



BIOVAIL

Q3

Third Quarter
Report 2006

Letter to Shareholders

Dr. Douglas Squires

Chief Executive Officer



Dear Fellow Shareholders,

In the third quarter of 2006, Biovail Corporation again executed strongly against its operational and financial objectives. For the three months ended September 30, 2006, Biovail generated record revenues and robust cash flow from operations.

One of the omnipresent realities of the pharmaceutical industry is the genericization of successful drug products. As Biovail faces the potential near-term loss of exclusivity for Wellbutrin XL®, the Company must scrutinize all aspects of our business, and take an aggressive line on cost containment. To this end, Biovail's executive management team is currently assessing every aspect of our operations to reduce costs and increase operating efficiencies to position its business to minimize the impact this could have on the Company's operating margins.

Research and development remains the lifeblood of Biovail. The Company remains committed to advancing our product-development pipeline by accelerating those programs with the most value. To this end, Biovail is currently in discussions with a number of companies regarding several of our ongoing development programs, thereby enabling us to accelerate the number of programs that are under development in a very cost-effective manner.

The bottom line is that regardless of when Wellbutrin XL® may be genericized, Biovail will remain a strong and profitable company. And our strong cash balances – over \$625 million at the end of the third quarter of 2006 – provide the Company with the flexibility to create shareholder value.

FINANCIAL PERFORMANCE

Total revenues for the three months ended September 30, 2006, were \$289.6 million, compared with \$258.1 million for the third quarter of 2005, an increase of 12%. Total revenues for the nine months ended September 30, 2006 were \$762.9 million, compared with \$647.9 million for the first nine months of 2004, an increase of 18%.

In accordance with United States Generally Accepted Accounting Principles (GAAP), Biovail recorded a loss of \$56.5 million in the third quarter of 2006, compared with net income of \$101.7 million for the corresponding 2005 period. For the nine months ended September 30, 2006, net income was \$88.6 million, compared with \$116.5 million for the same period a year earlier.

For the third quarter of 2006, Biovail reported a GAAP net loss per share of \$0.35, versus earnings per share (EPS) of \$0.64 for the third quarter of 2005. In the first nine months of 2006, GAAP EPS were \$0.55, versus EPS of \$0.73 for the first nine months of 2005.

GAAP net income and EPS figures for the third quarter of 2006 were negatively impacted by a \$147.0-million, non-cash write-down of intangible assets, a \$40.0-million charge related to a contract-loss contingency in the GlaxoSmithKline (GSK) agreement, and a \$6.8-million charge related to a lost-profits provision in the Company's agreement with Kos Pharmaceuticals, Inc. (Kos) pertaining to Cardizem® LA. These charges were partially offset by a \$4.0-million gain related to the termination of the Athpharma agreement. These charges, which are more fully described in Biovail's Form 6-K for the third quarter of 2006, negatively impacted net income and EPS in the third quarter of 2006 by \$189.8 million and \$1.18, respectively.

PRODUCTS

Product revenues for the third quarter of 2006 were \$277.3 million, up 13% over the \$244.5 million recorded for the comparable period in 2005, which reflects the strong performances of Wellbutrin XL®, Zovirax® and Biovail's portfolio of off-patent, branded pharmaceutical products, or Legacy products. This performance was partially offset by declines in Biovail Pharmaceuticals Canada (BPC) and the Company's generic products.

Third-quarter 2006 revenues for Wellbutrin XL® were \$123.3 million, compared with \$109.3 million in the corresponding period in 2005. In the third quarter of 2006, Biovail entered into the third and highest tier of its tiered-pricing agreement with GSK. In September 2006, Wellbutrin XL® captured 59.7% of the new prescriptions written for the Wellbutrin brand (including generics).

Biovail's Zovirax® franchise recorded revenues of \$27.8 million in the third quarter of 2006, compared with \$22.8 million in the prior-year period. For the three months ended September 30, 2006, Zovirax® Ointment and Zovirax® Cream held a combined 72.9% share of the topical herpes market, an increase of 5.2 percentage points in market share versus third-quarter 2005 levels.

