions, to defer payment of interest on the Securities by extending the interest payment period on the Securities for up to 20 consecutive quarterly periods, provided that we may not defer payments beyond the stated maturity of the Securities. Except in certain limited circumstances described herein, we are not permitted to pay or declare dividends on any of our capital stock (except by way of stock dividend) at any time when any interest on the Securities is either in default or is being deferred as described in this prospectus. There may be multiple deferral periods of varying lengths, each of up to 20 consecutive quarterly periods, throughout the term of the Securities. During any deferral period, interest will accrue and will compound quarterly. We may satisfy our obligation to pay deferred interest on any date on which interest is normally due by delivering Shares (as defined in this prospectus) to the Trustee, in which event the holders of the Securities

	shall be entitled to receive cash payments equal to the deferred interest from the proceeds of the sale of the requisite Shares by the Trustee. See "Description of the Securities—Option to Extend Interest Payment Periods" and "—Share Payment Election." Holders of the Securities will not, however, receive any Shares in satisfaction of our obligation to pay such deferred interest.
Conversion into Common Shares	Each Security is convertible at any time prior to the close of business on the Business Day (as defined in this prospectus) prior to maturity at the option of the holder into our common shares at $60.675 per common share (equal to an initial conversion ratio of .8241 common shares per Security, subject to adjustment). Such conversion rights may be terminated in certain circumstances. See "Description of Securities—Conversion Rights."
Optional Redemption	Except in the circumstances described below, we will not be able to redeem the Securities prior to March 31, 2003. Beginning on March 31, 2003, we will have the option to redeem the Securities, in whole or in part, at any time and from time to time (except during an interest deferral period), at the redemption prices specified in this prospectus plus accrued and unpaid interest thereon to the date of the redemption. See "Description of the Securities—Optional Redemption." We may satisfy our obligation to pay the applicable redemption price or the principal amount of the Securities plus accrued and unpaid interest thereon on the applicable payment date by delivering Shares to the Trustee (as defined in this prospectus), in which event the holders of the Securities shall be entitled to receive cash payments equal to the applicable redemption price or the principal amount of the Securities plus accrued and unpaid interest thereon, as the case may be, from the proceeds of the sale of the requisite Shares by the Trustee. See "Description of the Securities—Share Payment Election." Holders of the Securities will not, however, be entitled to receive any Shares in satisfaction of our obligation to pay the applicable redemption price or the principal amount of the Securities plus accrued and unpaid interest thereon.
Special Redemption	We may redeem the Securities, in whole or in part, at a redemption price of 106.75% of the principal amount thereof plus accrued and unpaid interest, at any time and from time to time (except during an interest deferral period), prior to March 31, 2003, if the trading price of our common shares equals or exceeds $91.01 per share for a specified trading period. We will also make additional payments to the holders if we exercise the redemption rights under the foregoing circumstances, whether or not the holders convert. See "Description of the Securities—Special Redemption."
Tax Redemption	We will have the option to redeem the Securities, in whole but not in part, at any time (except during an interest deferral period) upon the occurrence of a Redemption Tax Event (as defined in this prospectus) at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. See "Description of the Securities—Redemption for Changes in Canadian Tax Law."
Additional Amounts	All payments we make with respect to the Securities will be made without withholding or deduction for Canadian Taxes (as defined in

	this prospectus) unless we are legally required to do so, in which case we will pay such additional amounts as may be necessary so that the net amount received by holders of the Securities (other than certain excluded holders) after such withholding or deduction will not be less than the amount that would have been received in the absence of such withholding or deduction. See "Description of the Securities—Canadian Withholding Taxes."
Sinking Fund	None.
Concurrent Offering	Concurrently with this offering of Securities, we are offering a total of 2,000,000 of our common shares, assuming the underwriters' over-allotment option is not exercised. The closing of this offering is not contingent upon the closing of the common share offering.
Use of Proceeds	The net proceeds from the sale of the Securities and our concurrent common share offering will be used to fund the repurchase of our outstanding Senior Notes pursuant to an offer we are currently making for all those Senior Notes. Our offer to purchase the Senior Notes will be consummated if a majority (more than $62.5 million in principal amount) of the Senior Notes are tendered. We will use the remaining net proceeds for working capital and other general corporate purposes, which may include the acquisition of products or technologies. Pending application for these purposes, the net proceeds will be invested in short-term interest-bearing securities. See "Use of Proceeds."
Governing Law	The indenture governing the Securities and the Securities themselves will be governed by the laws of the State of New York.
Stock Exchange Listing	The Securities have been approved for listing on the NYSE under the symbol "BVF Pr", subject to official notice of issuance.
Global Securities	The Securities will be represented by one or more Global Securities (as defined in this prospectus) registered in the name of the nominee of The Depository Trust Company ("**DTC**"). Beneficial interests in the Global Securities representing the Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. Except as described in this prospectus, Securities in definitive form will not be issued. See "Description of the Securities—The Depository, Book-Entry and Settlement."

RISK FACTORS

Prospective investors should carefully consider the information set forth under the caption "Risk Factors" relating to the risks associated with the Securities, our business, the pharmaceutical industry and all other information contained in this prospectus.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated historical financial data for the years ended December 31, 1995 through 1999 is derived from our audited consolidated financial statements and notes. The pro forma financial data is not derived from our audited consolidated financial statements and notes. We have prepared and presented our audited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("**Canadian GAAP**"). Canadian GAAP differs in certain significant respects from U.S. generally accepted accounting principles ("**U.S. GAAP**"). Footnote 23 of the audited consolidated financial statements, which appear beginning on page F-1, describes the principal differences between Canadian GAAP and U.S. GAAP as they relate to us.

Since the information presented below is only a summary and does not provide all of the information contained in our financial statements, including the related notes, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements. You should read "Unaudited Pro Forma Combined Financial Information."

	Year ended December 31,				
	1995	1996	1997	1998	1999
	(in thousands, except per share data)				
Earnings and Related Data					
Revenues:					
Product sales	$ 7,915	$54,313	$50,333	$ 69,154	$ 99,526
Research and development	4,333	4,374	19,559	32,070	52,260
Royalty and licensing	7,396	7,743	12,487	11,612	24,706
	19,644	66,430	82,379	112,836	176,492
Expenses:					
Cost of goods sold	2,715	21,757	16,471	28,593	35,078
Research and development	7,194	10,901	14,386	17,490	33,130
Selling, general and administrative	7,024	10,008	13,831	17,450	29,602
	16,933	42,666	44,688	63,533	97,810
Operating income	$ 2,711	$23,764	$37,691	$ 49,303	$ 78,682
Net income:					
Canadian GAAP	$ 5,870	$23,284	$35,241	$ 45,419	$ 62,480
U.S. GAAP(1)	5,870	22,664	32,822	41,577	(109,978)
Earnings per share:					
Canadian GAAP—basic	$ 0.12	$ 0.46	$ 0.69	$ 0.85	$ 1.22
Canadian GAAP—diluted	0.10	0.41	0.66	0.82	1.09
U.S. GAAP—basic(1)	0.12	0.45	0.64	0.78	(2.15)
U.S. GAAP—diluted(1)	N/A	0.42	0.62	0.76	(2.15)
Other Data					
EBITDA(2)	$ 3,791	$25,573	$40,690	$ 54,102	$ 85,987
EBITDA margin(3)	19.3%	38.5%	49.4%	47.9%	48.7%
Depreciation and amortization	$ 1,238	$ 1,967	$ 3,157	$ 4,957	$ 10,140
Capital expenditures(4)	10,502	7,853	2,676	32,787	46,124
Weighted average shares outstanding (thousands)	49,986	50,756	51,212	53,282	51,271
Balance Sheet Data (end of period)					
Cash and short-term deposits(5)	$24,323	$ 4,526	$ 8,275	$ 78,279	$ 243,979
Working capital	696	9,606	47,663	115,324	266,068
Total assets	60,867	58,606	93,739	199,919	635,137
Total long-term debt	10,195	6,968	4,847	126,835	137,504
Shareholders' equity:					
Canadian GAAP	14,592	36,943	75,458	51,191	435,294
U.S. GAAP	14,592	36,323	73,169	45,362	267,336
Pro Forma Data					
Pro forma cash interest expense(6)					$ 20,282
Ratio of EBITDA to pro forma cash interest expense(6)					4.2x
Ratio of total pro forma debt to EBITDA(6)					3.5x

(1) Includes the $136.2 million write-off of acquired in-process research and development in connection with the Fuisz acquisition and the $25.0 million write-off of acquired product rights in connection with the acquisition of Procardia XL from Intelligent Polymers in December 1999.

(2) EBITDA means net income plus provision for income taxes, net interest expense and depreciation and amortization. EBITDA is presented because we believe it is a useful indicator of our ability to meet debt service and capital expenditure requirements. It is not intended as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles.

(3) EBITDA margin is EBITDA as a percentage of total revenue.

(4) Includes expenditures related to fixed assets and acquisitions of product rights, royalty interests and long-term investments.

(5) Includes short-term investments.

(6) Pro forma debt and cash interest expense figures reflect the repurchase of the outstanding Senior Notes, completion of this offering of Securities and the inclusion of these Securities in pro forma debt at an assumed 6.75% interest rate, and repayment of the Clonmel Loan. Pro forma cash interest expense and the ratio of EBITDA to pro forma cash interest expense do not give effect to interest income on the net proceeds from this offering or on existing cash and cash equivalents.

RISK FACTORS

In addition to the other information in this prospectus, prospective investors should carefully consider the following factors before making a decision to purchase the Securities.

Risks related to the Securities

Your right to receive payment on the Securities is subordinated to substantially all of our and our subsidiaries' indebtedness. The Securities will be subordinated and junior in right of payment to all of our present and future Senior Indebtedness. The Securities will also be effectively subordinate to all present and future indebtedness and other liabilities of our subsidiaries. As of December 31, 1999, after giving effect to the issuance of the Securities and the use of the proceeds therefrom, we (excluding our subsidiaries) had approximately $1.7 million of Senior Indebtedness (assuming the purchase of all our outstanding Senior Notes and excluding hedging obligations and undrawn letters of credit) outstanding. As of December 31, 1999, our subsidiaries had approximately $54.0 million of liabilities (excluding intercompany liabilities, the Clonmel Liabilities and the Clonmel Loan). Our offer to purchase our outstanding Senior Notes will be consummated if more than $62.5 million in principal amount are tendered. Any untendered Senior Notes will remain outstanding and will be Senior Indebtedness. There are no terms of the Securities that limit our ability or the ability of our subsidiaries to incur or guarantee additional Senior Indebtedness or indebtedness that ranks *pari passu* with the Securities. See "Description of the Securities—Subordination."

We are substantially leveraged. As of December 31, 1999, as adjusted to give effect to this offering and the use of the proceeds therefrom (assuming the purchase of all our outstanding Senior Notes), we would have had:

- total consolidated debt, including the Securities (which are included in debt under U.S. GAAP) and excluding the Clonmel Loan, of $301.7 million, and
- shareholders' equity of $435.3 million.

If our concurrent common share offering is completed, our shareholders' equity would be $530.6 million. Under Canadian GAAP, the Securities would be classified as shareholders' equity, not long-term debt.

Our business may not generate sufficient cash flow from operations in the future to service our debt and make necessary capital expenditures. If that is the case, we may seek additional financing, dispose of certain assets or try to refinance some or all of our debt. We may not be able to effect these alternatives on satisfactory terms or on a timely basis or at all.

Our ability to pay principal of, and interest on, the Securities and our other debt obligations will depend on our future performance and the performance of our subsidiaries. To a certain extent, our performance will be subject to general economic, financial, competitive, legislative, regulatory and other factors beyond our control. If we have difficulty servicing our debt, we may be forced to reduce or delay capital expenditures, sell assets, restructure or refinance our debt or seek equity capital. We might not be able to implement any of these strategies on satisfactory terms or on a timely basis, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In addition, any future indebtedness we incur may contain financial and other restrictive covenants. Such covenants may limit our ability to borrow additional money and to take various other actions.

Our level of debt and the limitations imposed on us by our existing or future debt agreements could have important consequences to you, including the following:

- we will have to use a portion of our cash flow from operations for debt service, rather than for our operations;
- we may not be able to obtain additional debt financing for future working capital, capital expenditures, acquisitions or other corporate purposes;
- we could be more vulnerable to economic downturns and less able to take advantage of significant business opportunities and react to changes in market or industry conditions; and
- our less leveraged competitors could have a competitive advantage.

We have the right to delay payment of interest on the Securities and our election to do so may have material tax consequences for you. We have the right, at any time and from time to time, subject to certain conditions, to defer payment of interest on the Securities by extending the interest payment period on the Securities for up to 20 consecutive quarterly periods each. During a deferral period interest on the Securities will accrue and will compound quarterly.

Prior to the termination of any deferral period, we may further extend such deferral period; *provided, however*, that no deferral period may exceed 20 consecutive quarterly periods, extend beyond the stated maturity of the Securities or end other than on a date on which interest or principal is due. Upon the termination of any deferral period and the payment of all deferred interest, we may commence a new deferral period, subject to the above requirements. There may be multiple deferral periods of varying lengths, each of up to 20 consecutive quarterly periods, throughout the term of the Securities. See "Description of the Securities—Option to Extend Interest Payment Periods."

Should a deferral period occur, the Securities will be treated, solely for purposes of the original issue discount ("OID") rules of the U.S. Internal Revenue Code of 1986, as amended, as having been retired and reissued with OID in an amount equal to the aggregate of all future payments of interest on the Securities. As a result, a holder of our Securities will be required to include such OID in gross income for United States federal income tax purposes on an economic accrual basis without regard to such holder's method of accounting and notwithstanding the fact that cash will not be distributed currently in respect of the Securities and that a holder of our Securities will not receive the cash related to such income from us if such holder disposes of the Securities prior to the record date for payment of the deferred interest. See "Taxation—Certain U.S. Federal Income Tax Considerations—Interest Income and Original Issue Discount."

We must receive dividends and distributions from our subsidiaries to make payments on the Securities. Most of our operations are conducted by our subsidiaries, which own a significant portion of our consolidated assets. Consequently, our operating cash flow and our ability to service our indebtedness, including the Securities, depends upon the operating cash flow of our subsidiaries and the payment of funds by them to us in the form of loans, dividends or otherwise. Our subsidiaries are separate legal entities that have no obligation to pay any amounts due pursuant to the Securities or to make any funds available for that purpose, whether by dividends, interest, loans, advances or other payments. In addition, their ability to pay dividends and make loans, advances and other payments to us depends on applicable statutory or contractual restrictions, which may include requirements to maintain minimum levels of working capital and other assets.

We may redeem the Securities upon the occurrence of certain changes in Canadian Tax Law. Following the occurrence of certain changes in Canadian Tax Law, we shall have the option, subject to the satisfaction of certain conditions, to redeem the Securities, in whole but not in part. The redemption price for the Securities in such circumstances shall be 100% of the principal amount thereof plus accrued and unpaid interest to the date of such redemption. See "Description of the Securities—Redemption for Changes in Canadian Tax Law."

Canadian law and our status as a Canadian corporation may adversely affect your ability to take actions against us in the event of a bankruptcy or similar proceeding. We are organized under the laws of Ontario, Canada. Most of our assets are located outside the United States, and a significant portion are located in Canada. The Securities and the indenture governing them will be governed by New York law. The rights of the trustee under the indenture governing the Securities to enforce remedies are likely to be significantly impaired by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to us. For example, both the Bankruptcy and Insolvency Act (Canada) and the Companies' Creditors Arrangement Act (Canada) contain provisions enabling "an insolvent person" to obtain a stay of proceeding against its creditors and others and to prepare and file a proposal for consideration by all or some of its creditors to be voted on by various classes of its creditors. Such a restructuring proposal, if accepted by the requisite majorities of creditors and if approved by the court, would be binding on all creditors who fall within one of the classes of creditors contemplated by the restructuring proposal. Moreover, this legislation permits, in certain circumstances, the insolvent debtor to retain possession and administration of its property, even though it may be in default under the applicable debt instruments.

Canadian courts have exercised their powers under the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, it is impossible to predict if payments under the Securities would be made during such a proceeding, whether or when the trustee could exercise its rights under the Indenture or whether and to what extent you would be compensated for any delays in payments, if any, of principal and interest.

Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever it is located, including property located in other countries. However, courts outside of the United States might not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Canadian debtor with property located outside of the United States. Orders or judgments of a bankruptcy court in the United States may not be enforceable.

An active trading market for the Securities may not develop and the market price for them may not reflect the value of accrued but unpaid interest. Prior to this offering, there has been no public market for the Securities. Although the Securities have been approved for listing on the NYSE subject to official notice of issuance, there can be no assurance that an active trading market will develop or be sustained. Furthermore, although the underwriters have informed us that they intend to make a market in the Securities following completion of the offering, they are under no obligation to do so. The underwriters may discontinue any market making in the Securities at any time at their sole discretion. If a trading market does develop, the Securities may trade at prices that do not reflect the value of accrued but unpaid interest.

The Securities are subject to the market price volatility of our common shares. Market prices for the securities of pharmaceutical and biotechnology companies, including our own, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as fluctuations in our operating results, the aftermath of our public announcements, concern as to safety of drugs, and general market conditions, can have an adverse effect on the market price of our common shares and therefore the market price of the Securities.

Risks related to our business

The pharmaceutical industry is highly competitive and is subject to rapid and significant technological change which could render our technologies and products obsolete and uncompetitive. Our products face intense competition from conventional forms of drug delivery and from controlled-release drug delivery systems developed, or under development, by other pharmaceutical companies. We compete with companies in the United States and abroad, including major pharmaceutical and chemical companies, specialized contract research organizations, research and development firms, universities and other research institutions. Some of our competitors are also licensees (or potential licensees) of our products. Many of our competitors have greater financial resources and marketing capabilities than we do, and they may be less leveraged. Some of our competitors have greater experience than we do in clinical testing and human clinical trials of pharmaceutical products and in obtaining FDA and other regulatory approvals. Our competitors may succeed in developing technologies and products that are more effective or cheaper to use than any we may develop or license. These developments could render our technologies and products obsolete or uncompetitive, which would have a material adverse effect on our business and financial results.

Our business is subject to limitations imposed by government regulations. The cost of complying with government regulation can be substantial. Governmental authorities in the United States and Canada and comparable authorities in foreign countries also regulate the research and development, manufacture, testing and safety of controlled-release products. The regulations applicable to our existing and future products may change. There can be long delays in obtaining required clearances from regulatory authorities in any country after applications are filed. Government agencies in the United States, Canada and other countries in which we carry on business regulate pharmaceutical products intended for human use. Regulations require extensive clinical trials and other testing and government review and final approval before we can market these products.

Requirements for approval vary widely from country to country outside of the United States and Canada. Whether or not approved in the United States or Canada, regulatory authorities in other countries must approve

a product prior to the commencement of marketing the product in those countries. The time required to obtain any such approval may be longer or shorter than in the United States or Canada.

Any failure or delay in obtaining regulatory approvals could adversely affect the marketing of any products we develop and therefore our business, results of operation, financial condition and cash flows.

We are currently dependent on a particular product and several customers. If a new drug were developed that was significantly more effective in the treatment of hypertension or angina than Tiazac®, currently our most significant product, or if the medical industry determined that another pre-existing product was significantly more effective in the treatment of hypertension or angina, the result could be a significant reduction in Tiazac® sales. This could have a material adverse effect on our business, results of operations, financial condition and cash flows. Furthermore, the three-year marketing exclusivity period for Tiazac® has expired and one generic drug manufacturer has submitted an Abbreviated New Drug Application ("**ANDA**") for a generic version of Tiazac®. Under current law, if its ANDA is approved, the generic manufacturer may be able to begin marketing in the first quarter of 2001 or earlier in the event that such generic manufacturer should be found ultimately not to have infringed upon our patent. This may adversely affect Tiazac®'s market share and may reduce the price at which Tiazac® could be sold and could therefore have a material adverse effect on our business, results of operations, financial condition and cash flows. Sales of Tiazac® pursuant to agreements with Forest Laboratories, Inc. ("**Forest**") accounted for approximately 41.7% of our total revenues for the year ended December 31, 1999. Our total revenues from Tiazac®, including sales by Crystaal in Canada, accounted for approximately 43.8% of our total revenues in the year ended December 31, 1999.

Research and development services rendered to Intelligent Polymers and Teva Pharmaceutical Industries Ltd. (together with its affiliates "Teva") accounted for approximately 21.4% of our total revenues for the year ended December 31, 1999.

There is uncertainty regarding our patents and proprietary technology and patent protection is unpredictable. Competitors may have filed patent applications, or hold issued patents, relating to products or processes competitive with those we are developing. Our patent applications for a product may not be approved. The patents of our competitors may impair our ability to do business in a particular area. Others may independently develop similar products or duplicate any of our unpatented products. While we have not routinely sought patents on our controlled-release technology, we do have the exclusive right to the patented technology for Tiazac®. Our success will depend, in part, on our ability in the future to obtain patents, protect trade secrets and other proprietary information and operate without infringing on the proprietary rights of others.

Historically, we have relied on trade secrets, know-how and other proprietary information as well as requiring our employees and other vendors and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and we may not have adequate remedies for any breach. Others may independently develop substantially equivalent proprietary information. Third parties may otherwise gain access to our proprietary information.

There has been substantial litigation in the pharmaceutical industry concerning the manufacture, use and sale of new products that are the subject of conflicting patent rights. When we file an ANDA for a generic drug, we are required to certify to the FDA that any patent which has been listed with the FDA as covering the branded product has expired, the date any such patent will expire, or that any such patent is invalid or will not be infringed by the manufacture, sale or use of the new drug for which the application is submitted. Approval of an ANDA is not effective until each listed patent expires, unless the applicant certifies that the patents at issue are not infringed or are invalid and so notifies the patent holder and the holder of the branded product New Drug Application ("**NDA**"). A patent holder may challenge a notice of non-infringement or invalidity by suing for patent infringement within 45 days of receiving notice. Such a challenge would prevent FDA approval for a period which ends 30 months after the receipt of notice, or sooner if an appropriate court rules that the patent is invalid or not infringed. From time to time, in the ordinary course of business, we face such challenges.

The expense of litigation, whether or not we are successful, could have a material adverse effect on our business, results of operations, financial condition and cash flows. Such lawsuits may be brought and the ultimate outcome of such litigation, if commenced, could have a material adverse effect on our business, results of

operations, financial condition and cash flows. Regardless of FDA approval, should anyone commence a lawsuit with respect to any alleged patent infringement by us, whether because of the filing of an ANDA or otherwise, the uncertainties inherent in patent litigation make the outcome of such litigation difficult to predict.

There is no assurance that we will continue to be successful in our licensing and marketing operations. Except in Canada, our products are marketed by third parties by way of license agreements or otherwise. Such third-party arrangements may not be successfully negotiated in the future. Any such arrangements may not be available on commercially reasonable terms. Even if acceptable and timely marketing arrangements are available, the products we develop may not be accepted in the marketplace. Even if such products are initially accepted, sales may thereafter decline. Additionally, our clients or marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues, cash flows and net income are not exclusively within our control.

We are not assured of successful development of our product pipeline. We have nineteen products at various stages of development or which are not yet marketed and have filed ANDAs relating to four of these products with the FDA, one of which (Adalat CC) has been tentatively approved. FDA approval may not be granted for all or any of these products and we may not be successful in filing NDAs or ANDAs for the remaining fifteen products with the FDA.

We depend on key scientific and managerial personnel for our continued success. Much of our success to date has resulted from the particular scientific and management skills of personnel available to us. If these individuals were not available, we might not be able to attract or retain employees with similar skills. In particular, our success to date in developing new products has resulted from the activities of a core group of research scientists. The continued availability of this group is important to our ongoing success.

We must successfully integrate Fuisz and any businesses or products we acquire in the future. On November 12, 1999 we completed the acquisition of Fuisz Technologies, Ltd. ("**Fuisz**"), which we have renamed Biovail Technologies Ltd. Our combination with Fuisz involves the integration of separate companies that have previously operated independently. The process of combining the companies may be disruptive to our businesses.

In addition, we may pursue product or business acquisitions that could complement or expand our business. However, there can be no assurance that we will be able to identify appropriate acquisition candidates in the future. If an acquisition candidate is identified, there can be no assurance that we will be able to successfully negotiate the terms of any such acquisition, finance such acquisition or integrate such acquired product or business into our existing products and business. Furthermore, the negotiation of potential acquisitions could divert management's time and resources, and require significant resources to consummate. If we consummate one or more significant acquisitions through the issuance of common shares, holders of our common shares and Securities could suffer significant dilution of their ownership interests.

The success of the strategic investments we make depends upon the performance of the companies we invest in, which is uncertain. Economic, governmental, industry and internal company factors outside our control affect each of the companies we may invest in. If these companies do not succeed, the value of our assets and the market price of our common shares, and therefore the market price of our Securities, could decline. Some of the material risks relating to the companies we may invest in include:

- the ability of these companies to successfully develop and obtain necessary governmental approvals for the products which serve as the basis for our investments,
- the ability of competitors to develop similar or more effective products, making the drugs developed by the companies we invest in difficult or impossible to market,
- the ability of the companies we invest in to adequately secure patents for their products and protect their proprietary information,
- the ability of these companies to enter the marketplace without infringing competitors' patents,

- the ability of these companies to remain technologically competitive, and
- the dependence of these companies upon key scientific and managerial personnel.

We will have limited or no control over the resources that any company we invest in may devote to developing the products for which we collaborate with them. Any company that we invest in may not perform as expected. These companies may breach or terminate their agreements with us or otherwise fail to conduct product discovery and development activities successfully or in a timely manner. If any of these events occurs, it could have a material adverse effect on our business.

Our business may be adversely affected by environmental laws and regulations. We may incur substantial costs to comply with such requirements. In addition, we may discover currently unknown environmental problems or conditions. We are subject to extensive federal, state, provincial and local environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. Environmental laws or regulations (or their interpretation) may become more stringent in the future. Any such event could have a material adverse effect on our business. We believe we are not currently using any hazardous materials in the manufacture of our products.

Our ability to obtain third-party reimbursement for the cost of products and related treatment may not be adequate. Our ability to successfully commercialize our products and product candidates, if FDA approval is obtained, depends in part on whether appropriate reimbursement levels for the cost of the products and related treatments are obtained from government authorities and private health insurers and other organizations, such as HMOs and MCOs.

Third-party payors increasingly challenge pricing of pharmaceutical products. In addition, the trend toward managed health care in the United States, the growth of organizations such as HMOs and MCOs and legislative proposals to reform health care and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. Such cost containment measures and health care reform could affect our ability to sell our products and may have a material adverse effect on our business, results of operations and financial condition.

Uncertainty exists about the reimbursement status of newly approved pharmaceutical products. Reimbursement in the United States or foreign countries may not be available for some of our products. Any reimbursement granted may not be maintained or limits on reimbursement available from third-party payors may reduce the demand for, or negatively affect the price of, those products. These issues could have a material adverse effect on our business, results of operations and financial condition. We are unable to predict if additional legislation or regulation impacting the health care industry or third-party coverage and reimbursement may be enacted in the future, or what effect such legislation or regulation would have on our business.

USE OF PROCEEDS

Our net proceeds from this offering, after deducting underwriting fees and expenses, will be approximately $289 million ($332 million if the over-allotment option is exercised in full). Concurrently with this offering and by a separate prospectus, we are offering to sell 2,000,000 of our common shares. Our net proceeds from the common share offering, after deducting underwriting fees and expenses, will be approximately $95 million ($110 million if the over-allotment option is exercised in full). Completion of the common share offering is not a condition to the completion of this offering.

We intend to use the combined net proceeds from these offerings as follows. Up to approximately $142 million will be used to repurchase our outstanding Senior Notes concurrently with the consummation of this offering pursuant to an offer we are currently making for all of such Senior Notes. The remainder will be used for working capital and other general corporate purposes, which may include the acquisition of various product rights, options and licenses with respect to the manufacturing and marketing of drugs and technologies. We have not yet determined whether to exercise our option to acquire the outstanding common shares of Intelligent Polymers. If we do exercise that option, up to approximately $146 million of the combined net proceeds may be used for such purchase. See "Business—Branded Products—Purchase Option." We will invest the proceeds in short-term, interest bearing securities until used for these purposes.

DIVIDEND POLICY

We have not paid cash dividends on our common shares, and at this time we intend to continue this policy for the foreseeable future in order to retain earnings for the development and growth of our business. Our dividend policy will be reviewed periodically depending on our financial position, capital requirements, general business conditions and on other factors.

CONSOLIDATED CAPITALIZATION

The following table sets forth our consolidated cash and short-term deposits and capitalization as of December 31, 1999 on an actual basis and as adjusted to reflect (i) the sale of $300 million aggregate principal amount of our Securities offered hereby, (ii) the concurrent sale of 2,000,000 of our common shares (iii) the application of the net proceeds from both offerings (assuming the purchase of all our outstanding Senior Notes) and (iv) the sale of Clonmel and the repayment of the Clonmel Loan. The following should be read in conjunction with the consolidated financial statements and the related notes thereto and other financial information included elsewhere herein.

	As of December 31, 1999	
	Actual	As Adjusted
	(in thousands)	
Cash and short-term deposits(1)	$243,979	$495,502
Debt (including current portion):		
Clonmel Loan	$ 10,799	$ —
Government loan(2)	1,250	1,250
Senior Notes	125,000	—
Other(3)	455	455
Total debt	137,504	1,705
Shareholders' equity:		
Securities offered hereby(4)	—	300,000
Share capital(5)(6)	368,538	463,860
Warrants(7)	8,244	8,244
Retained earnings	57,252	57,252
Cumulative translation adjustment	1,260	1,260
Total capitalization	$572,798	$832,321

(1) Includes short-term investments.

(2) The non-interest bearing, unsecured government loan is repayable in semi-annual installments with the final payment due in January 2001.

(3) Consists of outstanding 7% convertible subordinated debentures assumed in connection with the acquisition of Fuisz (the "**Fuisz Debentures**").

(4) Under U.S. GAAP, the Securities would be classified as long-term debt, not equity. We intend to publicly report our financial results in accordance with U.S. GAAP for periods beginning after January 1, 2000. Actual total capitalization under U.S. GAAP would be $404.8 million and total capitalization, as adjusted, would be $664.3 million.

(5) As of December 31, 1999, there were 62,107,474 of our common shares outstanding. This excludes 5,223,400 common shares issuable upon exercise of stock options outstanding under our stock option plan, 7,475,000 common shares issuable upon exercise of outstanding warrants, 88,310 common shares to be issued following the effectiveness of the registration statement with respect to the Fuisz acquisition and 8,203 common shares issuable upon conversion of the Fuisz Debentures. On December 31, 1999, we filed articles of amendment which authorized an unlimited number of common shares.

(6) On August 17, 1998 and May 6, 1999, the board of directors approved common share repurchase programs. Pursuant to these programs, we repurchased 6,009,000 common shares on the open market through the facilities of the NYSE.

(7) There are currently warrants outstanding for 7,475,000 common shares with an exercise price of $20 per share. These warrants are exercisable at any time until September 30, 2002.

PRICE RANGE OF COMMON SHARES

Our common shares are traded on the NYSE and on The Toronto Stock Exchange ("**TSE**") under the symbol "BVF." The table below sets forth the high and low sale prices for our common shares on the NYSE and the TSE during the periods indicated. The reported last sale price of the common shares on March 16, 2000 on the NYSE was $50.56 and on the TSE was Cdn$74.45.

	Price Range of Common Shares			
	NYSE		TSE	
	High	Low	High	Low
Year Ended 1998:				
1st Quarter	$24.47	$16.75	Cdn$ 34.83	Cdn$23.88
2nd Quarter	23.45	15.00	33.50	22.38
3rd Quarter	17.38	12.13	26.50	18.48
4th Quarter	18.91	10.88	29.00	16.13
Year Ended 1999:				
1st Quarter	$21.66	$17.28	Cdn$ 33.00	Cdn$25.53
2nd Quarter	25.56	16.19	37.25	23.93
3rd Quarter	29.50	23.91	44.25	34.85
4th Quarter	46.88	25.44	67.90	37.35
Year Ending 2000:				
1st Quarter (through March 16)	$69.56	$43.50	Cdn$101.20	Cdn$62.75

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated historical financial data for the years ended December 31, 1995 through 1999 is derived from our audited consolidated financial statements and notes. The pro forma financial data is not derived from our audited consolidated financial statements and notes. We have prepared and presented our audited consolidated financial statements in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP. Footnote 23 of the audited consolidated financial statements, which appear beginning on page F-1, describes the principal differences between Canadian GAAP and U.S. GAAP as they relate to us.

Since the information presented below is only a summary and does not provide all of the information contained in our financial statements, including the related notes, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements. You should read "Unaudited Pro Forma Combined Financial Information."

	Year ended December 31,				
	1995	1996	1997	1998	1999
	(in thousands, except per share data)				
Earnings and Related Data					
Revenues:					
Product sales	$ 7,915	$54,313	$50,333	$ 69,154	$ 99,526
Research and development	4,333	4,374	19,559	32,070	52,260
Royalty and licensing	7,396	7,743	12,487	11,612	24,706
	19,644	66,430	82,379	112,836	176,492
Expenses:					
Cost of goods sold	2,715	21,757	16,471	28,593	35,078
Research and development expense	7,194	10,901	14,386	17,490	33,130
Selling, general and administrative	7,024	10,008	13,831	17,450	29,602
	16,933	42,666	44,688	63,533	97,810
Operating income	$ 2,711	$23,764	$37,691	$ 49,303	$ 78,682
Net income:					
Canadian GAAP	$ 5,870	$23,284	$35,241	$ 45,419	$ 62,480
U.S. GAAP(1)	5,870	22,664	32,822	41,577	(109,978)
Earnings per share:					
Canadian GAAP—basic	$ 0.12	$ 0.46	$ 0.69	$ 0.85	$ 1.22
Canadian GAAP—diluted	0.10	0.41	0.66	0.82	1.09
U.S. GAAP—basic(1)	0.12	0.45	0.64	0.78	(2.15)
U.S. GAAP—diluted(1)	N/A	0.42	0.62	0.76	(2.15)
Other Data					
EBITDA(2)	$ 3,791	$25,573	$40,690	$ 54,102	$ 85,987
EBITDA margin(3)	19.3%	38.5%	49.4%	47.9%	48.7%
Depreciation and amortization	$ 1,238	$ 1,967	$ 3,157	$ 4,957	$ 10,140
Capital expenditures(4)	10,502	7,853	2,676	32,787	46,124
Weighted average shares outstanding (thousands)	49,986	50,756	51,212	53,282	51,271
Balance Sheet Data (end of period)					
Cash and short-term deposits(5)	$24,323	$ 4,526	$ 8,275	$ 78,279	$ 243,979
Working capital	696	9,606	47,663	115,324	266,068
Total assets	60,867	58,606	93,739	199,919	635,137
Total debt	10,195	6,968	4,847	126,835	137,504
Shareholders' equity					
Canadian GAAP	14,592	36,943	75,458	51,191	435,294
U.S. GAAP	14,592	36,323	73,169	45,362	267,336
Pro Forma Data					
Pro forma cash interest expense(6)					$ 20,282
Ratio of EBITDA to pro forma cash interest expense(6)					4.2x
Ratio of total pro forma debt to EBITDA(6)					3.5x

(1) Includes the $136.2 million write-off of acquired in-process research and development in connection with the Fuisz acquisition and the $25.0 million write-off of acquired product rights in connection with the acquisition of Procardia XL from Intelligent Polymers in December 1999.

(2) EBITDA means net income plus provision for income taxes, net interest expense and depreciation and amortization (excluding amortization of deferred financing costs). EBITDA is presented because we believe it is a useful indicator of our ability to meet debt service and capital expenditure requirements. It is not intended as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles.

(3) EBITDA margin is EBITDA as a percentage of total revenue.

(4) Includes expenditures related to fixed assets and acquisitions of product rights, royalty interests and long-term investments.

(5) Includes short-term investments.

(6) Pro forma debt and cash interest expense figures reflect the repurchase of the outstanding Senior Notes, completion of this offering of Securities and the inclusion of these Securities in pro forma debt at an assumed 6.75% interest rate, and repayment of the Clonmel Loan. Pro forma cash interest expense and the ratio of EBITDA to pro forma cash interest expense do not give effect to interest income on the net proceeds from this offering or on existing cash and cash equivalents.

Overview of 1999

General

During fiscal 1999, we experienced significant revenue and earnings growth, while expanding our operations and enhancing our product development pipeline. We successfully completed a number of corporate initiatives, including: the acquisition of Fuisz; product licensing agreements with Mylan, Elan Pharmaceuticals ("**Elan**") and Spectral Diagnostics Inc. ("**Spectral**"); the acquisition of the rights to Procardia XL from Intelligent Polymers; FDA approval for our generic versions of Cardizem CD and Adalat CC; the launch of a generic version of Verelan and the completion of a common share offering for gross proceeds of $259 million.

Fuisz Acquisition

On November 12, 1999, we acquired Fuisz in order to enhance our drug delivery and pharmaceutical business. Fuisz was a drug delivery company focused on the enhanced delivery of drugs utilizing its patented technology in the areas of controlled-release, rapid dissolve, enhanced absorption and taste masking.

The total consideration paid for Fuisz, including costs of acquisition, consisted of $75.6 million in cash, 1,544,155 of our common shares with a fair value of $96.0 million and the assumption of approximately $86.1 million of debt. We have recognized in our consolidated financial statements our 49% equity interest in the results of Fuisz for the period from September 4, 1999, the date we acquired significant influence, to November 12, 1999, the date we acquired control of Fuisz. The assets, liabilities, revenues and expenses of Fuisz have been included in our consolidated financial statements since November 12, 1999.

The acquisition of Fuisz gave rise to a charge of $137.5 million, relating to the acquisition of in-process research and development pursuant to Statement of Financial Accounting Standard ("**SFAS**") No. 2. See Note 3 of our consolidated financial statements for additional information relating to the Fuisz acquisition.

On October 22, 1999, Fuisz agreed to sell all of the issued shares of three of its wholly-owned European subsidiaries for proceeds of $28.7 million and the assignment of the rights, privileges and advantages of the CEBUTID trademark for proceeds of $10.3 million. No gain or loss was recognized by us on these transactions as these subsidiaries were included in the purchase price allocation at their fair value on September 4, 1999 when we acquired our 49% interest in Fuisz.

We determined, as part of our evaluation of the purchase, that certain operations of Fuisz were not strategic to our business plans and accordingly should be sold. Effective January 4, 2000, we entered into an agreement to sell all of the issued share capital of Clonmel, a pharmaceutical and antibiotic manufacturer and distributor located in Ireland, for proceeds of $20 million. No gain or loss was recognized by us on this transaction, as this subsidiary was included at fair value in the purchase price allocation at November 12, 1999.

We are continuing to complete a number of initiatives to reorganize and integrate Fuisz into our operations. We recently completed the purchase of $74.5 million of Fuisz Debentures. We anticipate that the operations of Fuisz will be fully integrated into our operations in 2000.

Product Acquisitions

In March 1999, we entered into an arrangement with Mylan for the marketing of all dosage strengths of a generic version of Verelan to take advantage of our first ANDA filer status and Mylan's product approval. As a result of this agreement, our marketing partner Teva entered the market simultaneously with Mylan at an earlier date than would otherwise have been achieved.

In July 1999, we acquired from Spectral the exclusive rights to market Cardiac STATus in Canada. Cardiac STATus, a rapid point of care diagnostic test, assists in the early identification of patients with heart attacks or other acute coronary syndromes.

In October 1999, we acquired the exclusive marketing rights to Elan's 30 mg generic version of Adalat CC in the United States in return for future royalties. As a result of this acquisition, we will enter the market earlier than would otherwise have been the case and will benefit from the 180 days of marketing exclusivity for this dosage strength previously held by Elan.

In December 1999, we exercised our option to purchase the exclusive product rights from Intelligent Polymers for its generic version of Procardia XL for $25 million. Intelligent Polymers had filed an ANDA with the FDA covering multiple dosage strengths for this product.

Product Approvals

In June 1999, we received tentative approval for our 30 mg and 60 mg generic versions of Adalat CC from the FDA. In December 1999, we received approval for our generic version of Cardizem CD from the FDA. Cardizem CD was immediately launched by Teva in the United States.

Corporate Financing Initiatives

In October 1999, we completed an equity offering for gross proceeds of $259 million. These proceeds replenished cash used for the initial purchase of 49% of Fuisz and funded the purchase of the Fuisz Debentures.

Results of Operations

We derive our revenues from: (i) developing and licensing oral controlled-release pharmaceutical products utilizing our proprietary drug delivery technologies; (ii) manufacturing such products for sale to licensees and wholesalers and from direct marketing of proprietary and in-licensed products in Canada; and (iii) providing pharmaceutical contract research services to third parties. Product sales arise from products developed and manufactured on behalf of our clients or from products licensed from third parties and sold by us. Royalties generally arise on sales of drug products developed by us. License fees include fees relating to the license to third parties of our technologies or product rights. Research and development fees relate to product development activity and pharmaceutical contract research services for third parties.

Revenues for 1999 were $176.5 million, a 56% increase over the revenues of $112.8 million recorded in 1998. Revenues for 1998 were 37% higher than the $82.4 million recorded in 1997. Income before goodwill amortization in 1999 increased by 44% to $65.6 million, or $1.28 per share, compared to $45.6 million, or $0.86 per share, in 1998 and $35.4 million, or $0.69 per share, in 1997. Net income in 1999 increased by 38% to $62.5 million, or $1.22 per share, compared to $45.4 million, or $0.85 per share, in 1998 and $35.2 million, or $0.69 per share, in 1997.

Our continued growth was due primarily to the strong performance of Tiazac® in both the United States and Canada as well as the launch of Verelan in the second quarter and Cardizem CD in December. Crystaal launched four products in 1999, including Brexidol, Retavase, Celexa and Cardiac STATus. Research and development revenues increased significantly, reflecting the continuing development of branded products on behalf of Intelligent Polymers and a record level of development activity at CRD for third-party clients.

For the year ended December 31, 1999, sales of our principal product, Tiazac®, accounted for 44% of our total revenues. Sales of Tiazac® pursuant to agreements with Forest accounted for approximately 42% of our total revenues. Research and development services rendered to Intelligent Polymers accounted for 19%, 9% and 12% of revenue for 1999, 1998 and 1997, respectively.

