U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 40-F

[Check one]
[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 Commission File Number 0-30752

AETERNA LABORATORIES INC.

(Exact name of registrant as specified in its charter)

CANADA	2834	NOT APPLICABLE
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer) Identification Number

1405, boul. du Parc-Technologique
Quebec, Quebec
Canada, G1P 4P5
(418) 652-8525
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System
111 Eighth Avenue
13th Floor
New York, New York 10011
(212) 894-8638
(Name, address and telephone number of agent for service of process in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Not Applicable	Not Applicable

Securities registered or to be registered pursuant to Section 12(g) of the Act.

SUBORDINATE VOTING SHARES
(Title of Class)

Securities for which there is a reporting obligation
pursuant to Section 15(d) of the Act.

NOT APPLICABLE
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

45,330,992 Subordinate Voting Shares Outstanding
0 Multiple Voting Shares Outstanding
0 First Preferred Shares
0 Second Preferred Shares

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes ----- No X -----

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X ----- No -----

CONTROLS AND PROCEDURES

The Registrant's President and Chief Executive Officer and the Registrant's Vice President and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), that the Registrant's disclosure controls and procedures are effective as of the end of the period covered by this annual report on Form 40-F.

There has been no change in the Registrant's internal control over financial reporting that occurred during the period covered by this annual report on Form 40-F that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

CODE OF ETHICAL CONDUCT

On March 29, 2004, the Board of Directors adopted a "Code of Ethical Conduct", a copy of which is attached as Exhibit 7 to this annual report on Form 40-F and which also available on the Registrant's website at www.aeterna.com in Investors/Shareholder Info. The Code of Ethical Conduct is
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a "code of ethics" as defined in paragraph (9)(b) of General Instruction B to Form 40-F. The Code of Ethical Conduct applies to all of the Registrant's employees, directors and officers, including the Registrant's principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions, and includes specific provisions dealing with integrity in accounting matters, conflicts of interest and compliance with applicable laws and regulations. The Registrant will provide this document to any person or company upon request to the Corporate Secretary of the Registrant, at its head office at 1405 boulevard du Parc-Technologique, Quebec City, Quebec, G1P 4P5.

AUDIT COMMITTEE

The Registrant has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee consists of three members: Mr. Francis Bellido, Ms. Stormy Byorum and Mr. Pierre MacDonald. The Audit Committee is composed entirely of outside, non-management directors who are also unrelated directors. The Board of Directors is of the view that each of the members of the Audit Committee is "independent" within the meaning of Rules 4200 and 4200A of the Marketplace Rules of The Nasdaq Stock Market, Inc.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of the Registrant has determined that the Registrant has at least one audit committee financial expert (as defined in paragraph 8(b) of General Instruction B to Form 40-F). The name of the audit committee financial expert of the Registrant is Mr. Pierre MacDonald, the Audit Committee's Chairman. The Commission has indicated that the designation of Mr. MacDonald as the audit committee financial expert of the Registrant does not (i) make Mr. MacDonald an "expert" for any purpose, including without limitation for purposes of Section 11 of the Securities Act of 1933, as amended, as a result of this designation; (ii) impose any duties, obligations or liability on Mr. MacDonald that are greater than those imposed on him as a member of the audit committee and the Board of Directors in the absence of such designation; or (iii) affect the duties, obligations or liability of any other member of the audit committee or the Board of Directors.

EXTERNAL AUDITORS

PricewaterhouseCoopers LLP, Chartered Accountants, has acted as auditors of the Registrant since the financial year ended December 31, 1993.

In addition to performing the audit of the Registrant's consolidated financial statements, PricewaterhouseCoopers LLP provided other services to the Registrant and billed the Registrant the following fees for each of the Registrant's two most recently completed financial years:

FEES	FINANCIAL YEAR ENDED DECEMBER 31, 2003 ($)	FINANCIAL YEAR ENDED DECEMBER 31, 2002 ($)
Audit Fees(1)	333,329	192,218
Audit-Related Fees(2)	3,000	8,300
Tax Fees(3)	45,616	8,475
All other Fees(4)	60,850	16,207
TOTAL FEES:	442,795	225,200

ALL AMOUNTS ARE IN CANADIAN DOLLARS

(1) Refers to all fees incurred in respect of audit services, being the professional services rendered by the Registrant's external auditor for the audit and review of the Registrant's financial statements as well as services normally provided by the external auditor in connection with statutory and regulatory filings and engagements.