Product revenues in third quarter of 2006 for BPC were \$13.7 million, compared with

\$23.4 million for the corresponding period in 2005. The decline can be attributed to the recent genericization of Tiazac® and Wellbutrin® SR. Offsetting this decline was the strong performance of Tiazac® XC, for which total prescription volume increased 127%, relative to the corresponding period in 2005, and Wellbutrin® XL, which continues to gain market share since its launch in April 2006. In the third quarter of 2006, Wellbutrin® XL captured 14.4% of total bupropion prescriptions.

In the third quarter of 2006, Cardizem® LA generated revenues of \$21.5 million, compared with \$17.3 million for the corresponding period in 2005. The increase reflects a \$7.2-million positive cumulative adjustment related to price increases effected by Kos since May 2005, partially offset by manufacturing issues pertaining to the 120mg and 180mg dosage strengths that resulted in supply shortages.

For the three months ended September 30, 2006, Ultram® ER generated revenues of \$18.6 million. Biovail and marketing partner Ortho-McNeil, Inc., remain confident in Ultram® ER's potential and continue to believe that the product is well-positioned on the pain ladder between non-steroidal anti-inflammatory drugs and hydrocodone products. To accelerate awareness for the enhanced therapeutic benefits of Ultram® ER for patients who will derive the most benefit from it, Biovail and OMI have recently agreed to jointly make a significant additional investment in the awareness and promotional activities associated with this drug.

DEVELOPMENT PIPELINE

In the third quarter of 2006, Biovail submitted a New Drug Application to the FDA for BVF-033, a new bupropion salt for the treatment of depressive illness in adults. Biovail believes this new formulation of bupropion may offer a superior safety profile to bupropion hydrochloride, the compound upon which Wellbutrin XL® is based. We also believe that the release characteristics of BVF-033 may not be negatively impacted by the presence of

alcohol. This novel formulation of bupropion is also being used as the bupropion component of BVF-045, a combination product currently under development. The Company believes that the combination of two separate classes of anti-depressant drugs may provide physicians with a single-tablet option that targets separate pathways important in the treatment of depression.

In October, Biovail initiated Phase III clinical trials for BVF-146, a once-daily combination product comprised of tramadol hydrochloride and an undisclosed non-steroidal anti-inflammatory drug. Biovail believes that the BVF-146 may provide physicians with a single-tablet option incorporating two separate classes of drugs – a centrally acting analgesic (tramadol) with an anti-inflammatory agent – that may offer a double-pronged potentially synergistic approach to the management of pain and inflammation. The Company anticipates a regulatory filing for BVF-146 in the third quarter of 2008.

Development is also progressing for BVF-012, Biovail's enhanced-absorption formulation of venlafaxine, a drug product that aptly demonstrates the capacities of the Company's various platform technologies. Not only has Biovail been able to develop a once-daily bioequivalent formulation that uses significantly less drug to produce the same serum levels, BVF-012 is also resistant to interactions with alcohol.

Biovail also continues to move forward with its development efforts for BVF-211, the Company's controlled-release carvedilol product for the treatment of cardiovascular and metabolic disorders. Biovail is actively involved in discussions with interested parties about this product.

In Canada, a New Drug Submission for BVF-127, a once-daily formulation of tramadol for the management of moderate to moderately severe chronic pain in adults that was filed in the third quarter of 2006 with the Therapeutic Products Directorate (Canada), was recently accepted for review.

Biovail is now in the final stages of a comprehensive review of its pipeline in which we expect to accelerate a number of high-value programs and terminate others, and result in the identification of a number of new projects.

LOOKING AHEAD

Biovail is a dynamic, financially strong company. The value of the Company's business model is demonstrable – it has resulted in excellent profitability and has generated significant cash flow.

While it is unlikely that numerous ongoing growth initiatives will fully offset the potential impact generics may have on one of our key products – at least in the short term – Biovail's executive team will implement a number of initiatives to reduce operating costs and improve operating efficiencies without sacrificing our commitment to our development programs.