Revenue

Product sales in 1999 were $99.5 million compared with $69.2 million and $50.3 million in 1998 and 1997, respectively. The 44% growth in 1999 is attributable to increased sales of Tiazac® to Forest for distribution in the United States, the launch of Verelan in the second quarter and Cardizem CD in December and the launch of four products in Canada (Retavase, Brexidol, Celexa and Cardiac STATus). The increase in product sales in 1998 was due to increased sales of Tiazac® in Europe, to Forest for distribution in the United States and sales of other products to Teva.

Research and development revenues from third-party customers in 1999 were $52.3 million, compared to $32.1 million and $19.6 million in 1998 and 1997, respectively. The increase in 1999 relates to higher third-party revenues and increased product development activities undertaken for Intelligent Polymers, Lundbeck and Forest. Growth in these revenues in 1998 related to activities undertaken for Intelligent Polymers, Teva and Lundbeck.

Net royalty and licensing revenue was $24.7 million in 1999, compared to $11.6 million and $12.5 million in 1998 and 1997, respectively. The growth in 1999 was primarily attributable to a payment from Mylan in return

for giving up our exclusivity rights for a generic version of Verelan, a licensing fee from Stada Arzneimittel AG ("Stada") in return for exclusive marketing rights to Viazem in certain European countries and certain other product licensing agreements. Royalty and licensing revenues for 1998 reflected increased royalties on the sale of Tiazac® to Forest, but declined due to the amortization expense on the elimination of this royalty obligation and reduced royalty revenues on Oruvail sales in the United States, where a competing generic product was introduced.

Cost of Goods Sold and Gross Margins

The cost of goods sold as a percentage of product sales was 35% in 1999, compared to 41% in 1998 and 33% in 1997. The Company's gross margins are impacted by product sales, price, product mix and manufacturing volumes.

The improvement in 1999 margins over 1998 is due in part to higher trade sales of Tiazac® to Forest. Since trade supplies are sold at a higher price than samples and also have a lower cost due to lower packaging and labor costs, 1999 margins were favorably impacted. The launch of Cardizem CD and Verelan, which generate higher margins than Tiazac®, had a positive impact on overall margins.

Margins in 1998 were lower than those in 1997 due to the declining proportionate sale of Tiazac® in our overall product mix as well as a one-time contractual price reduction to Forest of approximately 25%.

Research and Development

Research and development expenses for 1999 were $33.1 million (19% of total revenues), compared to $17.5 million (16% of total revenues) and $14.4 million (17% of total revenues) in 1998 and 1997, respectively. The increase over 1998 related to increased work with respect to branded generic products being developed on behalf of Intelligent Polymers, generic products under development, increased third-party activities at CRD and research and development expenses since November 12, 1999 resulting from the Fuisz acquisition. Increased spending in 1998 related to the increased level of activity for Intelligent Polymers, development of generic products under agreement with Teva, and other activities for third party customers.

Selling, General and Administrative

Selling, general and administrative expenses increased to $29.6 million (17% of total revenues) in 1999, compared to $17.5 million (15% of total revenues) and $13.8 million (17% of total revenues) in 1998 and 1997, respectively. The increase in 1999 was due to the expansion of the sales force at Crystaal, higher advertising and promotion expenditures associated with the launch of Retavase, Brexidol, Celexa and Cardiac STATus and increased legal costs and the hiring of key management personnel. This 1998 increase was a result of the full year's impact of increased sales and marketing costs related to sale of Tiazac® in Canada and registration costs associated with the introduction of Tiazac® in European markets.

Operating Income

Operating income, before unallocated selling, general and administrative expenses, was $87.5 million in 1999, compared to $55.1 million and $40.4 million in 1998 and 1997, respectively. Of this total, product sales accounted for $46.3 million, compared to $30.8 million and $24.9 million in 1998 and 1997, respectively. The increase in 1999 product sales related to increased sales of Tiazac® in the United States and the launch of Verelan and Cardizem CD during the year. The 1998 increase resulted from increased sales of Tiazac® in the United States and Europe and shipments to Teva. Research and development accounted for $16.9 million in 1999, compared to $13.0 million and $3.6 million in 1998 and 1997, respectively. The increase in 1999 reflects a higher proportion of research and development operating income being earned from Intelligent Polymers and third-party development activities. Increases in 1998 also resulted from these activities, together with improved margins from CRD. Royalty and licensing activities generated operating income of $24.3 million, compared to $11.3 million and $12.0 million in 1998 and 1997, respectively. Growth in 1999 was due to the previously mentioned licensing fees received for various product and geographic opportunities while the decline in 1998 was largely due to amortization and reduced royalties from Oruvail sales in the United States. Operating income after allocation of selling, general and administrative expenses for 1999 was $78.7 million, compared to $49.3 million and $37.7 million in 1998 and 1997, respectively.

Non-Operating Expenses

Non-operating expenses include the equity loss in Fuisz of $1.6 million for the period September 4, 1999 to November 12, 1999. Fuisz has been consolidated with our results from November 12, 1999. Net interest expense in 1999 was $9.2 million compared with $1.7 million and $0.4 million in 1998 and 1997, respectively. Net interest expense in 1999 included interest on the $125 million aggregate principal amount of Senior Notes which were offered in November 1998, less interest earned on the proceeds invested from the 1999 equity offering and the sale of the European subsidiaries acquired through the acquisition of Fuisz. Net interest expense in 1998 was largely interest expense on our operating line of credit, which was used prior to the offering of the Senior Notes.

Income Taxes

Income taxes in 1999, 1998 and 1997 of $4.2 million, $2.0 million and $1.9 million, respectively, related to our foreign subsidiaries, in respect of which lower statutory tax rates apply than those in Canada. The benefit of tax losses historically incurred by the Canadian operations has not been recognized for accounting purposes to date.

Income Before Goodwill Amortization

Income before goodwill amortization in 1999 was $65.6 million, $45.6 million and $35.4 million, or $1.28, $0.86 and $0.69 per share, for 1999, 1998 and 1997, respectively.

Net Income

Income in 1999, excluding a net gain on the disposal of long-term investments was $60.5 million or $1.18 per share.

Net income including the investment gain was $62.5 million, or $1.22 per share, in 1999, compared with $45.4 million, or $0.85 per share, in 1998 and $35.2 million, or $0.69 per share, in 1997. Earnings per share have been calculated using the weighted average number of common shares outstanding during the year after giving effect to the 2 for 1 share split in December 1999.

Net Income (Loss) According to U.S. GAAP

The net loss according to U.S. GAAP for 1999 was $110.0 million, compared with net income of $41.6 million and $32.8 million in 1998 and 1997, respectively. The loss in 1999 is due primarily to the write off of $136.2 million of in-process research and development under U.S. GAAP related to the Fuisz acquisition, which is capitalized and amortized over its useful life of fifteen years under Canadian GAAP. Additionally, $25 million of acquired product rights is being written off in 1999. For the purpose of reporting under U.S. GAAP, companies are required to write off the cost of intangibles that are purchased from others for research and development projects that have no alternative future use at the time of acquisition. Under Canadian GAAP, these costs have been capitalized. The loss per share in 1999 according to U.S. GAAP is $2.15, compared with earnings per share of $0.78 and $0.64 for 1998 and 1997, respectively.

EBITDA

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, was $86.0 million in 1999 compared with $54.1 million in 1998 and $40.7 million in 1997. The ratio of total debt to EBITDA for 1999 was 1.6:1 compared to 2.3:1 in 1998 and 0.1:1 in 1997.

Pro-forma Information

A pro-forma statement of operations for the year ended December 31, 1999 has been provided at page F-64 which gives effect to the acquisition of Fuisz, the repayment of certain Fuisz liabilities, the sale of certain Fuisz operations prior to our acquisition of Fuisz, the issuance of the $300 million of Securities, the issuance of 2,000,000 common shares and the repayment of $125 million of the Senior Notes, all of which as if they had occurred on January 1, 1999. This pro forma statement of operations does not give effect to the sale of the Clonmel facility which is expected to close in early 2000 or to other operational changes that we have made or plan to make relating to the integration of the Fuisz operations. The pro forma statement of operations includes sales, expenses and net loss from the Clonmel facility of $17.2 million, $5.8 million and $1.3 million respectively which will not be included in our results of operations in future years.

Liquidity and Capital Resources

At December 31, 1999, our cash position was $178.1 million, our cash plus short-term investments was $244.0 million and our working capital was $266.1 million, representing a working capital ratio of 4.6:1. During 1999 we increased the amount of our cash through cash flow from operations ($81.0 million), the sale of common shares ($253.7 million) and the cash acquired in the Fuisz acquisition ($38.2 million). Uses of cash included the acquisition of shares of Fuisz common stock ($75.6 million), the purchase of outstanding Fuisz Debentures ($74.5 million), the repurchase of our common shares in the open market ($30.6 million) and the acquisition of product rights ($38.3 million).

Upon consummation of our offering of the Securities and the application of the proceeds as described under "Use of Proceeds," we will have total long-term indebtedness including the Securities (which are included as debt under U.S. GAAP), of $301.7 million and total cash plus short-term investments of approximately $400.2 million. If our concurrent offering of common shares is consummated, we will have additional cash of approximately $95.3 million and cash plus short-term investments of $495.5 million (assuming in each case that we purchase all of our Senior Notes).

We believe that we have adequate capital resources and sources of financing to support our ongoing operational and interest requirements and investment objectives. We believe that we would be able to raise additional capital, if necessary, to support our objectives.

We intend to publicly report our financial results for all periods beginning on or after January 1, 2000 in accordance with U.S. GAAP. Pursuant to U.S. GAAP, the Securities will be classified as long-term debt and not as part of shareholders' equity. In addition we expect our financial statements for the three months ending March 31, 2000 to reflect a restructuring charge in connection with the integration of certain of our research and development operations with Fuisz in an amount which we cannot determine at this time.

Recent Accounting Developments

i) The Financial Accounting Standards Board has issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement No. 137 which is required to be adopted in years beginning after June 15, 2000. We are determining the impact of the adoption of the new statement.

ii) The SEC issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" in December 1999, which summarizes certain views in applying generally accepted accounting principles to revenue recognition in financial statements. The statements in the staff accounting bulletins represent interpretations and practices followed by the Divisions of Corporate Finance and the Office of the Chief Accountant in administering the disclosure requirements of the U.S. federal securities laws. The impact of the application of this Staff Accounting Bulletin is currently being reviewed by us.

Forward-Looking Statements

To the extent any statements made in this prospectus contain information that is not historical, these statements are essentially forward-looking. As such, they are subject to risks and uncertainties, including the difficulty of predicting FDA and TPP approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new project development and launch, reliance on key strategic alliances, availability of raw materials, the regulatory environment, fluctuations on operating results and other risks detailed from time to time in our filings with the SEC and Canadian securities authorities.

BUSINESS

Overview

We are an international, fully-integrated pharmaceutical company specializing in the development of drugs utilizing advanced controlled-release, rapid dissolve, enhanced absorption and taste masking technologies. We have proprietary technologies which we use to develop products which are either (1) generically equivalent to existing once-daily branded products or (2) branded products that improve upon conventional multiple daily dose immediate-release forms of existing products by providing the therapeutic benefits of controlled-release drug delivery. As a fully-integrated company, we control all facets of the drug development process from formulation development to clinical testing, manufacturing and obtaining regulatory approval. This integrated approach results in operational synergies, flexibility and cost efficiencies. In Canada, we market our products directly, while in the rest of the world we market our products through strategic licensing partners. We generate our revenues from (1) developing and licensing oral controlled-release products using our proprietary drug delivery technologies; (2) manufacturing such products for sale to licensees and wholesalers and from direct marketing of proprietary and in-licensed products in Canada; and (3) providing pharmaceutical contract research services to Intelligent Polymers and other third parties. We do not engage in basic research to discover NCEs. For the year ended December 31, 1999, we had revenues of $176.5 million, net income of $62.5 million and earnings per share of $1.22. The three areas referred to in clauses (1), (2) and (3) above accounted for 14.0%, 56.4% and 29.6%, respectively, of our total revenues for the year.

In the past, we licensed our controlled-release products early in the development cycle to pharmaceutical companies who developed, manufactured and sold our products in a number of international markets. Today, we develop, manufacture, market and out-license our own products once they have reached an advanced state of development. We have developed fifteen products to date that are currently sold under license in more than 55 countries. We manufacture four of these products, Tiazac® and generic versions of Trental, Cardizem CD and Voltaren XR, for sale by our licensees in the United States and Europe. We also market a generic version of Verelan through agreements with Mylan, pending final FDA approval of our product. In Canada, Tiazac® is sold by Crystaal, our marketing division. Tiazac® is currently our principal product, representing approximately 43.8% of revenues for the year ended December 31, 1999.

Our pipeline products fall into two categories. The first category, representing near term opportunities, covers generic controlled-release and rapid dissolve versions of fourteen major brand name drugs (one of which has been tentatively approved), in particular, products indicated for the treatment of chronic disorders such as cardiovascular and anti-arthritic conditions, and for pain management. The second category, representing mid- to long-term opportunities, are branded controlled-release once-daily versions of four existing multi-dose products and one once-daily immediate-release product (citalopram) indicated for the treatment of chronic disorders such as depression, anxiety, smoking cessation, pain management and diabetes.

The following table lists our branded drugs and our generic versions of branded drugs of others, each of which we currently license to others or market or are developing:

	Branded		Generic Versions of
Marketed Products	Tiazac®	Sirdalud CR	Cardizem CD
	Oruvail	Gastro-Timelets	Trental
	Norpace	Novagent	Verelan(1)
	Theo-24	Beta-Timelets	Voltaren XR
	Isoket Retard	Tiamon Mono	
	Elantan Long	Regenon Retard	
Pipeline Products	*Under Development:* Bupropion Buspirone(2) Metformin Tramadol Citalopram		*Approved by FDA:* Adalat CC(3) *Filed with FDA:* Verelan(1) Procardia XL(4) Dilacor XR *Under Development:* Controlled Release: *four products* Rapid Dissolve: *six products*

(1) We are marketing Mylan's version of this product pending final regulatory approval of our product. See "—Generic Product Pipeline—Generic Version of Verelan."

(2) We recently initiated Phase III clinical trials for our controlled-release formulation of buspirone.

(3) We have received tentative approval from the FDA for this product. See "—Generic Product Pipeline—Generic Version of Adalat CC."

(4) We acquired this product from Intelligent Polymers in December 1999.

Three of the fourteen generic versions of branded controlled-release and rapid dissolve drugs in our pipeline have been submitted and are awaiting regulatory approval in the United States from the FDA. These three products include generic formulations of Verelan, Procardia XL and Dilacor XR, all of which are calcium channel blockers used for the treatment of hypertension and/or angina. We have received tentative approval for a generic version of Adalat CC. Historically, the FDA reviews and approves these generic products in an average twenty-four month timeframe, unless the generic filer is subject to patent infringement litigation by the innovator, in which case the FDA is precluded from approving the product until the earlier of thirty months or settlement of the patent infringement litigation. These four generic pipeline products (including Adalat CC) had aggregate U.S. sales of approximately $1.1 billion (including generics) for the twelve months ended September 30, 1999. Once approved, these products will be marketed in the United States by Teva. In addition, we market a generic version of Verelan through our licensee Teva as a result of our agreements with Mylan. Pursuant to this agreement, Mylan will manufacture all of our requirements for Verelan until we receive product approval from the FDA for our generic version of Verelan. See "—Generic Product Pipeline—Generic Version of Verelan."

In July 1997, we formed Intelligent Polymers primarily to develop once-daily controlled-release versions of selected drugs which are currently marketed only in immediate-release form or in controlled-release form requiring multiple daily dosing. The chemical patents and/or exclusivity periods for these drugs have or will have expired upon the anticipated date of receipt of FDA marketing approval for the once-daily controlled-release formulations to be developed. We are developing certain products pursuant to contractual arrangements with Intelligent Polymers. We will have the right to manufacture and market such products, as licensee, under distinct

brand names and not as generics. In a $75 million initial public offering in October 1997, 100% of the common shares of Intelligent Polymers were sold to the public. We own 100% of the special shares of Intelligent Polymers, which allows us, at any time prior to October 2002, to buy all, but not less than all, of Intelligent Polymers' common shares from the public holders with cash, our stock, or a combination of both. Intelligent Polymers does not perform any research or other activities on its own behalf. We perform all such activities on behalf of Intelligent Polymers under a development contract. See "—Branded Product Pipeline—Development Contract."

In December 1998, we entered into a multi-faceted ten-year agreement with Lundbeck for the development of a novel controlled-release formulation of the anti-depressant citalopram, marketed under the trademark Celexa in the United States. Under the agreement, we will develop, manufacture and supply a controlled-release version of citalopram for commercial sale by Lundbeck or its licensees worldwide. In exchange, Lundbeck will pay us product development fees and an agreed upon supply price upon commercialization of the controlled-release citalopram product.

Our marketing division, Crystaal, performs sales and marketing activities in Canada for our products as well as for products licensed from third parties. Crystaal is dedicated to providing high quality, cost effective branded pharmaceuticals to Canadian health care professionals and their patients. Crystaal's product portfolio strategy is to focus on drugs for the primary care market, therapies for the acute care market and drugs for the treatment of central nervous system and neurological disorders. All three areas represent rapidly growing market segments. We believe our strategy of acquiring exclusive licenses from third parties to sell branded drug products, combined with our portfolio of existing and future controlled-release branded products, provides Crystaal with an opportunity to become a significant marketing presence in the Canadian market.

We also have a full-service CRD which provides clinical research and laboratory testing services for our product development projects and for third-party international and domestic pharmaceutical companies. The CRD includes a full-service bioanalytical laboratory which performs specialized bioanalytical and quality control testing and method development as well as other laboratory services. The CRD can also provide support services to its clients in the area of quality control. The CRD operates in a facility that includes a fully equipped bioanalytical laboratory, a department of biopharmaceutics and statistical analysis and a live-in 200-bed study clinic.

We intend to selectively pursue strategic investments and alliances with small to medium-sized pharmaceutical companies that require additional capital to sustain specific NCE projects in the advanced stages of development as well as to fund the completion of development of novel products utilizing advanced drug delivery systems. In exchange for our investments, we expect to acquire various rights, options and licenses with respect to the manufacturing and marketing of drugs and technologies derived from these projects.

Industry Overview

Controlled-release products are formulations which release bio-active drug compounds in the body gradually and predictably over a 12 to 24 hour period and which therefore only need to be taken once or twice daily. Controlled-release products typically provide numerous benefits over immediate-release drugs, including (1) greater effectiveness in the treatment of chronic conditions resulting from a more consistent delivery of medication over time; (2) reduced side effects; (3) greater convenience (only taken once or twice a day); and (4) higher levels of patient compliance due to a simplified dosing schedule. We believe that the total prescription drug market in the United States was approximately $106 billion for the twelve months ended September 30, 1999, while the oral controlled-release segment of this market was approximately $7.9 billion for that period.

In general, pharmaceutical companies are under pressure to begin marketing a drug as soon as it is developed in order to recoup significant research costs and to secure early entry into the market. In addition, there are significant technical barriers associated with the development of controlled-release drugs. As a result, pharmaceutical companies typically have not spent the time required to develop a controlled-release version of a product while their immediate-release version is under patent, despite the therapeutic advantages of controlled-release drugs versus their immediate-release counterparts.

When a new drug product is developed, the innovator company typically applies for and is granted a product patent which expires on the date which is 20 years from the first date a patent application was filed (or, for patents in force on, or that result from a patent application filed before, June 8, 1995, the later of such date and the date 17 years from the date a patent is issued). Because no other company can, without authorization, make, use, sell, import or offer for sale a generic version of such original branded product until the chemical patent on such drug product expires, the innovator has a monopoly during the patent period on marketing a branded product. Once the chemical patent (and, if applicable, the exclusivity period) expires, other companies may be able to market a generic version of that branded product if no other patents apply and regulatory approval is obtained.

If the generic product is bioequivalent to the reference product, it can be substituted by pharmacists for the reference branded product prescribed by physicians. Increasingly, pharmacists are substituting a branded product with a generic because generic products are generally sold at a discount to the corresponding branded product. Although discounted relative to branded products, controlled-release generic products have not typically been subject to the deep price discounts of immediate-release generics. Generic substitution is commonly required by MCOs, HMOs and other third-party payors.

Branded products that include the same chemical compound as the original branded products, but are not generic versions of these brands, may also be approved by the FDA. This approval is on the basis of the more extensive regulatory procedures applicable to branded products. Once such products are approved, they may be marketed as distinct brands in competition for doctors' prescriptions against other brand name products upon expiration of the applicable chemical patent on the drug compound used in the original branded products, assuming the product does not violate any other patent. We believe that there is a significant opportunity for the marketing of products approved as branded once-daily controlled-release versions of products currently available only in an immediate-release form (or in a controlled-release form requiring multiple daily dosing) and whose patents or exclusivity period have or will have expired upon the anticipated date of receipt of FDA marketing approval. Excluding Procardia XL (which we acquired from Intelligent Polymers in December 1999), the products we are developing on behalf of Intelligent Polymers are of this sort.

There are approximately 60 oral controlled-release branded products that have been approved for sale in the United States by the FDA. By the end of 2000, the patent and exclusivity periods will have expired on 95% of these products. Because of the technological barriers associated with the development of controlled-release drugs, there has not been the same proliferation of generic drugs in the controlled-release segment as in the immediate-release segment of the industry.

When an application for a new branded drug formulation (as opposed to a generic) is approved by the FDA (a NDA), it may be granted a three-year exclusivity period under the Waxman-Hatch Act, during which time it is protected from generic competition. For example, Tiazac® was approved in September 1995 and its exclusivity period expired in September 1998. One generic drug manufacturer has submitted an application for a generic version of Tiazac® with the FDA through an ANDA. We have commenced a legal action for patent infringement, which automatically bars the FDA from granting approval for an additional 30 months, subject to earlier resolution of legal issues. Other than awaiting the expiration of the Tiazac® patent and exclusivity, the only way a generic applicant can avoid triggering the 30-month moratorium is by not seeking approval as a generic equivalent of Tiazac® through an ANDA, but by seeking approval as a branded drug by filing an NDA under Section 505 (b)(1) of the Federal Food, Drug, and Cosmetic Act (the "**FDC Act**"), which is more expensive and costly to prepare than an ANDA.

Under the FDC Act, the first filer of a generic product is entitled to receive 180 days of market exclusivity. Subsequent filers of generic products would be entitled to market their approved product six months after the earlier of the first commercial marketing of the first filer's generic product or a successful defense of a patent infringement suit.

Technology

We have six proprietary drug delivery technologies which we use to develop controlled-release and rapid dissolve products. These technologies enable us to develop both branded and generic pharmaceutical products. Our formulations for these products are either patented or proprietary. Accordingly, other generic

manufacturers may be inhibited from duplicating products because of our patented or proprietary rights or because of the difficulty of duplicating our formulations.

Oral controlled-release technology permits the development of specialized oral drug delivery systems that improve the absorption and utilization by the human body of a variety of pharmaceutical compounds. Release patterns are characterized as zero order, which indicates constant release over time, or first order, which indicates decreasing release over time. These systems offer a number of advantages, in particular, allowing the patient to take only one or two doses a day. This, combined with enhanced therapeutic effectiveness, reduced side effects, improved compliance and potential cost effectiveness, makes controlled-release drugs ideally suited for the treatment of chronic conditions.

Our controlled-release technologies can provide a broad range of release profiles, taking into account the physical and chemical characteristics of a drug product, the therapeutic use of the particular drug and the optimal site for release of the basic drug in the gastrointestinal tract (the "**GI tract**"). The objective is to provide a delivery system allowing for a single dose per 12 to 24 hour period, while assuring gradual and controlled-release of the subject drug at a suitable location(s) in the GI tract.

Our rapid dissolve formulations contain the same basic chemical compound found in the original branded products. The dry compounds are encapsulated in microspheres utilizing our CEFORM® technology. Our Shearform® technology is used to produce matrices that are subsequently processed into amorphous fibers which, when blended with the CEFORM® microspheres, are compressed into rapid dissolve formulations including Flash Dose® tablets. The benefits of rapid dissolve formulations include the ease of administration for the elderly, young children or people with disease states who may have difficulty swallowing tablets or capsules.

We use six proprietary drug delivery platforms, described below, involving matrix tablets or multiparticulate beads in capsules. These platforms are capable of delivering a wide variety of drug compounds in controlled-release and rapid dissolve oral dosage formulations.

Dimatrix

Dimatrix is a diffusion controlled matrix technology for water soluble drugs in the form of tablets. The drug compound is uniformly dispersed in a polymer matrix. The mechanism of release involves the swelling of polymers within the matrix, thus enabling the drug to be dissolved and released by diffusion through an unstirred boundary layer. The release pattern is characterized as first order as the rate of drug diffusion out of the swollen matrix is dependent upon the concentration gradient.

Macrocap

Macrocap consists of immediate-release beads made by extrusion/spheronization/pelletization techniques or by layering powders or solutions on nonpareil seeds. Release modulating polymers are sprayed on the beads using various coating techniques. The coated beads are filled in hard gelatin capsules. Drug release occurs by diffusion associated with bioerosion or by osmosis via the surface membrane. The release mechanism can be pH activated or pH independent. The beads can be formulated to produce first order or zero order release.

Consurf

Consurf is a zero order drug delivery system for hydrophilic and hydrophobic drugs in the form of matrix tablets. The drug compound is uniformly dispersed in a matrix consisting of a unique blend of polymers. The mechanism of release involves the concurrent swelling and erosion of the matrix such that a constant surface matrix area is maintained during transit through the GI tract, resulting in zero order release.

Multipart

Multipart consists of a tablet carrier for the delivery of controlled-release beads which preserves the integrity and release properties of the beads. The distribution of the beads is triggered by disintegration of the tablet carrier in the stomach. Drug release from the beads can be pH activated or pH independent and can occur by disintegration or osmosis. The beads can be formulated to produce first or zero order release.

CEFORM®

CEFORM® is a microsphere technology used to produce uniformly sized and shaped microspheres of a wide range of pharmaceutical compounds. The microspheres are nearly perfectly spherical in shape, typically have a diameter of 150 - 180 microns, and allow for high drug content. CEFORM® microspheres are produced using a continuous, single-step and solvent-free manufacturing process that can be used to formulate drugs that are generally thermally unstable because of the very brief application of heat and the wide range of temperatures which can be used in the manufacturing process. Depending on the desired release characteristics and oral dosage format, CEFORM® microspheres can be formulated for controlled-release, enhanced absorption, and taste masking.

Shearform®

Shearform® is used to produce matrices of saccharides, polysaccharides, or other carrier materials that are subsequently processed into amorphous fibers or flakes and recrystallized to a predetermined level. This process is used to produce rapid dissolve formulations, including Flash Dose®. Shearform® can also be applied to food product ingredients to provide enhanced flavoring.

Licensed and Marketed Products

We have developed fifteen controlled-release drugs which are currently marketed through licensees and, in the case of Tiazac®, directly in Canada through our marketing division Crystaal. Of these fifteen drugs, we manufacture four, Tiazac® and generic formulations of Trental, Cardizem CD and Voltaren XR, under supply agreements with our licensees. We also market one, Verelan, under agreements with Mylan pursuant to which Mylan will manufacture all of our requirements for Verelan until our version of the product is approved. See "—Generic Product Pipeline—Generic Version of Verelan." The remaining drugs are manufactured by licensees.

The following table sets forth the sixteen controlled-release products (including Verelan) that are currently licensed and marketed. These formulations have been designed for once-daily dosing unless otherwise specified. Except for Tiazac®, which is our registered trademark, the trade names for the pharmaceutical products described below and elsewhere in this prospectus are the property of (and may be registered trademarks of) our licensees and marketing partners or others.

Products	Chemical	Indication	Principal Licensee
Manufactured by Biovail			
Tiazac®	Diltiazem	hypertension/angina	Forest (U.S.), various international licensees
Trental (generic version)	Pentoxifylline	peripheral arterial disease	Teva (U.S.)
Cardizem CD (generic version)	Diltiazem	hypertension/angina	Teva (U.S.)
Voltaren XR (generic version)	Diclofenac	osteoarthritis/ rheumatoid arthritis	Teva (U.S.)

Products	Chemical	Indication	Principal Licensee
Manufactured by Others			
Oruvail	Ketoprofen	arthritis	Wyeth-Ayerst Laboratories (U.S.)
Norpace(1)	Disopyramide	ventricular arrhythmias	G.D. Searle (U.S.)
Theo-24	Theophylline	asthma and bronchitis	UCB Pharma (U.S.)
Isoket Retard	Isosorbide Dinitrate	angina	Schwarz Pharma (Germany)
Elantan Long	Isosorbide-5-Mononitrate	angina	Schwarz Pharma (Germany)
Sirdalud CR	Tizanidine	spasticity management	Novartis (Switzerland)
Gastro-Timelets	Metoclopramide	gastric reflux	Temmler (Germany)
Novagent	Ibuprofen	arthritis	Temmler (Germany)
Beta-Timelets	Propanolol	hypertension/angina	Temmler (Germany)
Tiamon Mono	Dihydrocodeine	pain management	Temmler (Germany)
Regenon Retard	Diethylpropion	obesity therapy	Temmler (Germany)
Verelan(2) (generic version)	Verapamil	hypertension/angina	Teva (U.S.)

(1) Twice-daily dosing.

(2) Under agreement with Mylan, Mylan will manufacture all of our requirements for Verelan until approval of our version of the product.

Tiazac®

Our principal product is currently Tiazac®, accounting for approximately 43.8% of our total revenues for the year ended December 31, 1999. No other product individually accounted for 10% or more of our revenue base during such period. During this period, all revenue related to Tiazac® was generated through our licensing agreements with Forest and European licensees and sales made by Crystaal.

Tiazac® belongs to a class of drugs used in the treatment of hypertension and angina called calcium channel blockers, which generated U.S. sales of $3.9 billion for the twelve months ended September 30, 1999. Within the market for calcium channel blockers, diltiazem-related once-daily products accounted for approximately $998 million of U.S. sales for the twelve months ended September 30, 1999, the largest portions of which are represented by Cardizem CD ($729 million, including generics) and Dilacor XR ($115 million, including generics). Tiazac® is another once-daily branded diltiazem product. Since we introduced Tiazac® in the United States in February 1996, Tiazac®'s market share has increased as a percentage of total prescriptions in the U.S. once-daily diltiazem market, to approximately 16% by the end of 1999. There can be no assurance that such levels of growth can be sustained.

Tiazac® has several advantages over other formulations of diltiazem, including (1) a much smaller capsule size; (2) a wider dosing range (approved for a maximum daily dose up to 540 mg); (3) lower pricing; and (4) labeling which specifically permits physicians to switch patients to Tiazac® from Cardizem CD at the nearest equivalent daily dose. An NDA for Tiazac® was approved by the FDA in September 1995 and by Health Canada's Therapeutic Products Program ("**TPP**") in April 1997.

We licensed the right to market Tiazac® in the United States to Forest in September 1995 and the formal product launch took place in February 1996. Our license agreement with Forest provides us with a royalty payment of 8% of net sales for 16 years, commencing December 1995. In addition, under our 16-year supply agreement with Forest, we act as the exclusive manufacturer of Tiazac® and receive contractually determined manufacturing fees.

In Canada, Crystaal currently markets Tiazac® through its field force consisting of over 70 representatives, under the direction of a marketing and sales management team located at our headquarters in Mississauga, Ontario, Canada. Tiazac® has been accepted on the provincial drug formularies in each of the provinces of Canada, thereby making it eligible for reimbursement by the provincial government health plan in all provinces.

Tiazac® is marketed under the trade name Viazem XL and under other trademarks in Europe. It is licensed to Stada in the United Kingdom and Ireland; Stada, Ratiopharm GmbH and Heumann GmbH in Germany; Zambon B.V. in The Netherlands; A/S GEA Farmaceutisk Fabrik in Denmark, Sweden and Finland and Crinos S.p.A. in Italy. We have also licensed the product to two companies in South America and a company in Australia.

Pentoxifylline

A three times a day timed-release formulation of pentoxifylline, introduced in September 1994 by Hoechst Marion Roussel, is marketed in the United States under the trade name Trental. Trental is used in the treatment of patients with peripheral vascular disease. U.S. sales of Trental and generic formulations of pentoxifylline were approximately $93 million in the twelve months ended September 30, 1999. Competitors' generic versions of Trental were launched in August 1997. We received approval of our generic version of Trental in July 1998 and market this product in the United States through our licensee, Teva.

Diltiazem

A three to four times daily immediate-release formulation of diltiazem, introduced in November 1982 by Hoechst Marion Roussel, is marketed in the United States under the brand name Cardizem. Hoechst Marion Roussel introduced a controlled-release once daily version in August 1992 under the brand name Cardizem CD. U.S. sales of Cardizem CD were approximately $729 million (including generics) for the twelve months ended September 30, 1999. We received approval of our generic version of Cardizem CD in December 1999 and we market this product in the United States through our licensee, Teva. Tiazac®, although a once-daily diltiazem formulation, is not a generic for Cardizem CD because it has a different release profile and is marketed as a branded version of diltiazem, not as a generic for Cardizem CD. As a result, we believe that our introduction of a generic for Cardizem CD will not significantly impact Tiazac® sales, but will instead erode sales of branded Cardizem CD.

Diclofenac

A two to three times daily delayed-release enteric coated formulation of diclofenac, introduced in July 1988 by Ciba-Geigy Corporation, is marketed in the United States under the brand name Voltaren. Ciba-Geigy Corporation received approval from the FDA for a controlled-release version and began marketing this product in April 1996 under the brand name Voltaren XR. U.S. sales of Voltaren XR were approximately $98 million for the twelve months ending September 30, 1999. Today the marketer of Voltaren XR is Novartis Pharmaceuticals Corporation as a result of the Ciba-Geigy Corporation/Sandoz Pharmaceuticals Corporation merger. We received approval for our generic version of Voltaren XR in February 2000 and market this product in the United States through our licensee, Teva.

Other Branded Products

In addition to Tiazac®, we have formulated eleven other branded oral controlled-release products. We have licensed these products to marketing partners and receive royalties of approximately 3% of the licensee's net sales of such products. This royalty rate reflects the fact that these drugs were licensed before clinical trials had been completed and, as a result, significant development risks were shared by the licensees.

The most significant product in this group is Oruvail, a controlled-release formulation of ketoprofen used in the treatment of rheumatoid arthritis and osteoarthritis, chronic conditions that we believe affect an estimated 38 million people in the United States alone. Oruvail is the world's first once-daily pH-dependent nonsteroidal anti-inflammatory drug. Oruvail is internationally established as an effective anti-arthritic treatment and is currently marketed by our licensees, Wyeth-Ayerst Laboratories in the United States and Rhone-Poulenc Rorer in other countries. In the United States, sales of Oruvail (including generics) were approximately $64.4 million for the twelve months ended September 30, 1999. Biovail's Oruvail, sold by Wyeth-Ayerst Laboratories, accounted for 61% or $39.6 million of the total amount of Oruvail (including generics) sold in the United States during that period.

Generic Product Pipeline

We have a pipeline of fourteen generic versions of branded controlled-release and rapid dissolve products, including Procardia XL, which we acquired from Intelligent Polymers in December 1999. We have filed ANDAs for four of our generic products with the FDA, one of which (Adalat CC) has received tentative approval. Collectively, the branded versions of these four products generated approximately $1.1 billion in U.S. sales in the twelve months ended September 30, 1999.

The eight controlled-release drugs in our generic product pipeline are used primarily in the treatment of chronic conditions in the cardiovascular and bone and joint disease areas and for pain management, conditions for which controlled-release formulations provide significant clinical and economic benefits.

We expect to price our generic products at a discount to branded products. However, because of the technological barriers associated with developing controlled-release products, we do not expect our generic products to experience as much price erosion as immediate-release generic products, which are easier to duplicate.

The following chart presents information for the twelve months ended September 30, 1999 with respect to the branded versions of the four ANDAs that we have filed with the FDA.

Currently Marketed Brand Name	Filing Date	Indication	Total U.S. Product Sales (in millions)
Verelan(1)	1997	angina, hypertension	$ 91(2)
Procardia XL(3)	1998	angina, hypertension	539
Adalat CC(4)	1998	hypertension	372
Dilacor XR	1998	angina, hypertension	115(2)

(1) We are marketing this product under agreement with Mylan. See "—Generic Version of Verelan."

(2) Includes generic versions.

(3) We acquired this product from Intelligent Polymers in December 1999.

(4) We have received tentative approval from the FDA for this product. See "—Generic Version of Adalat CC."

Generic Version of Verelan

A three to four times daily immediate-release formulation of verapamil, originally introduced in March 1982 by Knoll Pharmaceuticals, is marketed in the United States. Lederle Laboratories received approval for a controlled-release version in May 1990 and markets the product under the brand name Verelan. U.S. sales of Verelan were approximately $91 million (including generics) for the twelve months ended September 30, 1999.

We filed an ANDA for the generic version of Verelan in the second quarter of 1997. In March 1999, we entered into agreements with Mylan for the marketing of all dosages of a generic version of Verelan using our ANDA first filer status and Mylan's product approval, which was granted on April 22, 1999. Mylan will manufacture all of our requirements for Verelan until our product approval. We market this product through our licensee, Teva, and Mylan independently markets and prices this product on its own behalf.

Generic Version of Procardia XL

A three to four times daily immediate-release formulation of nifedipine, introduced in January 1982 by Pfizer, is marketed in the United States under the brand name Procardia. Pfizer introduced a controlled-release version in September 1989 under the brand name Procardia XL. U.S. sales of Procardia XL were approximately $539 million for the twelve months ended September 30, 1999.

We developed our generic version of Procardia XL on behalf of Intelligent Polymers that includes multiple strengths and filed an ANDA in the first quarter of 1998. Prior to such filing, Mylan filed an ANDA for the

30 mg. strength only. In December 1999, we exercised an option to acquire this product from Intelligent Polymers by paying $25.0 million.

Generic Version of Adalat CC

A three to four times daily immediate-release formulation of nifedipine, introduced in January 1985 by Bayer, is marketed in the United States under the brand name Adalat. Bayer received approval from the FDA for a controlled-release version in April 1993 and markets the product under the brand name Adalat CC. U.S. sales of Adalat CC were approximately $372 million for the twelve months ended September 30, 1999.

We received tentative approval from the FDA in June 1999 for our 30 mg. and 60 mg. generic versions of Adalat CC. Tentative approval means that the scientific aspects of the product have been approved by the FDA. We were the first company to file an ANDA for the 60 mg. strength of Adalat CC and will therefore be entitled to 180 days of marketing exclusivity. Elan Corporation plc was the first to file an ANDA for the 30 mg. strength. We have entered into an agreement with Elan giving us exclusive marketing rights for the United States for Elan's generic versions of Adalat CC in return for certain upfront payments and future royalties. We will thus be able to launch a 30 mg. Adalat CC product, which we intend to do through Teva, six months earlier than previously scheduled.

Generic Version of Dilacor XR

A once daily controlled-release formulation of diltiazem, introduced in June 1992 by Rhone-Poulenc Rorer, Inc., is marketed in the U.S. by Watson Pharmaceuticals, Inc. under the brand name Dilacor XR. U.S. sales of Dilacor XR were approximately $115 million (including generics) for the twelve months ended September 30, 1999.

We filed an ANDA for the generic version of Dilacor XR in the third quarter of 1998.

Branded Product Pipeline

In July 1997, we formed Intelligent Polymers primarily to develop once-daily controlled-release branded versions of selected drugs whose chemical patents and/or exclusivity periods have or are about to expire and which are currently marketed (1) only in immediate-release form or (2) in controlled-release form requiring multiple daily dosing. We expect that such products will be marketed under distinct brand names. In an initial public offering in October 1997, 100% of the common shares of Intelligent Polymers were sold to the public. At any time prior to October 2002, as the holder of a class of special shares of Intelligent Polymers, we have the right to buy from the public holders all, but not less than all, of Intelligent Polymers' common shares with cash, our stock or a combination of both. Intelligent Polymers does not perform any research or other activities on its own behalf, but rather contracts with us to perform all such activities pursuant to the terms of the Development Contract (as defined below).

In December 1998, we entered into a multi-faceted ten-year agreement with Lundbeck for the development of a novel controlled-release formulation of the anti-depressant citalopram, marketed under the trademark Celexa in the United States. Under the agreement, we will develop, manufacture and supply a controlled-release version of citalopram for commercial sale by Lundbeck or its licensees worldwide. In exchange, Lundbeck will pay us product development fees and an agreed upon supply price upon commercialization of the controlled-release citalopram product.

We are working to develop once-daily controlled-release branded versions of the following compounds which had aggregate U.S. sales of approximately $2.9 billion for the twelve months ended September 30, 1999.

Compound	Currently Marketed Brand Name	U.S. Marketer	Indication	Total U.S. Product Sales (in millions)
Bupropion	Wellbutrin/Zyban	Glaxo Wellcome	depression, smoking cessation	$700
Buspirone	Buspar	Bristol-Myers Squibb	anxiety, depression	512
Metformin	Glucophage	Bristol-Myers Squibb	diabetes	978
Tramadol	Ultram	Johnson & Johnson	chronic pain	434
Citalopram	Celexa	Forest	depression	239(1)

(1) Product sales from October 1998 (when the product was launched in the United States) to September 30, 1999.

Bupropion

A four times daily immediate-release formulation of bupropion, introduced in July 1989 by Glaxo is marketed in the United States under the brand name Wellbutrin. In addition, a twice-daily controlled-release formulation of bupropion, introduced in November 1996 by Glaxo, is marketed in the U.S. under the brand name Zyban for use as an aid in smoking cessation. U.S. sales of Wellbutrin/Zyban were approximately $700 million for the twelve months ended September 30, 1999.

Indication: Bupropion is indicated for the symptomatic relief of depressive illness. Major depression is frequently encountered by patients of primary care physicians. Depression may occur in neurosis as well as in mood disorders and is a manifestation of major psychiatric illness. Bupropion is also indicated in the United States for use as an aid in smoking cessation.

Clinical Efficacy: Bupropion has been proved to be effective in the treatment of depression. An open, uncontrolled study of 3,167 patients at 105 sites showed that functional status improved in patients treated with Wellbutrin SR for up to 56 days. This improvement was highly correlated with improvement in clinical symptoms.