(2) Includes audit or attest services not required by statute or regulation, employee benefit plan audits, due diligence services, and accounting consultations on proposed transactions.

(3) Incurred in respect of tax compliance, tax planning and tax advice.

(4) Refers to all fees not included in audit fees, audit-related fees or tax fees.

PRE-APPROVAL POLICIES AND PROCEDURES

The Registrant's Audit Committee is responsible for overseeing the work of the independent auditors and has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence. The Audit Committee is determining which non-audit services the external auditor are prohibited from providing and, exceptionally, approving and overseeing the disclosure of permitted non-audit services to be performed by the external auditor.

For the year ended December 31, 2003, none of the services described above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

There is no off-balance sheet arrangement as at December 31, 2003.

DOCUMENTS FILED PURSUANT TO GENERAL INSTRUCTIONS

In accordance with General Instruction D.(9) of Form 40-F, the Registrant hereby files Exhibit 6 as set forth in the Exhibit Index attached hereto.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed with the Commission a written consent to service of process and power of attorney on Form F-X.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

AETERNA LABORATORIES INC.

Date: May 18, 2004

By: /s/ Mario Paradis

Name: Mario Paradis
Title: Senior Finance Director and Corporate Secretary

EXHIBIT INDEX

EXHIBIT NUMBER	DOCUMENT	PAGE NO.
1	Annual Information Form of Registrant, dated May 14, 2004, for the year ended December 31, 2003	
2	Report of Independent Auditors	
3	Audited Consolidated Balance Sheets of Registrant, including the Notes thereto, as at December 31, 2003 and 2002 and Audited Consolidated Statements of Deficit, Consolidated Statements of Contributed Surplus, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	
4	Annual Report of the Registrant for the year ended December 31, 2003	
5	Management's Discussion and Analysis of Financial Condition and Results of Operations for the financial year ended December 31, 2003	
6	Consent of Independent Accountants	
7	Code of Ethical Conduct	
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002	
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002	

EXHIBIT 1

[LOGO]

AETERNA LABORATORIES INC.

ANNUAL INFORMATION FORM
2003

MAY 14, 2004

AETERNA LABORATORIES INC.

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Unless otherwise indicated, all amounts in this Annual Information Form refer to Canadian dollars.

ITEM 2. CORPORATE STRUCTURE

2.1 NAME AND INCORPORATION

AEterna Laboratories Inc. ("AEterna" or the "Company") was incorporated on September 12, 1990, pursuant to the CANADA BUSINESS CORPORATIONS ACT under the corporate name of 171162 Canada Inc., which name was changed under Articles of Amendment dated September 26, 1991 to "Les Laboratoires AEterna inc." On December 4, 1995, the capital stock was changed to become what it is today, namely an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares. By virtue of a Certificate of Amendment dated June 27, 1997, the Company adopted the English version of its name, "AEterna Laboratories Inc." The articles of AEterna have also been amended to, among other things, effect a 3-for-2 split and a 2-for-1 split of the Subordinate Voting Shares and Multiple Voting Shares of the Company on December 4, 1995 and August 8, 1996, respectively.

2.2 INTERCORPORATE RELATIONSHIPS

Until December 31, 1999, AEterna carried on its activities under two separate divisions, the Biopharmaceutical Division and the Cosmetics and Nutrition Division and had no subsidiaries. Effective on January 1, 2000, AEterna transferred its Cosmetics and Nutrition Division, including all assets and trademarks relating thereto as well as the exclusive right to use AEterna's patents in the cosmetics and nutritional areas, to a newly created subsidiary incorporated under the CANADA BUSINESS CORPORATIONS ACT, Atrium Biotechnologies Inc. ("Atrium"), in exchange for an equity interest. SGF Soquia Inc. ("SGF Soquia"), a subsidiary of Societe generale de financement du Quebec, Fonds de solidarite FTQ ("Fonds FTQ") and Fonds d'investissement bioalimentaire Limited Partnership ("Fonds Bio") (collectively referred to as the "Investors") initially invested an aggregate amount of $10 million in Atrium in exchange for 16.7%, 4.4% and 1.1%, respectively, of the issued and outstanding shares of Atrium. In September 2000, the Investors invested an additional amount of $10 million, bringing their total investment in Atrium to $20 million. At the time of this second investment, the capital structure of Atrium was modified to create two new classes of shares, subordinate voting shares carrying one vote per share ("Atrium Subordinate Voting Shares"), and multiple voting shares carrying two votes per share ("Atrium Multiple Voting Shares"). AEterna is the only shareholder holding Atrium Multiple Voting Shares and they will be automatically converted into Atrium Subordinate Voting Shares if AEterna sells its shares. The common shares held by AEterna have been exchanged for Atrium Multiple Voting Shares, allowing AEterna to maintain voting control with 76.4% of the voting rights and a 61.8% equity participation in Atrium. SGF Soquia, Fonds FTQ and Fonds Bio hold Atrium Subordinate Voting Shares, which confer to each of them 23.8%, 10.6%, and 0.9%, respectively, of the participation rights in Atrium.