Let me reiterate that research and development has been – and should continue to be – a growth engine for Biovail. We will continue to invest in R&D to ensure we can further leverage our value-creating drug-delivery technologies. This, in turn, should enable us to realize our short-term and long-term business objectives, and to maximize shareholder value.

On behalf of all Biovail employees, I would like to thank shareholders for their continued support.



Douglas Squires
Chief Executive Officer

Consolidated Balance Sheets

In accordance with U.S. generally accepted accounting principles
(All dollar amounts are expressed in thousands of U.S. dollars)
(Unaudited)

	September 30	December 31
	2006	2005
ASSETS		
Current		
Cash and cash equivalents	\$629,500	\$445,289
Marketable securities	-	505
Accounts receivable	200,737	132,699
Assets of discontinued operation held for sale	-	1,893
Inventories	81,255	89,473
Deposits and prepaid expenses	14,659	14,923
	926,151	684,782
Long-term assets of discontinued operation held for sale	-	1,107
Marketable securities	5,676	6,859
Long-term investments	59,228	66,421
Property, plant and equipment, net	221,209	199,567
Intangible assets, net	711,922	910,276
Goodwill	100,294	100,294
Other assets, net	49,288	59,506
	\$2,073,768	\$2,028,812
LIABILITIES		
Current		
Accounts payable	\$36,762	\$61,453
Accrued liabilities	103,576	88,870
Accrued contract loss contingency	6,800	-
Income taxes payable	38,010	37,713
Deferred revenue	69,968	61,160
Current portion of long-term obligations	18,048	24,360
	273,164	273,556
Deferred revenue	78,979	117,119
Deferred leasehold inducements	5,740	5,273
Accrued contract loss contingency	44,500	-
Long-term obligations	400,585	412,508
	802,968	808,456
SHAREHOLDERS' EQUITY		
Common shares	1,473,057	1,461,077
Additional paid-in capital	13,017	377
Deficit	(261,645)	(290,242)
Accumulated other comprehensive income	46,371	49,144
	1,270,800	1,220,356
	\$2,073,768	\$2,028,812

Consolidated Statements of Income (loss)

In accordance with U.S. generally accepted accounting principles
(All dollar amounts are expressed in thousands of U.S. dollars, except per share data) (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
REVENUE				
Product sales	\$277,265	\$244,455	\$728,088	\$609,505
Research and development	5,691	7,647	14,551	21,216
Royalty and other	6,596	5,956	20,242	17,201
	289,552	258,058	762,881	647,922
EXPENSES				
Cost of goods sold	59,332	51,991	170,480	152,964
Research and development	26,350	19,913	67,080	62,135
Selling, general and administrative	50,168	42,402	173,388	174,263
Amortization	14,824	15,443	44,473	46,818
Write-down of assets, net of gain on disposal	143,000	-	143,000	26,560
Contract loss contingency	46,800	-	51,300	-
Restructuring costs	-	1,118	-	19,725
	340,474	130,867	649,721	482,465
Operating income (loss)	(50,922)	127,191	113,160	165,457
Interest income	7,577	2,386	18,889	3,676
Interest expense	(8,951)	(9,450)	(26,460)	(27,921)
Foreign exchange gain (loss)	(250)	(1,462)	561	(2,153)
Other expense	(205)	(271)	(473)	(804)
Income (loss) from continuing operations before provision for income taxes	(52,751)	118,394	105,677	138,255
Provision for income taxes	3,700	9,095	13,200	11,975
Income (loss) from continuing operations (56,451)	109,299	92,477	126,280	
Loss from discontinued operation	-	(7,636)	(3,848)	(9,778)
Net income (loss)	(\$56,451)	\$101,663	\$88,629	\$116,502
Basic and diluted earnings (loss) per share				
Income (loss) from continuing operations	(\$0.35)	\$0.69	\$0.58	\$0.79
Loss from discontinued operation	-	(0.05)	(0.03)	(0.06)
Net income (loss)	(\$0.35)	\$0.64	\$0.55	\$0.73
Weighted average number of common shares outstanding (000s)				
Basic	160,232	159,421	159,990	159,402
Diluted	160,232	159,583	160,015	159,491