Bupropion can also be used in conjunction with other anti-depressant drugs. When combined with another class of anti-depressants, specified neurotransmitter modulators ("**SNMs**"), in 27 patients, greater symptomatic improvement was found in 19 (70%) of those 27 subjects during a combined daily use of bupropion with an SNM (Prozac-equivalent) than with either drug alone.

Intelligent Polymers' once-daily controlled-release formulation of bupropion seeks to significantly improve upon the existing sustained release formulation by providing sustained plasma levels with better control of symptoms and improved compliance with convenient once-a-day dosing. Clinically, it is important that symptoms in the depressed patient be adequately controlled as compliance is a major concern in these patients.

In a study with children with attention deficit disorder with hyperactivity ("**ADDH**"), the results indicated that bupropion may also be a useful addition to available treatments for ADDH.

In addition, bupropion has been demonstrated to be an effective aid in smoking cessation. In a placebo-controlled trial comparing transdermal nicotine, and sustained-release bupropion, and a combination of both transdermal nicotine and sustained-release bupropion in 893 patients for nine weeks, smoking cessation rates were 20% with placebo, 32% with nicotine alone, 46% with bupropion alone and 51% with both transdermal nicotine and bupropion.

Market Size: The largest segment in the anti-depressant market is represented by SNMs (with which Bupropion is used in combination or with which it competes) which had U.S. sales of approximately $5.9 billion for the twelve months ended September 30, 1999. The anti-depressant market consists of four major drug categories: tricyclic anti-depressants, monoamine oxidase inhibitors, anti-mania drugs and SNMs. Major marketed brands include Tofranil (imipramine), Prozac (fluoxetine), Paxil (paroxetine), Luvox (fluoxamine) and Zoloft (sertaline). The smoking cessation market reached $396 million for the twelve months ended

September 30, 1999. Major marketed brands of smoking cessation products include nicotine products such as Nicoderm, Habitrol, Nicorette, Nicotrol and Prostep.

Buspirone

A three times daily immediate-release formulation of buspirone, introduced in October 1986 by Bristol-Myers Squibb Company, is marketed in the United States under the brand name Buspar. U.S. sales of Buspar were approximately $512 million for the twelve months ended September 30, 1999. We recently initiated Phase III clinical trials for our controlled-release formulation of buspirone.

Indication: Buspirone is indicated for the short-term symptomatic relief of excessive anxiety in patients with generalized anxiety disorder ("**GAD**"), which is also known as anxiety neurosis. GAD is a neurotic disorder characterized by chronic unrealistic anxiety often punctuated by acute attacks of anxiety or panic. Anxiety is a symptom of almost all psychiatric disorders and is encountered in day-to-day practice by both the general practitioner and the psychiatrist.

Clinical Efficacy: Controlled studies suggest that buspirone is effective in treating GAD and that, unlike other anti-anxiety drugs, tolerance to the therapeutic effect of buspirone does not develop. In one study involving 121 patients, buspirone was found to be effective in improving both anxiety and depressive symptoms in GAD patients. Another study showed that buspirone was more effective and had fewer side effects than lorazepam, a competing drug, and that, unlike patients treated with lorazepam, those treated with buspirone did not exhibit rebound anxiety. Given its effectiveness in treating symptoms of depression associated with GAD, buspirone is also an effective and well tolerated drug for the treatment of depressive disorders.

Market Size: The anti-anxiety market had approximately $1.2 billion in U.S. sales for the twelve months ended September 30, 1999, of which buspirone was the market leader. Due to its efficacy in treating depressive symptoms in GAD patients, Buspirone also indirectly competes in the market for antidepressant drugs, including the market for SSRIs and SNRIs, which represented U.S. sales of approximately $5.9 billion for the twelve months ended September 30, 1999. Major anti-anxiety brands other than Buspar include Xanax (alprazolam), Librium (chlordiazepoxide), Valium (diazepam), Ativan (lorazepam), Serax (oxazepam) and Atarax (hydroxyzine).

Metformin

A two to three times daily immediate-release formulation of metformin, introduced in April 1995 by Bristol-Myers Squibb Company, is marketed in the United States under the brand name Glucophage. U.S. sales of Glucophage were approximately $978 million for the twelve months ended September 30, 1999.

Indication: Metformin is indicated for the treatment of diabetes mellitus which cannot be controlled by proper dietary management, exercise and weight reduction or when insulin therapy is not appropriate. Diabetes is a common disorder in which there are inappropriately elevated blood glucose levels and a variety of end organ complications leading to impaired kidney function and accelerated atherosclerosis.

Clinical Efficacy: Clinical advantages of metformin include achieving control of elevated blood sugar levels without exacerbating weight gain, which is a common side effect of other anti-diabetic treatments. Metformin differs from the sulfonylureas in that it does not elevate insulin secretion and does not produce abnormally low blood sugar levels.

In controlled trials, metformin has shown efficacy in lowering elevated blood sugar levels in the treatment of diabetes mellitus. In one such study of 289 obese patients with non-insulin dependent diabetes, poorly controlled with diet, the patients were given metformin or a placebo. Blood sugar levels were on average 29% lower in patients receiving metformin than in patients receiving a placebo. Furthermore, total cholesterol, LDL, and triglyceride concentrations decreased in patients receiving metformin, but did not change in patients receiving a placebo.

Market Size: The oral anti-diabetic market represented approximately $2.4 billion in U.S. sales for the twelve months ended September 30, 1999. Major anti-diabetic products other than Glucophage include Glucotrol XL (glipizide) and Glynase (glyburide).

Tramadol

A three to four times daily immediate-release formulation of tramadol, introduced in March 1995 by Johnson and Johnson, is marketed in the United States under the brand name Ultram. U.S. sales of Ultram were approximately $434 million for the twelve months ended September 30, 1999.

Indication: Tramadol is indicated for the treatment of a variety of pain syndromes, including management of moderate to moderately severe chronic pain associated with cancer and other terminal illnesses. Pain is a common symptom of many diseases and is generally seen in everyday clinical practice.

Clinical Efficacy: Tramadol is one of a number of narcotic (opioid) analgesics, which are among the most effective and valuable medications for the treatment of chronic pain. Tramadol's minimal propensity to induce typical opioid adverse effects is an advantage over other morphine-like agents. For example, relative to Morphine, tramadol causes less dependence and less respiratory depression. Tramadol also appears to be a promising drug for post-operative pain relief.

In an article published in the American Journal of Medicine, the author concluded that, based on clinical experience, tramadol appears to have a low potential for abuse or addiction. Results from U.S. and European studies indicated that tramadol is an effective analgesic that may have a particularly important role in the management of chronic pain. Tramadol has been prescribed for almost two decades in Europe.

Two long-term safety studies conducted on patients with chronic, nonmalignant pain demonstrated the efficacy of tramadol in a variety of pain conditions.

Intelligent Polymers' once-daily controlled-release formulation of Tramadol seeks to provide sustained pain control, as compared to the immediate-release form. This would be especially useful to cancer or terminally ill patients who need analgesics as a 24-hour treatment.

Market Size: The combined market for narcotic and non-narcotic analgesics had U.S. sales of $2.3 billion for the twelve months ended September 30, 1999. The market for drugs for the relief of chronic pain consists of two major categories, narcotic and non-narcotic drugs.

Citalopram

An immediate-release formulation of the anti-depressant citalopram was launched in the United States in October 1998 and is marketed under the trademark Celexa in the United States by Forest. U.S. sales of Celexa were approximately $239 million for the eleven months ended September 30, 1999.

Indication: Citalopram is indicated for the treatment of depression, which is frequently encountered by patients of primary care physicians. Depression may occur in neurosis as well as in mood disorders and is a manifestation of major psychiatric illness.

Clinical Efficacy: Citalopram has been proved to be effective in the treatment of depression. Citalopram belongs to a class of drugs known as SSRIs. Clinical studies have shown that compared to many other SSRIs, citalopram has an improved side effect profile and a lower incidence of drug interactions when taken concurrently with other medications.

Market Size: Sales for the drug treatment of depression in the United States were $7.2 billion for the twelve months ended September 30, 1999. Citalopram sales accounted for 3.3% of this market. Citalopram is marketed under the names Cipramil and Seropram outside of the United States.

Development Contract

We have entered into a development and license agreement with Intelligent Polymers (the "**Development Contract**") under which we have agreed to use diligent efforts to conduct toxicity, formulation development and

clinical studies for, and pursue U.S. regulatory approval of, the branded products described above (other than citalopram). We consider the pricing structure of the Development Contract to be consistent with contractual relationships we have with other third parties and with industry standards.

Payments to us under the Development Contract are in an amount equal to the full amount of all development costs incurred by us in performing these activities plus a mark-up. Payments under the Development Contract will be limited to the maximum amount of funds available to Intelligent Polymers (which includes any licensing or marketing income earned by Intelligent Polymers and the $25.0 million received from the exercise of our option to purchase the generic version of Procardia XL). These payments will be reduced by working capital of $1.0 million to be retained by Intelligent Polymers and a reserve of $1.5 million for possible litigation relating to the generic version of Procardia XL (including any portion of the litigation reserve remaining after FDA approval of such product). All funds required to fund the development of these products were raised in the $75.0 million initial public offering of Intelligent Polymers' common shares in October 1997.

We will own all rights to the products which we develop for Intelligent Polymers pursuant to the Development Contract. We will cause to be filed any patent applications with respect to the products that we reasonably believe to be patentable and technically significant. Although our patents, pending patent applications, and any patents obtained in the future covering such products developed on behalf of Intelligent Polymers may be of importance to future operations, there can be no assurance that any additional patents will be issued or that any patents, now or hereafter issued, will be of commercial benefit. Furthermore, although we will own any patents granted, these patents will be subject to Intelligent Polymers' license (the "**License**") to manufacture or obtain manufacturing for (subject to our exclusive manufacturing period, right of first refusal and right of approval), sell and otherwise market and sublicense others to market throughout the world (other than in Canada) all products developed by us on behalf of Intelligent Polymers. The License will also apply to products developed under other arrangements if we fail to reach agreement as to any necessary additional funding.

Purchase Option

As the holder of all of the issued and outstanding special shares, par value $1.00 per share, of Intelligent Polymers, we have the right to purchase until September 30, 2002 all, but not less than all, of the common shares of Intelligent Polymers outstanding at the time our right is exercised (the "**Purchase Option**"). If the Purchase Option is exercised, the purchase price in the aggregate would be as follows:

If the Intelligent Polymers Common Shares are acquired pursuant to the Purchase Option:	Expected Purchase Option Exercise Price (in millions)	Price Per Share
Before October 1, 2000	$146.0	$39.06
On or after October 1, 2000 and on or before September 30, 2001	182.5	48.83
On or after October 1, 2001 and on or before September 30, 2002	228.1	61.04

Subject to obtaining any necessary regulatory approvals, the Purchase Option exercise price may be paid in cash or in our common shares, or any combination of cash and our common shares, in our sole discretion. Our common shares will be valued based upon the average of the closing prices for our common shares on the NYSE for the five trading days immediately preceding the date of the exercise notice.

Services Agreement

We have also entered into a services agreement (the "**Services Agreement**") with Intelligent Polymers pursuant to which we have agreed to provide management and administrative services to Intelligent Polymers for a quarterly fee of $100,000. The Services Agreement terminates one year after termination of the Purchase Option. In addition, Intelligent Polymers may terminate the Services Agreement at any time upon 90 days' notice. Either we or Intelligent Polymers may terminate the Services Agreement in the event that the other party (1) breaches any material obligation thereunder or under the Development Contract, which breach continues for 60 days after notice thereof, or (2) enters into any liquidation or bankruptcy proceedings.

Operations

Research and Development

Our staff of scientists has expertise in all aspects of the drug development process, from pre-formulation studies and formulation development to scale-up and manufacturing. We have successfully developed appropriate delivery systems for pharmaceutical compounds exhibiting a wide range of solubility and hydrophobicity characteristics.

Currently, our primary research and development (and administrative) facilities are located in Mississauga, Ontario, Canada. We are in the process of centralizing all of our research and development activities in our recently acquired Chantilly, Virginia facilities.

Manufacturing and Facilities

We currently operate two modern, fully-integrated pharmaceutical manufacturing facilities located in Steinbach, Manitoba, Canada and Carolina, Puerto Rico, respectively. Both facilities meet FDA-mandated good manufacturing practices and are inspected on a regular basis by U.S., Canadian and other regulatory bodies and our own auditing team to ensure compliance on an ongoing basis with such standards. Both manufacturing facilities are currently producing Tiazac® for distribution in the United States and Canada, and the Manitoba facility is producing our generic version of Trental for distribution in the United States. Our generic version of Cardizem CD is being produced in our Carolina, Puerto Rico facility and encapsulated in Steinbach, Manitoba. In addition, through the recent acquisition of Fuisz, we acquired research and manufacturing facilities in Chantilly, Virginia. The addition of the Chantilly, Virginia facilities provides us with a base for increased U.S. expansion opportunities.

We have also entered into an agreement for the acquisition of a 120,000 square foot manufacturing facility on 19 acres of land in Dorado, Puerto Rico. We are scheduled to take final possession of the Dorado facility in January 2001. We will have access to the Dorado facility during 2000 to conduct some scale-up manufacturing activities and to begin the process of transferring the manufacturing of some of our products currently manufactured in our Manitoba facility to our Dorado facility.

Our 75,000 square foot plant in Steinbach, Manitoba was constructed in 1994. Its manufacturing processes include (1) granulation and coating with solvents, bead extrusion and spheronization; (2) fluid bed drying and tableting; (3) high speed encapsulation with 100% quality control weight checks and (4) high speed automatic packaging lines.

The Carolina, Puerto Rico facilities total 34,000 square feet, including 23,000 square feet of manufacturing capacity and 11,000 square feet of additional leased warehouse space. This plant is specially constructed for the high volume production of controlled-release beads.

Contract Research Division

Our CRD provides us and other pharmaceutical companies with a broad range of clinical research services, including pharmacokinetic studies and bioanalytical laboratory testing. The CRD can also provide support services to its clients in the area of quality assurance.

Operating as an independent business unit with its own independent internal ethics review board, the CRD is located in a 33,000 square foot stand-alone facility owned by us and an 11,000 square foot facility leased by us, in each case located in Toronto, Ontario. These facilities include a fully equipped bioanalytical laboratory, a department of biopharmaceutics and statistical analysis and a live-in 200-bed study clinic.

To date, the CRD has designed and conducted in excess of 1,700 Phase I bioavailability, bioequivalence and drug interaction studies involving in excess of 180 pharmaceutical products. Therapeutic areas in which studies have been completed include cardiovascular, cardiopulmonary, bone and joint disease, pain management, infectious diseases, central nervous system, gastroenterology and endocrinology. In addition, the CRD is active and experienced in the design and implementation of Phase III and Phase IV clinical trials from protocol design and monitoring to completion of statistical reports.

The CRD includes a full-service bioanalytical laboratory which performs specialized bioanalytical and quality control testing and method development as well as other laboratory services for major regional and multinational pharmaceutical concerns. The laboratory is subject to full compliance with applicable regulations and standards required by United States, Canadian and certain other foreign regulatory bodies.

Marketing

Outside of Canada, we do not engage in direct marketing or sales of our products. Instead, we seek to enter into strategic licensing agreements with various regional and multinational pharmaceutical companies for the marketing and sale of our products in specified territories. While the specific terms of each license agreement vary, the agreements in general require the licensee to (1) purchase the product from us, (2) pay us a royalty fee based on a specific percentage of net sales and/or a share of the net profits from sales of the licensed products and (3) in certain circumstances pay a license fee for access to our technologies.

Forest Laboratories

We licensed the right to market Tiazac® in the United States to Forest in September 1995 and the formal product launch took place in February 1996. The license agreement with Forest provides for a royalty payment of 8% of its net sales of Tiazac® for a period of 16 years, commencing December 1995. In addition, under a 16-year supply agreement which also commenced December 1995, we act as the exclusive manufacturer of Tiazac® for Forest and receive contractually determined manufacturing fees.

Teva Pharmaceutical

In December 1997, we entered into an agreement with Teva for the development and marketing in the United States of eight identified and four to-be-identified generic oral controlled-release products. See "—Generic Product Pipeline." Of the eight identified products, generic versions of Trental, Cardizem CD and Voltaren XR have been approved by the FDA and ANDAs for four others have been filed with the FDA, including Adalat CC, for which we received tentative approval in June 1999. We will manufacture the products covered by this agreement and will share the profits, after deducting manufacturing costs and an allowance for selling and distribution expenses incurred by Teva.

We bear all costs and expenses for the development and registration of the eight identified products. Under the terms of the agreement, Teva was obligated to pay us an aggregate of $34.5 million, subject to certain milestones. Of the $34.5 million, $23.5 million related to reimbursement of research and development fees and $11.0 million related to the initial purchase of product, all of which have been earned and received.

International Marketing Alliances

Tiazac® is marketed under the trade name Viazem XL and under other trademarks in Europe. It is licensed to Stada in the United Kingdom and Ireland; Stada, Ratiopharm GmbH and Heumann GmbH in Germany; Zambon B.V. in The Netherlands; A/S GEA Farmaceutisk Fabrik in Denmark, Sweden and Finland and Crinos S.p.A. in Italy. We have also licensed the product to two companies in South America and a company in Australia.

In Canada, we have licensed exclusively the generic version of Cardizem CD to Novopharm Limited, and have licensed the generic versions of Trental, Verelan, Adalat XL and Cardizem SR to Technilab Pharma Inc.

Crystaal

Crystaal, our Canadian marketing and sales division, performs sales and marketing activities for our products as well as for products licensed from third parties worldwide. Crystaal is located at our headquarters in Mississauga, Ontario, Canada. Crystaal is dedicated to providing high quality, cost effective branded pharmaceuticals to Canadian health care professionals and their patients.

Crystaal has adopted a business strategy of acquiring licenses of third parties to sell branded drug products through strategic joint ventures and partnerships. We believe that this strategy, combined with our portfolio of existing and new controlled-release branded products, places Crystaal in an excellent position to become a

significant marketing presence in the Canadian market. Crystaal is the largest independent supplier of branded pharmaceutical products in Canada. Its competitors are other independent suppliers and divisions of large multinational pharmaceutical companies.

Crystaal's product portfolio strategy is to focus on drugs for the primary care market, therapies for the acute care market and drugs for the treatment of central nervous system and neurological disorders. All three therapeutic areas represent rapidly growing market segments, offering a multitude of opportunities for acquiring third party licenses.

The following table reflects products currently in Crystaal's portfolio and pipeline and the status of their respective new drug submission ("**NDS**") filings in Canada:

Product	Indication	Status
Retavase™ (reteplase recombinant)	acute myocardial infarction	Approved and marketed
Cardiac STATus™	diagnosis of myocardial infarction	Approved and marketed
Brexidol (β-cyclodextrin complex)	acute pain	Approved and marketed
Celexa (citalopram)	depression	Approved and marketed
Tiazac® (diltiazem CR)	hypertension, angina	Approved and marketed
Monocor (bisoprolol fumarate)	hypertension	To be marketed in Q2 2000
Attenade (d-methylphenidate)	Attention Deficit-Hyperactivity Disorder (ADDH)	NDS expected to be filed in Q2 2000
Corlopam (fenoldopam)	hypertension in hospitalized patients	NDS filed
Fibrostat™	treatment of scars following surgery and burns	NDS expected to be filed in late 2001
Ampligen®	Chronic Fatigue Syndrome (CFS)	NDS expected to be filed in Q4 2000

Crystaal co-promotes the immediate-release version of Celexa in collaboration with Lundbeck Canada Inc. Crystaal promotes Celexa to primary care physicians and will receive co-promotion fees for contributing to the marketing of Celexa in Canada.

In Canada, Crystaal markets Tiazac® through its field force consisting of over 70 representatives. Tiazac® has been accepted on the provincial drug formularies in each of the provinces of Canada, thereby making it eligible for reimbursement by the provincial government health plan in all provinces.

Patents and Proprietary Rights

We have not routinely sought patents on our controlled-release technology because (1) a significant number of our current products under development are generic drugs and, when another company files an ANDA which competes with any ANDA filed for a Biovail generic product, patent protection would not afford any benefits (which normally accrue to NDA holders) and (2) the filing of certain patents may provide potential competitors with information relating to proprietary technology which may enable such competitors to exploit information related to such technology which is not within the confines of the protection of the patent. Historically, we have relied on trade secrets, know-how and other proprietary information. While certain of our licensors have sought patents on controlled-release technology licensed to us, there can be no assurance that any patents will be issued or, if issued, that the manufacture, use, sale, importation or offer for sale of such patented matter will not infringe upon other patents or technology. Our ability to compete effectively with other companies will depend, in part, upon our ability to maintain the proprietary nature of our technology and to avoid infringing patents of others. To protect our rights in these areas, we require all licensors, licensees and significant employees to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of such trade secrets, know-how or other proprietary information.

Competition

The pharmaceutical industry is highly competitive and subject to rapid and significant technological change. Our products face competition from both conventional forms of drug delivery and from controlled-release drug delivery systems developed, or under development, by other pharmaceutical concerns. Many of these competitors have greater financial resources and marketing capabilities than we have. Our competitors are numerous and include, among others, major pharmaceutical and chemical companies, including, without limitation, some of the licensees (or potential licensees) of our products, specialized contract research and research and development firms, universities and other research institutions. We believe that our controlled-release technology, combined with our strategy of funding and controlling all or most aspects of our controlled-release pharmaceutical business will provide the cost savings, efficiencies in product development and acceleration of regulatory filings necessary for us to compete effectively with such firms and institutions. Our competitors, however, may succeed in developing technologies and products that are as, or more, clinically or cost-effective than any that are being developed or licensed by us or that would render our technologies and products obsolete or uncompetitive. In addition, certain of our competitors have greater experience than us in clinical testing and human clinical trials of pharmaceutical products and in obtaining FDA and other regulatory approvals.

Regulatory Affairs and Quality Assurance

Our Corporate Regulatory Affairs Department performs a key role in every aspect of the development and registration of each product and has prepared product submissions for regulatory agencies in the United States, Canada, the United Kingdom and the European Union. This department also coordinates all data and document management, including amendments, supplements and adverse events reporting. Our Quality Assurance Department seeks to ensure that all stages of product development and production fully comply with Good Clinical, Laboratory and Manufacturing Practices.

Employees

As of February 29, 2000, we had 703 employees (including 150 part-time employees).

Properties

We own and lease space for manufacturing, warehousing, research, development, sales, marketing, and administrative purposes. We own two modern, fully-indegrated pharmaceutical manufacturing facilities: one in Steinbach, Manitoba, Canada totaling 75,000 square feet and the second in Carolina, Puerto Rico totaling 34,000 square feet. In addition, through the recent acquisition of Fuisz, we acquired research and manufacturing facilities in Chantilly, Virginia totaling approximately 24,000 square feet. Our CRD is located in a 33,000 square foot owned facility and an 11,000 square foot leased facility, each of which is located in Toronto, Ontario, Canada. Our corporate office, formulations development research and the Canadian sales and marketing operation are located in a 35,000 square foot leased facility in Mississauga, Ontario, Canada. We also lease 2,500 square feet of office space in St. Michael, Barbados and 11,000 square feet of warehouse space in Carolina, Puerto Rico. We have also agreed to acquire a 120,000 square foot manufacturing facility located on 19 acres of land in Dorado, Puerto Rico. We are scheduled to take final possession of the Dorado facility in January 2001. We will have access to the Dorado facility during 2000 to conduct some scale-up manufacturing activities and to begin the process of transferring the manufacturing of some of our products currently manufactured in our Manitoba facility.

Legal Proceedings

In March 1998, we commenced an action in the District of New Jersey against Hoechst Aktiengesellschaft and related parties to recover three times our monetary damages and for injunctive relief for the alleged violation by the defendants of the anti-trust laws of the United States, for breach of contract, deceptive trade practices and restraint of trade, unfair competition and other violations of the common law. A reasonable estimate of our potential recovery for damages cannot be made at this time.

From time to time, we become involved in various legal proceedings which we consider 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 our filing of ANDA applications. 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.

In this regard, we and our wholly owned subsidiary, Biovail Laboratories, Inc. ("**Biovail Laboratories**"), have been sued in separate lawsuits by Bayer AG and Bayer Corporation, as well as by Pfizer Inc. ("**Pfizer**"), upon the filing by Biovail Laboratories of separate ANDAs for generic versions of Procardia XL and Adalat CC. These actions make the usual, technical claims of infringement that mandate a delay for the approval of our ANDAs for a period of 30 months or until successful resolution of these patent infringement questions, whichever occurs first. We are vigorously defending these suits and will aggressively pursue motions for summary judgment in due course. These four actions have been consolidated into two actions by the court. We have denied the allegations and have pleaded affirmative defenses that the patents are invalid, have not been infringed, and are unenforceable.

On April 23, 1998, we also filed a four-count complaint against Bayer AG, Bayer Corporation and Pfizer Inc. seeking a declaratory judgment that their patent is invalid, unenforceable, and not infringed by our filing of the ANDAs. We intend to amend the complaint in due course to assert that their patent has not been infringed by the filing of all four ANDAs by Biovail Laboratories. We have also asserted that Bayer Corporation and Pfizer have violated anti-trust laws and have interfered with our prospective economic advantage. Bayer and Pfizer have filed a motion to dismiss the anti-trust and interference counts, and in the alternative, to stay that action. The motion to stay was granted.

On August 25, 1998, Andrx Pharmaceutical, Inc. ("**Andrx**") submitted to us a Notice of Certification under the FDC Act certifying that the ANDA filed by Andrx for a generic version of Tiazac® did not infringe on our patent. In October 1998, we commenced a patent infringement suit against Andrx. On March 8, 2000, the district court ruled in favor of Andrx stating that there was no infringement of our patent. We have appealed this ruling. Andrx' ANDA for its generic version of Tiazac has not yet been tentatively approved by the FDA. Under current FDA regulations, the FDA will not approve Andrx' ANDA for a period of 30 months from the date Biovail first received the Notice of Patent Certification or the date when Andrx successfully defends our appeal, whichever occurs first. However, a recent U.S. district court opinion required the FDA to approve a drug upon successful defense at the trial level. The FDA has decided not to appeal this ruling even though an unpublished decision of a court of appeals has upheld the FDA's regulation. We have filed a complaint against the FDA seeking to prevent it from approving Andrx' generic version of Tiazac until a resolution of our appeal. There can be no assurance that we will win our appeal against Andrx or that we can prevent the FDA from approving Andrx' generic version of Tiazac before the resolution of our appeal.

While we are not currently able to determine the potential liability, if any, related to such matters, we believe none of the matters, individually or in aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

Enforceability of Civil Liabilities Under United States Federal Securities Laws

We are an Ontario, Canada corporation. Most of our directors, officers and controlling persons, as well as certain of the experts named herein, reside outside the United States and all or a substantial portion of the assets of such persons and of Biovail are located outside the United States. Consequently, it may be difficult or impossible for investors to effect service of process within the United States upon us or such persons, or to realize against them upon judgments of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States. There is doubt as to the enforceability in Canada against us or any of our directors and officers or experts named herein who are not residents of the United States in original actions or in actions for enforcement of judgments rendered by United States courts, of civil liabilities predicated solely on United States federal securities laws. In addition, investors should not assume that courts of Canada (1) would enforce judgments of United States courts obtained in actions against Biovail in the United States or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or blue sky laws of any state within the United States or (2) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or any such state securities or blue sky laws.

We irrevocably appointed CT Corporation System as our agent to receive service of process solely in actions against us arising out of or in connection with the U.S. federal securities laws or out of violations of such laws in any federal court or state court in New York, New York, relating to the transactions covered by the offering.

Available Information

Information has been incorporated by reference in this Prospectus from documents filed with the securities regulatory authorities in each of the provinces of Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our corporate secretary, 2488 Dunwin Drive, Mississauga, Ontario, L5L 1J9, telephone: (416) 285-6000.

We have filed with the SEC a registration statement on Form F-10 (herein, together with all amendments and exhibits, referred to as the "**Registration Statement**") under the Securities Act with respect to the Securities offered hereby. This Prospectus, which forms a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information with respect to us and the Securities offered hereby, reference is made to the Registration Statement and the exhibits and schedules thereto. Any statements made in this Prospectus concerning the provisions of certain documents are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement otherwise filed with the SEC.

We are subject to the information and reporting requirements of the Exchange Act applicable to foreign private issuers and in accordance therewith file reports and other information with the SEC. The reports and other information we have filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Offices of the SEC located at 7 World Trade Center, 13th Floor, New York, New York 10048, and Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661-2511. Copies of such material can also be obtained by mail from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates or by calling 1-800-SEC-0330. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC (http://www.sec.gov). Although we may not be required to file electronically materials which would be required to be filed electronically by domestic issuers, we currently make such material available electronically. In addition, such material may be inspected and copied at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which exchange our common shares are listed.

REGULATION

The research and development, manufacture and marketing of controlled-release pharmaceuticals are subject to regulation by U.S., Canadian and foreign governmental authorities and agencies. Such national agencies and other federal, state, provincial and local entities regulate the testing, manufacturing, safety and promotion of our products. The regulations applicable to our products may change as the currently limited number of approved controlled-release products increases and regulators acquire additional experience in this area.

United States Regulation

New Drug Application

We will be required by the FDA to comply with NDA procedures for our branded products prior to commencement of marketing by us or our licensees. New drug compounds and new formulations for existing drug compounds which cannot be filed as ANDAs are subject to NDA procedures. These procedures include (1) preclinical laboratory and animal toxicology tests; (2) scaling and testing of production batches; (3) submission of an Investigational New Drug Application ("**IND**"), which must become effective before human clinical trials commence; (4) adequate and well controlled human clinical trials to establish the safety and efficacy of the drug for its intended indication; (5) the submission of an NDA to the FDA; and (6) FDA approval of an NDA prior to any commercial sale or shipment of the product, including pre-approval and post-approval inspections of its manufacturing and testing facilities. If all of this data in the product application is owned by the applicant, the FDA will issue its approval without regard to patent rights that might be infringed or exclusivity periods that would affect the FDA's ability to grant an approval if the application relied upon data which the applicant did not own. We intend to generate all data necessary to support FDA approval of the applications we file.

Preclinical laboratory and animal toxicology tests must be performed to assess the safety and potential efficacy of the product. The results of these preclinical tests, together with information regarding the methods of manufacture of the products and quality control testing, are then submitted to the FDA as part of an IND requesting authorization to initiate human clinical trials. Once the IND notice period has expired, clinical trials may be initiated, unless a hold on clinical trials has been issued by the FDA.

Clinical trials involve the administration of a pharmaceutical product to individuals under the supervision of qualified medical investigators. Clinical studies are conducted in accordance with protocols that detail the objectives of a study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol is submitted to the FDA and to an Institutional Review Board prior to the commencement of each clinical trial. Clinical studies are typically conducted in three sequential phases, which may overlap. In Phase I, the initial introduction of the product into human subjects, the compound is tested for safety, dosage, tolerance, metabolic interaction, distribution, excretion and pharmacodynamics. Phase II involves studies in a limited patient population to (1) determine the efficacy of the product for specific targeted indications; (2) determine optimal dosage and (3) identify possible adverse effects and safety risks. In the event Phase II evaluations demonstrate that a pharmaceutical product is effective and has an acceptable safety profile, Phase III clinical trials are undertaken to further evaluate clinical efficacy of the product and to further test its safety within an expanded patient population at geographically dispersed clinical study sites. Periodic reports on the clinical investigations are required. We or the FDA may suspend clinical trials at any time if either party believes the clinical subjects are being exposed to unacceptable health risks. The results of the product development, analytical laboratory studies and clinical studies are submitted to the FDA as part of an NDA for approval of the marketing and commercialization of a pharmaceutical product.

The above-described NDA procedures are premised on the applicant being the owner of, or having obtained a right of reference to, all of the data required to prove safety and efficacy. These NDAs are governed by 21 U.S.C. § 355(b)(1), also known as Section 505(b)(1) of the FDC Act.

Abbreviated New Drug Application

In certain cases, where the objective is to develop a generic version of an approved product already on the market in controlled-release dosages, an ANDA may be filed in lieu of filing an NDA. Under the ANDA procedure, the FDA waives the requirement to submit complete reports of preclinical and clinical studies of safety and efficacy and instead requires the submission of bioequivalency data, that is, demonstration that the generic drug produces the same effect in the body as its brand-name counterpart and has the same pharmacokinetic profile, or change in blood concentration over time. The ANDA procedure would be available to us for a generic version of a drug product approved by the FDA. In certain cases, an ANDA applicant may submit a suitability petition to the FDA requesting permission to submit an ANDA for a drug product that differs from a previously approved reference drug product (the "**Listed Drug**") when the change is one authorized by statute. Permitted variations from the listed drug include changes in (1) route of administration; (2) dosage form; (3) strength and (4) one of the active ingredients of the Listed Drug when the Listed Drug is a combination product. The FDA must approve the petition before the ANDA may be submitted. An applicant is not permitted to petition for any other kinds of changes from listed drugs. The information in a suitability petition must demonstrate that the change from the Listed Drug requested for the proposed drug product may be adequately evaluated for approval without data from investigations to show the proposed drug product's safety or effectiveness. The advantages of an ANDA over an NDA include reduced research and development costs associated with bringing a product to market, and generally a shorter review and approval time at the FDA.

Patent Certification and Exclusivity Issues

ANDAs are required to include certifications with respect to any patents which claim the Listed Drug or which claim a use for the Listed Drug for which the applicant is seeking approval. If applicable patents are in effect and this information has been submitted to the FDA, the FDA must delay approval of the ANDA until the patents expire. If the applicant believes it will not infringe the patents, it can make a patent certification to the holder of patents on the drug for which a generic drug approval is being sought, which may result in patent infringement litigation which could delay the FDA approval of the ANDA for up to 30 months. If the drug product covered by an ANDA were to be found by a court to infringe another company's patents, approval of the ANDA could be delayed until the patents expire. Under the FDC Act, the first filer of an ANDA with a "non-infringement" certification is entitled to receive 180 days of market exclusivity. Subsequent filers of generic products would be entitled to market their approved product six months after the earlier of the first commercial marketing of the first filer's generic product or a successful defense of a patent infringement suit.

Patent expiration refers to expiry of U.S. patents (inclusive of any extensions) on drug compounds, formulations and uses. Patents outside the United States may differ from those in the United States. Under U.S. law, the expiration of a patent on a drug compound does not create a right to make, use or sell that compound. There may be additional patents relating to a person's proposed manufacture, use or sale of a product that could potentially prohibit such person's proposed commercialization of a drug compound.

The FDC Act contains non-patent market exclusivity provisions which offer additional protection to pioneer drug products and are independent of any patent coverage that might also apply. Exclusivity refers to the fact that the effective date of approval of a potential competitor's ANDA to copy the pioneer drug may be delayed or, in certain cases, an ANDA may not be submitted until the exclusivity period expires. Five years of exclusivity are granted to the first approval of a "new chemical entity." Three years of exclusivity may apply to products which are not new chemical entities, but for which new clinical investigations are essential to the approval. For example, a new indication for use or a new dosage strength of a previously-approved product may be entitled to exclusivity, but only with respect to that indication or dosage strength. Exclusivity only offers protection against a competitor entering the market via the ANDA route, and does not operate against a competitor that generates all of its own data and submits a full NDA under Section 505(b)(1) of the FDC Act.

If applicable regulatory criteria are not satisfied, the FDA may deny approval of an NDA or an ANDA or may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. The FDA may require further testing and surveillance programs to monitor the pharmaceutical product that has been commercialized.

Noncompliance with applicable requirements can result in additional penalties, including product seizures, injunction actions and criminal prosecutions.

Canadian Regulation

The requirements for selling pharmaceutical drugs in Canada are substantially similar to those of the United States described above.

Investigational New Drug Application

Before conducting clinical trials of a new drug in Canada, we must submit a pre-clinical submission to the TPP. This application includes information about the methods of manufacture of the drug and controls, and preclinical laboratory and animal toxicology tests on the safety and potential efficacy of the drug. If, within 60 days of receiving the application, the TPP does not notify us that our application is unsatisfactory, we may proceed with clinical trials of the drug. The phases of clinical trials are the same as those described above under "—United States Regulation-New Drug Application."

New Drug Submission

Before selling a new drug in Canada, we must submit an NDS to the TPP and receive a notice of compliance from the TPP to sell the drug. The NDS includes information describing the new drug, including its proper name, the proposed name under which the new drug will be sold, a quantitative list of ingredients in the new drug, the methods of manufacturing, processing, and packaging the new drug, the controls applicable to these operations, the tests conducted to establish the safety of the new drug, the tests to be applied to control the potency, purity, stability and safety of the new drug, the results of clinical trials, the intended indications for which the new drug may be prescribed and the effectiveness of the new drug when used as intended. The TPP reviews the NDS. If the NDS meets the requirements of Canada's Food and Drugs Act and Regulations, the TPP will issue a notice of compliance for the new drug.

Where the TPP has already approved a drug for sale in controlled-release dosages, we may seek approval from the TPP to sell an equivalent generic drug. In certain cases, the TPP does not require the manufacturer of a drug that is equivalent to a drug that has already been approved for sale by the TPP to conduct preclinical tests and clinical trials; instead, the manufacturer must satisfy the TPP that the drug is bioequivalent to the drug that has already been approved.

The TPP may deny approval or may require additional testing of an NDS if applicable regulatory criteria are not met. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. Contravention of Canada's Food and Drugs Act and Regulations can result in fines and other sanctions, including product seizures and criminal prosecutions.

Proposals have recently been made that, if implemented, would significantly change Canada's drug approval system. In general, the recommendations emphasize the need for efficiency in Canadian drug review. Proposals include establishment of a separate agency for drug regulation and modeling the approval system on those found in European Union countries. There is no assurance, however, that such changes will be implemented or, if implemented, will expedite the approval of controlled-release products.

The Canadian government has regulations which can prohibit the issuance of a notice of compliance ("**NOC**") for a patented medicine to a generic competitor, provided that the patentee or an exclusive licensee has filed a list of its Canadian patents covering that medicine with the Minister of Health and Welfare. After submitting the list, the patentee or an exclusive licensee can commence a proceeding to obtain an order of prohibition directed to the Minister prohibiting him or her from issuing a NOC. The minister may be prohibited from issuing an NOC permitting the importation or sale of a patented medicine to a generic competitor until patents on the medicine expire or the waiver of infringement and/or validity of the patent(s) in question is resolved by litigation in the manner set out in such regulations. There may be additional patents relating to a company's proposed manufacture, use or sale of a product that could potentially prohibit such company's proposed commercialization of a drug compound.

Certain provincial regulatory authorities in Canada have the ability to determine whether the consumers of a drug sold within such province will be reimbursed by a provincial government health plan for that drug by listing drugs on formularies. The listing or non-listing of a drug on provincial formularies may affect the prices of drugs sold within provinces and the volume of drugs sold within provinces.

Additional Regulatory Considerations

Sales of our products by our licensees outside the United States and Canada are subject to regulatory requirements governing the testing, registration and marketing of pharmaceuticals, which vary widely from country to country.

Our manufacturing facilities located at Steinbach, Manitoba and Carolina, Puerto Rico operate according to FDA mandated Good Manufacturing Practices. The manufacturing facilities are inspected on a regular basis by the FDA, the TPP and other regulatory authorities. Our self-auditing team seeks to ensure compliance on an ongoing basis with FDA mandated Good Manufacturing Practices. From time to time, the FDA, the TPP or other regulatory agencies may adopt regulations that may significantly affect the manufacture and marketing of our products.

In addition to the regulatory approval process, pharmaceutical companies are subject to regulations under provincial, state and federal law, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulations, including possible future regulations of the pharmaceutical industry. We believe that we are in compliance in all material respects with such regulations as are currently in effect.

MANAGEMENT

Officers and Directors

The name, age as of February 29, 2000 and position of each of our directors and executive officers are set forth below:

Name(1)	Age	Position
Eugene N. Melnyk(2)	40	Chairman of the Board and Director
Bruce D. Brydon	52	Chief Executive Officer and Director
Robert A. Podruzny	52	President, Chief Operating Officer and Director
Kenneth C. Cancellara, Q.C.	53	Senior Vice President, General Counsel, Secretary and Director
Rolf K. Reininghaus	54	Senior Vice President and Director
Kenneth G. Howling	42	Vice President, Chief Financial Officer
David Tierney, M.D.	36	President, Biovail Technologies Ltd.
Kenneth S. Albert, Ph.D.	57	Vice President, Chief Scientific Officer
Wilfred G. Bristow(2)	67	Director
Roger Rowan(2)	46	Director
Robert Vujea	74	Director

(1) Directors serve one year terms.

(2) Member of the Audit Committee.

Mr. Melnyk has been the Chairman of the Board and a Director since March 29, 1994, the effective date of the amalgamation (the "**Amalgamation**") of our predecessor entities, Biovail Corporation International ("**BCI**") and Trimel Corporation ("**Trimel**"). Prior to that time, he had been the Chairman of the Board of BCI since October 1991 and was instrumental in acquiring, financing and organizing the companies or businesses that comprised BCI. Mr. Melnyk also founded Trimel and served as its President and Chief Executive Officer from 1983 through July 1991.

Mr. Brydon has been the Chief Executive Officer since November 1997. He joined Biovail as the Chief Executive Officer and President in January 1995 and has been a Director since May 1995. Prior to that time and since 1990 he had been President, Managing Director and Chairman of the Board of the Canadian Operations of Boehringer Mannheim. In the late 1980s, Mr. Brydon served as President and CEO of Beiersdorf Canada.

Mr. Podruzny has been the President and Chief Operating Officer since November 1997. He joined Biovail as Vice President, Finance and Chief Financial Officer in January 1996. Mr. Podruzny came to Biovail from Browning-Ferris Industries Ltd. where he served as the Chief Financial Officer and as a Director of the Canadian operations from 1993 to 1995. From 1987 to 1992, Mr. Podruzny served as General Manager of the U.S. Health Promotion Division of MDS Health Group, a Toronto-based medical services company.

Mr. Cancellara joined Biovail as Senior Vice President and General Counsel in March 1996, was appointed Secretary in April 1996, and has been a Director since May 1995. Prior to that time, Mr. Cancellara was a partner with the law firm of Cassels, Brock and Blackwell since 1980 where he held many positions including Chairman of the Executive Committee and managing partner.