Pursuant to an agreement among the shareholders of Atrium dated as of January 21, 2000 as amended on September 19, 2000, May 17, 2001 and May 22, 2001 (the "Atrium Shareholders' Agreement"), each party has the right to proportional representation on Atrium's board of directors, with AEterna being entitled to designate at least four board members, and SGF Soquia, on the one hand, and Fonds FTQ and Fonds Bio, on the other hand, each being entitled to designate at least one board member, respectively. The board of directors of Atrium is comprised of seven members, four of whom are designated by AEterna, two by SGF Soquia and one jointly by Fonds FTQ and Fonds Bio. A mechanism for determining the representative character of each of the shareholders is provided to ensure that AEterna will always have the right to designate a majority of directors for as long as it holds more than 50% of the voting rights attached to Atrium's issued and outstanding shares. The Atrium Shareholders' Agreement also requires the written consent of each of SGF Soquia, Fonds FTQ and Fonds Bio to authorize certain corporate actions by Atrium, such as the declaration of dividends by Atrium, the making of a strategic acquisition or the transfer of Atrium's head office outside the Province of Quebec. In addition, the Atrium Shareholders' Agreement provides for pre-emptive rights to each shareholder, entitling it to maintain its proportionate equity interest in Atrium. This pre-emptive right does not apply, however, with respect to an issuance of shares of Atrium to a strategic partner to which two of the following-named shareholders consent: Fonds FTQ and Fonds Bio acting jointly, SGF Soquia, and AEterna. Moreover, each shareholder has a right of first refusal allowing it to purchase from a selling shareholder a number of shares proportional to the number of shares it already holds divided by the total number of shares held by all shareholders. A piggy-back right is also provided, allowing each shareholder, in the event another shareholder is allowed to transfer its shares to a third party, to transfer its shares to that third party in totality, if the selling shareholder controls Atrium, or in the same proportion if the selling shareholder does not control

Atrium. If AEterna, who must at that moment hold a controlling interest in Atrium, accepts an offer concerning the purchase of at least 90% of Atrium's issued and outstanding shares, each of the other shareholders may be obligated to sell its shares to this purchasing third party. However, AEterna shall pay SGF Soquia, Fonds FTQ and Fonds Bio the difference between the acquisition price of these shares and the value thereof that would have provided a return to these Investors equal to an annual compounded interest rate of 25% on their investment. Each of the minority shareholders has the option to sell its shares to Atrium, AEterna or to the other Atrium shareholders at any time after January 21, 2005 at a predetermined price (the "Redemption Price"). Should a minority shareholder exercise its option, Atrium, AEterna and the other shareholders, successively, will have the right to purchase these shares failing which the selling minority shareholder will be entitled to require the sale of all its shares of Atrium to any third party and if such a sale occurs at a price lower than the Redemption Price, AEterna will have to pay to all the minority shareholders, through the issuance of Subordinate Voting Shares , an amount equal to the difference between the Redemption Price and the price paid by the third party plus a premium equal to 10% of the Redemption Price. The Atrium Shareholders' Agreement will become null and void if Atrium proceeds with an initial public offering or if its stock becomes publicly traded on any stock exchange.

AEterna and Atrium are bound by services, lease, production and supply agreements pursuant to which, among other things, AEterna is committed to provide administrative services and produce some active ingredients for the production of Atrium's retail goods.

The head office and principal administrative offices of AEterna and Atrium are located at 1405 boulevard du Parc-Technologique, Quebec City, Quebec, Canada G1P 4P5.

There is no other material special agreement within the group of companies held directly or indirectly by AEterna. The following is the chart of AEterna and its subsidiaries as of May 14, 2004.