Consolidated Statements of Cash Flows

In accordance with U.S. generally accepted accounting principles
(All dollar amounts are expressed in thousands of U.S. dollars) (Unaudited)

	Nine Months Ended September 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$88,629	\$116,502
Adjustments to reconcile net income to net cash provided by continuing operating activities		
Depreciation and amortization	79,324	74,984
Amortization and write-down of deferred financing costs	1,769	2,671
Amortization and write-down of discounts on long-term obligations	1,090	1,929
Stock-based compensation	12,640	-
Write-down of assets	147,000	26,560
Gain on disposal of intangible assets	(4,000)	-
Accrued contract loss contingencies	51,300	-
Loss from discontinued operation	3,848	9,778
Receipt of leasehold inducements	835	-
Equity loss	473	804
Other	167	(152)
Changes in operating assets and liabilities	(96,195)	45,413
Net cash provided by continuing operating activities	286,880	278,489
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment, net	(38,700)	(24,121)
Proceeds from sales and maturities of marketable securities	4,854	5,317
Proceeds on disposal of intangible assets, net of withholding tax	4,000	98,127
Purchases of marketable securities	(3,196)	(6,345)
Acquisition of long-term investment	(329)	-
Acquisitions of intangible assetst	-	(26,000)
Net cash provided by (used in) continuing investing activities	(33,371)	46,978
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(60,032)	-
Repayments of other long-term obligations	(8,430)	(28,894)
Issuance of common shares	11,981	1,118
Financing costs paid	(1,275)	(1,300)
Repurchase of Senior Subordinated Notes	(1,098)	-
Payments on termination of interest rate swap	-	(1,419)
Net cash used in continuing financing activities	(68,854)	(30,495)
CASH FLOWS FROM DISCONTINUED OPERATION		
Net cash used in operating activities	(558)	(2,728)
Net cash used in investing activities	-	(47)
Net cash used in discontinued operation	(558)	(2,775)
Effect of exchange rate changes on cash and cash equivalents	114	206
Net increase in cash and cash equivalents	184,211	292,403
Cash and cash equivalents, beginning of period	445,289	34,324
Cash and cash equivalents, end of period	\$629,500	\$326,727

Shareholder Information

BIOVAIL CORPORATION

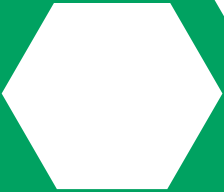
7150 Mississauga Road
Mississauga, Ontario
Canada L5N 8M5

T: (905) 286-3000
F: (905) 286-3050
E: ir@biovail.com
W: www.biovail.com

Corporate Information

TRADING SYMBOL – BVF

New York Stock Exchange
Toronto Stock Exchange



REGISTRARS AND TRANSFER AGENTS

CIBC Mellon Trust Company
Toronto, Ontario, Canada
Mellon Investor Services, LLC
New York, New York, USA

HOW TO REACH US FOR MORE INFORMATION

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To the extent any statements made in this report contain information that is not historical, these statements and information are forward-looking. As such, they are subject to risks and uncertainties as they relate to, among other things, our objectives, goals, targets, strategies, intentions, plans, beliefs, estimates and outlook, including, without limitation, the Company's beliefs concerning the potential of Ultram® ER, the unknown timing of any launch of a generic of Wellbutrin XL®, timing and potential success of any research-and-development activities and/or business development initiatives, the timing of completion of the Company's comprehensive pipeline review, our success in filing applications for and ultimately receiving approval for new products from the Food and Drug Administration in the United States or other regulators, our success in securing development partners and other matters referred to above.

For additional information about these and other risks and uncertainties, the material factors or assumptions underlying such information and statements, and about the material factors that may cause actual results to vary from those expressed or implied in such information and statements, please consult the Company's filings with the Securities and Exchange Commission and the Ontario Securities Commission, in particular the Company's annual report on Form 20F, under risk factors, and our quarterly financial reporting on Form 6-K for the periods ended March 31, 2006, June 30, 2006 and September 30, 2006. The Company undertakes no obligation to update or revise any forward-looking statement or information.