Mr. Reininghaus has been a Senior Vice President and a Director since the Amalgamation and has been President of Crystaal since November 1997. Prior to that time, he had been the President, Chief Operating Officer and a Director of BCI since October 1991 and Executive Vice President and a Director of Trimel or its affiliates since November 1987. Prior to his employment by Trimel, Mr. Reininghaus was the Marketing Manager of the Canadian operations of Miles Pharmaceuticals, a division of Bayer AG.

Mr. Howling joined Biovail as Vice President Finance and Chief Financial Officer in November 1997. Mr. Howling came to Biovail from Pharma Patch Plc, a small bio-technology company involved in transdermal drug delivery, where he served as Vice President Finance and Chief Financial Officer from November 1993 to November 1997. Mr. Howling served as General Manager and Corporate Secretary from June 1991 to November 1993 and as Controller and Corporate Secretary from June 1988 to June 1991 for Roberts Company Canada Limited. Prior to that time, he spent 10 years in financial and general management positions including positions with SmithKline Beecham, Bencard Allergy Laboratories, McGraw Edison and Price Waterhouse. Mr. Howling is a Certified Public Accountant.

Dr. Tierney joined us as President of Biovail Technologies Ltd. on January 31, 2000. Dr. Tierney has operational responsibility for all of Biovail's research and development, regulatory and clinical activities and is based in Chantilly, Virginia. Dr. Tierney was previously Senior Vice President, Drug Development for Roberts Pharmaceutical Corporation with overall responsibility for drug development, medical affairs, worldwide regulatory affairs and chemical process development. Prior to joining Roberts in 1997, Dr. Tierney held senior positions with Elan.

Dr. Albert joined Biovail as Vice President, Chief Scientific Officer in January 1999. Dr. Albert came to Biovail from Schein Pharmaceutical Inc., where he had been the Vice President, Research and Development from 1995 to 1998. Prior to his tenure at Schein, Dr. Albert was Corporate Director, Research and Development at Forest from 1988 to 1995 and prior to that time he spent 14 years in senior Research and Development positions at the Upjohn Company and Merck, Sharp and Dohme.

Mr. Bristow has been a Director since the Amalgamation. Prior to that time, he was a Director of BCI since January 1993. Mr. Bristow is and has been a senior investment advisor at Nesbitt Burns Inc., a Canadian investment banking firm, since December 1991. From September 1975 to December 1991, he served as vice president and director of Richardson Greenshields of Canada, an investment banking firm.

Mr. Rowan was elected to the Board of Directors in June 1997. Mr. Rowan has been President and Chief Operating Officer of Watt Charmichael Inc., a private investment firm, since May 1994. Prior thereto, Mr. Rowan was the Executive Vice President and Chief Operating Officer of Watt Charmichael Inc. since 1991.

Mr. Vujea was elected to the Board of Directors in June 1997. Mr. Vujea has been President of R & D Chemical Corporation, a chemical manufacturer and distributor, since 1974. Prior thereto, Mr. Vujea has held senior management positions within a number of companies including American Greeting Card Corporation, Cole National Corporation and Diverco Incorporated.

PRINCIPAL SHAREHOLDERS

Other than as provided below, we are not aware of any shareholders owning more than 10% of our outstanding voting securities as of February 29, 2000.

Name of Beneficial Owner	Common Shares Owned	Percent(1)
Eugene Melnyk(2)	12,654,326	20.18%
Officers and directors as a group (8 persons)(2)	13,253,658	21.14%

(1) Does not include 5,223,400 common shares issuable upon exercise of stock options outstanding under our stock option plan, 7,475,000 common shares issuable upon exercise of outstanding warrants, 88,310 common shares to be issued following the effectiveness of the registration statement with respect to the Fuisz acquisition and 8,203 common shares issuable upon conversion of the Fuisz Debentures.

(2) Mr. Melnyk also has options to purchase 2,490,000 common shares, of which 1,530,000 have vested.

DESCRIPTION OF THE SECURITIES

Set forth below is a description of the principal terms of the Securities. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the indenture to be dated as of March 22, 2000 (the "**Indenture**") between the Company and Firstar Bank N.A. (the "**Trustee**"). The Indenture will be qualified as an indenture under the U.S. Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**"), and the Trustee will be eligible to act as trustee for purposes of compliance with the Trust Indenture Act. A copy of the form of the Indenture has been filed with the SEC as an exhibit to the Registration Statement of which this prospectus forms a part. The following summary of certain material provisions of the Indenture does not purport to be complete. Where reference is made to particular provisions of the Indenture, such provisions, including the definitions of certain terms, are incorporated by reference as a part of such summary or terms, which are qualified in their entirety by such reference. As used under this heading "**Description of the Securities**", all references to the "**Company**" refer to Biovail Corporation excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries. Other capitalized terms used without definition are defined in the Indenture.

General

The Securities will be issued as unsecured convertible junior subordinated debentures under the Indenture and will initially be issued in the principal amount of $300,000,000 ($345,000,000 if the Over-allotment Option is exercised in full). The Company may from time to time, and without the consent of the holders of the Securities, create and issue additional Securities so as to form a single issue with the Securities.

The Securities will not be subject to a sinking fund provision. The principal amount of the Securities plus accrued and unpaid interest thereon will become due on March 31, 2025 and will be payable by cash or, at the option of the Company, by delivery of Shares to the Trustee and subsequent sale of the Shares and delivery of cash equal to the principal amount of the Securities and accrued and unpaid interest thereon to the holders of the Securities. See "—Share Payment Election" below.

The Securities will be issued in fully-registered form only in denominations of $50 and integral multiples thereof. The Securities will initially be issued as global fully-registered securities ("**Global Securities**"). Beneficial interests in the Global Securities representing the Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "—The Depository, Book-Entry and Settlement" below. As described herein, under certain limited circumstances, the Securities may be issued in certificated non-book-entry form in exchange for a Global Security. See "—Discontinuance of Depository's Services" below. Payments on Securities issued as a Global Security will be made to DTC or a successor depository.

In the event that the Securities are issued in certificated non-book-entry form, principal and interest will be payable, the transfer of such Securities will be registerable and such Securities will be exchangeable for Securities of such series in other denominations of a like aggregate principal amount at the corporate trust office of the Trustee, 101 East 5th Street, 12th floor, St. Paul, Minnesota 55101 or its designated agent. Payment of principal and interest will be made by check mailed to the address of the holder entitled thereto. Any holder of $1 million or more aggregate principal amount of Securities may elect to receive payments of principal and interest by wire transfer to an account designated by such holder.

Subordination

The Indenture will provide that the Securities will be subordinated and junior in right of payment to all present and future Senior Indebtedness of the Company. No payment of principal (including redemption payments) or interest on the Securities may be made (1) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (2) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the Company to creditors upon any dissolution, winding-up, liquidation or reorganization, whether voluntary or involuntary, or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due on all Senior

Indebtedness of the Company must be paid in full before the holders of the Securities are entitled to receive or retain any payment.

The term "**Senior Indebtedness**" means, with respect to the Company:

(1) the principal (including redemption payments), premium, if any, interest and other payment obligations in respect of (A) indebtedness of the Company for money borrowed and (B) indebtedness evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company, including any such securities issued under any deed, indenture or other instrument to which the Company is a party (including, for the avoidance of doubt, indentures pursuant to which subordinated debentures have been or may be issued),

(2) all capital lease obligations of the Company,

(3) all obligations of the Company issued or assumed as the deferred purchase price of property, all conditional sale obligations of the Company, all hedging agreements and agreements of a similar nature thereto and all agreements relating to any such agreements, and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business),

(4) all obligations of the Company for reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction,

(5) all obligations of the type referred to in clauses (1) through (4) above of other persons for the payment of which the Company is responsible or liable as obligor, guarantor or otherwise, and

(6) all obligations of the type referred to in clauses (1) through (5) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), in each case whether outstanding at the date of the Indenture or thereafter incurred,

except for (A) the Securities, (B) any such indebtedness that contains express terms, or is issued under a deed, indenture or other instrument which contains express terms, providing that it is subordinate to or ranks *pari passu* with the Securities and (C) any indebtedness between the Company and its affiliates.

Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions of the Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness notwithstanding that no express written subordination agreement may have been entered into between the holders of such Senior Indebtedness and the Trustee or any of the holders of the Securities.

As of December 31, 1999 after giving effect to the application of the net proceeds of this offering and the concurrent offering of Common Shares, the Company (excluding its subsidiaries) had approximately $1.7 million of Senior Indebtedness (assuming the purchase of all our outstanding Senior Notes and excluding hedging obligations and undrawn letters of credit) outstanding. The Securities will also be effectively subordinate to all present and future indebtedness and other liabilities of the Company's subsidiaries, except to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. As of December 31, 1999, the Company's subsidiaries had approximately $54.0 million of liabilities (excluding intercompany liabilities, the Clonmel Liabilities and the Clonmel Loan). The Indenture will not limit the aggregate amount of indebtedness, including Senior Indebtedness and indebtedness ranking *pari passu* with the Securities, that may be incurred by the Company or its subsidiaries.

The Indenture and the Securities will not contain any covenants or other provisions designed to afford holders of the Securities protection in the event of a highly leveraged transaction involving the Company or any of its subsidiaries or partnerships.

Optional Redemption

Except as provided under "—Special Redemption" and "—Redemption for Changes in Canadian Tax Law," the Company may not redeem the Securities prior to March 31, 2003. On and after such date, the Securities are redeemable, in whole or in part, at any time other than during an Extension Period (as defined

below) and from time to time on not less than 30 days' and not more than 60 days' prior written notice, at the following percentages of the principal amount of the Securities to be redeemed plus accrued and unpaid interest thereon to the date of such redemption if redeemed during the twelve-month period commencing on March 31, in each of the following years indicated:

Year	Redemption Price	Year	Redemption Price
2003	104.725%	2007	102.025%
2004	104.050%	2008	101.350%
2005	103.375%	2009	100.675%
2006	102.700%	2010 and thereafter	100.000%

The principal and interest payable on any redemption date are payable in cash by the Company, or at the option of the Company, by the delivery of preferred shares of the Company that are not redeemable at the option of the holder thereof ("**Preferred Shares**") or Common Shares of the Company or other equity securities of the Company ("**Equity Securities**"), or any combination thereof as the Company shall determine, in which event the holders of the Securities shall be entitled to receive cash payments equal to the applicable redemption price of the Securities from the proceeds of the sale by the Trustee of the requisite Preferred Shares, Common Shares or Equity Securities, as the case may be. In this prospectus, the Preferred Shares, Common Shares or Equity Securities, as the case may be, will be referred to as the "**Shares.**" See "—Share Payment Election" below.

Special Redemption

At any time other than during an Extension Period, and from time to time prior to March 31, 2003, the Company may redeem the Securities at its option, in whole or in part, at a redemption price of 106.75% of the principal amount of the Securities, plus accrued and unpaid interest to the redemption date, if any ("**special redemption**"), if the trading price of Common Shares equals or exceeds $91.01 per share on the NYSE for 20 trading days within any 30 consecutive trading days ending one day prior to the day on which the Company sends out a special redemption notice. If the Company undertakes a special redemption, holders of Securities called for redemption will, in addition to the payments required by the preceding sentence, receive an "**additional payment**" in an amount equal to the present value of the aggregate amount of the interest that would thereafter have been payable on the Securities from the special redemption date to March 31, 2003, called the "**additional period.**" The Company will be obligated to make the additional payment on all Securities called for special redemption, whether or not those Securities are converted into Common Shares prior to the special redemption date. The present value will be calculated using the bond equivalent yield on U.S. Treasury notes or bills having a term nearest in length to that of the additional period on the day immediately preceding the date on which a notice of special redemption is mailed.

Redemption for Changes in Canadian Tax Law

The Securities also may be redeemed, at the option of the Company, in whole but not in part, at any time other than during an Extension Period, following the occurrence of a Redemption Tax Event, on not less than 30 days and not more than 60 days prior written notice, on a redemption date falling on or after the 91st day following the occurrence and during the continuance of a Redemption Tax Event if, within the 90-day period following such Redemption Tax Event, the Company is unable to avoid the adverse effect of such Redemption Tax Event by taking some Ministerial Action (as defined in the Indenture) or pursuing some other reasonable measure that will have no adverse effect on the Company or the holders of the Securities. The redemption price for the Securities in such circumstance shall be 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. The redemption price is payable in cash or, at the option of the Company, by delivery of Shares to the Trustee. See "—Share Payment Election."

A "**Redemption Tax Event**" means that the Company shall have delivered to the Trustee an opinion of a nationally recognized independent Canadian tax counsel experienced in such matters to the effect that a relevant tax law change has occurred. A "**relevant tax law change**" is (1) any amendment to or change (including any

announced prospective change) in the laws (or any regulations thereunder) of Canada or any political subdivision or taxing authority thereof or therein, as applicable, or (2) any amendment to or change in an interpretation or application of such laws or regulations by any legislative body, court, governmental agency or regulatory authority including, for greater certainty, an assessment or reassessment of the Company by the Canada Customs and Revenue Agency or any federal or provincial taxation authority (and also including the enactment of any legislation and the publication of any judicial decision or regulatory determination), in either case, which amendment or change occurs after the date of this prospectus and as a result of which (assuming that such amendment or change is enacted or is applied to the Company) there is more than an insubstantial risk that (A) the Company could become liable to pay, on the next date on which any amount would be payable with respect to the Securities, any Additional Amounts (as defined herein) (which are more than a *de minimis* amount), or (B) the Company could be denied the deduction of interest paid or payable in respect of the Securities in computing its income for the purposes of the *Income Tax Act* (Canada) (the "**ITA**") or a provincial or territorial income tax statute in Canada.

Canadian Withholding Taxes

All payments made by or on behalf of the Company under or with respect to the Securities will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other government charge (including penalties, interest and other liabilities related thereto) imposed or levied by or on behalf of the Government of Canada or of any province or territory thereof or by any authority or agency therein or thereof having power to tax ("**Canadian Taxes**") unless the Company is required to withhold or deduct Canadian Taxes by law or by the interpretation or administration thereof by the relevant government authority or agency.

If the Company is so required to withhold or deduct any amount for or on account of Canadian Taxes from any payment made under or with respect to the Securities, the Company will pay as additional interest such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by each holder of Securities after such withholding or deduction (including with respect to Additional Amounts) will not be less than the amount the holder of Securities would have received if such Canadian Taxes had not been withheld or deducted (a similar payment will also be made to holders of Securities (other than Excluded Holders as defined herein) that are exempt from withholding but required to pay tax under Part XIII of the ITA directly on amounts otherwise subject to withholding); *provided, however,* that no Additional Amounts will be payable with respect to a payment made to a holder of Securities (an "**Excluded Holder**") in respect of the beneficial owner thereof:

(1) with which the Company does not deal at arm's length (for purposes of the ITA) at the time of the making of such payment,

(2) which is subject to such Canadian Taxes by reason of its failure to comply with any certification, identification, information, documentation or other reporting requirement if compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or a reduction in the rate of deduction or withholding of, such Canadian Taxes or

(3) which is subject to such Canadian Taxes by reason of its carrying on business in or being connected with Canada or any province or territory thereof otherwise than by the mere holding of Securities or the receipt of payment thereunder.

The Company will make such withholding or deduction and remit the full amount deducted or withheld to the relevant authority as and when required in accordance with applicable law. The Company will pay all taxes, interest and other liabilities which arise by virtue of any failure of the Company to withhold, deduct and remit to the relevant authority on a timely basis the full amounts required in accordance with applicable law. The Company will furnish to the holder of the Securities, within 30 days after the date the payment of any Canadian Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Company.

The foregoing obligations shall survive any termination, defeasance or discharge of the Indenture.

Interest

Each Security shall bear interest from March 22, 2000 payable in U.S. dollars, at the rate of 6.75% per annum payable quarterly in arrears except as provided below, on March 31, June 30, September 30 and December 31 of each year, commencing June 30, 2000 (each an "**Interest Payment Date**"), to the person in whose name such Security is registered at the close of business on the relevant record date (the "**Record Date**"), subject to certain exceptions. The first interest payment due on June 30, 2000 will be $0.91875 per Security reflecting interest for the period from March 22, 2000 to June 30, 2000. The relevant record date for the payment of interest on an Interest Payment Date for such Securities will be the preceding March 15, June 15, September 15 or December 15, as applicable.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Securities is not a Business Day (a day other than Saturday, Sunday or any other day on which banking institutions in New York City are permitted or required by applicable law, regulation or executive order to close), then payment of the interest otherwise due on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, then such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date.

Interest payments will be made in an amount equal to the interest accrued from and including the immediately preceding Interest Payment Date in respect of which interest has been paid or duly made available for payment (or from and including the date of issue, if no interest has been paid or duly made available for payment) to but excluding the applicable Interest Payment Date or Maturity Date, as the case may be.

Option to Extend Interest Payment Periods

The Company shall have the right, at any time and from time to time, subject to certain conditions, to defer payments of interest on the Securities by extending the interest payment periods on the Securities for periods (each such period, an "**Extension Period**"), each not exceeding 20 consecutive quarterly periods; *provided* that during any Extension Period:

(1) the Company shall not declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock, other than:

   (A) as a result of an exchange or conversion of any class or series of the Company's capital stock or rights to acquire such stock for any other class or series of the Company's capital stock or rights to acquire such stock,

   (B) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged,

   (C) dividends or distributions made with respect to either the Company's capital stock or rights to acquire such capital stock, payable in either the Company's capital stock or rights to acquire such capital stock,

   (D) purchases of Common Shares related to the issuance of Common Shares or rights or options under any of the Company's benefit plans for its directors, officers, employees or other persons within the definition of "**employee**" under any employee benefit plan of the Company, or related to the issuance of Common Shares or rights under a dividend reinvestment plan or stock purchase plan, provided that such benefit, dividend reinvestment or stock purchase plan shall have been in existence for at least 180 days prior to any such purchase (such purchases and issuances being referred to collectively as, "**exchanges under the Employee Benefit Plans**"),

   (E) redemptions or repurchases of any rights outstanding under a shareholder rights plan, and

(2) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities or indebtedness for money borrowed (excluding, for the

avoidance of doubt, Senior Indebtedness in respect of which such payments, repayments, repurchases and redemptions may be made and also excluding trade payables arising in the ordinary course of business) issued or incurred by the Company that ranks *pari passu* with or junior to the Securities.

Prior to the termination of any Extension Period, the Company may further defer payments of interest by extending the Extension Period of the Securities; *provided, however,* that no Extension Period may exceed 20 consecutive quarterly periods or extend beyond the stated maturity of the Securities. Upon the termination of any Extension Period and the payment of all Deferred Interest, the Company may commence a new Extension Period for up to 20 consecutive quarterly periods, subject to the terms described herein. There may be multiple Extension Periods of various lengths, each of up to 20 consecutive quarterly periods, throughout the term of the Securities, but none of the Extension Periods may extend beyond the stated maturity of the Securities.

During an Extension Period, interest will accrue and will compound quarterly. Each Extension Period shall end on an Interest Payment Date. All interest accrued during an Extension Period ("**Deferred Interest**") shall be paid on the Interest Payment Date at the end of such Extension Period. No interest payments will be required to be made during an Extension Period except at the end thereof.

The Company shall give the holders of the Securities notice of its initiation of any Extension Period at least 20 Business Days prior to the earlier of (1) the next succeeding Interest Payment Date or (2) the date upon which the Company is required to give notice to any applicable self-regulatory organization or holders of the Securities of the record date or payment date, in each such case with respect to interest payments the payment of which is being deferred.

The Company has no current intention of invoking an Extension Period.

Conversion Rights

The Securities will be convertible at any time prior to maturity (the "**Conversion Expiration Date**") at the option of the holder thereof and in the manner described below, into Common Shares at $60.675 per share (equal to an initial conversion ratio of .8241 Common Shares per Security, subject to adjustment as described under the caption "—Conversion Price Adjustments" below). The conversion rights of the Securities called for redemption will be terminated at the close of business on the Business Day immediately preceding the date fixed for redemption. Prior to March 31, 2005, upon the occurrence of a Transaction (as defined below) in which 100% of the value of the consideration received by holders of Common Shares consists of cash (an "**All Cash Transaction**"), the conversion rights of the Securities will be terminated on the date upon which the holders of Common Shares shall have the right to receive such cash. Holders who exercise their conditional conversion rights (as described below) after the announcement of an All Cash Transaction will receive accrued and unpaid interest to the Entitlement Date (as defined below) on such converted Securities.

A holder of Securities wishing to exercise its conversion right shall surrender such Securities, together with an irrevocable conversion notice to the Trustee, as conversion agent or to such other agent appointed for such purpose (the "**Conversion Agent**"). The conversion date will be the date on which the Securities and the duly signed and completed notice of conversion are so delivered. As promptly as practicable on or after the conversion date, the Company will deliver to the Conversion Agent certificates for the number of Common Shares issuable upon conversion with any fractional shares rounded up to full shares or, at the Company's option, payment in cash in lieu of any fractional share. Notwithstanding the foregoing, in the event of a proposed All Cash Transaction, a holder of Securities may conditionally exercise its conversion right prior to the Entitlement Date with respect to such All Cash Transaction. If such All Cash Transaction is not consummated, the Conversion Agent shall return the Securities subject to such conditional conversion to the holder.

Except in the case of an All Cash Transaction as described above, accrued and unpaid interest will not be paid on Securities that are converted; provided, however, that holders of Securities at the close of business on a Record Date will be entitled to receive the interest payable, in cash, on such Securities on the corresponding Interest Payment Date notwithstanding the conversion of such Securities on or subsequent to such a Record Date but prior to such Interest Payment Date. Except as provided in the immediately preceding sentence, the Company will make no payment or allowance for accrued and unpaid interest, whether or not in arrears, on converted Securities. As described above under "—Special Redemption" any additional payment payable on

Securities called for redemption will be payable whether or not those Securities are converted into Common Shares prior to the special redemption date. Each conversion will be deemed to have been effected immediately prior to the close of business on the day on which proper notice was received by the Conversion Agent.

The Common Shares issued upon conversion of Securities will be validly issued, fully paid and non-assessable. No fractional shares will be issued as a result of conversion, but in lieu thereof such fractional interest, at the Company's option, will be paid in cash. See "Description of Capital Stock."

Conversion Price Adjustments

General. The conversion price will be subject to adjustment in certain events including, without duplication: (i) the payment of dividends (and other distributions) payable exclusively in Common Shares on Common Shares; (ii) the issuance to all holders of Common Shares of rights or warrants entitling holders of such rights or warrants (for a period not exceeding 45 days) to subscribe for or purchase Common Shares at less than 100% of the then Current Market Price; (iii) subdivisions and combinations of its outstanding Common Shares; (iv) reclassification of the Common Shares into Common Shares and securities other than Common Shares not constituting a Fundamental Change; (v) the payment of dividends (and other distributions) to all holders of Common Shares consisting of evidences of indebtedness of the Company, securities or capital stock, cash or assets (but excluding those rights or warrants referred to above in clause (ii) and dividends and distributions paid exclusively in cash); (vi) the payment of dividends (and other distributions) on Common Shares paid exclusively in cash, excluding cash dividends if the annualized per share amount thereof does not exceed 10% of the last sale price of Common Shares, as reported on the NYSE, on the trading day immediately preceding the date of declaration of such dividend (such adjustment being limited to the amount in excess of 10% of such Current Market Price); and (vii) payment in respect of a tender or exchange offer (other than an odd-lot offer) by the Company or any subsidiary of the Company for Common Shares in excess of 110% of the Current Market Price of Common Shares on the trading day next succeeding the last date tenders or exchanges may be made pursuant to such tender or exchange offer.

The Company from time to time may reduce the conversion price of the Securities by any amount selected by the Company (and determined by the Company's Board of Directors to be in the Company's best interests) for any period of at least 20 days, in which case the Company shall give at least 15 days' notice of such reduction. The Company may, at its option, also make such reductions in the conversion price, in addition to those set forth above, as the Board of Directors of the Company deems advisable to avoid or diminish any income tax to holders of Common Shares resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes. See "Certain Federal Income Tax Consequences—Adjustment of Conversion Price."

No adjustment of the conversion price will be made upon the issuance of any Common Shares pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in Common Shares under any such plan, or the issuance of any Common Shares or options or rights to purchase such shares pursuant to any present or future employee benefit plan or program of the Company or pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security which does not constitute an issuance to all holders of Common Shares (or a class thereof) of rights or warrants entitling holders of such rights or warrants to subscribe for or purchase Common Shares at less than 100% of the Current Market Price. There shall also be no adjustment of the conversion price in case of the issuance of any Common Shares (or securities convertible into or exchangeable for Common Shares), except as specifically described above. If any action would require adjustment of the conversion price pursuant to more than one of the anti-dilution provisions, only one adjustment shall be made and such adjustment shall be the amount of adjustment that has the highest absolute value to holders of the Securities. No adjustment in the conversion price will be required unless such adjustment would require an increase or decrease of at least 1% of the conversion price, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

Merger, Amalgamation, Arrangement, Consolidation or Sale of Assets of the Company. In the event that the Company is a party to any transaction (including, without limitation, a merger other than a merger that does not result in a reclassification, conversion, exchange or cancellation of Common Shares), amalgamation,

arrangement, consolidation, continuance, sale of all or substantially all of the assets of the Company, recapitalization, holding company reorganization or reclassification of Common Shares or any compulsory share exchange (each of the foregoing being referred to as a "**Transaction**"), in each case, as a result of which Common Shares shall be converted into the right to receive, or shall be exchanged for, (i) in the case of any Transaction other than a Transaction involving a Stock Fundamental Change (and subject to funds being legally available for such purpose under applicable law at the time of such conversion), securities, cash or other property, each Security shall thereafter be convertible into the kind and, in the case of a Transaction which does not involve a Fundamental Change, amount of securities, cash and other property receivable upon the consummation of such Transaction by a holder of that number of Common Shares into which a Security was convertible immediately prior to such Transaction (and subject to funds being legally available for such purpose under applicable law at the time of such conversion), or (ii) in the case of a Transaction involving a Stock Fundamental Change, each Security shall thereafter be convertible (in the manner described herein) into common stock of the kind received by holders of Common Shares (but in each case after giving effect to any adjustment discussed below relating to a Fundamental Change if such Transaction constitutes a Fundamental Change). The holders of Securities will have no voting rights with respect to any Transaction described in this section. The Company has agreed in the Indenture that until March 31, 2005 it will not enter into any Transaction unless provision is made that upon conversion the holders of the Securities will receive only Common Shares of the Company or common shares of a successor obligor of the Company which for each of the 10 consecutive days prior to the Entitlement Date have been admitted for listing or admitted for listing subject to notice of issuance on a U.S. national securities exchange or quoted on the Nasdaq National Market or any other quotation system on which such common shares are admitted to trading or quoted. In addition, prior to March 31, 2005, the Company shall not enter into a Transaction, other than an All Cash Transaction, unless the person into whose common stock the Securities will thereafter be convertible shall expressly assume, by a supplemental indenture executed and delivered to the Trustee, all of the obligations of the Company on all of the Securities and under the Indenture. Upon execution of such supplemental indenture, the Company's obligations on the Securities and under the Indenture will be released.

In a Non-Stock Fundamental Change where the initial value received per Common Share (measured as described in the definition of Applicable Price) is lower than the then applicable conversion price of a Security but greater than or equal to the Reference Market Price, the conversion price will be adjusted as described below with the effect that each Security will be convertible into securities, cash or property of the same type received by the holders of Common Shares in the Transaction but in an amount per Security that would at the time of the Transaction have had a value equal to the then applicable redemption price per Security set forth under the caption "—Optional Redemption" above.

In a Non-Stock Fundamental Change where the initial value received per Common Share (measured as described in the definition of Applicable Price) is lower than both the conversion price of a Security in effect prior to any adjustment described below and the Reference Market Price, the conversion price will be adjusted as described below but calculated as though such initial value had been the Reference Market Price.

A Transaction that would have been a Non-Stock Fundamental Change will be treated differently during the first five years. In a transaction where the holders of Common Shares receive only cash, the conversion rights on the Securities will be terminated upon consummation of the Transaction and the Company will be obligated, within 30 days of the consummation of the Transaction, to make an offer to purchase the Securities at 100% of the principal amount, plus accrued and unpaid interest to the purchase date. If a Holder elects to convert its Securities after announcement of a cash tender offer to participate in such Transaction, the Holder will receive accrued and unpaid interest to the conversion date. In a Transaction where the holders of Common Shares receive common stock but its value represents not more than 50% of the value of the consideration received, the Transaction will be treated like a Stock Fundamental Change and the Company will be obligated, within 30 days of the consummation of the Transaction, to make an offer to purchase the Securities at 100% of the principal amount, plus accrued and unpaid interest to the purchase date.

In a Stock Fundamental Change, the following adjustments are designed to provide in effect that (a) where Common Shares are converted partly into such common stock and partly into other securities, cash, or property, each Security will be convertible solely into a number of shares determined so that the initial value of such shares (measured as described in the definition of Purchaser Stock Price) equals the value of the Common

Shares into which such Security was convertible immediately before the Transaction (measured as aforesaid) and (b) where the Common Shares are converted solely into such common stock, each Security will be convertible into the same number of shares receivable by a holder of the number of Common Shares into which such Security was convertible immediately before such Transaction.

If any Fundamental Change occurs, then the conversion price in effect will be adjusted immediately after such Fundamental Change as described below.

The conversion price in the case of any Fundamental Change will be adjusted immediately after such Fundamental Change:

(i) in the case of a Non-Stock Fundamental Change, the conversion price of the Securities immediately following such Non-Stock Fundamental Change will be the lower of (A) the conversion price in effect immediately prior to such Non-Stock Fundamental Change (after giving effect to any other adjustments effected pursuant to the preceding paragraphs) and (B) the product of (1) the greater of the Applicable Price and the then applicable Reference Market Price and (2) a fraction, of which the numerator is 100.0% and of which the denominator will be an amount based on the date such Non-Stock Fundamental Change occurs. For the 12-month period beginning March 31, 2000 (and during the period from March 22, 2000 to March 31, 2000) the denominator will be 106.75%, and the denominator will decrease by .675% during each successive 12-month period; *provided*, that the denominator shall in no event be less than 100.0%.

(ii) in the case of a Stock Fundamental Change, the conversion price of the Securities immediately following such Stock Fundamental Change will be the conversion price in effect immediately prior to such Stock Fundamental Change (after giving effect to any adjustments effected pursuant to the preceding paragraphs) as adjusted by multiplying such conversion price by a fraction, of which the numerator will be the Purchaser Stock Price and of which the denominator will be the Applicable Price; provided, however, that in the event of a holding company reorganization of the Company or in the event of a Stock Fundamental Change in which (A) 100% of the value of the consideration received by a holder of Common Shares is common stock of the successor, acquiror, or other third party (and cash, if any, is paid only with respect to any fractional interests in such common stock resulting from such Stock Fundamental Change) and (B) all Common Shares will have been exchanged for, converted into, or acquired for common stock (and cash with respect to fractional interests) of the successor, acquiror, or other third party, the conversion price of the Securities immediately following such Stock Fundamental Change will be the conversion price in effect immediately prior to such Stock Fundamental Change as adjusted by multiplying such conversion price by a fraction, of which the numerator will be one and of which the denominator will be the number of shares of the successor, acquiror, or other third party received by a holder of one Common Share as a result of such Stock Fundamental Change.

The term "**Applicable Price**" means, (i) in the case of a Non-Stock Fundamental Change in which the holders of the Common Shares receive only cash, the amount of cash received by the holder of one Common Share and (ii) in the event of any other Non-Stock Fundamental Change or any Stock Fundamental Change, the average of the Closing Prices for the Common Shares during the 10 trading days prior to the record date for determination of the holders of Common Shares entitled to receive such securities, cash, or other property in connection with such Non-Stock Fundamental Change or Stock Fundamental Change or, if there is no such record date, the date upon which the holders of the Common Shares shall have the right to receive such securities, cash, or other property (such record date or distribution date being hereinafter referred to as the "**Entitlement Date**"), in each case as adjusted in good faith by the Company to appropriately reflect any of the events referred to in clauses (i) through (vii) of the first paragraph under "—Conversion Price Adjustments—General."

The term "**Closing Price**" means on any day the reported last sale price on such day or, in case no sale takes place on such day, the average of the reported closing bid and asked prices in each case on the NYSE Composite Tape or, if the stock is not traded on the NYSE, on the principal national securities exchange or quotation system on which such stock is listed or admitted to trading, or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average of the closing bid and asked prices of such

stock in the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or, if not so available in such manner, as furnished by the NASD member firm, selected from time to time by the Board of Directors of the Company for that purpose or, if not so available in such manner, as otherwise determined in good faith by the Board of Directors of the Company.

The term "**Current Market Price**" of Common Shares means the average of the last reported sale prices, regular way, for the 10 consecutive trading-day period ending on the date of such determination, or if no sale takes place on any such day, the average of the reported closing bid and asked prices on such days, regular way, in either case as reported on the NYSE Composite Tape, or, if the Common Shares are not listed or admitted to trading on the NYSE on such day, on the principal national securities exchange or quotation system on which the Common Shares are listed or admitted to trading, or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average closing bid and asked prices of the Common Shares in the over-the-counter market for such 10 consecutive trading-day period as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or, if not so available, in such manner, as furnished by the NASD member firm selected from time to time by the Board of Directors of the Company for that purpose or, if not so available in such manner, as otherwise determined in good faith by the Board of Directors of the Company.

The term "**Fundamental Change**" means the occurrence of any Transaction or event in connection with a plan pursuant to which all or substantially all of the Common Shares shall be exchanged for, converted into, acquired for, or constitute solely the right to receive securities, cash or other property (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, amalgamation, arrangement, continuance, combination, reclassification, recapitalization, or otherwise), provided that, in the case of a plan involving more than one such Transaction or event, for purposes of adjustment on the conversion price, such Fundamental Change shall be deemed to have occurred when substantially all of the Common Shares shall be exchanged for, converted into, or acquired for or constitute solely the right to receive securities, cash or other property, but the adjustment shall be based upon the consideration that a holder of Common Shares received in such Transaction or event as a result of which more than 50% of the Common Shares shall have been exchanged for, converted into, or acquired for or constitute solely the right to receive securities, cash, or other property.

The term "**Non-Stock Fundamental Change**" means any Fundamental Change other than a Stock Fundamental Change.

The term "**Purchaser Stock Price**" means, with respect to any Stock Fundamental Change, the average of the Closing Prices for the common stock received in such Stock Fundamental Change for the 10 consecutive trading days prior to and including the Entitlement Date, as adjusted in good faith by the Company to appropriately reflect any of the events referred to in clauses (i) through (vii) of the first paragraph under "—Conversion Price Adjustments—General."

The term "**Reference Market Price**" shall initially mean $33.71 (which is an amount equal to 66⅔% of the last reported sale price for Common Shares on the NYSE on March 16, 2000) and in the event of any adjustment of the conversion price other than as a result of a Non-Stock Fundamental Change, the Reference Market Price shall also be adjusted so that the ratio of the Reference Market Price to the conversion price after giving effect to any such adjustment shall always be the same as the ratio of the initial Reference Market Price to the initial conversion price of the Securities.

The term "**Stock Fundamental Change**" means either (i) any Fundamental Change that is a holding company reorganization provided that immediately after such Fundamental Change the Common Shares of the holding company in such Transaction are admitted for listing on a national securities exchange or for quotation on the Nasdaq National Market, (ii) any Fundamental Change in which more than 50% of the value (as determined in good faith by the Board of Directors of the Company) of the consideration received by holders of Common Shares consists of common stock that for each of the 10 consecutive trading days prior to the Entitlement Date has been admitted for listing or admitted for listing subject to notice of issuance on a national securities exchange or quoted on the Nasdaq National Market or (iii) any Transaction prior to March 31, 2005.

Change of Control

Prior to March 31, 2005, upon the occurrence of a Change of Control Triggering Event that is a Stock Fundamental Change by virtue of only clause (iii) of the definition of Stock Fundamental Change (a "**Change of Control**"), each holder will have the right to require the Company to repurchase all of such holder's Securities in whole or in part (equal to $50 or an integral multiple thereof) (the "**Change of Control Offer**") at a purchase price (the "**Change of Control Purchase Price**") in cash equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the Change of Control Payment Date (as defined below) on the terms described below.

Within 30 days following any Change of Control, the Company or the Trustee (at the expense of the Company) will mail a notice to each holder and to the Trustee stating, among other things:

(i) that a Change of Control has occurred and a Change of Control Offer is being made as provided for in the Indenture, and that, although holders are not required to tender their Securities, all Securities that are timely tendered will be accepted for payment;

(ii) the Change of Control Purchase Price and the repurchase date, which will be no earlier than 30 days and no later than 60 days after the date such notice is mailed (the "**Change of Control Payment Date**");

(iii) that any Security accepted for payment pursuant to the Change of Control Offer (and duly paid for on the Change of Control Payment Date) will cease to accrue interest after the Change of Control Payment Date; and

(iv) the instructions and any other information necessary to enable holders to tender their Securities and have such Securities purchased pursuant to the Change of Control Offer.

The Company will comply with any applicable tender offer rules (including, without limitation, any applicable requirements of Rule 14e-1 under the Exchange Act) in the event that the Change of Control Offer is triggered under the circumstances described herein.

The existence of the holders' rights to require, subject to certain conditions, the Company to repurchase Securities upon a Change of Control may deter a third party from acquiring the Company in a transaction that constitutes a Change of Control. The source of funds for the repurchase of Securities upon a Change of Control will be the Company's cash or cash generated from operations or other sources, including borrowings or sales of assets. There can be no assurance that the Company will have sufficient funds at the time of any Change of Control to make any debt payment (including repurchases of Securities) required by the foregoing covenant (as well as may be contained in other securities of the Company which might be outstanding at the time). Future credit agreements or other agreements relating to indebtedness to which the Company becomes a party may prohibit the Company from purchasing any Securities as a result of a Change of Control and/or provide that certain change of control events with respect to the Company would constitute a default thereunder. In the event that a Change of Control Offer occurs at a time when the Company does not have sufficient available funds to pay the Change of Control Purchase Price for all Securities timely tendered pursuant to such offer or at a time when the Company is prohibited from purchasing the Securities (and the Company is unable either to obtain the consent of the holders of the relevant indebtedness or to repay such indebtedness), an Event of Default would occur under the Indenture.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and repurchases all Securities validly tendered and not withdrawn under such Change of Control Offer.

"**Change of Control Triggering Event**" means: (i) a determination by the Company that any person or group (as defined in Section 13(d)(3) or 14(d)(2) of the Exchange Act) has become the direct or beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the Voting Stock of the Company; (ii) the Company is merged with or into or amalgamated or consolidated with another corporation and, immediately after giving effect to the merger, amalgamation or consolidation, less than 50% of the outstanding Voting Stock of the surviving or resulting entity is then beneficially owned (within the meaning of Rule 13d-3 of the Exchange Act) in the aggregate by: (x) the stockholders of the Company immediately prior to such merger, amalgamation

or consolidation, or (y) if the record date has been set to determine the stockholders of the Company entitled to vote on such merger, amalgamation or consolidation, the stockholders of the Company as of such a record date; (iii) the sale, lease, transfer, conveyance or other distribution (other than by way of merger, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, including Capital Stock of subsidiaries of the Company, to any person or group of related persons for purposes of Section 13(d) of the Exchange Act; (iv) the adoption of a plan relating to the liquidation or dissolution of the Company; or (v) the first day on which a majority of the individuals who constitute the board of directors of the Company are not Continuing Directors.

"**Capital Stock**" in any Person means any and all shares, interests, partnership interests, participations or other equivalents however designated in the equity interest in such person and any rights (other than debt securities convertible into an equity interest), warrants or options to acquire any equity interest in such person.

"**Continuing Director**" means an individual who: (i) is a member of the board of directors of the Company and (ii) either: (A) was a member of the board of directors of the Company on the date of the Indenture, or (B) whose nomination for election or election to the board of directors of the Company was approved by vote of a majority of the Continuing Directors who were members of such board at the time of such election or nomination.

"**Voting Stock**" means with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holder thereof (whether at all times or at the times that such class of Capital Stock has voting power by reason of the happening of any contingency) to vote in the election of members of the board of directors or comparable body of such Person.

Share Payment Election

The Company may elect, from time to time, to satisfy its obligation to pay any Deferred Interest on any Interest Payment Date or to pay the applicable redemption price or the principal amount of the Securities plus accrued and unpaid interest thereon on the date it is payable under the Indenture (the "**Maturity Date**") by delivering Shares in accordance with the Indenture (the "**Share Payment Election**"). The Indenture will provide that, upon such election, the Trustee shall:

(1) accept delivery of Shares from the Company plus cash in an amount equal to the value of any fractional Share,

(2) accept bids with respect to, and consummate sales of, such Shares, each as the Company shall direct in its absolute discretion,

(3) invest the proceeds of such sales in short-term United States Government Obligations (as defined in the Indenture) specified by the Company which mature prior to the applicable Interest Payment Date or Maturity Date, and use such proceeds to pay the Deferred Interest or applicable redemption price or principal amount of the Securities plus accrued and unpaid interest thereon, as the case may be, and

(4) perform any other action necessarily incidental thereto.

Neither the Company's making of the Share Payment Election nor the consummation of sales of Shares on the Share Delivery Date will (1) result in the holders of the Securities not being entitled to receive, in accordance with the foregoing procedures, on the applicable Interest Payment Date cash in an aggregate amount equal to the Deferred Interest payable on such Interest Payment Date or redemption price or principal amount of the Securities plus accrued and unpaid interest thereon on the Maturity Date, as the case may be, or (2) entitle such holders to receive any Shares in satisfaction of the Company's obligation to pay such Deferred Interest or redemption price or principal amount of the Securities plus accrued and unpaid interest thereon, as the case may be.

The Company shall make a Share Payment Election by delivering written notice (the "**Share Election Notice**") to the Trustee no later than the earlier of (1) the date required by applicable law or the rules of any stock exchange on which the Securities are then listed or (2) 15 days prior to the applicable Interest Payment Date or Maturity Date to which the Share Payment Election relates.