[GRAPHIC]

ITEM 3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 HISTORY

AEterna was founded in 1991 by Dr. Eric Dupont. While completing his PhD in physiology-endocrinology, Dr. Dupont designed and commercialized products to be marketed by the Company in the field of cosmetics and nutritional supplements. While continuing to develop lines of products, the Company extended its research activities to antiangiogenic agents having potential applications in angiogenesis dependant diseases and, for this purpose, created the biopharmaceutical division in 1992.

In December 1995, AEterna realized an Initial Public Offering and listed its Subordinate Voting Shares on the Montreal and Toronto Stock Exchange. In May 2000, AEterna listed its Subordinate Voting Shares on NASDAQ National Market. Several financings were realized to support the development of antiangiogenic agents and more particularly AE-941 (Neovastat(R)), which is now in a Phase III trial for the treatment of non-small cell lung cancer. This study is sponsored by the US National Cancer Institute.

As part of a strategy seeking to improve its product pipeline and to diversify inherent risks associated to our sector, AEterna initiated an acquisition program in late 2001 and to that effect, raised additional capital in April 2002.

On December 30, 2002, AEterna acquired 100% of Zentaris AG, a German biopharmaceutical company specialized in the development of drugs in oncology and endocrinology. This acquisition has brought to AEterna an extensive product portfolio, including two marketed products and several other product candidates under development in oncology, endocrinology and infectious diseases. Cetrotide(R) (cetrorelix) is sold in the U.S., Europe and several other countries to the IN VITRO fertilization market, and has successfully completed 6 Phase II clinical trials for endometriosis, uterus myoma and benign prostatic hyperplasia (BPH). Impavido(R) (miltefosine) is sold for black fever and has successfully completed a Phase III trial in parasitic skin disease. Perifosine, the first orally-active AKT inhibitor, is in Phase II trials for multiple cancers. Several other clinical programs are underway with various potential development candidates, supported by a worldwide network of scientific and marketing partnerships. In addition, AEterna now benefits from a discovery platform of 100,000 molecules, which is generating promising new compounds developed by an experienced pharmaceutical development team.

In March 2003, AEterna's German subsidiary, AEterna GmbH, merged with Zentaris AG and the company resulting from this merger is called Zentaris GmbH ("Zentaris").

AEterna also owns 62% of Atrium, which was created at the end of 1999 to develop and market active ingredients and specialty chemicals in the health and personal care industry for the cosmetics, pharmaceutical, chemical and nutritional sectors. Atrium also initiated an acquisition program and completed significant acquisitions including Unipex in France in July 2001, Interchemical S.A. and Chimiray S.A. in August 2003, Siricie S.A. in November 2003 and more recently, Pure Encapsulations, Inc. in March 2004. Atrium intends to pursue its acquisition and in-licensing program.

3.2 SIGNIFICANT ACQUISITIONS AND SIGNIFICANT DISPOSITIONS

In addition to the acquisition closed in December 2002 of Zentaris AG, on August 5, 2003, Unipex, a French subsidiary of Atrium, acquired 100% of the issued and outstanding common shares of Interchemical S.A. and Chimiray S.A. for a total consideration of $18,689,300, of which an amount of $14,184,390 was paid cash, net of cash and cash equivalents acquired of $3,583,081, and $921,829 as a balance of purchase price, non-interest bearing, payable on January 15, 2004. These companies are specializing in the distribution of fine chemicals and active ingredients. The results of operations have been included in the statement of operations since August 5, 2003, being the date of acquisition. Concerning the acquisition of these companies, an independent valuation report was issued on October 1, 2003 confirming that no specific identifiable intangible assets has any material value which could be separated from goodwill.

On November 18, 2003, Atrium acquired 100% of the issued and outstanding common shares of Siricie S.A. for a total consideration of $2,039,721 of which an amount of $1,810,849 was paid cash, net of cash and cash equivalents acquired of $73,867, and $155,005 as a balance of purchase price, non-interest bearing, payable at the latest in October 2004. This company is specializing in the development of active ingredients drawn from marine life for the cosmetics industry. The results of operations have been included in the statement of operations since November 18, 2003, being the date of acquisition. The purchase price allocation shown is preliminary and is based on the Company's estimates of fair value. The final allocation is expected to be completed within the first six months of 2004 and may result in a portion of the purchase price being allocated from goodwill to identifiable intangible assets.

On March 3, 2004, Atrium acquired all the operating assets of Pure Encapsulations, Inc. (Pure) for a total consideration of approximately US$37.1 million (CAN$50 million) of which an amount of US$35 million was paid cash and US$2.1 million as a balance of purchase price. Founded in 1991, Pure is a privately-held company based in the Boston suburb of Sudbury, Massachusetts. Its activities are focused mainly on the development, manufacturing and marketing of nutritional supplements. Its more than 270 unique and innovative products are available through a network of more than 36,000 physicians and other healthcare professionals. Atrium financed the acquisition through a credit facility of $27 million provided by Royal Bank of Canada, a subordinated loan of $13.4 million by Fonds FTQ, and a subordinated loan of $6.7 million by AEterna. The balance was paid through available cash. This acquisition was accounted for using the purchase method and the results of operations have been included in the statement of operations since the date of acquisition, being March 3, 2004. The final allocation is expected to be completed within the six months following the acquisition and may result in a portion of the purchase price being allocated from goodwill to identifiable intangible assets. The company did not complete any significant disposition during the same period.

3.3 TRENDS

For an outline of trends, commitments or uncertainties associated with the Company's operations, reference is made to Management's discussion and analysis of the financial condition and results of operations of the Company for the year ended December 31, 2003 filed with the Canadian Securities regulatory authorities on March 18, 2004, which is incorporated herein by reference.

ITEM 4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 BIOPHARMACEUTICAL ACTIVITIES

AEterna's research and development activities in the biopharmaceutical sector started in 1992 to develop antiangiogenic agents including AE-941. By 2002, the Company had focused its efforts on the development of treatments for oncology and it initiated an acquisition program to offer additional value-creation prospects while diversifying the risk inherent to the product development process.

In December 2002, the Company completed the acquisition of Zentaris AG from Degussa AG. Zentaris is an integrated biopharmaceutical company with a core strategic area of competence, in the development of pharmaceutical products. With this acquisition, AEterna sees itself on its way to achieving a leading position in research, development and manufacture of innovative therapeutics, especially in the fields of oncology and endocrinology.

These activities are supported by an international network of scientific collaborators as well as the in-house drug discovery unit which is mainly responsible for the research and development of novel active substances. This enables the Company to present the entire value-added chain from identification and provision of development candidates via research and development of active substances up to the development of marketable products, and to generate short-term, medium-term and long-term income on the basis of its own active substances.

Being an integrated biopharmaceutical company, AEterna combines all areas which are necessary in the long term to develop innovative forms of therapy, and thus it possesses the expert knowledge required to develop a drug up to market maturity. This research competence at all development phases enables the Company to decide, on the basis of cost/benefit analyses, whether an active substance should be developed up to market maturity or whether it should be

licensed out for selected territories or indications to a third party at an earlier stage.

The Company has now a deeply layered portfolio of active substances and product candidates in different phases of development and endeavors to further expand and develop this portfolio.