The Trustee shall, in accordance with such notice, deliver requests for bids (each a "**Share Bid Request**") to investment banks, brokers or dealers selected by the Company. Such notice shall direct the Trustee to solicit and accept only such bids, and the Share Bid Request shall make the acceptance of any bid conditional on the acceptance of such bids, that together shall provide for the delivery and sale of Shares against payment of the Share Election Amount on the date (the "**Share Delivery Date**") that is no earlier than 90 days and no later than one Business Day prior to the applicable Interest Payment Date or Maturity Date.

The "**Share Election Amount**" means an amount of aggregate proceeds, based on the bids obtained pursuant to the Share Bid Request, of the sale of Shares on the Share Delivery Date, equal to the Deferred Interest or redemption price or principal amount of the Securities plus accrued and unpaid interest thereon, as the case may be, payable on such Interest Payment Date or Maturity Date less any amount attributable to any fractional Share. The Share Election Notice shall provide for, and all such bids shall be subject to, the right of the Company, by delivering written notice to the Trustee at any time prior to the consummation of such delivery and sale on the Share Delivery Date, to withdraw the Share Payment Election (which will have the effect of withdrawing the Share Bid Request), whereupon the Company shall be obligated to pay in cash the Deferred Interest or redemption price or principal amount of the Securities plus accrued and unpaid interest thereon, as applicable.

The Trustee shall inform the Company promptly following the receipt of any bid or bids for Shares. The Trustee shall accept such bid or bids as the Company (in its absolute discretion) shall direct, provided that the aggregate proceeds of all such sales on the Share Delivery Date must equal the Share Election Amount. In connection with any bids so accepted, the Company, the Trustee and the applicable bidders shall, not later than the Share Delivery Date, enter into customary purchase agreements (in each case, a "**Share Purchase Agreement**") and shall comply with all applicable laws, including the securities laws of the United States and Canada, the rules and regulations of any stock exchange on which the Shares are then listed and the laws, rules and regulations of any jurisdiction in which the Shares may be offered for sale. The Company shall pay all fees and expenses in connection with the Share Purchase Agreements.

Provided that (1) all conditions specified in each Share Purchase Agreement to the closing of all sales thereunder have been satisfied, other than the delivery of the Shares to be sold thereunder against payment of the Share Election Amount, and (2) the purchasers under the Share Purchase Agreements shall be ready, willing and able to perform thereunder, in each case on the Share Delivery Date, the Company shall, on the Share Delivery Date, deliver to the Trustee the Shares to be sold on such date, cash in an amount equal to the value of any fractional Shares and an officer's certificate to the effect that all conditions precedent to such sales, including those set forth in the Indenture and in each Share Purchase Agreement, have been satisfied.

Upon such deliveries, the Trustee shall consummate such sales on such Share Delivery Date by delivery of the Shares to such purchasers against payment to the Trustee in immediately available funds of the purchase price therefor in an aggregate amount equal to the Share Election Amount, whereupon the sole right of a holder of a Security in respect of such Deferred Interest or redemption price or principal amount of the Security plus accrued and unpaid interest thereon, as the case may be, will be to receive cash from the Trustee from the proceeds of the sale of the Shares plus any amount received by the Trustee from the Company in respect of any fractional Share in full satisfaction of such Deferred Interest or redemption price or principal amount of the Security plus accrued and unpaid interest thereon, as the case may be, and the holder of such Security will have no further recourse to the Company in respect of such Deferred Interest or redemption price or principal amount of the Security plus accrued and unpaid interest thereon, as the case may be.

The Trustee shall use the sale proceeds of the Shares (together with any cash received from the Company in respect of any fractional Share) to purchase short-term United States Government Obligations specified by the Company which mature prior to the applicable Interest Payment Date or Maturity Date, and which the Trustee is required to hold until maturity (the "**Share Proceeds Investment**") on the Share Delivery Date and shall on such date deposit the balance, if any, in the Property Account (as defined in the Indenture), together with any portion or all of such sales proceeds to the extent the Trustee is unable for any reason whatsoever to use such sale proceeds to purchase the short-term United States Government Obligations on the Share Delivery Date for such Securities.

The Trustee shall hold the Share Proceeds Investment under its exclusive control and shall hold such investments (but not income earned thereon) in an irrevocable trust for the benefit of the holders of the Securities. One Business Day prior to the applicable Interest Payment Date or Maturity Date, the Trustee shall deposit amounts from the proceeds of the Share Proceeds Investment in the Property Account to bring the balance of the Property Account to the Share Election Amount (plus the value of any fractional Share). On such Interest Payment Date or Maturity Date, the Trustee shall apply the funds held in the Property Account to payment of Deferred Interest or redemption price or principal amount of the Securities plus accrued and unpaid interest thereon, as the case may be, to the holders of record of the Securities on the applicable record date and shall remit amounts, if any, in respect of income earned on the Share Proceeds Investment or otherwise in excess of the Share Election Amount (plus the value of any fractional Share) to the Company.

The Company shall indemnify and hold harmless the Trustee and (on an after-tax basis) the holders of Securities, and any person who controls any such holder within the meaning of any applicable securities laws, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by any such person in connection with defending or investigating any such action or claim) caused by or arising in connection with any Share Payment Election or any withdrawal thereof, except in each case for any losses, claims, damages or liabilities caused by any such person's negligence or misconduct. If the indemnification provided for in this paragraph shall be unavailable to an indemnified person or insufficient in respect of any losses, claims, damages or liabilities referred to herein, then the Company shall contribute to the amount paid or payable by such indemnified person as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the Company and such indemnified person and any other equitable considerations.

Mergers, Consolidations or Amalgamations

The Indenture will provide that the Company may not consolidate or amalgamate with or merge with or into any other company or other body or convey, transfer or lease its properties and assets substantially as an entirety to any other Person, unless, among other things, (1) the entity formed by such consolidation or amalgamation or into which the Company is merged or the Person which shall have acquired or leased such properties or assets shall be a company, partnership or trust organized under the laws of Canada or any province or territory thereof or the United States, any state thereof or the District of Columbia, and, unless the Company is the continuing company, such entity shall expressly assume the Company's obligation for the due and punctual payment of the principal of and interest on all the Securities and the performance and observance of every covenant of the Indenture on the part of the Company to be performed or observed and (2) immediately after giving effect to such transaction, no Event of Default (as herein defined) or event that after notice or passage of time or both would be an Event of Default shall have occurred and be continuing. The Company shall be considered to be the continuing Company in the event of an amalgamation by the Company with any wholly-owned subsidiary.

Events of Default

The Indenture will provide that any one or more of the following described events which has occurred and is continuing constitutes an "**Event of Default**" with respect to the Securities:

(1) failure for 30 days to pay interest on the Securities in cash or pursuant to the Share Payment Election when due; provided that a valid extension of an interest payment period by the Company shall not constitute a default in the payment of interest for this purpose;

(2) failure to pay principal on the Securities in cash or pursuant to the Share Payment Election when due whether at maturity, upon redemption, by declaration or otherwise;

(3) failure to observe or perform any other covenant contained in the Indenture or the Securities for 60 days after written notice thereof to the Company from the Trustee or the holders of at least 25% in principal amount of the outstanding Securities;

(4) the Company fails to comply with any of the covenants or agreements contained in "Change of Control"; or

(5) certain events of bankruptcy, insolvency or reorganization of the Company under a bankruptcy or insolvency law.

The holders of a majority in aggregate principal amount of the outstanding Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee. The Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Securities may declare the principal of and the interest on the Securities (including accrued interest, if any), and any other amounts payable under the Indenture to be forthwith due and payable immediately upon an Event of Default, but the holders of a majority in aggregate principal amount of the outstanding Securities may annul such declaration and waive the default if the default has been cured and a sum sufficient to pay all matured installments of interest and principal due with respect to the Securities otherwise than by acceleration has been deposited with the Trustee.

The holders of a majority in aggregate principal amount of the outstanding Securities may, on behalf of the holders of all Securities, waive any past default and its consequences, except (1) a default in the payment of principal or interest (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the Trustee) or (2) a default in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Security.

The Indenture will provide that no holder of the Securities may institute any proceeding with respect to the Indenture unless: (1) such holder shall have previously given to the Trustee written notice of any Event of Default and continuance thereof, (2) the holders of not less than 25% in aggregate principal amount of the outstanding Securities shall have requested the Trustee to institute such proceeding and shall have offered the Trustee reasonable indemnity in respect thereof, (3) the Trustee shall not have instituted such proceeding within 60 days of such request, and (4) the Trustee shall not have received directions inconsistent with such written request by the holders of a majority in aggregate principal amount of the outstanding Securities.

Notwithstanding the foregoing, the holder of any Security will have the right, which is absolute and unconditional, to receive payment of the principal of and interest on such Security on the due date thereof (as the same may be deferred in accordance with the provisions of the Indenture) and to institute suit for the enforcement of such payment, and such rights shall not be impaired without the consent of such holder.

Limitation on Transactions

The Indenture will provide that if (1) the Company shall exercise its right to defer payment of interest as provided in the Indenture and so long as any Extension Period with respect thereto is continuing, or (2) there shall have occurred and be continuing any Event of Default, then:

(A) the Company shall not declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock, other than

(i) as a result of an exchange or conversion of any class or series of the Company's capital stock or rights to acquire such stock for any other class or series of the Company's capital stock or rights to acquire such stock,

(ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged,

(iii) dividends or distributions made with respect to either the Company's capital stock or rights to acquire such capital stock, payable in either the Company's capital stock or rights to acquire such capital stock,

(iv) exchanges under the Employee Benefit Plans, or

(v) redemptions or repurchases of any rights outstanding under a shareholder rights plan, and

(B) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities or indebtedness for borrowed money (excluding, for the

avoidance of doubt, Senior Indebtedness, in respect of which such payments, repayments, repurchases and redemptions may be made and also excluding trade payables arising in the ordinary course of business) issued or incurred by the Company that rank *pari passu* with or junior to the Securities.

The Depository, Book-Entry and Settlement

DTC will act as securities depository for the Securities. The Securities will be issued only as Global Securities registered in the name of Cede & Co. (DTC's partnership nominee).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the Global Securities as represented by a global certificate.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing company" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act (as defined herein). DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing companies and certain other organizations ("**Direct Participants**").

DTC is owned by a number of its Direct Participants and by the NYSE, the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear transactions through or maintain a custodial relationship with a Direct Participant either directly or indirectly ("**Indirect Participants**"). The rules applicable to DTC and its Participants are on file with the SEC.

Purchases of Securities within the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners hold Securities. Transfers of ownership interests in the Securities will be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all the Securities deposited by Participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. will effect no change in beneficial ownership. DTC will have no knowledge of the actual Beneficial Owners of the Securities. DTC's records will reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Securities are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Securities to be redeemed.

Neither DTC nor Cede & Co. will itself consent or vote with respect to the Securities. Under its usual procedures, DTC will mail an omnibus proxy to the Direct Participants as soon as possible after the relevant

record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the omnibus proxy). The Company believes that the arrangements among DTC, Direct and Indirect Participants, and Beneficial Owners will enable the Beneficial Owners to exercise rights equivalent in substance to the rights that can be directly exercised by a holder of a Security.

Payments of interest on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "**street name**", and such payments will be the responsibility of such Participants and not of DTC or the Company, subject to any statutory or regulatory requirements to the contrary that may be in effect from time to time. Payment of interest to DTC is the responsibility of the Company, disbursements of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Except as provided herein, a Beneficial Owner of an interest in a Global Security will not be entitled to receive physical delivery of Securities. Accordingly, each Beneficial Owner must rely on the procedures of DTC, the Direct Participants and the Indirect Participants to exercise any rights under the Securities.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Discontinuance of Depository's Services

A Global Security shall be exchangeable for Securities registered in the names of persons other than DTC or its nominee or a successor depository or its nominee only if:

(1) DTC or such successor depository, as applicable, notifies the Company that it is unwilling or unable to continue as a depository for such Global Security and no successor depository shall have been appointed by the Company within 90 days of such notice,

(2) DTC or such successor depository, as applicable, at any time, ceases to be a clearing agency registered under the Exchange Act at which time DTC or such successor depository, as applicable, is required to be so registered to act as such depository and no successor depository shall have been appointed by the Company within 90 days,

(3) the Company, in its sole discretion, determines that such Global Security shall be so exchangeable or

(4) there shall have occurred and shall be continuing an Event of Default with respect to the Securities.

Any Global Security that is exchangeable pursuant to the preceding paragraph shall be exchangeable for Securities registered in such names as DTC or such successor depository, as applicable, shall direct. Such instructions will be based upon directions received by DTC from its Participants or such successor depository from its participants with respect to ownership of beneficial interests in such Global Security.

Defeasance and Discharge

Under the terms of the Indenture, the Company will be discharged from any and all obligations in respect of the Securities (except for, among other things, certain obligations with respect to denominations and provisions for payment of the Securities and obligations to register the transfer or exchange of the Securities, to

replace stolen, lost or mutilated Securities, to maintain paying agencies, to hold moneys for payment in trust and to pay any Additional Amounts), if:

(1) the Company deposits with the Trustee, in trust, monies or United States Government Obligations in an amount sufficient to pay all the principal of and interest on the Securities on the dates such payments are due in accordance with the terms of such Securities,

(2) no Default or Event of Default shall have occurred and be continuing on the date of deposit or, with respect to certain events of bankruptcy or insolvency, at any time during the period ending on the 91st day after such deposit,

(3) the defeasance would not result in a breach or violation of the Indenture or any other material agreement by which the Company is bound,

(4) the Company shall have delivered to the Trustee an opinion of nationally recognized counsel experienced in such matters to the effect that, based upon a change in applicable United States federal income tax law after the date of the Indenture or the Company's receipt from, or the publication by, the Internal Revenue Service of a ruling, the holders of such Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such defeasance had not occurred and

(5) the Company has delivered to the Trustee an opinion of counsel qualified to practice in Ontario or a ruling from the Canada Customs and Revenue Agency to the effect that the holders of the Securities will not recognize income, gain or loss for Canadian federal or Ontario income tax or other tax purposes and will not be subject to witholding tax as a result of such defeasance and will be subject to Canadian federal and Ontario income tax and other tax on the same amounts and in the same manner and at the same times as would have been the case had such defeasance not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that holders of the Securities are not resident in Canada).

Prior to depositing such amounts, the Company may give the Trustee notice, which shall be irrevocable, of its election to redeem any or all of the Securities at a future date.

Modification of the Indenture and Securities

Without the consent of any holder of Securities, the Company and the Trustee may amend or supplement the Indenture or the Securities, among other things, to cure any ambiguity, defect or inconsistency or to make any change that does not adversely affect the rights of any holder of the Securities in any material aspect. Other modifications and amendments of the Indenture may be made by the Company and the Trustee with the consent of the holders of not less than a majority in aggregate principal amount of the Securities; *provided, however,* that no such modification or amendment may, without the consent of the holder of each outstanding Security affected thereby, be made to:

(1) change the stated maturity of the principal of, or any installment of principal of, or interest on any Security, including any requirement of the Company to pay Additional Amounts,

(2) reduce the principal amount of Securities or the accrued and unpaid interest thereon, or the rate of interest, if any, on any Security or alter the provisions with respect to the price to be paid upon redemption of any Security;

(3) change the place or currency of payment of principal of or interest on the Securities;

(4) impair the right to institute suit for the enforcement of any payment on or with respect to the Securities on or after the due date thereof;

(5) modify the conversion or subordination provisions applicable to the Securities or the definition of "**Senior Indebtedness**" in a manner adverse to the holders thereof;

(6) reduce the percentage in principal amount of Outstanding Securities the consent of the holders of which is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults; or

(7) modify any of the provisions of certain sections as specified in the Indenture including the provisions summarized in this paragraph.

Governing Law

The Indenture and the Securities will be governed by and construed in accordance with the laws of the State of New York.

Consent to Service

In connection with the Indenture, the Company will designate and appoint CT Corporation System, as its authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Indenture or the Securities that may be instituted in any federal or New York state court located in the Borough of Manhattan, in The City of New York, or brought by the Trustee (whether in its individual capacity or in its capacity as Trustee under the Indenture), and will irrevocably submit to the non-exclusive jurisdiction of such courts.

Enforceability of Judgments

Since substantially all of the assets of the Company, as well as the assets of most of the directors and officers of the Company, are outside the United States, any judgment obtained in the United States against the Company or certain of the directors or officers thereof, including judgments with respect to the payment of principal on the Securities, may not be collectible within the United States.

The Company has been informed by Stikeman Elliott, Canadian counsel for the Company, that the laws of the Province of Ontario and the federal laws of Canada applicable therein permit an action to be brought in a court of competent jurisdiction in the Province of Ontario on any final and conclusive judgment *in personam* of any federal or state court located in the State of New York (a "**New York Court**") against the Company, which judgment is subsisting and unsatisfied for a sum certain with respect to the enforcement of the Indenture and the Securities that is not impeachable as void or voidable under the internal laws of the State of New York if (1) the New York Court rendering such judgment had jurisdiction over the judgment debtor, as recognized by the courts of the Province of Ontario (and submission by the Company in the Indenture to the jurisdiction of the New York Court will be sufficient for that purpose); (2) such judgment was not obtained by fraud or in a manner contrary to natural justice and the enforcement thereof would not be inconsistent with public policy, as such terms are understood under the laws of the Province of Ontario or contrary to any order made by the Attorney General of Canada under the *Foreign Extraterritorial Measures Act* (Canada) or by the Competition Tribunal under the *Competition Act* (Canada); (3) the enforcement of such judgment would not be contrary to the laws of general application limiting the enforcement of creditors' rights and does not constitute, directly or indirectly, the enforcement of foreign revenue, expropriatory or penal laws in the Province of Ontario; (4) no new admissible evidence relevant to the action is discovered prior to the rendering of judgment by the court in the Province of Ontario; (5) interest payable on the Securities is not characterized by a court in the Province of Ontario as interest payable at a criminal rate within the meaning of Section 347 of the *Criminal Code* (Canada); and (6) the action to enforce such judgment is commenced within the appropriate limitation period; except that any court in the Province of Ontario may only give judgment in Canadian dollars. In the opinion of such counsel, there are no reasons under present laws of the Province of Ontario for avoiding recognition of such judgments of New York Courts under the Indenture or on the Securities based upon public policy.

The Company has been advised by such counsel that there is doubt as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of civil liabilities predicated solely upon the United States federal securities laws.

INTEREST COVERAGE

The interest coverage set forth below has been prepared and included in this prospectus in accordance with Canadian disclosure requirements. This coverage has been calculated using the interest and exchange rates appropriate for the relevant date or period.

Historical Interest Coverage

Our consolidated cash interest requirements for long-term debt for the twelve-month period ended December 31, 1999 was $14.5 million. Our consolidated earnings available for the payment of interest for this period was $75.9 million or approximately 5.2 times the annual cash interest requirements for this period.

Pro Forma Interest Coverage

After giving effect to this offering, the repurchase of the Senior Notes and the repayment of the Clonmel Loan, our pro forma consolidated cash interest requirements for long-term debt for the twelve-month period ended December 31, 1999 was $21.2 million. Our pro forma consolidated earnings, assuming Fuisz was acquired on January 1, 1999, available for the payment of interest for this period was $39.0 million, or approximately 1.8 times the pro forma annual cash interest requirements for this period.

CREDIT RATINGS

The Securities have been assigned a rating of B− by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**") and B2 by Moody's Investors Service, Inc. ("**Moody's**") (each a **"Rating Agency"**). Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities.

Ratings for debt instruments range from AAA, in the case of S&P, and Aaa, in the case of Moody's, which represent the highest quality of securities, to D, in the case of S&P, and C, in the case of Moody's, which represent the lowest quality of securities rated.

According to the S&P rating system, debt rated "B−" is regarded as more vulnerable to nonpayment than obligations rated "BB", but the obligor currently has the capacity to meet its financial obligations. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial obligations. The ratings from AA to B may be modified by the addition of a plus (+) or a minus (−) sign to show relative standing within the major rating categories.

According to the Moody's rating system, securities rated "B2" generally lack the characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking, and the modifier 3 indicates a ranking in the lower end of its generic rating category.

The credit ratings accorded to the Securities by the Rating Agencies are not recommendations to purchase, hold or sell the Securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

DESCRIPTION OF CAPITAL STOCK

The following includes information concerning our common shares, based on applicable law and a summary of certain provisions of our Articles ("**Articles**") and by-laws, each as amended. This information and summary do not purport to be complete and are qualified in their entirety by reference to the full Articles.

General

As a result of the filing of articles of amendment on December 31, 1999, our authorized capital stock now consists of an unlimited number of common shares and an unlimited number of class A special shares (the "**Class A Special Shares**"). As of the close of business on December 31, 1999, there were no Class A Special Shares issued or outstanding. As of the close of business on December 31, 1999, there were 62,107,474 common shares issued, of which none were owned by us or our wholly-owned subsidiaries. As of December 31, 1999, there were options outstanding for 5,223,400 common shares under our stock option plan. As of December 31, 1999, there were outstanding warrants exercisable for 7,475,000 common shares which we issued in connection with the initial public offering of Intelligent Polymers. The exercise price for the common shares under these warrants is $20.00 per share and they are exercisable until September 30, 2002. As of December 31, 1999, there were also outstanding rights to acquire 88,310 common shares as a result of our acquisition of Fuisz.

Capital Stock

Each holder of common shares is entitled to one vote per share, which may be given in person or by proxy, in the election of directors of the Company and on all other matters submitted to a vote of our shareholders. The holders of common shares are entitled to share pro rata in any dividends declared by our board of directors out of funds legally available therefor, subject to preferential rights of the Class A Special Shares. In the event of liquidation, dissolution or winding up, whether voluntary or involuntary, of the Company, the holders of common shares are entitled to receive all of our assets remaining after the payment of all of our liabilities, subject to the preferential right of the Class A Special Shares or any other shares which may rank prior to the common shares. There are no preemptive or conversion rights, and the common shares are not subject to redemption. All common shares now outstanding and to be outstanding upon exercise of the outstanding options and warrants are, or will be, fully paid and non-assessable.

Our by-laws provide for certain rights of our shareholders in accordance with the provisions of the Business Corporations Act (Ontario). Such by-laws may be amended either by a majority vote of the shareholders or by a majority vote of the board of directors. Any amendment of the by-laws by action of the board of directors must be submitted to the next meeting of the shareholders whereupon the by-law amendment must be confirmed, confirmed as amended or repealed by a majority vote of the shareholders voting on such matter.

Shareholders do not have cumulative voting rights for the election of directors. Therefore, the holders of more than 50% of the shares voting for the election of directors could, if they choose to do so, elect all of the directors and, in such event, the holders of the remaining shares would not be able to elect any director.

While the payment of dividends rests within the discretion of the board of directors, we presently intend to retain all earnings, if any, in the foreseeable future for use in the development of our business. See "Dividend Policy."

ChaseMellon Shareholder Services, LLC and CIBC Mellon Trust Company are the principal transfer agents and registrars for the common shares in the United States and Canada, respectively.

There is no provision in our Articles or by-laws that would have the effect of delaying, deferring or preventing a change in control in the Company or that would operate only with respect to an extraordinary corporate transaction involving the Company, such as a merger, reorganization, tender offer, sale or transfer of substantially all of our assets or liquidation. However, certain special requirements apply to the acquisition by a non-Canadian of control of a Canadian business.

Class A Special Shares

The Class A Special Shares may be issued from time to time in one or more series, each series comprising the number of shares, designation, rights, privileges, restrictions and conditions, including, without limitation, the rate or amount of dividends or the method of calculating dividends, the dates of payment, the redemption, purchase and/or conversion, and any sinking fund or other provisions, subject to regulatory approval, if applicable, which the board of directors determines by resolution. The Class A Special Shares rank prior to the common shares with respect to payment of dividends and distributions in the event of the liquidation, dissolution or winding-up, whether voluntary or involuntary, of the Company. The Class A Special Shares of any series may also be given such other preferences, not inconsistent with our Articles, over the common shares and any other shares ranking junior to such Class A Special Shares as may be fixed by the directors. The Class A Special Shares of any series may be made convertible into common shares. Unless the directors otherwise determine, or except as otherwise required by law, the holder of each share of a series of Class A Special Shares shall not be entitled to vote at any meeting of shareholders of the Company. No Class A Special Shares have been issued to date.

TAXATION

Certain Canadian Federal Income Tax Considerations

In the opinion of Stikeman Elliott, Canadian counsel to the Company, and Osler, Hoskin & Harcourt LLP, Canadian counsel to the Underwriters, the following summary fairly describes the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "**ITA**") generally applicable to purchasers of Securities pursuant to this Prospectus who, at all relevant times, for the purposes of the ITA, deal at arm's length with the Company, are not affiliated with the Company, acquire and hold the Securities and any Common Shares into which the Securities are converted as capital property, are neither resident nor deemed to be resident in Canada, and who do not use or hold, and are not deemed to use or hold, the Securities or any Common Shares into which the Securities are converted in carring on a business in Canada ("Securityholders"). Generally, the Securities and Common Shares will be considered to be capital property to a holder thereof provided the holder does not acquire the Securities or Common Shares, as the case may be, in the course of carrying on a business or in one or more transactions considered to be an adventure in the nature of trade.

This summary is not applicable to any holder of Securities or Common Shares that is a "financial institution", as defined in section 142.2 of the ITA.

This summary is based on the current provisions of the ITA and the regulations thereunder, all specific proposals (the "Tax Proposals") to amend the ITA and the regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, a letter issued by the Department of Finance with respect to the Tax Proposals, the provisions of the *Canada-U.S. Income Tax Convention* (1980), as amended (the "Convention"), and counsels' understanding of the current published administrative practices of the Canada Customs and Revenue Agency. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial action, nor does it take into account provincial, territorial or foreign income tax considerations.

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PROSPECTIVE SECURITYHOLDER AND NO REPRESENTATIONS WITH RESPECT TO THE INCOME TAX CONSEQUENCES TO ANY SECURITYHOLDER ARE MADE. PROSPECTIVE SECURITYHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS FOR ADVICE WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF SECURITIES AND ANY COMMON SHARES INTO WHICH SECURITIES ARE CONVERTED, INCLUDING THE APPLICATION AND EFFECT OF THE INCOME AND OTHER TAX LAWS OF ANY COUNTRY, PROVINCE, STATE OR LOCAL TAX AUTHORITY.

Interest on a Security

The payment, whether actual or deemed, by the Company of interest on the Securities to a Securityholder will be exempt from Canadian withholding tax.

Disposition of a Security (other than a Conversion into Common Shares)

A Securityholder will not be subject to tax under the ITA in respect of any capital gain realized on a disposition (or deemed disposition) of the Securities unless, at the time of such disposition (other than a conversion into Common Shares), such Securities constitute taxable Canadian property of the Securityholder for purposes of the ITA and such Securityholder is not entitled to relief under an applicable tax treaty. The Securities generally will not constitute taxable Canadian property of a Securityholder at the time of a disposition of such Securities unless, at any time during the five-year period immediately preceding the disposition, the Securityholder, persons with whom the Securityholder did not deal at arm's length, or the Securityholder together with such persons owned or had options or rights (including conversion rights under the Securities) in respect of 25% or more of the issued shares of any class or series of the Company, and provided that the Common Shares are listed on a prescribed stock exchange (which includes the TSE and NYSE) at the time of the disposition.

Conversion of a Security into Common Shares

As described under "Description of the Securities—Conversion Rights", a Securityholder may convert a Security into Common Shares. Generally, no capital gain or capital loss will be realized by the Securityholder on that conversion, and the cost to the Securityholder of the Common Shares so acquired will be equal to the adjusted cost base of the converted Security to the Securityholder immediately before the conversion, less the amount of any cash received in lieu of a fractional share (provided the amount of such cash does not exceed Cdn$200).

Amounts paid or credited (or deemed to be paid or credited) as, on account or in lieu of payment of, or in satisfaction of, dividends on the Common Shares to a Securityholder will generally be subject to Canadian non-resident withholding tax. Such withholding tax is levied at a basic rate of 25% which may be reduced pursuant to the terms of an applicable tax treaty between Canada and the country of residence of the Securityholder. Currently, under the Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends beneficially owned by a person who is a resident of the United States for the purposes of the Convention is 15%. However, where such beneficial owner is a company which owns at least 10% of the voting stock of the Company, the rate of such withholding is 5%.

A Securityholder will not be subject to tax under the ITA in respect of any capital gain realized on a disposition (or deemed disposition) of Common Shares unless at the time of such disposition such shares constitute taxable Canadian property of the Securityholder for purposes of the ITA and such Securityholder is not entitled to relief under an applicable tax treaty. Common Shares generally will not constitute taxable Canadian property of a Securityholder at the time of a disposition of such shares unless, at any time during the five-year period immediately preceding the disposition, the Securityholder, persons with whom the Non-Resident Securityholder did not deal at arm's length, or the Securityholder together with such persons owned or had options or rights in (including conversion rights under the Securities) respect of 25% or more of the issued shares of any class or series of the Company, and provided that the Common Shares are listed on a prescribed stock exchange (which includes the TSE and NYSE) at the time of the disposition.

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary of certain material U.S. federal income tax consequences of the ownership, disposition and conversion of Securities to U.S. Holders (as defined below) who purchase Securities upon their original issue at the original offering price and who hold Securities as capital assets. This discussion is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, retroactively or prospectively.

The discussion is for general information only and may not apply to certain categories of holders subject to special treatment under the Internal Revenue Code of 1986, as amended (the "**Code**"), such as Non-U.S. Holders (as defined below), holders that are passthrough entities or investors in passthrough entities, dealers or traders in securities or currencies, banks, insurance companies, traders who elect to mark-to-market their securities, persons whose "functional currency" is not the U.S. dollar, tax-exempt entities, and persons that hold common shares as a position in a straddle or as part of a "hedging," "integrated," "constructive sale" or "conversion" transaction. Moreover, the discussion summarizes only federal income tax consequences and does not address any other U.S. federal tax consequences or any state, local or other tax consequences. ACCORDINGLY, PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE SPECIFIC TAX CONSEQUENCES OF THE OWNERSHIP, DISPOSITION AND CONVERSION OF SECURITIES TO THEM, INCLUDING ANY U.S. FEDERAL, STATE, LOCAL OR OTHER TAX CONSEQUENCES (INCLUDING ANY TAX RETURN FILING OR OTHER TAX REPORTING REQUIREMENTS) OF THE OWNERSHIP, DISPOSITION AND CONVERSION OF SECURITIES.

For purposes of the following discussion, the term "U.S. Holder" means a beneficial owner of Securities that, for U.S. federal income tax purposes, is a U.S. citizen or resident, a corporation created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is includable in gross income for United States income tax purposes regardless of its source, or a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more United States

fiduciaries have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person. A "Non-U.S. Holder" means a beneficial owner of Securities other than a U.S. Holder.

The Company intends to take the position that and the following discussion assumes that the Securities should be classified as indebtedness of the Company for U.S. federal income tax purposes. If the IRS were successfully to assert that the Securities constitute equity for U.S. federal income tax purposes, the U.S. federal income tax consequences to a U.S. Holder would differ from those described herein, and the amount, manner and timing of income received with respect to the Securities could be different.

Interest Income and Original Issue Discount

As described below, the Company believes that unless and until the Company exercises its option to defer any payment of interest, stated interest on the Securities generally will be taxable to a U.S. Holder as ordinary income at the time it is accrued or paid in accordance with the U.S. Holder's regular method of tax accounting. Interest paid or accrued with the respect to the Securities will generally be treated as United States source income for foreign tax credit purposes.

Regardless of their method of accounting for U.S. federal income tax purposes, holders of debt instruments issued with original issue discount ("**OID**") must include such discount in income on an economic accrual basis without regard to the receipt of cash attributable to interest on the instrument. Under current Treasury regulations relating to the determination of OID, a debt instrument (other than an instrument issued at a discount) will not be treated as having been issued with OID if all of the interest payments thereon constitute qualified stated interest. If interest on the Securities is considered to be "unconditionally payable" at least annually, the interest will constitute qualified stated interest. In determining whether interest is unconditionally payable, remote contingencies are ignored.

The Company has the right to defer interest on the Securities for a period not exceeding 20 consecutive quarterly periods, but not beyond the maturity date of the Securities. However, the Company believes that the likelihood of its exercising its option to defer payments of interest is remote. Based on the foregoing, the Company believes that stated interest on the Securities will constitute qualified stated interest and that the Securities will not be considered to be issued with OID at the time of their original issuance, and accordingly, a U.S. Holder should include in gross income such U.S. Holder's allocable share of stated interest on the Securities in accordance with such U.S. Holder's regular method of tax accounting.

Under the Regulations, if the Company exercised its option to defer any payment of interest, the Securities would at that time be treated, solely for the purposes of the OID rules, as having been retired and reissued with OID, and all stated interest on the Securities would thereafter be treated as OID as long as the Securities remained outstanding. In such event, all of a U.S. Holder's interest income with respect to the Securities would be accounted for as OID on an economic accrual basis regardless of such U.S. Holder's method of tax accounting, and actual distributions of stated interest would not be reported as income. Consequently, a U.S. Holder would be required to include stated interest on the Securities in gross income, as OID, even though the Company would not make any actual cash payments with respect to such interest during an Extension Period.

If as of the date of this prospectus, the Company's option to extend an Interest Payment Date were not treated as remote, the Securities would be considered issued with OID at initial issuance which OID should, in general, accrue over the term of the Securities on a constant yield basis.

Sale, Exchange or Other Disposition of the Securities

U.S. Holders will generally recognize capital gain or loss on the sale, exchange or other disposition of Securities. Such gain or loss will be long-term capital gain or loss if the Securities have been held for more than one year. Any gain or loss recognized by a U.S. Holder will generally be treated as United States source gain or loss. The deduction of capital losses is subject to limitations.

Constructive Dividends on the Securities

The Conversion Price applicable to the Securities is subject to adjustments under certain circumstances. Under Section 305 of the Code and the Treasury Regulations promulgated thereunder, U.S. Holders of the Securities may be treated as having received a constructive dividend (to the extent of the Company's current and accumulated earnings and profits) if the Conversion Price is adjusted. As such, under certain circumstances that may or may not occur, such an adjustment may be treated as a taxable dividend to the U.S. Holders of the Securities without regard to whether such U.S. Holders receive any cash or other property. The deemed dividend would be includable in income by the U.S. Holders as foreign source dividend income.

Conversion of the Securities

A U.S. Holder generally will not recognize any income, gain or loss upon conversion of a Security into common shares except with respect to cash received in lieu of a fractional share of common shares. A U.S. Holder's tax basis in the common shares received on conversion of a Security will be the same as such holder's adjusted tax basis in the Security at the time of conversion (reduced by any basis allocable to a fractional share interest), and the holding period for the common shares received on conversion will generally include the holding period of the Security converted.

Cash received in lieu of a fractional share of common shares upon conversion will be treated as a payment in exchange for the fractional share of common shares. Accordingly, the receipt of cash in lieu of a fractional share of common shares generally will result in capital gain or loss (measured by the difference between the cash received for the fractional share and the holder's adjusted tax basis in the fractional share).

Taxation of Dividends

Subject to the following discussion of special rules applicable to "PFICs," U.S. Holders of common shares generally will treat the gross amount of any dividends, if any, paid by the Company, without reduction for Canadian withholding taxes, as ordinary taxable income for U.S. federal income tax purposes. In certain circumstances, however, U.S. Holders may be eligible to receive a foreign tax credit for the Canadian withholding taxes and, in the case of a corporate U.S. Holder, owning 10% or more of the voting shares of the Company, for a portion of the Canadian taxes paid by the Company itself. Dividends paid by the Company, if any, will not qualify for the dividends received deduction otherwise available to corporate U.S. Holders.

The amount of any dividend paid in Canadian dollars will equal the U.S. dollar value of the Canadian dollars received calculated by reference to the exchange rate in effect on the date the dividend is distributed regardless of whether the Canadian dollars are converted into U.S. dollars. If the Canadian dollars received as a dividend are not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the Canadian dollars equal to its U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Canadian dollars will be treated as ordinary income or loss.

It is possible that the Company is, or at some future time will be, at least 50% owned by United States persons. Dividends paid by a foreign corporation that is at least 50% owned by United States persons may be treated as United States source income (rather than foreign source income) for foreign tax credit purposes to the extent the foreign corporation has more than an insignificant amount of United States source income. The effect of this rule may be to treat a portion of any dividends paid by the Company as United States source income. The Code permits a U.S. Holder entitled to benefits under the Canada-U.S. Income Tax Treaty to elect to treat any of the Company's dividends as foreign source income for foreign tax credit limitation purposes if the dividend income is separated from other income items for purposes of calculating the U.S. Holder's foreign tax credit. U.S. Holders should consult their own tax advisors about the desirability of making, and the method of making, such an election.

Sale, Exchange or Other Disposition of Common Shares

Subject to the following discussion of special rules applicable to "PFICs" (as herein defined), U.S. Holders will generally recognize capital gain or loss on the sale, exchange or other disposition of common shares. Such gain or loss will be long-term capital gain or loss if the common shares have been held for more than one year.

Any gain or loss recognized by a U.S. Holder will generally be treated as United States source gain or loss. The deduction of capital losses is subject to limitations.

Passive Foreign Investment Company Considerations

A "passive foreign investment company" (a "**PFIC**") is any foreign corporation if, after the application of certain "look-through" rules, (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income. The determination as to PFIC status is made annually. If a U.S. Holder is treated as owning PFIC stock, the U.S. Holder will be subject to special rules generally intended to eliminate the benefit of the deferral of U.S. federal income tax that results from investing in a foreign corporation that does not distribute all its earnings currently. These rules may adversely affect the tax treatment to a U.S. Holder of dividends paid by Biovail and of sales, exchanges and other dispositions of the Company's common shares, and may result in other adverse U.S. federal income tax consequences.

The Company believes that it is not currently a PFIC and does not expect to become a PFIC in the future. However, there can be no assurance that the Internal Revenue Service will not successfully challenge the Company's position or that the Company will not become a PFIC at some future time as a result of changes in its assets, income or business operations.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments of principal and interest on a Security and dividends in respect of the common shares and the proceeds received on the disposition of Securities or common shares paid within the United States (and in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients (such as corporations), and 31% backup withholding may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or is otherwise subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability.

UNDERWRITING

Subject to certain terms and conditions contained in an underwriting agreement (the "**Underwriting Agreement**"), the Underwriters named below (the "**Underwriters**"), for whom Donaldson, Lufkin & Jenrette Securities Corporation is acting as the representative (the "**Representative**"), have severally agreed to purchase from us an aggregate principal amount of $300,000,000 of Securities. The principal amount of Securities that each Underwriter has agreed to purchase is set forth opposite its name below:

Underwriters	Principal Amount of Securities
Donaldson, Lufkin & Jenrette Securities Corporation	$150,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	75,000,000
Morgan Stanley & Co. Incorporated	75,000,000
Total	$300,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to purchase the Securities are subject to the approval of certain legal matters by counsel and to certain other conditions. The obligations of the Underwriters under the Underwriting Agreement may be terminated at the Underwriters' discretion on the basis of their assessment of the state of the financial markets. If any of the Securities are purchased by the Underwriters pursuant to the Underwriting Agreement, all such Securities (other than the Securities covered by the over-allotment option described below) must be so purchased.

The Securities have not been and will not be qualified for public distribution under the securities laws of any province or territory of Canada. The Securities are not being, and may not be, offered or sold, directly or indirectly, in Canada or to or for the benefit of any resident of Canada in violation of the securities laws of Canada or any province or territory of Canada.

We have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act and the Securities Act (Ontario), or to contribute to payments that the Underwriters may be required to make in respect thereof.

We have been advised by the Representative that the Underwriters propose to offer the Securities to the public initially at the price to the public set forth on the cover page of this prospectus and to certain dealers (who may include the Underwriters) at such price less a concession not to exceed $0.90 per Security. After the initial offering of the Securities, the public offering price and other selling terms may be changed by the Representative at any time without notice.

We have granted to the Underwriters an option to purchase up to an additional $45,000,000 aggregate principal amount of Securities at the public offering price less underwriting discounts and commissions solely to cover over-allotments. Such option may be exercised in whole or in part from time to time during the 30-day period after the date of this Prospectus. To the extent that the Underwriters exercise such option, each of the Underwriters will be committed, subject to certain conditions, to purchase a number of option securities proportionate to such Underwriter's initial commitment as indicated in the preceding table.

We have agreed not to directly or indirectly offer, sell, contract or otherwise dispose of any Securities or any substantially similar securities, or any securities convertible into or exchangeable for our Securities or any substantially similar securities, for a period of 90 days from the date of this prospectus without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation. In addition, we have agreed not to offer, sell, contract or otherwise dispose of any common shares or any securities convertible into or exchangeable for common shares for a period of 90 days from the date of this prospectus without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation and provided that we may grant options and issue common shares upon the exercise of options under our option plan and upon the exercise of any outstanding warrants, each as referred to herein. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources" and "Description of Capital Stock."

Each Underwriter has represented and agreed that (i) prior to the date six months after the closing date for the sale of the Securities pursuant to the Underwriting Agreement, it will not offer or sell, any Securities offered hereby to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Securities offered hereby in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the offering to a person who is of a kind described in Article 11(3) of the Financial Services Act, 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

In general, the rules of the SEC prohibit the Underwriters (and selling group members) from making a market in the Securities during the "cooling off" period immediately preceding the commencement of sales in the offering. The SEC has, however, adopted exemptions from these rules that permit passive market making under certain conditions. In connection with the offering, certain Underwriters (and selling group members) may engage in passive market making activities in the Securities on the NYSE in accordance with Rule 10b-6A under the Exchange Act during the period immediately preceding commencement of offers or sales of the Securities. The passive market making transactions must comply with applicable volume and price limits and be identified as such. In general, a passive market maker may display its bid at a price not in excess of the highest independent bid for the security; if all independent bids are lowered below the passive market maker's bid, however, such bid must then be lowered when purchase limits are exceeded.

Pursuant to a policy statement of the Ontario Securities Commission, the Underwriters may not, throughout the period of distribution, bid for or purchase the Securities. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Securities. Such exceptions include a bid or purchase permitted under the by-laws and rules of the TSE relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing, pursuant to the offering, the Underwriters may effect transactions intended to stabilize or maintain the market price of the Securities at levels other than those which might otherwise prevail on the open market. The Underwriters are not required to engage in the foregoing activities. Such transactions may be commenced or discontinued at any time during the offering.

The Securities have been approved for listing on the NYSE under the symbol "BVF Pr", subject to official notice of issuance.