AETERNA LABORATORIES' PRODUCT PIPELINE

PRODUCTS	CLASS	INDICATIONS	STATUS	PARTNERS	COVERED TERRITORIES
ONCOLOGY					
Perifosine	AKT inhibitor	Multiple cancers	Phase II	Keryx Biopharmaceuticals, US NCI,	North America
			Phase I	Netherlands NCI	
D-63153	LHRH antagonist	Prostate cancer	Phase II	Baxter Oncology	Worldwide
Teverelix	LHRH Antagonist	Prostate cancer	Phase I	Ardana Bioscience	Worldwide
RC-3095	Bombesin Antagonist	Multiple cancers	Phase I/II		
Lobaplatin	Platinum Derivative	SCLC, breast, CML	Approved in China	Hainan Chang An Pharmaceutical Ltd.	China
Neovastat	Multifunctional angiogenesis inhibitor	Non-small cell lung cancer	Phase III	Grupo Ferrer Internacional	Southern Europe, France, Belgium, South and Central America
				Mayne Pharma	Australia, New Zealand, Canada and Mexico
				LG Life Sciences Ltd.	Korea
AN-152 AN-238 AN-215	Cytotoxic-Conjugates	Solid tumors	Preclinical		
ZEN-012	Tubulin inhibitor	Solid tumors	Preclinical		
ZEN-014	Tubulin inhibitor	Solid tumors	Preclinical		
Disorazol E1	Cytotoxic	Solid tumors	Preclinical		
LHRH	Peptidomimetics	Solid tumors	Preclinical		
ENDOCRINE THERAPY					
PRODUCTS	**CLASS**	**INDICATIONS**	**STATUS**	**PARTNERS**	**COVERED TERRITORIES**
Cetrotide(R) (cetrorelix)	LHRH antagonist	IN VITRO fertilization (IVF)	Marketed	Serono	Worldwide (excl. Japan)
			Approval expected in 2004	Shionogi / Nippon Kayaku	Japan
Cetrorelix	LHRH antagonist	Endometriosis Uterine myoma Benign prostatic hyperplasia (BPH)	Phase II	For all 3 indications: Solvay Shionogi / Nippon Kayaku	 Worldwide (excl. Japan) Japan
EP-1572	Growth hormone secretagogue (GHS)	TBD	Phase I	Ardana Biosciences	Worldwide
LHRH-peptidomimetics	LHRH-antagonist (oral)	TBD	Preclinical	Solvay	Worldwide (gynecology and BPH)
Ghrelin antagonists	Ghrelin antagonists	Obesity	Preclinical		
ANTI-INFECTIVES					
PRODUCTS	**CLASS**	**INDICATIONS**	**STATUS**	**PARTNERS**	**COVERED TERRITORIES**
Impavido(R) (miltefosine)	Signal transduction inhibitor	Visceral leishmaniasis (black fever)	Market	WHO, Roche, German Remedies, action medeor	India & Bangladesh Brazil India & Bangladesh NGOs
		Cutaneous	Phase III	Roche,	Brazil

	leishmaniasis (parasitic skin disease)	Nimrall, action medeor, Marquez & Marquez	Pakistan & Afghanistan NGOs Colombia

DRUG DISCOVERY COMPOUND LIBRARY (MORE THAN 100,000 COMPOUNDS)

4.1.1 ONCOLOGY PIPELINE

PERIFOSINE

Perifosine is an alkylphosphocholine compound with structural similarity to phospholipids that are main constituents of cellular membranes and is, to our knowledge, the first AKT inhibitor in clinical trials. In tumor cells, perifosine demonstrated interactions with vital signal transduction mechanisms and demonstrated induction of programmed cell death (apoptosis). Perifosine exerts a marked cytotoxic effect on animal and human tumor cell lines. The most sensitive cancer cell lines were larynx carcinoma, breast, small cell lung, prostate and colon. Based on the IN VITRO trials, the mode of action of perifosine appears to be fundamentally different from that of currently available cytotoxics.

Pharmacodynamic data has shown that perifosine possesses considerable antitumor activity, including tumor models which are resistant to currently available agents for cancer therapy. This activity is based on a direct and relatively specific action on tumors. A clear dose-relationship was also shown.

In preclinical and clinical Phase I trials (solid tumors), this oral chemotherapy agent has been found to have good tolerance. Unlike its predecessor miltefosine, perifosine has shown fewer side effects, in particular in the gastro-intestinal tract. Following a Phase I trial, the maximum tolerated dose was established at 200 mg/day.

PROPOSED MODEL OF ANTI-TUMOR ACTIVITY OF PERIFOSINE

[DIAGRAM]

* cell membrane of proliferating cells is primary site of perifosine action (DISTURBANCE OF NORMAL PL TURNOVER AND BIOSYNTHESIS)

* signal transduction pathways originating from the cell membrane are blocked

* thereby selective cytotoxic effects are induced in tumor cells

* activation of p21 is linked to PH-recruited Akt inhibition (P53 INDEPENDENT MECHANISM)

The ongoing clinical development of perifosine in North America includes nine Phase II trials in six cancer types that are being conducted through collaboration with Keryx Biopharmaceuticals Inc. ("Keryx") and the United States National Cancer Institute (NCI). To date, five Phase I trials have been conducted on perifosine, including the trial to be highlighted at the June 2004 ASCO meeting. In the four preceding trials, use of perifosine as a single agent in a total of 94 patients provided initial, encouraging evidence of anti-tumor activity. Namely, investigators observed two partial responses (>50% reduction) in patients with sarcoma and sixteen stable disease in patients with breast, prostate, pancreatic and other forms of cancer.

A Cooperative Research and Development Agreement (CRADA) was put in place with the NIH/NCI in May 2000. A cooperation and license agreement was signed in September 2002 with the US company Access Oncology, Inc. (AOI) for the use of perifosine as an anticancer agent covering the US, Canada and Mexico. In January 2004, AOI was acquired by Keryx, which will pursue the clinical development of perifosine under the same conditions than AOI. Therefore, the Company is the full owner of the rest of the world's rights. The agreement, in particular, provides the Company access to all data from Keryx and its partners, free of charge, and scale up royalties are to be paid to the Company on future sales of Keryx in North America.

D-63153

D-63153 is a highly modified Luteinizing Hormone Releasing Hormone (LHRH) antagonist which is a linear decapeptide sequence and is presented as a novel depot formulation aiming at an extended suppression of testosterone levels. D-63153 is an antagonist which is the result of ongoing research activities for the identification and characterization of additional compounds within cetrorelix's class with the aim of identifying an active substance with physico-chemical properties that are better suited for development as a longer-acting formulation in tumor therapy.

Single doses of 10 / 30 / 60 mg D-63153 depot were applied i.m. to male volunteers (n=6 per group). D-63153 was well tolerated and produced a dose-dependent suppression of testosterone. An immediate decrease in testosterone plasma levels could be observed in all dose groups reaching levels below 1 ng/ml within the first 12 hours after application. Duration of suppression was relatively short for the 10 mg dose (mean: 72 h). 30 mg D-63153 depot inhibited testosterone production for 432 h (18 days). The highest dose (60 mg) caused a testosterone suppression for one month.

An early stage Phase II clinical trial in prostate cancer is on-going. This drug candidate has been licensed for all oncology indications to Baxter Oncology and the clinical development is mainly conducted by Baxter. In December 2002, Baxter exercised its option to obtain rights in all indications.

RC-3095

RC-3095 is an antagonist to a growth factor, Bombesin, present in various tumors, namely, in particular small-cell lung cancer, but also in pancreatic carcinoma, breast cancer and tumors of the gastrointestinal tract. It appears to play a significant part in the regulation of epidermal growth factor (EGF) and gastrin receptor expression. The blockade of the bombesin receptor may therefore be an effective way to control the growth of certain tumors.

RC-3095 is a hormone-like peptide that is being developed for multiple types of cancers. As a gastrin-releasing peptide inhibitor, the compound has proven angiogenesis inhibition IN VIVO and down regulation of HER-2 receptor. RC-3095 was tested in several cancer cell lines such as small cell lung, pancreas, colorectal, breast and prostate.

In a Phase I trial in patients with various solid tumors the subcutaneous injection of RC-3095 up to the highest dose level tested was tolerated without clinically relevant side effects; systemic tolerability of RC-3095 was very good. Although tumor response was not a primary endpoint in Phase I, patients with different tumor types showed clinical response. Based on these Phase I data, additional studies will explore the activity of RC-3095 as a monotherapy in small-cell lung cancer and prostate.

LOBAPLATIN

Lobaplatin is a platinum derivative that showed in preclinical studies lower toxicity compared with cisplatinum, specifically renal toxicity, and incomplete cross resistance with other platinum derivatives suggesting potential therapeutic use even in tumor indications not routinely treated with platinum derivatives.

Clinically, lobaplatin was well tolerable at recommended dosages. Treatment was not associated with typical side effects often seen with cisplatinum, like nephrotoxocity (impairment of kidney function), otoxicity (loss of hearing capacity), neurotoxicity (effects on sensory function). In addition, vomiting was less severe than published both for cisplatinum and carboplatinum. Characteristic toxicity of lobaplatin is a short lasting, spontaneously reversible drop in thrombocyte count (blood platelets).

In a Phase II study, conducted in China and including 284 patients with a broad range of solid and non-solid tumors, safety and particularly good therapeutic efficacy was demonstrated in patients with breast cancer, SCLC (small cell lung cancer), and CML (chronic myelogenous leukemia). Primary endpoint in solid tumor patients was the remission rate according to WHO criteria, while response in CML was assessed according to the disease-specific criteria of Talpaz.

The favorable results of this study comprised the basis for approval of the product in China including all three indications: breast cancer, SCLC, and CML.

In China, lobaplatin was approved by Health Authorities for the treatment of inoperable, advanced breast cancer, small cell lung carcinoma, and chronic myeloid leukemia (a cancer of the hematopoietic system). The Company signed a contract with Hainan Chang An Pharmaceuticals Ltd. in China for the marketing and manufacturing rights for lobaplatin. The technology transfer agreement provided for a first payment to the Company upon signing and a later manufacturing-related payment. In addition, the contract specifies that Hainan Chang An Pharmaceuticals Ltd. will manufacture and deliver lobaplatin to the Company or its partners for possible marketing in all other countries worldwide.