LEGAL MATTERS

Certain U.S. legal matters relating to the offering will be passed upon for us by Cahill Gordon & Reindel, New York, New York and for the Underwriters by Shearman & Sterling, Toronto, Ontario. Certain Canadian legal matters relating to the offering will be passed upon for us by Stikeman Elliott and for the Underwriters by Osler, Hoskin & Harcourt LLP.

EXPERTS

The financial statements included in this Prospectus for the year ended December 31, 1998 and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing elsewhere herein, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing. Effective July 22, 1999, Ernst & Young LLP were appointed our auditors.

The financial statements included in this prospectus for the year ended December 31, 1999 have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing elsewhere herein, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Fuisz as of December 31, 1997 and 1998, and for each of the three years in the period ended December 31, 1998, included in this registration statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the annual report of Biovail on Form 20-F for the year ended December 31, 1998 including audited consolidated balance sheets as at December 31, 1998 and 1997 and consolidated statements of income and retained earnings (deficit) and of cash flows for each of the years in the three year period ended December 31, 1998, together with the auditors' report thereon;

(b) the management information circular of Biovail dated June 7, 1999, other than the sections entitled "Compensation Committee," "Report on Executive Compensation" and "Performance Graph," relating to the annual and special meeting of shareholders of Biovail held on July 22, 1999;

(c) the management information circular of Biovail dated December 1, 1999, relating to the special meeting of shareholders of Biovail held on December 30, 1999;

(d) the material change report of Biovail dated August 10, 1999, announcing the entering into of a definitive merger agreement by Biovail, ABCI Acquisition Sub. Corporation and Fuisz;

(e) the material change report of Biovail dated September 28, 1999, describing the preliminary short form prospectus filed with the securities regulatory authorities in each of the provinces of Canada and with the SEC in the United States with respect to the qualification for distribution of 4,400,000 common shares in Canada and the United States; and

(f) the material change report of Biovail dated October 22, 1999, announcing the completion of the public offering of 5,000,000 common shares in Canada and the United States for gross proceeds of $255 million;

(g) the material change report of Biovail dated November 24, 1999, reporting that the shareholders of Fuisz had approved and adopted the merger agreement and merger plan among Biovail, Fuisz and ABCI Acquisition Sub. Corporation;

(h) the material change report of Biovail dated December 3, 1999, reporting that Biovail had exercised its option to purchase an exclusive licence from Intelligent Polymers in respect of a generic version of Procardia XL for a purchase price of $25 million;

(i) the material change report of Biovail dated January 7, 2000, announcing the filing of articles of amendment effecting a subdivision of common shares on the basis of two common shares for every one common share, an increase in authorized capital from 120,000,000 common shares to an unlimited number of common shares and reporting an amendment to Biovail's by-laws changing the quorum requirements for shareholders' meetings; and

(j) the material change report of Biovail dated March 10, 2000, describing the preliminary short form prospectuses filed with the Ontario Securities Commission and registration statements filed with the Securities and Exchange Commission in the United States in connection with this offering and the concurrent offering of common shares.

Any documents of the type referred to in the preceding paragraphs, and any material change reports (excluding confidential material change reports), filed by Biovail with the various securities commissions or similar authorities in the provinces of Canada after the date of this Prospectus and prior to the termination of this offering will be deemed to be incorporated by reference into this Prospectus.

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

Upon a new annual report on Form 20-F or an annual information form and annual financial statements being filed with and, where required, accepted by the securities regulatory authorities in each of the provinces of Canada during the currency of this Prospectus, the previous Annual Information Form, the previous annual financial statements and all interim financial statements, material change reports and information circulars filed prior to the commencement of the then current financial year will be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of our Securities hereunder.

Copies of the documents incorporated herein by reference may be obtained on request without charge from our corporate secretary, 2488 Dunwin Drive, Mississauga, Ontario, L5L 1J9, telephone (416) 285-6000.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the Registration Statement of which this Prospectus forms a part: the documents referred to under "Documents Incorporated by Reference"; certified copies of resolutions of the Board of Directors of Biovail; the form of underwriting agreement; the form of the Indenture; the Statement of Eligibility of the Trustee on Form T-1; consent of Deloitte & Touche LLP; acknowledgement and consent of Ernst & Young LLP; consent of PricewaterhouseCoopers LLP; consent of Stikeman Elliott; consent of Osler, Hoskin & Harcourt LLP; and the appointment of Agent for Service of Process and Undertaking on Form F-X.

INDEX TO FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

The Company's management is responsible for preparing the accompanying consolidated financial statements in conformity with accounting principles generally accepted in Canada. The effect of the application of accounting principles generally accepted in the United States is described in the notes to consolidated financial statements. 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 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 financial statements.

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 majority of 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.

/s/ EUGENE N. MELNYK
Eugene N. Melnyk
Chairman of the Board

/s/ KENNETH G. HOWLING
Vice President, Finance
and Chief Financial Officer

AUDITORS' REPORT

To the Board of Directors of Biovail Corporation

We have audited the consolidated balance sheet of Biovail Corporation as at December 31, 1999 and the consolidated statements of income and retained earnings and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. 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, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

/s/ ERNST & YOUNG LLP
ERNST & YOUNG LLP
Chartered Accountants
Toronto, Canada,
February 29, 2000

AUDITORS' REPORT

To the Board of Directors of BIOVAIL CORPORATION

We have audited the consolidated balance sheets of Biovail Corporation as at December 31, 1998 and the consolidated statements of income and retained earnings and cash flows for each of the years in the two year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. 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, 1998 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 1998 in accordance with generally accepted accounting principles in Canada.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Chartered Accountants

Toronto, Canada
May 14, 1999

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when financial statements, which include the accompanying notes, have been restated. The explanatory paragraph would be as follows:

"As discussed in Note 23, the accompanying 1997 financial statements have been restated only with respect to the Canadian reconciliation to United States generally accepted accounting principles."

Our report to the shareholders dated May 14, 1999 is expressed in accordance with Canadian reporting standards which do not require a reference to such events and conditions in the auditor's report when these are adequately disclosed in the financial statements.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Chartered Accountants

Toronto, Canada
May 14, 1999

BIOVAIL CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31, 1999 and 1998
(All dollar amounts are expressed in thousands of U.S. dollars)

	1999	1998
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	$178,086	$ 78,279
Short-term investments (Note 5)	65,893	—
Accounts receivable (Note 6)	60,571	42,768
Inventories (Note 7)	12,701	10,542
Assets held for disposal (Note 3)	20,000	—
Executive stock purchase plan loans (Note 8)	—	2,924
Deposits and prepaid expenses	3,172	3,357
	340,423	137,870
LONG-TERM INVESTMENTS (Note 9)	12	10,055
CAPITAL ASSETS, net (Note 10)	45,300	23,677
OTHER ASSETS, net (Note 11)	249,402	28,317
	$635,137	$199,919
LIABILITIES		
CURRENT		
Accounts payable	$ 22,685	$ 12,244
Accrued liabilities (Note 12)	31,107	4,129
Income taxes payable	3,585	1,004
Customer prepayments	4,962	4,516
Current portion of long-term debt (Note 13)	12,016	653
	74,355	22,546
LONG-TERM DEBT (Note 13)	125,488	126,182
	199,843	148,728
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	368,538	19,428
Warrants (Note 14)	8,244	8,244
Retained earnings	57,252	24,748
Cumulative translation adjustment	1,260	(1,229)
	435,294	51,191
	$635,137	$199,919

Commitments and contingencies (Note 20)

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

On behalf of the Board:

/s/ EUGENE N. MELNYK	/s/ BRUCE D. BRYDON
Eugene N. Melnyk	Bruce D. Brydon
Chairman of the Board	*Director and Chief Executive Officer*

BIOVAIL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1999, 1998 and 1997
(All dollar amounts except per share data are expressed in thousands of U.S. dollars)

	1999	1998	1997
REVENUE			
Product sales	$ 99,526	$ 69,154	$ 50,333
Research and development	52,260	32,070	19,559
Royalty and licensing	24,706	11,612	12,487
	176,492	112,836	82,379
EXPENSES			
Cost of goods sold	35,078	28,593	16,471
Research and development	33,130	17,490	14,386
Selling, general and administrative	29,602	17,450	13,831
	97,810	63,533	44,688
OPERATING INCOME	78,682	49,303	37,691
EQUITY LOSS (Note 3)	(1,618)	—	—
INTEREST EXPENSE, net (Note 13)	(9,152)	(1,702)	(351)
GAIN ON DISPOSAL OF LONG-TERM INVESTMENTS, net	1,948	—	—
INCOME BEFORE INCOME TAXES AND GOODWILL AMORTIZATION	69,860	47,601	37,340
PROVISION FOR INCOME TAXES (Note 16)	4,215	2,024	1,941
INCOME BEFORE GOODWILL AMORTIZATION	65,645	45,577	35,399
GOODWILL AMORTIZATION, net of tax	3,165	158	158
NET INCOME	62,480	45,419	35,241
RETAINED EARNINGS, BEGINNING OF YEAR	24,748	49,709	22,712
EXCESS OF COST OF COMMON SHARES ACQUIRED OVER THE STATED CAPITAL THEREOF (Note 14)	(29,976)	(70,380)	—
CONTRIBUTION TO INTELLIGENT POLYMERS LIMITED (Note 14)	—	—	(8,244)
RETAINED EARNINGS, END OF YEAR	$ 57,252	$ 24,748	$ 49,709
EARNINGS PER SHARE BEFORE GOODWILL AMORTIZATION	$ 1.28	$ 0.86	$ 0.69
GOODWILL AMORTIZATION PER SHARE	0.06	0.01	—
EARNINGS PER SHARE (Note 15)	$ 1.22	$ 0.85	$ 0.69
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 15)	51,271,000	53,282,000	51,212,000

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

BIOVAIL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1999, 1998 and 1997
(All dollar amounts are expressed in thousands of U.S. dollars)

	1999	1998	1997
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Net income for the year	$ 62,480	$ 45,419	$ 35,241
Depreciation and amortization	10,140	4,957	3,157
Gain on disposal of long-term investments, net (Note 9)	(1,948)	—	—
Equity loss (Note 3)	1,618	—	—
	72,290	50,376	38,398
Change in non-cash operating items (Note 18)	8,723	3,197	(34,082)
	81,013	53,573	4,316
INVESTING			
Additions to capital assets, net	(7,784)	(3,744)	(2,664)
Repayment (advance) of executive stock purchase plan loans (Note 8)	3,100	10	(421)
Acquisition of product rights (Note 11)	(38,340)	(4,000)	—
Acquisition of Fuisz Technologies Ltd., net of cash acquired (Note 3)	(43,720)	—	—
Additions to short-term investments, net	(54,665)	—	—
Decrease (increase) in other assets	25	(176)	(86)
Disposal (acquisition) of long-term investments (Note 9)	11,991	(10,043)	(12)
Acquisition of royalty interest	—	(15,000)	—
	(129,393)	(32,953)	(3,183)
FINANCING			
Repurchase of share capital (Note 14)	(30,593)	(72,141)	—
Issuance of share capital (Note 14)	253,721	3,929	4,464
Repurchase of subordinated convertible debentures	(74,545)	—	—
Reduction in other long-term debt	(667)	(21,838)	(2,202)
Increase in other long-term debt	—	19,143	373
Issuance of U.S. Senior Notes, net of financing costs	—	120,400	—
	147,916	49,493	2,635
EFFECT OF EXCHANGE RATE CHANGES ON CASH	271	(109)	(19)
INCREASE IN CASH AND CASH EQUIVALENTS	99,807	70,004	3,749
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,279	8,275	4,526
CASH AND CASH EQUIVALENTS, END OF YEAR	$178,086	$ 78,279	$ 8,275

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

1. GOVERNING STATUTE AND NATURE OF OPERATIONS

In December 1999, the shareholders of Biovail Corporation International approved a change in the name of the company to Biovail Corporation.

Biovail Corporation (“Biovail” or the “Company”) is incorporated under the laws of the province of Ontario. The Company is an international full-service pharmaceutical company engaged in the formulation, clinical testing, registration and manufacture of drug products utilizing advanced drug delivery technologies.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The accounting principles differ in certain respects from generally accepted accounting principles in the US as described in Note 23.

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 financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

The estimated fair value of all financial assets and liabilities, other than long-term debt, approximates their carrying values at December 31, 1999 and 1998. 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 fair value of long-term debt is disclosed in Note 13.

Revenue recognition

Research and development revenue represents fees earned from third party customers for services rendered or attainment of development and regulatory approval milestones, with respect to contract research and product development done on their behalf.

Revenue from product sales is recognized when the product is shipped to the customer.

Royalty revenue is recognized on an accrual basis in accordance with contractual agreements with third parties and is net of amounts payable to sublicensees.

Licensing revenue is recognized at the date the license is granted unless there are specific events which must be completed under the terms of the licensing agreement in which case a portion of the revenue is deferred and recognized upon the completion of each specific event.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development

The Company's policy is to expense as incurred all research and product development costs, net of investment tax credits, related to both costs incurred on its own behalf and on behalf of its third party customers. Technology acquired from others, which is still in research and development, is deferred and amortized over management's estimate of its useful life.

Cash and cash equivalents

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

Short-term investments

Short-term investments include highly liquid investments with original maturities greater than three months but less than one year when purchased. Short-term investments are carried at cost which approximates fair value.

Inventories

Inventories are comprised of raw materials, work in process, and finished goods which are valued at the lower of cost and replacement cost. Cost is determined on the first-in, first-out basis.

Long-term investments

Long-term investments are reported at cost less any provision which may be required to recognize a permanent decline in value.

Capital assets and related depreciation

Capital assets are recorded at cost less accumulated depreciation. Annual rates applied to depreciate the cost of capital assets over their estimated useful lives using the straight line basis are as follows:

Buildings	25 years
Machinery and equipment	5-10 years
Other equipment	3-5 years
Leasehold improvements	term of lease

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other assets

Other assets are amortized on a straight line basis as follows:

Goodwill	20 years
Royalty interests	15 years
Acquired in-process research and development	15 years
Core technology	15 years
Workforce	10 years
Product rights	8-15 years
Deferred financing costs	term of debt

Goodwill and product rights are evaluated periodically, based on estimated cash flows computed on a discounted basis and if conditions warrant an impairment valuation is provided.

Advertising and promotion costs related to new product launches are deferred and amortized over a one year period commencing at launch date.

Reporting currency and foreign currency translations

Reporting currency

The Company reports its financial statements in U.S. dollars, while the currency of measurement for the Company's operations varies depending upon location.

Foreign currency transactions

Monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historic rates. Revenue and expenses are translated at the average rate of exchange for the year. Exchange gains and losses are included in earnings.

Self-sustaining foreign subsidiaries

Assets and liabilities of self-sustaining foreign subsidiaries are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the year. Gains or losses arising on the translation of financial statements of self-sustaining foreign subsidiaries are deferred and included as a separate component of shareholders' equity. The net change in the cumulative translation adjustment balance in the years presented is primarily due to fluctuations in the exchange rate with respect to the Swiss franc, Irish punt and Canadian dollar.

Customer prepayments

Amounts received from customers as prepayments for goods or services to be provided in the future are recorded on the balance sheet as customer prepayments. When the goods or services are provided at a future date, they are billed to the customer at contractual rates.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock option plan

The Company has a stock option plan which is described in Note 14. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to share capital.

Income taxes

The Company follows the deferral method of income tax allocation.

1998 and 1997 figures

Goodwill amortization and certain other figures for 1998 and 1997 have been reclassified to conform to the 1999 presentation.

3. ACQUISITION

(i) **Description of acquisition**

On November 12, 1999, the Company completed the acquisition of Fuisz Technologies Ltd. (“Fuisz”) for $177,897,000 including costs relating to the acquisition. Fuisz is an international company that is engaged in the development, manufacturing and commercialization of a wide range of drug delivery, nutraceutical and food ingredient products utilizing its proprietary CEFORM®, SHEARFORM® and other drug delivery technologies (the “Fuisz Technology”).

Fuisz was acquired through a series of transactions which began in July 1999 with the purchase of certain Fuisz common stock and the announcement on July 25, 1999 that the Company had entered into a merger agreement to acquire the remaining common stock of Fuisz in a two-stage transaction consisting of a cash tender offer and a stock-for-stock merger.

By September 4, 1999, the Company had completed the acquisition of 49% of Fuisz’s outstanding common stock for cash consideration of $75,565,000 pursuant to the cash tender offer and other purchase transactions. On November 12, 1999, Biovail acquired the remaining common stock of Fuisz by issuing 1,544,155 pre-split common shares of the Company, which includes 44,155 pre-split common shares to be issued (see Note 14) with a fair value of $96,006,000. Certain of these common shares are yet to be issued. The value of the common shares issued by the Company was determined by reference to the average market price of the Company’s stock before and after the acquisition on November 12, 1999 and after giving effect to normal costs of issue of shares.

(ii) **Purchase price allocation**

The Company accounted for the acquisition of Fuisz as a step acquisition using the purchase method of accounting. The Company has recognized in these consolidated financial statements its 49% equity interest in the results of Fuisz for the period from September 4, 1999, the date it acquired significant influence, to November 12, 1999, the date of acquisition of control. The assets, liabilities, revenues and expenses of Fuisz have been included in these consolidated financial statements from November 12, 1999.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

3. ACQUISITION (Continued)

The purchase price of $177,897,000 which includes acquisition costs of $6,326,000 was allocated as follows:

Acquired in-process research and development	$137,470
Current assets	60,617
Goodwill	37,224
Assets held for disposal	20,000
Capital assets	16,893
Core technology	11,185
Workforce	2,041
Other assets	358
Current liabilities	(21,820)
Debt assumed	(86,071)
Purchase price	$177,897

(iii) **Acquired in-process research and development**

The Fuisz Technology involves drug delivery platforms and the application of such platforms to specific product development programs. At the date of acquisition, Fuisz was involved in seventeen product development projects for a number of pharmaceutical companies which were in various stages of completion. With the exception of certain nutraceutical products, the Fuisz Technology has not been employed in any product which has received regulatory approval to date and was considered to have no alternative future use other than for the therapeutic indications for which it was in development or which may be developed. Accordingly, technological feasibility of the products related to the Fuisz Technology was not established at the acquisition date and was considered to be in-process research and development.

Two of the projects have been submitted for approval with the applicable regulatory authorities. One project was submitted to the Food and Drug Administration ("FDA") in the US in June 1998 and the other was submitted to the Medical Control Agency in the UK in April 1998. The remaining fifteen projects are expected to be completed in accordance with Fuisz's contractual obligations with the relevant customers over the next eighteen months.

The development projects were estimated to be 65% complete on average, estimated peak sales were approximately $942 million per annum, estimated costs to completion of these products were approximately $9.5 million and discount rates of 28% were used. The average time to full completion of the remaining work for the projects in development was estimated to be approximately twelve months. The work remaining to complete the products in development involved on-going formulation, bioequivalency, safety and efficacy studies and the submission of regulatory filings to seek marketing approvals. The principal risks relating to the acquired technology were the outcomes of such clinical trials and Biovail's ability to negotiate acceptable commercial terms with the pharmaceutical companies developing the products. As pharmaceutical products cannot be marketed without regulatory approvals, the Company will not receive any benefits unless regulatory approval is obtained.

If the projects currently under development are successful, the Company expects that the Fuisz Technology will have extended life cycles. Because the Fuisz Technology is based on drug delivery, the technology can be applied to numerous products. Although the risk of technological feasibility is always present in each

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

3. ACQUISITION (Continued)

product, the Company's strategy is to exploit the technology through numerous product developments which the Company expects will occur over at least the next fifteen years.

(iv) **Assets held for disposal**

The Company determined, as part of its evaluation of the purchase, that certain operations of Fuisz were not strategic to Biovail's business plans and accordingly should be sold.

Prior to the completion of the share exchange, on October 22, 1999, Fuisz agreed to sell all of the issued shares of three of its wholly owned European subsidiaries for proceeds of $28,700,000. Further, Fuisz agreed to assign all of the rights, privileges and advantages from its Cebutid trademark to the purchaser of its European subsidiaries for proceeds of $10,273,000. No gain or loss was recognized by the Company on these transactions as these subsidiaries were included in the purchase price allocation at their fair value when Biovail acquired its 49% interest in Fuisz.

On December 1, 1999, Biovail entered into an agreement to sell all of the issued share capital of Clonmel Healthcare Limited ("Clonmel"), a pharmaceutical and antibiotic manufacturer and distributor, for proceeds of $20,000,000. The sale is expected to close in early 2000. No gain or loss was recognized by the Company on this transaction as this subsidiary was included at fair value in the purchase price allocation at November 12, 1999.

(v) **Pro forma information**

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Fuisz as if the acquisition, disposals and repayment of convertible subordinated debentures had occurred January 1, 1998 (a full year of goodwill amortization and interest cost is included for both 1998 and 1999).

	1999	1998
Total revenue	$188,418	$125,835
Net income (loss)	$ 21,892	$ (3,089)
Earnings (loss) per share (basic)	$ 0.39	$ (0.05)

These unaudited pro forma 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 Fuisz been included in the Company's consolidated financial statements as of January 1, 1998. In addition, they do not purport to be indicative of future consolidated results of operations of the Company.

4. CASH AND CASH EQUIVALENTS

	1999	1998
Cash and bank certificates of deposit	$ 38,776	$37,160
Corporate debt securities	139,310	41,119
	$178,086	$78,279

Corporate debt securities are carried at cost which approximates fair value.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

5. SHORT-TERM INVESTMENTS

	1999	1998
Corporate debt securities	$54,635	$ —
Restricted cash	11,258	—
	$65,893	$ —

Restricted cash is pledged as collateral against an IR£ 8,452,000 bank loan in connection with the 1997 acquisition of Clonmel by Fuisz. Under the terms of the sale of Clonmel, which is expected to close in early 2000, the Company will be required to repay the loan. Accordingly, the restricted cash is shown as a current asset.

6. ACCOUNTS RECEIVABLE

	1999	1998
Trade and royalties	$53,634	$36,638
Other receivables	6,937	2,672
Insurance claims recoverable	—	3,458
	$60,571	$42,768

The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. At December 31, 1999, three customers accounted for 82% of trade and royalties receivable. At December 31, 1998, four customers accounted for 60% of trade and royalties receivables. The Company believes that there is no unusual exposure associated with the collection of these receivables.

Insurance claims recoverable related to business interruption losses resulting from insurance damage in Puerto Rico in September 1998.

7. INVENTORIES

	1999	1998
Raw materials	$ 5,149	$ 4,759
Work in process	4,258	5,478
Finished goods	3,294	305
	$12,701	$10,542

8. EXECUTIVE STOCK PURCHASE PLAN LOANS

At December 31, 1998, Executive Stock Purchase Plan ("ESPP") loans of $2,924,000, made to finance the acquisition of shares of the Company on the open market by executive officers, were outstanding. The ESPP loans were secured by shares of the Company owned by executive officers, and bore interest at ¼% over bank prime rate, equal to the Company's rate for borrowings. The loans were repaid during 1999.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

9. LONG-TERM INVESTMENTS

Long-term investments is comprised of 12,000 special shares of Intelligent Polymers Limited ("IPL"), acquired in 1998. These shares have no entitlement to profits of IPL.

During 1999 the Company sold certain long-term investments, which had been acquired in 1998, for a net gain of $1,948,000.

10. CAPITAL ASSETS

	1999		1998	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 1,270	$ —	$ 1,220	$ —
Buildings	17,423	3,724	14,972	2,864
Machinery and equipment	24,914	7,366	13,218	4,874
Other equipment and leasehold improvements	15,873	3,090	4,061	2,056
	59,480	$14,180	33,471	$9,794
Less accumulated depreciation	14,180		9,794	
	$45,300		$23,677	

11. OTHER ASSETS

The following table summarizes other assets net of accumulated amortization.

	1999	1998
Goodwill	$ 38,514	$ 3,277
Acquired in-process research and development	136,215	—
Core technology and workforce	13,096	—
Product rights and royalty interests	56,945	20,522
Other intangibles	4,632	4,518
	$249,402	$28,317

Amortization amounted to $6,002,000, $1,883,000, and $441,000 in 1999, 1998 and 1997, respectively.

In December 1999, the Company acquired from IPL the product rights to IPL's generic version of Procardia XL for $25,000,000.

In October 1999, the Company acquired from Elan Corporation plc ("Elan") the exclusive marketing rights for the US to Elan's generic version of Adalat CC. The product will be marketed by Teva Pharmaceuticals ("Teva"). The net cost to the Company was $9,000,000, which will be amortized over the life of the product.

In November 1998, the Company completed the issue of U.S. Dollar Senior Notes, due 2005, for gross proceeds of $125,000,000. The expenses associated with this transaction have been deferred and are being amortized on a straight-line basis over the seven-year term of the debt.

In March 1998, the Company completed the acquisition of the royalty interest held by Galephar Puerto Rico, Inc. Limited ("Galephar") in certain of the Company's products. The Company paid $15,000,000 to Galephar in full satisfaction of the Company's royalty obligations on the sales of Tiazac® and the Company's generic controlled release version of Cardizem CD in the US and Canada. In September 1998, the Company acquired from Centocor, Inc. the exclusive distribution rights in Canada for Retavase for $4,000,000.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

12. ACCRUED LIABILITIES

	1999	1998
Restructuring costs	$13,597	$ —
Employee costs	4,528	836
Professional fees	2,163	368
Interest	1,736	1,715
Royalties	1,331	594
Product rights	1,524	—
Other	6,228	616
	$31,107	$4,129

Restructuring costs accrued in relation to the acquisition of Fuisz consisted of $11.3 million for the settlement of contracts, $1.5 million for the termination of employees and $1.3 million of other costs. These costs were included in the determination of the net assets of Fuisz acquired. Since the date of acquisition, approximately $534,000 of these costs have been settled.

Employee costs include $2.5 million of severance pay owing to certain Fuisz employees terminated prior to the acquisition by Biovail.

13. LONG-TERM DEBT

	1999	1998
Non-interest bearing government loan		
Payable to Western Economic Diversification, a Canadian federal government agency. This loan is repayable on a semi-annual installment basis of $381,000 per installment with the final payment due in 2001.	$ 1,250	$ 1,835
U.S. Dollar Senior Notes, due 2005		
Issued under an indenture dated November 16, 1998, the U.S. Dollar Senior Notes are general unsecured senior obligations of Biovail Corporation bearing interest at 10⅞%, payable semi-annually in arrears on May 15 and November 15 of each year. The U.S. Dollar Senior Notes mature on November 15, 2005.	125,000	125,000
Term bank loan		
Term loan payable of IR£ 8,452,000 and bears interest at the bank's reference rate plus margin (aggregate rate 4.13% at December 31, 1999). This loan is collateralized by a cash balance of $11,258,000 and charges over the assets of Clonmel.	10,799	—
Other debt	455	—
	137,504	126,835
Less current portion	12,016	653
	$125,488	$126,182

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

13. LONG-TERM DEBT (Continued)

On or after November 15, 2002, the U.S. Dollar Senior Notes will be redeemable at the option of the Company at the following prices if redeemed during the twelve months beginning November of the years indicated below:

Year	Percentage of Principal Outstanding
2002	105.438%
2003	102.719%
2004	100.000%

At any time on or before November 15, 2001, the Company may, at its option, redeem up to a maximum of 35% of the aggregate principal amount of the U.S. Dollar Senior Notes with the net cash proceeds of one or more equity offerings or the net cash proceeds received upon the exercise of warrants to purchase capital stock of the Company, at a redemption price equal to 110.875% of the principal amount thereof.

At December 31, 1999, the fair value of the U.S. Dollar Senior Notes approximates its carrying value of $128,388,000. The fair value of the remaining debt approximates its carrying value.

Interest expense on long-term debt amounted to $13,594,000, $2,358,000 and $199,000 in the years ended December 31, 1999, 1998 and 1997, respectively.

Principal repayments on long-term debt are as follows:

2000	$ 12,016
2001	488
2002	—
2003	—
2004	—
2005	125,000
	$137,504

Subsequent to the year end, the Company announced a tender for any and all its outstanding 10⅞% U.S. Dollar Senior Notes at a redemption price of 110.951% of the principal amount. The initial expiration date for the tender offer is March 20, 2000. Holders who irrevocably agree to tender on or prior to March 6, 2000, will receive an additional 2% of the principal amount. These U.S. Dollar Senior Notes have been classified as long term debt based on the conditions that existed at the balance sheet date.

14. SHARE CAPITAL

Authorized and Issued Shares

In December, 1999, the shareholders of the Company authorized a 2 for 1 stock split to the issued common shares and an increase in authorized shares from 120,000,000 common shares to an unlimited number of common shares without par value. All share and per share amounts in these financial statements have been retroactively adjusted to give effect to the 2 for 1 stock split.

In October 1999, the Company completed a share offering issuing 10,180,000 common shares for gross proceeds of $259 million less costs of $13.5 million.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

14. SHARE CAPITAL (Continued)

By resolutions of the Board of Directors dated August 11, 1998, and November 16, 1998, the Company implemented a stock repurchase program under which the Company was enabled to purchase up to 10% of its issued and outstanding common shares. Up to December 31, 1998, 4,543,800 common shares had been repurchased under this plan at a cost of $72,141,000. The excess of the cost of the common shares acquired over the stated capital thereof, totaling $70,380,000, was charged to retained earnings. In 1999, 1,465,400 common shares were repurchased at a cost of $30,593,000. The excess of the cost of the common shares acquired over the stated capital thereof, totaling $29,976,000 was charged to retained earnings.

	Number of Shares (000's)	Amount
Balance, December 31, 1996	50,854	$ 14,614
Issued on the exercise of options	2,466	4,434
Issued under Employee Stock Purchase Plan	2	30
Effect of exchange rate change	—	(613)
Balance, December 31, 1997	53,322	18,465
Issued on the exercise of options	940	3,886
Issued under Employee Stock Purchase Plan	4	43
Cancelled under stock repurchase program	(4,544)	(1,761)
Effect of exchange rate change	—	(1,205)
Balance, December 31, 1998	49,722	19,428
Issued on the exercise of options	668	7,629
Issued under Employee Stock Purchase Plan	3	40
Cancelled under stock repurchase program	(1,465)	(617)
Issued pursuant to equity offering	10,180	246,052
Issued on Fuisz acquisition(i)	3,088	96,006
Balance, December 31, 1999	62,196	$368,538

(i) Included in the issued and outstanding shares are 88,310 shares to be issued following the effectiveness of a registration statement with respect to the Fuisz acquisition.

Stock Option Plan

Under the Company's Stock Option Plan, as amended, (the "Plan") established in 1993 and approved by the shareholders at the Special Meeting held on March 28, 1994, the Company may grant to directors, officers, key 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 certain of the Company's directors, officers, employees, consultants and advisors. The aggregate number of shares reserved for issuance under the Plan taking into consideration the 2 for 1 stock split shall not exceed 14,000,000 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 shares are traded on the New York Stock Exchange 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.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

14. SHARE CAPITAL (Continued)

The options vesting terms vary as per the type of options. Management options granted prior to 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.

Options granted in 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 the first anniversary of the grant 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, 1999 taking into effect the 2 for 1 stock split in December 1999:

	Options (000's)	Weighted Average Exercise Price
Outstanding Balance, December 31, 1996	5,502	$ 6.57
Granted	2,358	15.43
Exercised	(2,466)	1.80
Cancelled	(354)	13.15
Outstanding Balance, December 31, 1997	5,040	12.57
Granted	602	17.57
Exercised	(940)	4.13
Cancelled	(280)	15.34
Outstanding Balance, December 31, 1998	4,422	13.82
Granted	1,684	37.15
Exercised	(668)	11.42
Cancelled	(214)	14.75
Outstanding Balance, December 31, 1999	5,224	$21.61
Exercisable at December 31, 1999	2,367	$13.22

The following table summarizes the information about options outstanding at December 31, 1999:

Price Range	Outstanding Options (000's)	Average Contractual Life Remaining	Weighted Average Price
$10 - $15	1,310	1.4	$11.22
$15 - $20	2,582	3.2	$16.42
$20 - $30	170	5.5	$26.57
$30 - $45	1,162	6.8	$44.14
	5,224	3.6	$21.61

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("EPP") was approved by the shareholders at the Special Shareholder 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

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

14. SHARE CAPITAL (Continued)

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 Plan, taking into consideration the 2 for 1 stock split in December 1999, shall not exceed 600,000 common shares. At the discretion of a committee of the Board of Directors that will administer the EPP, the Company may issue directly from treasury or purchase shares in the market from time to time to satisfy the obligation under the EPP. A participant may authorize 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.

Warrants

In October, 1997, IPL completed a public offering of 3,737,500 units. Each unit comprised one common share of IPL and one warrant to purchase two post split common shares of the Company. The net proceeds to IPL of the offering before offering expenses amounted to approximately $69,500,000. On September 30, 1999, the units separated and the IPL common shares and the Company's warrants now trade independently of each other. The warrants are exercisable at a per share price of $20.00 from October 1, 1999 until September 30, 2002.

In 1997, the Company recorded a credit to equity of $8,244,000 equal to the proceeds attributable to the warrants included in the offering as determined at the time of their issuance and recorded a charge to retained earnings to reflect the equivalent contributions to IPL.

15. EARNINGS PER SHARE

Earnings per share, for all years presented, has been calculated using the weighted average number of common shares outstanding during the year after giving effect to the 2 for 1 stock split. Earnings per share in 1999, 1998 and 1997 on a fully diluted basis giving effect to the exercise of all options and warrants granted, would have been $1.09, $0.82 and $0.66 per share, respectively.

16. INCOME TAXES

The major factors which caused variation from the Company's combined federal and provincial statutory income tax rate of 44.81% in 1999 and 1998 and 44.34% in 1997, applicable to income before income taxes are as follows:

	1999	1998	1997
Provision for income taxes based on statutory rate	$ 31,303	$ 21,258	$ 16,486
Reduction in income taxes resulting from income of foreign subsidiaries taxed at lower effective rate	(36,925)	(22,970)	(14,331)
Benefit of current year losses not recognized for accounting purposes	9,661	3,736	—
Large Corporation Tax	176	—	—
Benefit of utilization of losses carried forward	—	—	(214)
	$ 4,215	$ 2,024	$ 1,941

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

16. INCOME TAXES (Continued)

At December 31, 1999, the Company has accumulated non-capital losses for federal and provincial income tax purposes in Canada and unclaimed Canadian investment tax credits for which no accounting benefit has been recognized and which can be used to offset future taxable income and/or reduce income taxes payable. These losses and investment tax credits expire as follows:

	Non-Capital Losses		Investment Tax Credits
	Federal	Provincial	
2000	$ —	$ 3,791	$ 470
2001	—	3,263	454
2002	—	1,173	432
2003	—	2,896	137
2004	50	119	436
2005	4,956	5,271	505
2006	—	6,042	1,129
2007	—	—	1,600
2008	—	—	2,053
2009	—	—	3,217
	$5,006	$22,555	$10,433

The benefits of these losses carried forward and investment tax credits will be recorded when realized.

As of December 31, 1999, the Company has available net operating loss carry forwards in the US of approximately $75,375,000. These losses, which are subject to restrictions, expire at various dates as follows:

	Net Operating Losses
2003	$ 113
2004	165
2005	564
2006	64
2007	4,507
2008	6,068
2009	6,746
2010	3,109
2011	16,424
2012	15,483
2018	22,132
	$75,375

In addition, the Company has pooled research and development expenditures amounting to approximately $34,000,000 available for offset against future taxable income. The tax benefit of these expenditures has not been recognized in these financial statements.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

17. OPERATING LEASES

Minimum lease commitments under operating leases for each of the next five years are as follows:

2000	$4,795
2001	4,376
2002	2,907
2003	1,228
2004	1,258
Thereafter	958

18. CHANGE IN NON-CASH OPERATING ITEMS

	1999	1998	1997
Accounts receivable	$ (9,973)	$(10,036)	$(23,145)
Inventories	(1,560)	6,307	(8,622)
Deposits and prepaid expenses	693	(1,304)	(991)
Accounts payable and accrued liabilities	16,613	5,563	3,315
Income taxes payable	2,604	(9)	201
Customer prepayments	346	2,676	(4,840)
	$ 8,723	$ 3,197	$(34,082)

19. INTEREST AND INCOME TAXES PAID

	1999	1998	1997
Interest paid	$14,526	$1,050	$ 691
Income taxes paid	1,831	2,153	1,736

20. LEGAL PROCEEDINGS

In January, 1998, Andrx Pharmaceutical, Inc. (“Andrx”) commenced action against the FDA, Faulding Inc., and Biovail seeking an order from the Court which would preclude the FDA from approving any subsequently-filed ANDAs, including the Company’s filed ANDA for a generic version of Cardizem CD until Andrx receives from the FDA thirty days’ prior notice of the FDA’s intention to approve any such subsequently filed ANDA. Such notice would allow Andrx to attempt to seek court relief based on its position that as a first filer it is entitled to 180 days of market exclusivity. Biovail has asserted affirmative defenses based upon the Company’s status as an unsued ANDA submitter. Biovail has also counter-sued Andrx for anti-trust law violations based on the filing of this suit and Andrx’ entry into an alleged collusive agreement with Hoechst Marion Roussel relating to Andrx’ generic Cardizem CD which could result in keeping generic competition from entering the marketplace in a regular and timely manner. The FDA has filed a motion seeking summary dismissal of Andrx’ action. Andrx has filed its own motion to have its action dismissed, however, Biovail did not withdraw the Company’s counterclaim because the issues that were the subject of Andrx’ action have now overtaken the timelines contemplated in the action (Andrx and Biovail have both launched their respective generic versions of Cardizem CD and Andrx’ main action was dismissed), Biovail’s counterclaim has been dismissed. Biovail has nevertheless launched an appeal to the

20. LEGAL PROCEEDINGS (Continued)

dismissal of its counterclaim even though Andrx' main action against the FDA and Biovail has long since been terminated.

In March, 1998, Biovail commenced an action in the District of New Jersey against Hoechst Aktiengesellschaft and related parties to recover three times the Company's monetary damages and for injunctive relief for the alleged violation by the defendants of the anti-trust laws of the United States, for breach of contract, deceptive trade practices and restraint of trade, unfair competition and other violations for the common law. A reasonable estimation of the Company's potential recovery for damages cannot be made at this time.

From time to time, Biovail becomes involved in various legal proceedings which Biovail 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 Company's filing of ANDA applications. The timing of these actions is mandated by statute and may result in a delay of FDA's approval for such filed ANDAs until the final resolution of such actions or the expiry of 30 months, whichever occurs earlier.

In this regard, Biovail and the Company's wholly owned subsidiary Biovail Laboratories, Inc. (''Biovail Laboratories''), have been sued in separate lawsuits by Bayer AG and Bayer Corporation, as well as by Pfizer, Inc., upon the filing by Biovail Laboratories of separate ANDAs for generic versions of Procardia XL and Adalat CC. These actions make the usual, technical claims of infringement that, if successful, mandate a delay for the approval of the Company's ANDAs for a period of 30 months or until successful resolution of these patent infringement questions, whichever occurs first. Biovail Laboratories is vigorously defending these suits and will aggressively pursue motions for summary judgment in due course.

These four actions have been consolidated into two actions by the court. Biovail has denied the allegations and has pleaded affirmative defences that the patents are invalid, have not been infringed, and unenforceable.

On April 23, 1998, Biovail also filed a four-count Complaint against Bayer AG, Bayer Corporation and Pfizer Inc. seeking a declaratory judgment that their patents are invalid, unenforceable, and not infringed by the Company's ANDAs. Biovail intends to amend the Complaint in due course to assert that their patent has not been infringed by the filing of all four ANDAs by Biovail Laboratories Inc. Biovail has also asserted that Bayer Corporation and Pfizer Inc. have violated anti-trust laws and have interfered with the Company's prospective economic advantage. Bayer and Pfizer have filed a motion to dismiss the anti-trust and interference counts but that action has been stayed pending the conclusion of the main actions.

On August 25, 1998, Andrx submitted to Biovail a Notice of Certification under the FDC Act wherein it certified that the ANDA filed by Andrx for a generic version of Tiazac did not infringe on the Company's Patent. As a result, in October 1998, Biovail commenced a patent infringement suit against Andrx. The FDA cannot approve Andrx's ANDA for a period of up to 30 months from the filing of the Company's suit or the date when Andrx successfully defends the Company's patent infringement suit, whichever first occurs. The trial of this action was recently completed but no judicial decision has been released.

While Biovail is not currently able to determine the potential liability, if any, related to such matters, Biovail believes none of the matters, individually or in aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

20. LEGAL PROCEEDINGS (Continued)

In January 2000, Biovail Technologies Ltd. (“BTL”), commenced a suit against Dr. Richard Fuisz, the founder and former chairman of Fuisz—now BTL, Patrick Scrivens (the former CFO of Fuisz), Paul Kennedy (a former officer of Fuisz and Manager of Fuisz’s European subsidiaries), John Fuisz (a former Board member of Fuisz) and others, in which a claim for damages has been asserted, resulting from a number of specific breaches. The Company believes it has meritorious claims.

In the ordinary course of business from time to time the Company becomes involved in normal litigation reflective commercial or employment disputes. The Company is not aware of any action, commenced or threatened, that are discussed above or in combination has or may have a material impact on the Company or the Company’s operations.

21. RESEARCH AND DEVELOPMENT ARRANGEMENTS

IPL

IPL was formed by the Company in July, 1997. In September, 1997, the Company concluded a development and license agreement (the “Development Contract”) and a services agreement (the “Services Agreement”) with IPL, whereby the Company develops on IPL’s behalf once-daily controlled release branded generic versions of designated products. In October, 1997, IPL completed a public offering of 3,737,500 units resulting in net proceeds to IPL, before offering expenses, of approximately $69,500,000.

The proceeds of the offering are being used by IPL primarily to make payments to the Company under the Development Contract. The Development Contract provides for the Company to conduct product development in respect of certain designated products. Such costs are being computed with respect to internal costs incurred by the Company at its fully absorbed cost plus a mark-up, consistent with contractual relationships the Company has with other third parties.

Revenue received by the Company from IPL pursuant to the Development Contract, was $33.0 million, $9.7 million and $9.6 million for 1999, 1998 and 1997 respectively. The cost of providing these services amounted to $19.8 million, $6.6 million and $4.2 million for 1999, 1998 and 1997 respectively.

Included in 1997 revenue was $3.5 million for access to and use by IPL of the Company’s proprietary technology in connection with product development.

The Company, as the holder of all of the issued and outstanding special shares of IPL, has an option, exercisable at its sole discretion, to purchase all, but not less than all, of the outstanding common shares of IPL commencing on the closing date of the offering and ending on the earlier of (i) September 30, 2002, or (ii) the 90th day after the date IPL provides the Company with quarterly financial statements showing cash or cash equivalents of less than $3 million. If the purchase option is exercised, the purchase price calculated on a per share basis would be as follows:

	Purchase Option Exercise 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

The purchase option exercise price may be paid in cash or the Company’s common shares, or any combination of the foregoing, at the Company’s sole discretion.

21. RESEARCH AND DEVELOPMENT ARRANGEMENTS (Continued)

During 1999, under the terms of its Development Contract, Biovail acquired the rights to Procardia XL for $25 million.

Teva Pharmaceuticals

In December 1997, the Company entered into an agreement with a subsidiary of Teva for the development and marketing of twelve generic oral controlled release products. Eight of the twelve products have been identified. As at December 31, 1999, generic versions of Trental, Cardizem CD, Adalat CC and Diltiazem SR have been approved by the FDA and ANDAs for four others have been filed with the FDA.

The Company will incur all costs and expenses for the development and registration of the eight identified products. The Company and Teva will jointly select and equally share the costs associated with the development and registration of the four products in the process of being identified.

Under the terms of the agreement, Teva was obligated to pay the Company an aggregate of $34.5 million, subject to certain milestones. Of the $34.5 million, $23.5 million related to reimbursement of research and development costs and $11.0 million to the initial purchase of product. Revenue received by the Company from Teva pursuant to the agreement for reimbursement of research and development costs was $13.5 million and $10.0 million for 1998 and 1997 respectively. Pursuant to an agreement signed with Teva, the Company earned research and development revenues of $4.8 million in 1999.

Product sales to Teva were $19.1 million, $5.0 million and $6.0 million for 1999, 1998 and 1997 respectively.

H. Lundbeck A/S

In December, 1998, the Company entered into an agreement with H. Lundbeck A/S (“Lundbeck”) based in Denmark, for formulation, development, manufacture and supply of a novel controlled-release formulation of the anti-depressant Citalopram.

Under the terms of the agreement, Lundbeck will pay the Company product development fees aggregating $8.5 million, subject to certain milestones.

Revenue received by the Company from Lundbeck for product development, pursuant to the agreement, was $2 million in the year ended December 31, 1999 and $3.5 million in 1998.

22. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

Biovail is an international full service pharmaceutical company. The Company operates in a single industry and is engaged in formulation, clinical testing, registration and manufacture of drug products utilizing advanced drug delivery technologies.

Organizationally, the Company’s operations consist of three segments—Product Sales, Research and Development, and Royalty and Licensing. The segments are determined based on several factors including customer base, the nature of the product or service provided, delivery channels and other factors.

The **Product Sales** segment covers sales of production from the Company’s Puerto Rico and Canadian facilities and sales by Crystaal, the Canadian marketing division of the Company.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

22. SEGMENTED INFORMATION AND MAJOR CUSTOMERS (Continued)

The **Research and Development** segment covers all revenues generated by the Company's integrated research and development facilities, and comprises research and development services provided to third parties, including IPL, and product development milestone fees.

The **Royalty and Licensing** segment covers royalty revenues received from licensees in respect of products for which the Company has manufacturing, marketing and/or intellectual property rights.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on operating income after deducting selling, general and administrative expense attributable to the business units. Corporate general and administrative expense, and interest expense, are not allocated to segments. Depreciation expense related to manufacturing and research and development assets is allocated to the Product Sales and Research and Development segments, respectively. Amortization expense related to royalty interests is allocated to the Royalty and Licensing segment. Amortization expense related to product rights is allocated to the Product Sales segment. Amortization and depreciation of administrative assets are included as a component of selling, general and administrative expense.

The following table sets forth information regarding segment operating income and segment assets:

1999	Product Sales	Research and Development	Royalty and Licensing	Total
Revenues from external customers	$ 99,526	$ 52,260	$24,706	$176,492
Segment operating income	46,302	16,948	24,292	87,542
Unallocated amounts				
Selling, general and administrative expenses				(8,860)
Equity loss				(1,618)
Interest expense, net				(9,152)
Gain on disposal of long-term investments, net				1,948
Income before income taxes and goodwill amortization				$ 69,860
Total assets for operating segments	$139,076	$169,767	$18,888	$327,731
Cash and investments not allocated to segments				183,937
Other unallocated assets				123,469
Total consolidated assets				$635,137
Expenditure on capital and other assets				
Attributable to segments	$ 43,137	$ 2,562	$ —	$ 45,699
Other unallocated assets				425
				$ 46,124
Amortization of capital and other assets				
Attributable to segments	$ 3,130	$ 4,507	$ 1,416	$ 9,053
Unallocated				1,087
				$ 10,140

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

22. SEGMENTED INFORMATION AND MAJOR CUSTOMERS (Continued)

1998	Product Sales	Research and Development	Royalty and Licensing	Total
Revenues from external customers	$69,154	$32,070	$11,612	$112,836
Segment operating income	30,780	13,047	11,272	55,099
Unallocated amounts				
Selling, general and administrative expenses				(5,796)
Interest income, net				(1,702)
Income before income taxes and goodwill amortization				$ 47,601
Total assets for operating segments	$86,420	$ 7,845	$18,016	$112,281
Cash and investments not allocated to segments				78,503
Other unallocated assets				9,135
Total consolidated assets				$199,919
Expenditure on capital and other assets				
Attributable to segments	$ 6,383	$ 740	$15,000	$ 22,123
Other unallocated assets				5,385
				$ 27,508
Amortization of capital and other assets				
Attributable to segments	$ 2,209	$ 842	$ 1,482	$ 4,533
Unallocated				423
				$ 4,956

1997	Product Sales	Research and Development	Royalty and Licensing	Total
Revenues from external customers	$50,333	$19,559	$12,487	$82,379
Segment operating income	24,854	3,589	11,992	40,435
Unallocated amounts				
Selling, general and administrative expenses				(2,744)
Interest expense, net				(351)
Income before income taxes and goodwill amortization				$37,340
Total assets for operating segments	$69,308	$ 6,448	$ 5,005	$80,761
Cash and investments not allocated to segments				6,078
Other unallocated assets				6,900
Total consolidated assets				$93,739
Expenditure on capital and other assets				
Attributable to segments	$ 1,700	$ 870	$ —	$ 2,570
Other unallocated assets				179
				$ 2,749

(Tabular amounts in thousands of U.S. dollars
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22. SEGMENTED INFORMATION AND MAJOR CUSTOMERS (Continued)

1997	Product Sales	Research and Development	Royalty and Licensing	Total
Amortization of capital and other assets				
Attributable to segments	$ 1,756	$ 716	$ 392	$ 2,864
Unallocated				256
				$ 3,120

Geographic Information

The following table sets out certain geographic information relative to the Company:

	Revenue (i)			Long-lived Assets (ii)		
	1999	1998	1997	1999	1998	1997
Canada	$ 16,069	$ 10,735	$11,938	$ 32,523	$23,786	$20,079
United States	116,566	76,498	57,965	201,580	—	—
Caribbean	33,000	9,660	9,639	—	—	—
Puerto Rico and Barbados	—	—	—	60,272	27,694	9,889
Other foreign countries	10,857	15,943	2,837	327	514	775
	$176,492	$112,836	$82,379	$294,702	$51,994	$30,743

(i) Revenues are attributed to countries based on location of customer.

(ii) Consists of capital and other assets, net.

Information about Major Customers

External customers accounting for 10% or more of the Company's revenues in 1999 are set out as follows:

1999	Revenue	% of Total Revenues	Included in Reportable Segment
Forest Laboratories Inc.	$73,569	42	Product Sales (34%), Royalties (7%), Research and Development (1%)
Teva	$23,911	14	Product Sales (11%), Research and Development (3%)
IPL	$33,000	19	Research and Development

External customers accounting for 10% or more of the Company's revenues in 1998 are set out as follows:

1998	Revenue	% of Total Revenues	Included in Reportable Segment
Forest Laboratories Inc.	$57,159	51	Product Sales
Teva	$18,502	16	Product Sales (4%), Research and Development (12%)

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which differ in certain material respects from those applicable in the United States ("US GAAP").

The material differences as they apply to the Company's financial statements are as follows:

a) Balance sheet adjustments:

	1999	1998
Deposits and prepaid expenses:		
Balance under Canadian GAAP	$ 3,172	$ 3,357
Writeoff of product launch advertising costs (i)	—	(426)
Balance under US GAAP	3,172	2,931
Long-term investments:		
Balance under Canadian GAAP	12	10,055
Adjustments for unrealized holding losses (ii)	—	(877)
Balance under US GAAP	12	9,178
Other assets, net:		
Balance under Canadian GAAP	249,402	28,317
Acquired in-process research and development (iii)	(136,215)	—
Acquired product right (iv)	(25,000)	—
Adjustment to value of goodwill (v)	(6,743)	—
Balance under US GAAP	81,444	28,317
Shareholders' equity:		
Balance under Canadian GAAP	435,294	51,191
Current year net income adjustments	(172,458)	(3,842)
Cumulative prior year net income adjustments	(6,881)	(3,039)
Collection of warrant subscription receivable (vi)	5,957	1,929
Cumulative employee stock options	12,167	4,526
Adjustment to value of shares issued (v)	(6,743)	—
Unrealized holding losses on long-term investments	—	(877)
Balance under US GAAP	$ 267,336	$49,888

i) Under US GAAP, companies are required to write-off certain product launch and advertising costs incurred during the year. This adjustment represents the portion of product launch costs deferred under Canadian GAAP that is required to be written off under US GAAP.

ii) Under US GAAP, specifically SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", the Company classified certain of its long-term securities as available-for-sale and accordingly was required to include the change in net unrealized holding gains or losses on these securities in other comprehensive income. During the year, these long-term securities were sold and the net gain is included in net income.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

iii) Under US GAAP, specifically SFAS No. 2 "Accounting for Research and Development Costs", acquired in-process research and development having no alternative future use must be written-off at the time of acquisition. The adjustment represents the value of the acquired in-process research and development, net of accumulated amortization, capitalized under Canadian GAAP.

iv) Under US GAAP, specifically SFAS No. 2, the cost of intangibles that are purchased from others for a particular research and development project that have no alternative future use must be written-off at the time of acquisition. The adjustment represents the value of the intangible capitalized under Canadian GAAP.

v) Under US GAAP, the acquisition of Fuisz would be valued based on the stock market price of the shares before and after the July 25, 1999 date of the agreement. Under Canadian GAAP, the acquisition was valued based on the average price at the date of acquisition. The effect is that under US GAAP the value of shares issued would be lower by $7,763,000 reducing the goodwill acquired by an equal amount. In addition, certain options were issued to consultants in connection with this acquisition with a fair value of $1,020,000 that have been included in the allocation of the purchase price with the effect of increasing goodwill acquired.

vi) Under US GAAP, companies are required to record in paid-up capital an amount equal to the proceeds attributable to warrants as determined at the time of their issuance, along with an offsetting contra equity account, "Warrant subscription receivable". The contra account is amortized over the life of the warrants. Under Canadian GAAP, the offsetting amount was recorded as an immediate reduction in retained earnings.

b) The components of shareholders' equity under US GAAP are as follows:

	1999	1998
Share Capital	$ 373,962	$23,954
Warrants	8,244	8,244
Warrant subscription receivable	(2,287)	(6,315)
Retained earnings (deficit)	(113,843)	26,111
Accumulated other comprehensive income (loss)	1,260	(2,106)
	$ 267,336	$49,888

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

c) Reconciliation of net income (loss) under Canadian and US GAAP:

	1999	1998	1997
Net income under Canadian GAAP	$ 62,480	$45,419	$35,241
US GAAP adjustments			
Reversal (write-off) of product launch advertising costs	426	(426)	—
Collection of warrant subscription receivable	(4,028)	(1,179)	(750)
Compensation cost for employee stock options (i)	(7,641)	(2,237)	(1,669)
Acquired in process research and development	(136,215)	—	—
Acquired product right	(25,000)	—	—
	(172,458)	(3,842)	(2,419)
Net income (loss) according to US GAAP	$(109,978)	$41,577	$32,822
Earnings (loss) per share under US GAAP			
Basic	$ (2.15)	$ 0.78	$ 0.64
Fully diluted	$ (2.15)	$ 0.76	$ 0.62
Weighted average number of common shares outstanding under US GAAP			
Basic	51,271	53,282	51,212
Fully diluted	54,087	54,472	53,238

(i) Under US GAAP, specifically APB 25 "Accounting for Stock Issued to Employees", the Company recognizes compensation expense for certain employee stock option plans. No such expense is required to be determined under Canadian GAAP.

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 128 "Earnings per Share", basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Fully diluted earnings per share reflect the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. The computation of diluted earnings per share does not include stock options and warrants with dilutive potential that would have an antidilutive effect on earnings per share.

Under US GAAP, goodwill amortization would be included in the determination of operating income. Earnings per share before goodwill amortization would not be presented.

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

d) Comprehensive income (loss):

Under US GAAP, the following additional disclosure would be provided pursuant to the requirements of SFAS No. 130 "Reporting Comprehensive Income" which established standards for the reporting of comprehensive income and its components:

Statement of comprehensive income (loss)	1999	1998	1997
Net income (loss) under US GAAP	$(109,978)	$41,577	$32,822
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment	2,489	(269)	(577)
Unrealized holding loss on long-term investments	—	(877)	—
Reclassification adjustment for gain on long-term investments included in net income	877	—	—
Other comprehensive income (loss)	3,366	(1,146)	(577)
Comprehensive income (loss) under US GAAP	$(106,612)	$40,431	$32,245

	1999			1998		
Accumulated other comprehensive income (loss) balances	Foreign Currency Translation	Unrealized losses on Investments	Total	Foreign Currency Translation	Unrealised losses on Investments	Total
Balance, beginning of year	$(1,229)	(877)	(2,106)	(960)	—	$ (960)
Current year change	2,489	877	3,366	(269)	(877)	(1,146)
Balance, end of year	$ 1,260	—	1,260	(1,229)	(877)	$(2,106)

e) Cash flow adjustments:

	1999	1998	1997
Operating:			
Balance under Canadian GAAP	$ 81,013	$ 53,573	$ 4,316
Acquired product right	(25,000)	—	—
Collection of warrant subscription receivable	(4,028)	(1,179)	(750)
Balance under US GAAP	51,985	52,394	3,566
Investing:			
Balance under Canadian GAAP	(129,393)	(32,953)	(3,183)
Acquired product right	25,000	—	—
Balance under US GAAP	(104,393)	(32,953)	(3,183)
Financing:			
Balance under Canadian GAAP	147,916	49,493	2,635
Collection of warrant subscription receivable	4,028	1,179	750
Balance under US GAAP	$ 151,944	$ 50,672	$ 3,385

(Tabular amounts in thousands of U.S. dollars
except number of shares and per share data)

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

f) Under US GAAP, the following additional disclosure would be provided pursuant to the requirements of SFAS No. 109 "Accounting for Income Taxes":

As at December 31, 1999, the Company has unused tax benefits of approximately $10,904,000 related to net operating loss and tax credit carry forwards which relate to the Canadian operations. In addition, the Company has net operating loss carry forwards relating to the US operations of approximately $26,950,000. Under US GAAP, a valuation allowance of an equivalent amount would be recognized to of the related deferred tax asset due to the uncertainty of realizing the benefit of the loss and tax carry forwards.

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

	1999	1998	1997
Deferred tax assets			
Canadian non-capital losses and tax credits	$ 16,865	$ 6,293	$ 10,497
US net operating losses carry forward	26,950	—	—
Valuation allowance	(38,781)	(6,293)	(10,497)
	$ 5,034	$ —	$ —
Deferred tax liabilities: US technology	$ 5,034	$ —	$ —

g) The Company accounts for compensation expense for certain members of its employee stock option plan under the provisions of Accounting Principals Board Opinion 25. Had compensation cost for the employee stock option plan been determined based upon fair value at the grant date for awards under this plan consistent with the methodology prescribed under SFAS No. 123—"Accounting for Stock-based Compensation", the Company's net income and earnings per share would have changed to the pro-forma amounts indicated below:

	1999	1998	1997
Net income (loss) as reported	$(109,978)	$41,577	$32,822
Estimated stock-based compensation costs	7,534	5,264	2,053
Pro forma net income (loss)	$(117,512)	$36,313	$30,769
Pro forma earnings (loss) per share	$ (2.29)	$ 0.68	$ 0.60

The fair values of all options granted during 1999, 1998 and 1997 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1999	1998	1997
Expected option life (years)	3.81	4.0	4.0
Volatility	49.08	47.6	40.2
Risk-free interest rate	5.73	5.47	5.27
Dividend yield	nil	nil	nil

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

23. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

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.

h) There were no impairment write-downs related to goodwill, product rights, or fixed assets required under US GAAP.

i) Recent Accounting Developments:

i) The Financial Accounting Standards Board has issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement No. 137, which is required to be adopted in years beginning after June 15, 2000. The Company is determining the impact of the adoption of the new statement.

ii) The Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", in December 1999, which summarizes certain views in applying generally accepted accounting principles to revenue recognition in financial statements. The statements in the staff accounting bulletins represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws. The impact of the application of this Staff Accounting Bulletin is currently being reviewed by the Company.

24. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date to the year 2000 has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, supplier, or other third parties, have been fully resolved.

25. SUBSEQUENT EVENT

On February 7, 2000, the Company announced that it had entered into an agreement to acquire a pharmaceutical manufacturing facility located in Dorado, Puerto Rico for $11,000,000. Included in the acquisition of this facility is the specialized production and packaging equipment. The closing date is scheduled for January 2001.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
Fuisz Technologies Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Fuisz Technologies Ltd. and its subsidiaries (the "Company") at December 31, 1997 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

McLean, Virginia
February 25, 1999,
except for Note 18 for which the date is September 20, 1999

FUISZ TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share and share data)

	December 31,		June 30,
	1997	1998	1999
			(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 5,548	$ 9,238	$ 3,956
Marketable securities	73,134	19,678	12,163
Accounts receivable, net	10,237	13,889	14,200
Inventory	5,375	5,072	5,906
Other current assets	1,263	1,621	2,057
Total current assets	95,557	49,498	38,282
Restricted cash	10,255	10,971	11,394
Property, plant and equipment, net	22,941	26,554	25,187
Intangibles, net	34,883	55,550	46,291
Other assets	6,484	3,163	4,097
Total assets	$170,120	$145,736	$125,251
LIABILITIES, REDEEMABLE PREFERENCE SHARES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Lines of credit	$ 1,042	$ 633	514
Current portion of notes payable	2,679	2,266	2,027
Accounts payable	8,973	8,159	8,143
Accrued and other liabilities	4,305	5,192	8,242
Deferred revenue	622	2,664	1,025
Total current liabilities	17,621	18,914	19,951
Notes payable	90,184	90,639	88,247
Other liabilities	1,534	1,735	1,375
Total liabilities	109,339	111,288	109,573
Commitments and contingencies			
Redeemable preference shares of subsidiary	1,173	—	—
Stockholders' equity:			
Preferred stock, par value $.01 per share; authorized 1,000,000 shares; none issued or outstanding	—	—	—
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued, 22,189,462, 22,541,638 and 22,563,923 (unaudited), respectively; and outstanding 22,189,462, 21,903,438 and 21,925,723 (unaudited) shares, respectively	222	225	225
Additional paid-in capital	109,332	111,163	111,272
Accumulated deficit	(49,055)	(72,658)	(87,221)
Accumulated other comprehensive income (loss)	(891)	1,283	(3,033)
Treasury stock, at cost; 638,200 shares in 1998 and 1999 (unaudited), respectively	—	(5,565)	(5,565)
Total stockholders' equity	59,608	34,448	15,678
Total liabilities, redeemable preference shares and stockholders' equity	$170,120	$145,736	$125,251

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

FUISZ TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the Years Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
				(Unaudited)	
Operating revenues:					
Product sales	$ 48	$ 11,968	$ 47,898	$ 23,977	$ 21,007
Research and development	2,426	5,390	4,334	2,833	1,051
Licensing fees and other	6,052	4,840	8,987	3,497	13,817
Total operating revenues	8,526	22,198	61,219	30,307	35,875
Operating expenses:					
Cost of sales	—	7,807	27,924	14,850	12,751
Research and development	9,232	16,944	24,058	11,659	12,385
Selling, general and administrative	9,073	13,877	29,482	14,646	15,456
Other operating expenses	—	4,694	—	—	5,711
Total operating expenses	18,305	43,322	81,464	41,155	46,303
Net operating loss	(9,779)	(21,124)	(20,245)	(10,848)	(10,428)
Other income (expense), net:					
Interest income	2,977	3,013	3,212	1,862	781
Interest expense	(4)	(1,490)	(7,357)	(3,413)	(3,387)
Foreign currency gain (loss), net	—	—	1,172	—	(1,683)
Total other income (expense)	2,973	1,523	(2,973)	(1,551)	(4,289)
Net loss before income taxes	(6,806)	(19,601)	(23,218)	(12,399)	(14,717)
Income tax (provision) benefit	—	—	(361)	—	154
Net loss	$(6,806)	$(19,601)	$(23,579)	$(12,399)	$(14,563)
Net loss per share (basic and diluted)	$ (0.35)	$ (0.92)	$ (1.07)	$ (0.56)	$ (0.66)
Weighted average shares outstanding (basic and diluted)	19,496	21,234	22,129	22,259	21,925

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

FUISZ TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except per share data)

	Common stock		Treasury stock		Additional paid in capital	Accumulated other comprehensive deficit	Accumulated income (loss)	Deferred compensation on stock options granted	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 1995	18,038,987	$180	—	$ —	$ 54,452	$(22,629)	$ —	$ (101)	$ 31,902
Secondary public offering of Common Stock, $25.00 per share, net of expenses	1,894,550	19	—	—	35,764	—	—	—	35,783
Repayment of obligations under Section 16(b) of the Securities Exchange Act of 1934	—	—	—	—	40	—	—	—	40
Exercise of stock options	430,880	4	—	—	897	—	—	—	901
Exercise of warrants	39,160	1	—	—	129	—	—	—	130
Purchase of treasury stock	—	—	(100,000)	(775)	—	—	—	—	(775)
Issuance of 380,952 shares of stock in connection with employment agreement	280,952	3	100,000	775	2,222	—	—	—	3,000
Amortization of deferred compensation	—	—	—	—	(86)	—	—	101	15
Net loss	—	—	—	—	—	(6,806)	—	—	(6,806)
Balance, December 31, 1996	20,684,529	207	—	—	93,418	(29,435)	—	—	64,190
Exercise of stock options	215,699	2	—	—	741	—	—	—	743
Exercise of warrants	194,828	2	—	—	996	—	—	—	998
Issuance of 1,000,000 warrants in connection with license agreement	—	—	—	—	2,294	—	—	—	2,294
Common Stock issued in connection with business acquisitions	1,094,406	11	—	—	11,883	—	—	—	11,894
Other comprehensive income	—	—	—	—	—	—	(891)	—	(891)
Dividends on redeemable preference shares	—	—	—	—	—	(19)	—	—	(19)
Net loss	—	—	—	—	—	(19,601)	—	—	(19,601)
Balance, December 31, 1997	22,189,462	222	—	—	109,332	(49,055)	(891)		59,608
Exercise of stock options	345,151	3	—	—	1,555	—	—	—	1,558
Exercise of warrants	7,025	—	—	—	—	—	—	—	
Purchases of treasury stock	—	—	(638,200)	(5,565)	—	—	—	—	(5,565)
Other comprehensive income	—	—	—	—	—	—	2,174	—	2,174
Acceleration of stock option vesting	—	—	—	—	276	—	—	—	276
Dividends on redeemable preference shares	—	—	—	—	—	(24)	—	—	(24)
Net loss	—	—	—	—	—	(23,579)	—	—	(23,579)
Balance, December 31, 1998	22,541,638	225	(638,200)	(5,565)	111,163	(72,658)	1,283	—	34,448
Exercise of stock options (unaudited)	22,285	—	—	—	109	—	—	—	109
Other comprehensive loss (unaudited)	—	—	—	—	—	—	(4,316)	—	(4,316)
Net loss (unaudited)	—	—	—	—	—	(14,563)	—	—	(14,563)
Balance, June 30, 1999 (unaudited)	22,563,923	$225	(638,200)	$ (5,565)	$111,272	$(87,221)	$(3,033)	$ —	$ 15,678

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

FUISZ TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Years Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
				(unaudited)	(unaudited)
Operating activities:					
Net loss	$ (6,806)	$(19,601)	$(23,579)	$(12,399)	$(14,563)
Adjustments to reconcile net loss to net cash used by operating activities:					
Depreciation and amortization	703	2,439	8,455	4,252	4,745
Impairment loss	—	—	—	—	1,566
Amortization of deferred financing costs	—	74	423	212	217
Amortization of discount on notes payable	—	364	1,124	593	139
Noncash compensation expense	3,015	—	276	—	—
Noncash warrant issue expense	—	2,294	—	—	—
Increase (decrease) in cash resulting from changes in working capital items, net of effects of business acquisitions:					
Accounts receivable and other current assets	(2,050)	(2,703)	(1,271)	(2,004)	(3,511)
Accounts payable and other liabilities	2,458	873	208	(1,748)	1,943
Net cash used by operating activities	(2,680)	(16,260)	(14,364)	(11,094)	(9,464)
Investing activities:					
(Increase) decrease in marketable securities	(45,051)	(28,171)	52,939	34,273	5,719
Capital expenditures	(4,449)	(12,789)	(5,236)	(1,936)	(1,848)
Acquisitions of businesses, net of acquired cash	—	(8,021)	(19,654)	(19,403)	—
Additions to intangibles	—	(2,403)	(3,474)	(91)	(21)
(Increase) decrease in other assets	(1,114)	(2,068)	2,763	1,433	(1,261)
Net cash (used) provided by investing activities	(50,614)	(53,452)	27,338	14,276	2,589
Financing activities:					
Net proceeds from sale of subordinated convertible debentures	—	72,750	—		
Net proceeds from sale of Common Stock	35,824	—	—		
Purchases of treasury stock	(775)	—	(5,565)		
Proceeds from exercise of stock options	901	743	1,558	866	109
Proceeds from exercise of stock warrants	130	997	—		
Redemption of preference shares of subsidiary	—	—	(1,159)	(209)	—
Net borrowings under line of credit agreements	—	(1,338)	(451)	88	(45)
Net payments of debt obligations	(58)	(2,283)	(2,976)	(604)	72
Decrease in long-term liabilities	—	—	—	(221)	—
Net cash provided (used) by financing activities	36,022	70,869	(8,593)	(80)	136
Effect of exchange rate changes on cash	—	(891)	(691)	(28)	1,457
Net (decrease) increase in cash and cash equivalents	(17,272)	266	3,690	3,074	(5,282)
Cash and cash equivalents, beginning of period	22,554	5,282	5,548	5,548	9,238
Cash and cash equivalents, end of period	5,282	5,548	9,238	8,622	3,956
Marketable securities and restricted cash, end of period	55,218	83,389	30,649	48,661	23,557
Cash, cash equivalents and marketable securities, end of period	$ 60,500	$ 88,937	$ 39,887	$ 57,283	$ 27,513

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

FUISZ TECHNOLOGIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	For the Years Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
				(unaudited)	(unaudited)
Net loss	$(6,806)	$(19,601)	$(23,579)	$(12,399)	$(14,563)
Other comprehensive income (loss)	—	(891)	2,174	(551)	(4,316)
Comprehensive loss	$(6,806)	$(20,492)	$(21,405)	$(12,950)	$(18,879)

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

1. BUSINESS

Fuisz Technologies Ltd., a Delaware corporation, was formed on June 9, 1988 (Fuisz Technologies Ltd., together with its wholly owned subsidiaries, is referred to collectively herein as the "Company"). The Company is engaged in the development, manufacture and commercialization of a wide variety of pharmaceutical and consumer healthcare products and technologies. The Company uses its unique drug delivery technologies, including its CEFORM® and Shearform® technologies, to conduct research and development activities on behalf of pharmaceutical and consumer healthcare companies. Products flowing from these research and development efforts include drug and consumer healthcare formulations using the Company's innovative Flash Dose®, EZ Chew®, soft chew and Spoon Dose® formats.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Fuisz Technologies Ltd. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

Foreign currency translation

The financial statements of the foreign subsidiaries were prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rate at the end of the period for the balance sheet and a weighted-average rate for the period on the statements of operations and cash flows. Translation adjustments are reflected as a component of other comprehensive loss in stockholders' equity and accordingly have no effect on net loss. Transaction adjustments for all foreign subsidiaries are included as part of net loss.

The Company has made loans to certain of its foreign subsidiaries that are denominated in U.S. dollars. Currency gains and losses on loans for which settlement is planned are included as part of net loss. Currency gains and losses on loans for which no settlement is planned are reflected as a component of other comprehensive loss in stockholders' equity.

Net loss per share

Basic earnings per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding after giving effect to all dilutive potential common shares that were outstanding during the period. Potential common shares are not included in the computation of diluted earnings per share if they are antidilutive. The Company did not have any dilutive potential common shares for the years ended December 31, 1996, 1997 and 1998. Net loss available to common stockholders was increased by $19,000 and $24,000 for dividends payable on redeemable preference shares for the years ended December 31, 1997 and 1998, respectively. Net loss available to common stockholders was not adjusted for the year ended December 31, 1996.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Product sales are recognized upon delivery to customers. Product sales are recorded net of reserves for returns and discounts. The Company maintains reserves at a level that management believes is sufficient to cover estimated future returns and discounts. Research and development fees are deferred and recognized over the period of performance under the terms of the related agreements. License and other fees are recognized as revenue pursuant to the terms of the related agreements.

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Marketable securities

Marketable securities consist of direct obligations of the United States Government and corporations with strong credit ratings with remaining maturities of one to three years. These investments are considered as available-for-sale as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's investments are held for an unspecified period of time and are sold to meet its liquidity needs. Accordingly, the Company has classified these investments as current assets. In accordance with SFAS No. 115, unrealized gains and losses are shown as a component of stockholders' equity. Realized gains and losses were immaterial in 1996, 1997 and 1998 and are included in interest income.

Concentration of risks

The Company has invested its excess cash generally in obligations of the United States Government, commercial paper and money market funds with strong credit ratings and deposits with a commercial bank. The Company has not experienced any losses on its investments. The Company sells its products and services without requiring collateral. However, the Company periodically assesses the financial strength of its customers and collaborative partners and provides allowances for anticipated losses when necessary. At December 31, 1997 and 1998, the allowance for doubtful accounts totaled $477,000 and $732,000, respectively.

The Company derives a significant portion of its consolidated revenues from its European operations (see Note 16). The Company had three customers (37% from Customer B, 24% from Customer C and 17% from Customer D) during 1996 and one customer (13% from Customer A) during 1997 that accounted for more than 10% of total consolidated revenues. No single customer accounted for more than 10% of total consolidated revenues during 1998.

Inventory

Inventory is stated at the lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market.

Property and equipment

Furniture and equipment is carried at cost and depreciated using the straight-line method over estimated useful lives ranging from three to eight years. Buildings are carried at cost and depreciated using the straight-line method over estimated useful lives of forty years. Equipment acquired under capital leases is recorded at the present value of the lease payments and amortized over estimated useful lives ranging from three to seven years. Leasehold improvements are carried at cost and amortized using the straight-line

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

method over the lesser of the estimated useful life or the remaining lease term. Amortization of construction-in-progress will begin when construction is complete. Expenditures for maintenance and repairs are charged to operating expense when incurred. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations.

Intangible assets

Goodwill and the cost of acquired trademarks, product licenses and patents are amortized on a straight-line basis over periods ranging from 5 to 20 years.

Long-lived assets

The Company periodically evaluates the recoverability of the carrying value of property and equipment and intangible assets. The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and future and undiscounted cash flows expected to result from the use of these assets. Impairment losses are required to be recognized when the sum of expected future cash flows, undiscounted, are less than the assets' carrying value. No such impairment losses have been recognized to date. Such losses, if necessary, are measured based upon the sum of the discounted expected future cash flows compared to the assets' carrying value.

Deferred financing costs

Deferred financing costs associated with the various debt issues are classified as part of other assets and are being amortized over the terms of the related debt, using the straight-line method which approximates the effective interest method. Amortization of the deferred financing costs is included in interest expense.

Income taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the financial statement and tax bases of assets and liabilities at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of tax payable for the period and the change during the period in deferred tax assets and liabilities.

Fair value of financial instruments

The Company believes that the carrying amount of certain of its financial instruments, which include cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities, term loans and installment notes approximate fair value due to the relatively short maturity of these instruments. The fair value of the Debentures (see Note 11) as of December 31, 1997 and 1998 was approximately $67,500,000 and $81,000,000, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company will be required to adopt this new accounting standard beginning with the quarter ended March 31, 2000. The Company believes that the effect of adoption of SFAS No. 133 will not be significant.

3. ACQUISITIONS

During 1998 and 1997, the Company acquired five companies (the "Acquired Companies"), each of which has been accounted for as a purchase and, accordingly, their operating results have been included in the Company's consolidated financial statements since the respective dates of acquisition.

Fuisz Pharma KG

Effective February 1, 1998, the Company completed the acquisition of all of the issued and outstanding equity interests of Dr. Rentschler GmbH & Co. Medizin KG ("Fuisz Pharma KG"), a subsidiary of Dr. Rentschler Arzneimittel GmbH & Co., a pharmaceutical sales and distribution company based in Laupheim, Germany, for an aggregate purchase price of approximately $19.4 million in cash. The excess of the aggregate purchase price over the fair market value of net assets acquired of approximately $15.8 million is being amortized over 15 years.

Istoria Farmaceutici

In October 1997, the Company acquired substantially all of the outstanding stock of Istoria Farmaceutici ("Istoria"), a marketer of pharmaceutical products based in Padova, Italy. The total consideration consisted of: (i) 94,406 shares of common stock of the Company, valued at a price of $13.17 per share (based on the weighted average price of shares traded during the period September 9, 1997 to September 15, 1997) and (ii) $2.2 million in cash, which includes acquisition costs. The excess of the aggregate purchase price over the fair market value of net assets acquired of approximately $2.6 million is being amortized over 10 years.

Clonmel Healthcare Limited

In September 1997, the Company acquired all of the outstanding ordinary share capital of Clonmel Healthcare Limited ("Clonmel"), a private manufacturer of branded generic pharmaceutical products in the Republic of Ireland. The total consideration of $22.7 million consisted of: (i) one million shares of common stock of the Company, valued at a price of $10.65 per share (based on the weighted average price of shares traded from July 25, 1997 to July 31, 1997), which are subject to a contractual restriction on transfer, (ii) an IR Pound Sterling 8,510,000 ($12,650,000 at the date of acquisition) non-interest bearing note due in three installments through January 2000 (the payments of which have been financed with a bank term loan facility) and (iii) related acquisition costs. In addition, $250,000 of contingent consideration was paid to the seller in 1998 since Clonmel executed certain contracts for the manufacture and supply of various pharmaceutical products. The face amount of the installment note was discounted at a rate of 10%. The excess of the aggregate purchase price over the fair market value of net assets acquired of approximately $15.7 million is being amortized over 20 years.

3. ACQUISITIONS (Continued)

Redeemable preference shares. In connection with the acquisition of Clonmel, the Company assumed the obligation of the 750,000 cumulative redeemable preference shares of Clonmel. Cumulative dividends of 3% on 300,000 shares and 6.5% on 450,000 shares were payable annually. The Company redeemed the shares in 1998 at a redemption rate of IR Pound Sterling 1 per share plus accrued dividends.

Pangea, Ltd.

In May 1997, the Company acquired all of the outstanding capital stock of Pangea, Ltd. ("Pangea"), a U.S. nationwide marketer of nutritional supplements and skincare products, for approximately $1.1 million in cash, which includes acquisition costs. The excess of the aggregate purchase price over the fair market value of net assets acquired of approximately $2.0 million is being amortized over 10 years.

Prior to the closing of the transaction, one of the Company's directors, who has since resigned from the Board, was also a director and stockholder of Pangea. At the closing, the director received $500,000 of the purchase price for his Pangea shares and repayment in full of $200,000 in loans to Pangea. In addition, the Company's Chairman was also a director of Pangea but received no compensation with respect thereto.

Laboratoires Murat

In April 1997, the Company acquired all of the outstanding capital stock of Laboratoires Murat ("Murat"), a privately-owned pharmaceutical sales and distribution company based in Paris, France, for an aggregate purchase price of approximately $5.0 million in cash, which includes acquisition costs. The excess of the aggregate purchase price over the fair market value of net assets acquired of approximately $4.5 million is being amortized over 10 years.

Pro forma Information

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and the Acquired Companies (excluding Fuisz Pharma KG) as if the acquisitions had occurred January 1, 1996 (a full year of goodwill amortization and interest cost is included for both 1997 and 1996). Pro forma information for Fuisz Pharma KG has not been provided because stand-alone financial information was not produced by the previous owner of Fuisz Pharma KG for periods prior to the acquisition on February 1, 1998.

	1996	1997
	(in thousands except per share amounts)	
Total revenue	$ 41,813	$ 45,062
Net loss	(10,336)	(22,059)
Net loss per share (basic and diluted)	$ (0.50)	$ (1.00)

These unaudited pro forma 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 the Acquired Companies been included in the Company's consolidated financial statements as of January 1, 1996. In addition, they do not purport to be indicative of future consolidated results of operations of the Company.

4. MARKETABLE SECURITIES

Marketable securities are carried at fair market value and consist of the following at December 31, 1997 and 1998:

	1997	1998
	(in thousands)	
U.S. Government obligations	$14,213	$ 5,090
Mortgage-backed government securities	5,550	1,309
Corporate debt securities	23,929	5,912
Asset-backed securities	—	3,014
Equity securities	—	359
Commercial paper/certificates of deposit	29,442	3,994
	$73,134	$19,678

5. INVENTORY

Inventory consists of the following at December 31, 1997 and 1998.

	1997	1998
	(in thousands)	
Raw materials	$1,874	$2,088
Work in process	1,130	694
Finished goods	2,371	2,290
	$5,375	$5,072

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, stated at cost, is comprised of the following at December 31, 1997 and 1998.

	1997	1998
	(in thousands)	
Buildings	$ 4,834	$ 5,729
Production and laboratory equipment	10,118	11,422
Office furniture, computers and equipment	2,442	3,728
Leasehold improvements	1,107	5,305
Construction-in-progress	7,510	6,503
	26,011	32,687
Less accumulated depreciation and amortization	(3,070)	(6,133)
	$22,941	$26,554

Construction-in-progress consists primarily of costs incurred in connection with the design and construction of the Company's manufacturing and lab facilities. Depreciation expense was $691,000, $1,279,000 and $3,004,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

7. INTANGIBLE ASSETS

Intangible assets, stated at cost, consist of the following at December 31, 1997 and 1998.

	1997	1998	Useful lives
	(in thousands)		
Goodwill	$23,649	$40,719	10–20
Product licenses/trademarks	12,016	21,048	5–10
Patents and other	289	284	5–17
	35,954	62,051	
Less accumulated amortization	(1,071)	(6,501)	
	$34,883	$55,550	

Amortization expense was $12,000, $1,160,000 and $5,451,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

8. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following at December 31, 1997 and 1998.

	1997	1998
	(in thousands)	
Interest payable	$1,090	$1,144
Personnel costs	1,233	1,609
Outside services	1,081	682
Facility	188	402
Income taxes	—	361
Other	713	994
	$4,305	$5,192

9. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases certain of its office, laboratory, warehouse and operating facilities under operating leases which expire at various dates through the year 2005. Most of the leases provide the Company with certain early cancellation rights, as well as renewal options. The facility leases generally require the Company to pay for utilities, taxes, insurance and maintenance costs, in addition to the base rent, which, generally increases by 3% per annum after the first year. Total rent expense for facility leases was approximately $522,000, $818,000 and $1,334,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

The Company has an $18.0 million equipment leasing line of credit (the "Equipment LOC") with an outside group of lenders. The Equipment LOC is available through June 30, 2000 and provides equipment financing under three or four year operating leases. These operating leases provide the Company with the option after the initial lease term either to purchase the property at the then fair value or renew its lease at the then fair rental value for a negotiated renewal term. The Company has leased certain of its equipment under this Equipment LOC as well as other operating leases which expire at various dates through the year 2002. Total rent expense for equipment leases was approximately $283,000 and $1,960,000, for the years ended December 31, 1997 and 1998, respectively (1996 was not material).

9. COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum lease payments required under operating leases as of December 31, 1998 are as follows:

Year	(in thousands)
1999	$ 4,272
2000	4,281
2001	4,133
2002	2,652
2003	1,172
Thereafter	2,003
Total	$18,513

Capital leases

The Company also leases certain of its equipment under capital leases. As of December 31, 1997 and 1998, property, plant and equipment includes $251,000 and $896,000, respectively (net of $39,000 and $298,000 of accumulated amortization) of assets under capital leases. Future minimum payments under these capital leases are as follows:

Year	(in thousands)
1999	$269
2000	240
2001	236
2002	189
Total minimum lease payments	934
Less amount representing interest	(73)
Present value of net minimum lease payments	$861

Legal proceedings

In February 1999, the Company brought suit against Elan Corporation, plc (“Elan”) for breach of an agreement entered into in December 1998 under which Elan agreed to pay a fee to the Company for the right, until January 31, 1999, to conclude a manufacturing and licensing agreement regarding manufacturing, as a third party contractor, of certain Company products.

10. LINES OF CREDIT

Short-term borrowings of $1,042,000 and $633,000 at December 31, 1997 and 1998, respectively, consist of borrowings by subsidiaries located outside the United States under the terms of lines of credit which allow the subsidiaries to borrow in the applicable local currency. These lines of credit total $3.5 million (using exchange rates as of December 31, 1998) and are concentrated in Ireland, France and Italy. The lines of credit generally provide borrowing at the bank reference rate plus 1-2%, which varies depending on the country where the funds are borrowed.

11. NOTES PAYABLE

Notes payable consists of the following at December 31, 1997 and 1998:

	1997	1998
	(in thousands)	
Convertible subordinated debentures	$75,000	$75,000
Term loans, net of discount of $861 in 1997	12,913	14,168
Installment notes, net of discount of $594 and $870, respectively	4,747	2,876
Capital leases	203	861
	92,863	92,905
Less current portion	(2,679)	(2,266)
Long-term notes payable	$90,184	$90,639

Convertible subordinated debentures. On October 22, 1997, the Company privately placed $75.0 million aggregate principal amount of 7% Convertible Subordinated Debentures (the "Debentures") due October 15, 2004, which were resold under Rule 144A and Regulation S of the Securities Act of 1933. The Company received net proceeds of approximately $72.8 million related to the sale of the Debentures. The Debentures are convertible into the Company's common stock at the option of the holder at any time at or before maturity, unless previously redeemed, at $13.25 per share, subject to adjustment upon the occurrence of certain events. The Debentures are subordinated to the Company's present and future Senior Indebtedness (as defined). The Debentures are redeemable in whole or in part, at the option of the Company, at 104%, 103%, 102% and 101% in 2000, 2001, 2002 and 2003, respectively. Interest is payable semiannually on April 15 and October 15.

Term loans. The Company has an IR Pound Sterling 8,451,000 ($11,902,000 and $12,592,000 as of December 31, 1997 and 1998, respectively) term loan with a bank in Ireland under which it has financed the installment note obligations in connection with the 1997 acquisition of Clonmel (see Note 3). This term loan is payable at various maturities beginning in June 2000 and ending December 2002 and bears interest at the bank's reference rate plus fees (4.3% at December 31, 1998). As collateral for the loan, the Company has pledged approximately $11.0 million in cash and all of Clonmel's assets. The cash which is pledged is shown as restricted cash in the accompanying consolidated balance sheets.

The Company has several other term loans, in the aggregate amount of $1,872,000 and $1,576,000 as of December 31, 1997 and 1998, respectively, with banks in Ireland, France and Italy. The other term loans are payable in quarterly or annual installments plus interest generally at rates ranging from 4.0&8.5%. The other term loans mature at various dates through the year 2002.

Installment notes. The Company has an installment note obligation for the purchase of product and trademark rights, which has been discounted at a rate of 10%. The installment note is payable annually and matures in 2001.

Capital leases. The Company leases certain of its equipment under capital leases (see Note 9).

The weighted average interest rate on all of the above notes payable was 6.7% at December 31, 1998. Total long-term debt maturities during each of the four years ending December 31, 2002 are $2,266,000, $2,087,000, $2,135,000 and $12,011,000. No maturities are due in 2003 and the Debentures are due in full in 2004.

12. STOCKHOLDERS' EQUITY

Treasury Stock

In November 1996, the Company's Board of Directors authorized a stock repurchase program under which the Company is authorized to repurchase up to 1,000,000 shares of the Company's common stock for reissuance upon the exercise of employee stock options and for other compensation programs utilizing the Company's common stock. During 1996, the Company repurchased 100,000 shares at a cost of $775,000 under this program. In December 1996, the 100,000 repurchased shares were reissued to an officer/director of the Company in connection with an employment agreement. During 1998, the Company repurchased 638,200 shares for $5,565,000.

Accumulated Other Comprehensive Income

During 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which requires additional disclosures with respect to certain changes in assets and liabilities that previously were not required to be reported as results of operations for the period. SFAS No. 130 requires unrealized gains and losses on the Company's available-for-sale securities and foreign currency translation adjustments to be included in other comprehensive income.

Components of other comprehensive income (loss), which is included as a separate component of stockholders' equity consists of the following:

	1996	1997	1998
		(in thousands)	
Foreign currency translation adjustments	$—	$(891)	$1,833
Change in unrealized gains on marketable securities	—	—	341
	$—	$(891)	$2,174

13. CAPITAL STOCK

Options and Stock Purchase Plans

The Board of Directors has adopted the 1991 Stock Option Plan (the "1991 Option Plan"), the 1994 Stock Incentive Plan (the "1994 Option Plan"), the 1994 Employee Stock Purchase Plan (the "Stock Purchase Plan"), and the 1994 Director Stock Option Plan (the "Director Option Plan") (collectively, the "Plans") under which 5,600,000 shares of Common Stock have been reserved for issuance upon exercise of options granted to officers, employees, directors and consultants of the Company.

The Company's 1991 Option Plan provided for formula option awards to non-employee directors and discretionary awards to employees, consultants, advisors, officers, or directors of the Company. In May 1994, the Board adopted and the stockholders of the Company approved the 1994 Option Plan, the Stock Purchase Plan and the Director Option Plan and provided that no further grants may be made under the 1991 Option Plan.

Under the Company's 1994 Option Plan, a variety of awards, including stock options, stock appreciation rights and restricted and unrestricted stock grants may be made to the Company's employees, officers, consultants and advisors who are expected to contribute to the Company's future growth and success. The Compensation Committee of the Board of Directors administers the 1994 Option Plan and determines the price and other terms upon which awards shall be made. Stock options may be granted either in the form of incentive stock options or non-statutory stock options and are granted at fair market value. Options or other awards that are granted under the Plan but expire unexercised are available for future grants.

13. CAPITAL STOCK (Continued)

Under the Company's Stock Purchase Plan, which has been inactive through December 31, 1998, employees and officers of the Company are eligible to participate in semiannual plan offerings in which payroll deductions may be used to purchase shares of Common Stock. The purchase price of such shares is 85% of the fair market value of the Common Stock at the lower of the value at either the commencement date or termination date of the offering under the Stock Purchase Plan.

The Director Option Plan provides that each new non-employee director first elected will receive a nonstatutory option to purchase 30,000 shares of Common Stock upon his or her initial election. In addition, each non-employee director will receive an annual nonstatutory option to purchase 3,000 shares of Common Stock under the Director Option Plan during his or her tenure. All options granted to directors under the Director Option Plan have an exercise price equal to the fair market value of the Common Stock on the date of grant and expire the earlier of 90 days after the optionee ceases to serve as a director of the Company or ten years after the date of grant. Options granted under the Director Option Plan are fully vested and are exercisable when granted.

Options granted under the 1991 Option Plan and the 1994 Option Plan generally vest over a two- to four-year period. Options to purchase approximately 1,918,000 and 2,411,000 shares were vested and exercisable at December 31, 1997 and 1998, respectively, with weighted average exercise prices of $6.12 and $7.53, respectively. The weighted average fair value per share of options granted during 1997 and 1998 was $4.79 and $7.02, respectively. Options of approximately 469,000 shares were available for future grant at December 31, 1998, under all plans. The Company has reserved sufficient shares of Common Stock for issuance upon exercise of stock options and stock warrants. Stock option activity since December 31, 1995 is as follows:

	Pre-plan Grants	1991 Stock Option Plan	1994 Stock Incentive Plan	1994 Directors Stock Option Plan	Total	Weighted Average Exercise Price Per Share
Balance, December 31, 1995	195,900	1,395,916	1,235,277	45,000	2,872,093	$ 4.57
Granted	—	—	798,350	15,000	813,350	$17.94
Exercised	(195,900)	(596,630)	(39,900)	—	(832,430)	$ 2.43
Forfeited	—	(39,750)	(345,800)	—	(385,550)	$16.38
Balance, December 31, 1996	—	759,536	1,647,927	60,000	2,467,463	$ 8.02
Granted	—	—	1,246,175	100,000	1,346,175	$ 8.43
Exercised	—	(146,325)	(39,374)	(30,000)	(215,699)	$ 3.45
Forfeited	—	(1,125)	(314,834)	—	(315,959)	$22.32
Balance, December 31, 1997	—	612,086	2,539,894	130,000	3,281,980	$ 7.05
Granted	—	—	830,675	38,000	868,675	$11.50
Exercised	—	(189,036)	(113,115)	(43,000)	(345,151)	$ 4.52
Forfeited	—	(469)	(249,703)	(3,000)	(253,172)	8.40
Balance, December 31, 1998	—	422,581	3,007,751	122,000	3,552,332	$ 8.25

13. CAPITAL STOCK (Continued)

The following table summarizes additional information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.7800–2.5000	62,500	2.3	1.78	62,500	$ 1.78
$ 2.5001–5.0000	521,007	5.1	3.47	521,007	3.47
$ 5.0001–7.5000	689,670	7.8	7.21	424,125	7.24
$ 7.5001–10.0000	1,434,561	7.9	8.36	1,013,191	8.21
$10.0001–12.5000	228,194	8.3	10.89	99,194	10.76
$12.5001–15.0000	611,400	9.8	12.76	286,071	12.77
$15.0001–25.0000	5,000	7.3	25.00	5,000	25.00
	3,552,332	7.7	$ 8.25	2,411,088	$ 7.53

During 1996, the Board of Directors authorized the exchange of 134,800 stock options originally granted during 1996 under the 1994 Stock Incentive Plan at exercise prices ranging from $8.00 to $30.25 for 134,800 stock options having an exercise price of $10.375 and $7.6875, the fair market value on the dates of exchange.

During 1997, the Board of Directors authorized the exchange of 287,500 stock options originally granted during 1996 under the 1994 Stock Incentive Plan at exercise prices ranging from $15.17 to $25.00 for 287,500 stock options having an exercise price of $7.25, the fair market value on the date of exchange.

The Company has adopted the disclosure-only provisions of SFAS No. 123 as they pertain to financial statement recognition of compensation expense attributable to option grants. If the Company had elected to recognize compensation cost for the 1994 Stock Incentive Plan and the 1994 Director Stock Option Plan consistent with SFAS No. 123, the Company's net loss and net loss per share on a pro forma basis would be:

	1996	1997	1998
		(in thousands)	
Net loss as reported	$ (6,806)	$(19,601)	$(23,579)
Net loss pro forma	(10,931)	(24,497)	(29,417)
Net loss per share (basic and diluted) as reported	(0.35)	(0.92)	(1.07)
Net loss per share (basic and diluted) pro forma	(0.56)	(1.15)	(1.33)

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for each year:

	1996	1997	1998
Risk-free interest rate	6.33%	6.28%	5.29%
Expected life of options—years	6.0	6.0	6.0
Expected stock price volatility	70%	50%	60%
Expected dividend yield	0.0%	0.0%	0.0%

13. CAPITAL STOCK (Continued)

Warrants

In connection with the issuance of convertible notes payable in May 1994, the Company issued warrants to purchase an aggregate of 60,000 shares of Common Stock. These warrants have an exercise price of approximately $5.30 per share and expire in May 1999. As of December 31, 1998, all of these warrants are outstanding. The Company estimated a fair value of $1.24 per share of underlying Common Stock attributable to these warrants. No resulting expense was reflected on the Company's financial statements, as such amounts were immaterial.

In connection with a line of credit agreement entered into in October 1995, the Company issued warrants to purchase 132,000 shares of Common Stock at an exercise price of $5.00 per share. As of December 31, 1998, 120,000 of these warrants are outstanding. The Company estimated a fair value of $1.69 per share of underlying Common Stock attributable to these warrants. Because the line of credit was terminated in December 1995, the resulting expense of $224,000 was fully amortized to expense during the fourth quarter of 1995.

In June 1997, the Company entered into a license agreement (the "Agreement") with ConAgra, Inc. ("ConAgra"). Pursuant to the Agreement, the Company granted to ConAgra a warrant to purchase one million shares of Common Stock at $25.00 per share. The warrant became fully exercisable on August 11, 1997 and expires on August 11, 2007, subject to an early termination date of December 15, 2002 if certain revenue milestones are not achieved. The Company recorded a noncash charge equal to the fair value of the warrant of $2.3 million in the third quarter of 1997.

All of the warrants issued by the Company contain anti-dilutive provisions that adjust the number of shares of Common Stock available for purchase under the warrant or the exercise price, upon the subsequent issuance of certain equity securities or equivalents below the respective exercise prices of the warrants. During 1997, warrantholders exercised 194,828 warrants (originally granted prior to 1994) generating proceeds to the Company of approximately $997,000. During 1998, warrantholders exercised 12,000 warrants (originally granted in 1995) resulting in the issuance of 7,025 shares of Common Stock and the cancellation of 4,975 warrants as payment for the exercise. At December 31, 1998, warrantholders could purchase an aggregate number of shares of Common Stock totaling 1,180,000 at exercise prices ranging from $5.00 to $25.00 per share.

14. RELATED PARTY TRANSACTIONS

On December 31, 1998, the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") to sell all of the issued and outstanding share capital of FuiszDrugstore.com Ltd. ("FuiszDrugstore"), then a wholly-owned subsidiary of the Company, to a corporation owned by Richard C. Fuisz, M.D. ("Dr. Fuisz"). At the Closing, which took place in February 1999, the Company delivered the shares, which were transferred to RxDrugstore.com Limited ("RxDrugstore.com") and received consideration of $100,000 in cash and 200,000 shares of common stock of RxDrugstore.com (which represents 5% of the issued and outstanding shares of common stock of RxDrugstore.com). The Company will account for its 5% investment in RxDrugstore.com using the cost method. Prior to the Closing, FuiszDrugstore was engaged in sales of drugstore products over the Internet.

In connection with the Stock Purchase Agreement, in February 1999, the Company and a wholly-owned subsidiary of Dr. Fuisz (the "Subsidiary") concluded a 20 year license agreement (the "License Agreement"), which grants the Subsidiary the non-exclusive right to sell Licensed Products (as that term is defined in the License Agreement) through the Internet. The license covers all existing products of the Company as well as certain additional products developed by the Company over the next four years. In

14. RELATED PARTY TRANSACTIONS (Continued)

consideration for the license, the Company received a non-interest bearing promissory note for $2.4 million, payable by the Subsidiary in four annual installments commencing on December 31, 1999.

Dr. Fuisz, a director of the Company, is a director and greater than 10% stockholder of RxDrugstore.com. The purchase price was determined by the Company's management and approved by the Board of Directors. Dr. Fuisz did not participate in the determination of the purchase price or the deliberations of the Board.

15. INCOME TAXES

The provision for income taxes for the years ended December 31, 1996, 1997 and 1998 is summarized as follows:

	1996	1997	1998
	(in thousands)		
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	—	—	162
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	—	—	199
Total provision	$ —	$ —	$361

The tax effects of the temporary differences giving rise to the Company's deferred taxes at December 31, 1997 and 1998 are as follows:

	1997	1998
	(in thousands)	
Net operating loss carryforwards	$21,012	$31,407
General business credit carryforwards	204	204
Other	1,181	92
Valuation allowance	(22,397)	(31,703)
Net deferred taxes	$ —	$ —

Realization of net deferred tax assets at the balance sheet dates is dependent on the Company's ability to generate future taxable income which is uncertain. Accordingly, a full valuation allowance was recorded against these assets as of December 31, 1997 and 1998.

As of December 31, 1998, the Company has available net operating loss carryforwards of approximately $83,408,000 and general business credit carryforwards of $204,000. These loss and credit carryforwards expire at various dates beginning in 1998. There may be limitations on the annual utilization of these net operating losses and general business credits as a result of certain changes in ownership that have occurred since the Company's inception. The Company's total net operating loss carryforwards include $15,982,000 related to the exercise of non-qualified stock options. The tax benefit of $6,073,000 related to the exercise of these options will be credited to stockholders' equity when realized.

15. INCOME TAXES (Continued)

The Company's tax provision for the years ended December 31, 1996, 1997 and 1998 differs from the statutory rate for Federal income taxes as a result of the tax effect of the following factors:

	1996	1997	1998
Statutory rate	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(4.0)	(4.0)	(4.0)
Permanent differences	16.9	0.6	0.4
Foreign taxes	—	—	1.6
Valuation allowance	21.1	37.4	37.6
Effective tax rate	—	—	1.6 %

16. SEGMENT INFORMATION

During 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires the Company to report financial and descriptive information about its reportable operating segments. The accounting policies of the segments are the same as those described in Note 2, "Summary of Significant Accounting Policies." Segment data includes a charge for management fees allocating a portion of corporate headquarters' costs to each of its operating segments. The Company is engaged in the development, manufacture and commercialization of a wide variety of pharmaceutical and consumer healthcare products. To achieve these objectives, the Company has three reportable segments: Pharmaceutical Operations, Pharmaceutical Research and Development and Consumer Healthcare.

Pharmaceutical operations. This segment includes the selling and distribution of a wide variety of pharmaceutical products through five of the Company's subsidiaries: Fuisz Pharma KG, Murat, Istoria, Pangea and Clonmel. These companies operate as pharmaceutical marketing and distribution companies and sell various pharmaceutical products for which they own product marketing rights through their distribution channels. This segment also includes the Company's manufacturing operations, which through December 31, 1998, have principally taken place at the manufacturing facilities of Clonmel. The products sold by this segment are either manufactured by Clonmel or by third parties contracted by the Company.

Pharmaceutical research and development. This segment includes research and development efforts focused on developing pharmaceutical products for the Company's collaborators as well as Company-funded products for future collaboration. The Company's collaborative arrangements typically provide for a customer-funded development project and contemplate a licensing arrangement under which, if a product is commercialized by the collaborative partner, the Company would receive license fees, royalty payments from product sales and manufacturing revenue.

Consumer healthcare. This segment includes product research and development efforts primarily focused on developing food and nutraceutical products for the Company's collaborators as well as the manufacture and sale of such products through conventional distribution channels. Through December 31, 1998, this segment's operations have principally been focused on research and development activities. The Company's collaborative arrangements are structured similar to those of the Pharmaceutical Research and Development segment.

16. SEGMENT INFORMATION (Continued)

Segment information for 1996, 1997 and 1998 is as follows:

	Pharmaceutical Operations	Pharmaceutical Research and Development	Consumer Healthcare	Total
		(in thousands)		
Revenues:				
1996	$ —	$ 7,227	$ 1,299	$ 8,526
1997	11,968	6,389	3,841	22,198
1998	47,898	11,617	1,704	61,219
Net operating loss:				
1996	—	(8,630)	(1,149)	(9,779)
1997	(1,519)	(16,958)	(2,647)	(21,124)
1998	(1,249)	(15,287)	(3,709)	(20,245)
Identifiable assets(1):				
1996	—	69,083	—	69,083
1997	58,644	111,476	—	170,120
1998	84,040	61,696	—	145,736
Depreciation and amortization(1):				
1996	—	703	—	703
1997	1,430	1,009	—	2,439
1998	6,263	2,192	—	8,455
Capital expenditures(1):				
1996	—	4,449	—	4,449
1997	5,911	6,878	—	12,789
1998	3,048	2,188	—	5,236

(1) Asset information for the Consumer Healthcare segment is aggregated with the Pharmaceutical Research and Development segment since the Company does not produce such information internally by segment.

16. SEGMENT INFORMATION (Continued)

Summarized financial information by geographic region for 1996, 1997 and 1998 is as follows:

	North America	Europe	Total
		(in thousands)	
Revenues:			
1996	$ 8,526	$ —	$ 8,526
1997	12,948	9,250	22,198
1998	19,766	41,453	61,219
Net operating income (loss):			
1996	(9,779)	—	(9,779)
1997	(19,322)	(1,802)	(21,124)
1998	(20,352)	107	(20,245)
Identifiable assets:			
1996	69,083	—	69,083
1997	107,353	62,767	170,120
1998	56,100	89,636	145,736

17. SUPPLEMENTAL CASH FLOW DISCLOSURE

Supplemental cash flow disclosure for the years ended December 31 1996, 1997 and 1998 is as follows:

	1996	1997	1998
		(in thousands)	
Supplemental cash flow disclosures:			
Cash paid for interest	$52	$ 105	$5,452
Noncash investing and financing activities:			
Equipment acquired under capital leases	$—	$ —	$ 893
Offering and acquisition costs financed in accounts payable	$—	$ 406	$ —
Common stock issued in connection with business acquisitions	$—	$11,894	$ —
Issuance of installment notes in connection with business and product acquisitions, net of discount of $2,082	$—	$15,437	$ —
Accrued dividends	$—	$ 19	$ 24

18. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the *Company* have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP") which differ in certain material respects from

18. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

those applicable in Canada ("Cdn. GAAP"). The material differences as they apply to the Company's financial statements are as follows:

a) Reconciliation of net income under US and Cdn. GAAP:

	Year Ended December 31,		
	1996	1997	1998
Net loss according to US GAAP	$(6,806)	$(19,601)	$(23,579)
Cdn. GAAP adjustments			
Discount on convertible subordinated debentures(i)	—	(189)	(1,136)
Net unrealized gain on marketable securities(ii)	—	—	341
Net loss according to Cdn. GAAP	$(6,806)	$(19,790)	$(24,374)
Loss per share according to Cdn. GAAP	$ (0.35)	$ (0.93)	$ (1.10)

(i) Under Cdn. GAAP, convertible debt is recorded at the present value of the principal and interest cash flows discounted at the company's borrowing rate (estimated at 10%). The difference between the present value and the face value of the debt is recorded as additional paid-in capital. The present value of the debt is accreted to the face value over the term of the debt using the effective interest method.

(ii) Under Cdn. GAAP, unrealized gains and losses on marketable securities are recorded as a component of net loss.

b) Comprehensive loss

There is no requirement to disclose comprehensive loss under Cdn. GAAP.

c) The component of stockholders equity under Cdn. GAAP are as follows:

	December 31,	
	1997	1998
Common shares	$ 222	$ 225
Additional paid-in capital	107,032	108,863
Warrants	2,300	2,300
Accumulated deficit(i)	(49,055)	(72,317)
Treasury stock	—	(5,565)
Cumulative translation adjustment(i)	(891)	942
Total stockholders' equity	$ 59,608	$ 34,448

(i) There is no requirement to disclose comprehensive loss under Cdn. GAAP. Accumulated other comprehensive loss has been included in accumulated deficit, except for the portion of accumulated other comprehensive loss attributable to the cumulative effect of foreign currency translation adjustments which has been disclosed separately.

d) Under US GAAP, the Company's statements of cash flows are prepared pursuant to the provisions of SFAS No. 95, *Statement of Cash Flows*. For purposes of Cdn. GAAP, the Company has elected to adopt the provisions of CICA Handbook Section 1540, *Cash Flow Statements*, which provisions are

18. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

substantially the same as SFAS No. 95. Accordingly, there are no reconciling differences related to the Company's statements of cash flows under US and Cdn. GAAP.

19. UNAUDITED INTERIM INFORMATION

Basis of presentation

The unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. The unaudited interim financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and changes in cash flows as of and at the end of the periods presented. The unaudited interim financial information should be read in conjunction with the audited financial statements and related notes thereto, appearing elsewhere herein. The results for the interim periods presented are not necessarily indicative of results to be expected for the full year.

Inventory

Inventory consists of the following at June 30, 1999:

	June 30, 1999 (in thousands)
Raw materials	$3,480
Work in process	876
Finished goods	1,550
	$5,906

Fair value of financial instruments

The Company believes that the carrying amount of certain of its financial instruments, which include cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities, term loans and installment notes, approximates fair value due to the relatively short maturity of these instruments. As of June 30, 1999, the fair value of the $75.0 million aggregate principal amount of 7% Convertible Subordinated Debentures due October 15, 2004, was approximately $35.6 million.

Other operating expenses

The Company recorded nonrecurring charges of $5.7 million during the second quarter. The nonrecurring expenses include approximately a $1.6 million charge for impairment of goodwill associated with the Company's Pangea unit as discussed in Note 5 as well as a $3.6 million charge relating to expenses associated with an employee head-count reduction program (including severance) and other expenses concerning executive resignations, among others.

Segment information

The Company is engaged in the development, manufacture and commercialization of a wide variety of pharmaceutical and consumer healthcare products. To achieve these objectives, the Company has three

19. UNAUDITED INTERIM INFORMATION (Continued)

reportable segments: Pharmaceutical Operations, Pharmaceutical Research and Development and Consumer Healthcare.

Pharmaceutical Operations. This segment includes the selling and distribution of a wide variety of pharmaceutical products through five of the Company's subsidiaries: Laboratoires Murat ("Murat"), Pangea, Ltd. ("Pangea"), Clonmel Healthcare Limited ("Clonmel"), Istoria Farmaceutici ("Istoria") and Dr. Rentschler GmbH & Co. Medizin KG ("Fuisz Pharma KG"). These companies operate as pharmaceutical marketing and distribution companies and sell various pharmaceutical products for which they own product marketing rights through their distribution channels. This segment also includes the Company's manufacturing operations, which through June 30, 1999, have principally taken place at the manufacturing facilities of Clonmel. The products sold by this segment are either manufactured by Clonmel or by third parties contracted by the Company.

As a result of Pangea's inability to achieve improvements specified in business plans developed by management over prior business cycles, including efforts to help improve product sales and attract new distributors to its marketing program, Pangea has incurred recurring losses since its acquisition in 1997. Pangea continued operating at a loss for the first half of 1999. Accordingly, the Company recorded a $1.6 million impairment charge in the second quarter which represents a complete write-down of the unamortized balance of goodwill acquired in connection with the acquisition of Pangea.

Pharmaceutical Research and Development. This segment includes research and development efforts focused on developing pharmaceutical products for the Company's collaborative partners as well as Company-funded products for future collaboration. The Company's collaborative arrangements typically provide for a customer-funded development project and contemplate a licensing arrangement under which, if a product is commercialized by the collaborative partner, the Company would receive license fees, royalty payments from product sales and manufacturing revenue.

Consumer Healthcare. This segment includes product research and development efforts primarily focused on developing consumer healthcare products for the Company's collaborative partners as well as the manufacture and sale of such products through conventional distribution channels. The Company's collaborative arrangements are structured similarly to those of the Pharmaceutical Research and Development segment.

19. UNAUDITED INTERIM INFORMATION (Continued)

Segment information for the three months and six months ended June 30, 1998 and 1999 is as follows:

	Pharmaceutical Operations		Pharmaceutical Research and Development		Consumer Healthcare		Total	
	Three Months Ended June 30	Six Months Ended June 30	Three Months Ended June 30	Six Months Ended June 30	Three Months Ended June 30	Six Months Ended June 30	Three Months Ended June 30	Six Months Ended June 30
	(in thousands)							
Revenues:								
1998	$12,130	$23,977	$ 3,951	$ 6,031	$ 223	$ 299	$ 16,304	$ 30,307
1999	9,273	18,337	4,252	14,729	1,730	2,809	15,255	35,875
Operating loss:								
1998	285	556	(3,386)	(8,346)	(1,922)	(3,058)	(5,023)	(10,848)
1999	(2,480)	(3,210)	(8,437)	(5,355)	(1,116)	(1,863)	(12,033)	(10,428)
Identifiable assets(1):								
1998(2)	—	84,040	—	61,696	—	—	—	145,736
1999	—	71,162	—	54,089	—	—	—	125,251

(1) As balance sheet items, identifiable assets are presented as six-month ended June 30 figures. Asset information for the Consumer Healthcare segment is aggregated with the Pharmaceutical Research and Development segment since the Company does not produce such information internally by segment.

(2) Information is as of December 31, 1998.

Subsequent Event

Proposed Merger with Biovail Corporation International. The Company entered into a Merger Agreement (the "Merger Agreement") with Biovail Corporation International ("Biovail") dated as of July 25, 1999. Pursuant to the Merger Agreement, Biovail has commenced a cash tender offer for that number of shares that would result in Biovail owning 49% of the outstanding common stock, par value $.01 of the Company ("Common Stock"). The Merger Agreement contemplates that the Company will subsequently become a wholly-owned subsidiary of Biovail. In connection with the Merger, all remaining outstanding shares of Common Stock will be exchanged for Common Stock of Biovail. The Merger is subject to completion of the tender offer, approval by the Company's stockholders and satisfaction or waiver of certain other conditions. Consummation of the tender offer or the Merger may significantly affect the future operations, capital requirements and liquidity of the Company in manners that differ from those originally contemplated by management. The transaction will be accounted for by the purchase method of accounting for business combinations. The transaction is subject to regulatory approvals in the United States, and Europe.

Proposed sale of continental European operations. Fuisz has entered into a non-binding letter of intent for the sale of certain of its continental European operations and the rights to a particular product.

Contingencies

On July 2, 1999, the Company received a demand for arbitration filed by Kenneth W. McVey and Casteldermot Limited, relating to a dispute over severance benefits with Mr. McVey, the Company's former Chief Executive Officer. The demand arises from the Company's action to withhold from payments under the McVey Agreement amounts that would have been payable to the IRS if, after Mr. McVey became CEO of the Company, Mr. McVey's compensation constituted U.S. source income subject to tax withholding. The

19. UNAUDITED INTERIM INFORMATION (Continued)

amounts that have been withheld from payment under the McVey Agreement have been deposited and are included in restricted cash and other liabilities on the balance sheet.

Canadian Generally Accepted Accounting Principles

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP") which differ in certain material respects from those applicable in Canada ("Cdn. GAAP"). The material differences as they apply to the Company's financial statements are as follows:

a) Reconciliation of net income under US and Cdn. GAAP:

	Six months ended June 30,	
	1998	1999
Net loss according to US GAAP	$(12,399)	$(14,563)
Cdn. GAAP adjustments		
Discount on convertible subordinated debentures(i)	(614)	(737)
Net loss according to Cdn. GAAP	$(13,013)	$(15,300)
Loss per share according to Cdn. GAAP	$ (0.58)	$ (0.70)

(i) Under Cdn. GAAP, convertible debt is recorded at the present value of the principal and interest cash flows discounted at the company's borrowing rate (estimated at 10%). The difference between the present value and the face value of the debt is recorded as additional paid-in capital. The present value of the debt is accreted to the face value over the term of the debt using the effective interest method.

b) Comprehensive loss
There is no requirement to disclose comprehensive loss under Cdn. GAAP.

c) The components of stockholders equity under Cdn. GAAP are as follows:

	June 30, 1999
Common shares	$ 225
Additional paid-in capital	108,972
Warrants	2,300
Accumulated deficit(i)	(86,880)
Treasury stock	(5,565)
Cumulative translation adjustment(i)	(3,374)
Total stockholders' equity	$ 15,678

(i) There is no requirement to disclose comprehensive loss under Cdn. GAAP. Accumulated other comprehensive loss has been included in accumulated deficit, except for the portion of accumulated other comprehensive loss attributable to the cumulative effect of foreign currency translation adjustments which has been disclosed separately.

d) Under US GAAP, the Company's statements of cash flows are prepared pursuant to the provisions of SFAS No. 95, *Statement of Cash Flows*. For purposes of Cdn. GAAP, the Company has elected to adopt the provisions of CICA Handbook Section 1540, Cash Flow Statements, which provisions are substantially the same as SFAS No. 95. Accordingly, there are no reconciling differences related to the Company's statements of cash flows under US and Cdn. GAAP.

COMPILATION REPORT

To the Board of Directors of
Biovail Corporation

We have reviewed, as to compilation only, the accompanying pro forma combined statement of operations for the year ended December 31, 1999, which has been prepared for inclusion in the short form prospectus of Biovail Corporation dated March 15, 2000, relating to the issue of US$300,000,000 6.75% Convertible Subordinated Preferred Equivalent Debentures due March 31, 2025 of Biovail Corporation.

In our opinion, the pro forma combined statement of operations has been properly compiled to give effect to the transactions and assumptions described in the accompanying notes thereto.

Toronto, Canada
March 15, 2000

(Signed) ERNST & YOUNG LLP
Chartered Accountants

COMMENTS FOR UNITED STATES READERS ON CANADIAN AND UNITED STATES REPORTING DIFFERENCES

The above report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial information. United States standards do not provide for the expression of an opinion on the compilation of pro forma financial information. To report in conformity with United States standards on the reasonableness of pro forma adjustments and their application to the pro forma financial information requires an examination or review substantially greater in scope than the review we have conducted. Consequently, we are unable to express any opinion in accordance with standards of reporting generally accepted in the United States with respect to the compilation of the accompanying pro forma combined financial statements.

Toronto, Canada
March 15, 2000

(Signed) ERNST & YOUNG LLP
Chartered Accountants

BIOVAIL CORPORATION

PRO FORMA COMBINED STATEMENT OF OPERATIONS

For the twelve months ended December 31, 1999
(Unaudited)

	Notes	Biovail Consolidated	Jan 1 - Nov 12 Fuisz Technologies	Canadian GAAP Proforma Adjustments Divestiture Note 2.1	Pro forma Adjustments	Pro forma Combined
Revenue						
Product sales		$ 99,526	$ 36,152	$(14,181)		$121,497
Research and development		52,260	1,022	—		53,282
Royalty and licensing	2.5	24,706	13,919	(326)	(7,500)	30,799
		176,492	51,093	(14,507)	(7,500)	205,578
Expenses						
Cost of goods sold		35,078	21,989	(5,355)		51,712
Research and development		33,130	21,836	—		54,966
Selling, general and administrative		29,602	20,287	(10,292)		39,597
Amortization of goodwill, in-process research & development, and other intangibles	2.2	3,165	4,603	—	7,894	15,662
Other operating expenses		—	5,861	—	—	5,861
		100,975	74,576	(15,647)	7,894	167,798
Operating income		75,517	(23,483)	1,140	(15,394)	37,780
Equity in loss of Biovail Technologies Inc.	2.4	(1,618)		—	1,618	—
Interest (expense) income, net	2.3	(9,152)	(4,810)	1,295	19,341	6,674
Gain on disposal of long term investments		1,948				1,948
Foreign currency loss		—	(1,856)	1,085		(771)
Income (loss) before income taxes		66,695	(30,149)	3,520	5,565	45,631
Provision for (recovery of) income taxes		4,215	—	—	—	4,215
Net income (loss)		62,480	(30,149)	3,520	5,565	41,416
Charges on Convertible Subordinated Preferred Equivalent Debentures	2.6	—	—	—	(21,610)	(21,610)
Net income (loss) attributable to common shareholders		$ 62,480	$(30,149)	$ 3,520	$(16,045)	$ 19,806
Net earnings (loss) per share		$ 1.22				$ 0.35
Weighted average number of common shares outstanding		51,271				55,974

1. BASIS OF PRESENTATION

The accompanying pro forma statements have been prepared by the management of Biovail based on the audited consolidated financial statements of Biovail as at and for the year ended December 31, 1999, and the unaudited consolidated financial statements of Fuisz for the period from January 1, 1999 to November 12, 1999, adjusted to reflect classifications consistent with the presentation adapted by Biovail. The accounting policies used in the preparation of the pro forma statements are those disclosed in Biovail's audited consolidated financial statements. The unaudited consolidated financial statements of Fuisz have been prepared in accordance with U.S. GAAP, and any material differences between Canadian GAAP and U.S. GAAP have been adjusted.

In the opinion of the management of Biovail these pro forma statements include all adjustments necessary for a fair presentation of pro forma statements.

The pro forma statements also are not necessarily indicative of the results that actually would have been achieved if the transactions reflected therein had been completed on the dates indicated, or of the results which may be obtained in the future. In preparing these pro forma statements, except as otherwise noted, no adjustments have been made to reflect transactions which have occurred since the dates indicated or to reflect the operating benefits and general and administrative cost savings expected to result from combining the operations of Biovail and Fuisz.

The pro forma statements should be read in conjunction with the description of the acquisition in the audited consolidated financial statements of Biovail as at and for the year ended December 31, 1999 and notes thereto, included in this prospectus, and the audited consolidated financial statements for Fuisz as at and for the year ended December 31, 1998 and notes thereto, also included in this prospectus.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The pro forma statements incorporate the following assumptions:

- Acquisition of Fuisz and the sale of certain European sales and marketing operations
- Issuance of $300 million 6.75% Convertible Subordinated Preferred Equivalent Debentures pursuant to this offering
- Issuance of 2,000,000 common shares pursuant to a concurrent offering
- Repayments of the $125 million US Dollar Senior Notes at 10⅞% due 2005 with proceeds of the Convertible Subordinated Preferred Equivalent Debentures and common share offerings.

These pro forma statements give effect to the following assumptions and adjustments as if they had occurred on January 1, 1999.

2.1 **Divestiture of Certain Fuisz Operations**

To adjust for the divestiture of certain European operations of Fuisz and a particular product, CEBUTID, which were sold by Fuisz prior to the acquisition by Biovail. The results of these European operations are excluded from the Company's Pro Forma Combined Statements of Operations. No gain or loss is to be reflected in Biovail's financial statements relating to these disposals as these operations have been included in the purchase price equation at their fair value.

These pro forma financial statements do not adjust for the effects of the sale of another Fuisz operation, Clonmel Healthcare Ltd. which was identified for sale as part of the acquisition. Biovail has

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

reached an agreement to sell all of the issued and outstanding shares of Clonmel. The transaction is expected to close in early 2000. Please see Management Discussion and Analysis for a description of the effect on these pro forma financial statements of this divestiture.

2.2 **Amortization of Goodwill**

To record the incremental cost of $7.9 million related to the amortization of goodwill, in-process research and development ("IPR&D") and other intangibles, arising from the acquisition, over amortization expense from continuing operations previously recorded by Fuisz and Biovail of $3.6 million.

2.3 **Interest Expense**

(i) To eliminate interest of $5.0 million for December 31, 1999 recorded as interest on the 7% Convertible Subordinated Debentures of Fuisz which became immediately payable following the commencement of an offer to purchase for cash all the outstanding 7% Convertible Subordinated Debentures on November 17, 1999. This has been recorded as if the transaction had occurred on January 1, 1999 in the pro forma financial statements.

(ii) To eliminate interest of $13.6 million for December 31, 1999 recorded as interest on the $125 million US Dollar Senior Notes due 2005 which will be repaid with proceeds of the convertible preferred securities and common share offering. The retirement of the Senior Notes will result in a loss which has not been included in the pro forma financial statements.

(iii) To eliminate amortization of deferred financing costs of $0.7 million on the $125 million US Dollar Senior Notes due 2005 for the year ended December 31, 1999, recorded as a component of interest expense.

2.4 **Equity in Loss of Fuisz Technologies Ltd.**

To eliminate the equity loss of Fuisz for the period September 3, to November 12, 1999. During this period, Biovail had a 49% interest in Fuisz and applied equity accounting for this investment.

2.5 **Termination of Contract**

Fuisz is a party to agreements relating to licenses of Fuisz' technology for use in the manufacture and development of products. Biovail is in the process of renegotiating or terminating certain of these agreements. Therefore, the license fees associated with these agreements have been eliminated.

2.6 **Charges on Convertible Subordinated Preferred Equivalent Debentures**

To record charges of $21.1 million on the $300 million Convertible Subordinated Preferred Equivalent Debentures which will be issued pursuant to this offering assuming this transaction occurred on January 1, 1999.

To record amortization of deferred financing costs of $0.5 million, recorded as a component of charges on the $300 million Convertible Subordinated Preferred Equivalent Debentures which will be issued pursuant to this offering assuming this transaction occurred on January 1, 1999.

3. PER SHARE DATA

The pro forma calculation of basic earnings (loss) per common share was based on the weighted average number of common shares outstanding during the period, after giving effect to the stock split described below, as calculated below:

	Pro forma Combined For year ended December 31, 1999
Biovail weighted average shares outstanding	51,272,000
Deduct: effect of shares issued re Fuisz	(385,892)
Fuisz average shares outstanding converted to equivalent Biovail shares (0.1197 exchange ratio)	2,850,014
Fuisz options exercised and converted to equivalent Biovail shares (0.1197 exchange ratio)	238,296
Biovail shares issued pursuant to a concurrent offering	2,000,000
Total	55,974,418

4. RECONCILIATION OF PRO FORMA RESULTS REPORTED UNDER CANADIAN GAAP WITH U.S. GAAP

Biovails's accounting policies are consistent in all material aspects with US GAAP with the following exceptions:

Pro forma net income reconciliation	Year ended December 31, 1999 (in thousands)
Net Income attributable to common shareholders—Canadian GAAP	$ 19,806
Adjustments:	
Amortization of purchased in-process research and development (I)	7,894
Reversal/(Write off) of product launch costs (II)	426
Collection of warrant receivable (III)	(4,028)
Compensation cost for employee stock options (IV)	(7,641)
Acquired product rights (V)	(25,000)
Accretion on Convertible Subordinated Preferred Equivalent Debentures (VI)	900
Net loss attributable to common shareholders	$ (7,643)
Net loss per common share—U.S. GAAP	
Basic	$ (0.14)
Common share effect of GAAP differences in period	$ (0.49)

I. For the purpose of reporting under US GAAP, companies are required to immediately write-off IPR&D. Under Canadian GAAP, IPR&D has been capitalized and is being amortized over its useful life of fifteen years. Under Canadian GAAP amortization of IPR&D for the year was $7.9 million. Under US GAAP, the IPR&D of $136.2 million is written off immediately but has not been reflected in the reconciliation above.

4. RECONCILIATION OF PRO FORMA RESULTS REPORTED UNDER CANADIAN GAAP WITH U.S. GAAP (Continued)

II. For the purpose of reporting under US GAAP, companies are required to write off certain product launch and advertising costs incurred during the year. The adjustment represents the portion of the product launch and advertising costs currently expensed under Canadian GAAP which have been previously written off under US GAAP.

III. For the purpose of reporting under US GAAP, companies are required to record in paid-up capital an amount equal to the proceeds attributable to warrants as determined at the time of their issuance, along with an offsetting contra equity account, ''Warrant subscription receivable''. The contra account is amortized over the life of the warrants. Under Canadian GAAP, the offsetting amount was recorded as an immediate reduction in retained earnings.

IV. For the purpose of reporting under US GAAP, companies are required to account for compensation expense arising from certain employee stock option plans under the provisions of Accounting Principles Board No. 25. No such expense is required under Canadian GAAP.

V. For the purpose of reporting under US GAAP, companies are required to write-off the cost of intangibles that are purchased from others for research and development projects that have no alternative future use at the time of acquisition. Under Canadian GAAP, these costs have been capitalized.

VI. For the purpose of reporting under US GAAP, companies are required to record charges on the Convertible Subordinated Preferred Equivalent Debentures at the coupon rate of 6.75%. Under Canadian GAAP, the interest is recorded at the effective yield rate taking into consideration the ascribed fair value attributable to the convertible feature.

March 17, 2000

Biovail Corporation
U.S.$300,000,000
6.75% Convertible Subordinated Preferred Equivalent Debentures due 2025

PROSPECTUS

Donaldson, Lufkin & Jenrette

Merrill Lynch & Co.

Morgan Stanley Dean Witter

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell these securities or our solicitation of your offer to buy the securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or the affairs of the company have not changed since the date hereof.