AE-941 (NEOVASTAT(R))

AE-941 (Neovastat(R)) is an oral antiangiogenic product with multiple mechanisms of action. Studies have presented evidence supporting the antiangiogenic activity at different stages of the angiogenesis process, such as selectively inhibiting matrix metalloproteinases (MMPs 2, 9 and 12), blocking the action of VEGF to its receptor, inducing apoptosis (cellular death) of the endothelial cells, and inducing the production of tissue type Plasminogen activator (TPa) by endothelial cell located within the tumor area.

PHASE III CLINICAL TRIAL IN LUNG CANCER SPONSORED BY THE U.S. NCI

In September 1998, AE-941 (Neovastat(R)) was selected by the NCI as a drug candidate to assess the potential of a blocker of angiogenesis in the treatment of lung cancer. The agreement with the NCI includes the realization of a double-blind, randomized, placebo-controlled Phase III trial in which AE-941 (Neovastat(R)) will be administered in combination to chemotherapy and radiotherapy for the treatment of non-small cell lung cancer. This study will be partially financed by the National Institutes of Health of the United States. According to the terms of this agreement, AEterna's responsibility consists in supplying AE-941 (Neovastat(R)) for the entire duration of the study, while the data will be provided by the NCI to AEterna for a registration dossier. In November 2003, the Company extended for 24 months its agreement with the NCI to pursue the lung cancer trial.

This Phase III trial is being conducted in hospitals and research centers of the United States and Canada, under the supervision of the MD Anderson Collaborative Community Oncology Program. 760 patients (approximately 310 were recruited as of May 2004) with newly diagnosed non metastatic non-small cell lung cancer need to be enrolled in this trial. They will be randomly assigned to one of the two arms and they will all receive chemotherapy and radiotherapy treatments. Patients of the first group will also be treated orally with AE-941 (Neovastat(R)), while patients in the second group will receive a placebo. Primary endpoint will be improvement of the median survival time.

PHASE III CLINICAL TRIAL IN RENAL CELL CARCINOMA

AE-941 (Neovastat(R)) failed to demonstrate improvement of survival time in a placebo controlled monotherapy Phase III trial on 305 patients with renal cell carcinoma that were refractory to immunotherapy. While the compound showed no efficacy on a global basis, it did demonstrate a measure of efficacy in a sub-set of patients. In December 2003, based on a recommendation of a panel of expert oncologists, we made a corporate decision not to pursue further activities in kidney cancer while pursuing activities in non-small cell lung cancer.

SAFETY PROFILE

During the course of the clinical program, AE-941 (Neovastat(R)) safety has been assessed by three Data Safety Monitoring Boards, which concluded favorably at each time on the safety profile of the product.

TEVERELIX

Teverelix is a polypeptide LHRH antagonist drug candidate for the treatment of prostate cancer, a testosterone-dependent tumor. In contrast to benign prostate hyperplasia (BPH), carcinoma of the prostate is a malignant disorder.

Thus, prostatic cancer cells can escape to surrounding tissues and eventually metastasize to distant organs via the lymph channels. In Western industrialized countries, cancer of the prostate is the most common type of cancer and the second most common cause of death after lung cancer in men.

In prostate cancer, treatment with an LHRH antagonist has several advantages; i.e. a rapid hormone withdrawal without flare-up effect, avoidance of paralytic symptoms due to a flare-up effect, a rapid decrease in Prostate-Specific Antigen (PSA), a rapid reduction in the size of the prostate, a continuous reduction of Follicle-Stimulating Hormone (FSH) levels and no co-medication for suppression of the flare-up effect.

Because of the pharmacological mode of action of teverelix, this new drug class is expected to be active in a number of therapeutic areas such as: hormone-sensitive tumors (e.g. prostatic cancer), non-malignant indications such as benign prostatic hyperplasia, uterine myoma, and endometriosis.

Teverelix has been developed as a short-acting lyophilisate and a long-acting depot formulation. The product is currently in Phase I clinical trials as a sustained-release form and the development costs are assumed by Ardana Biosciences, which has worldwide rights for the development and marketing of this compound. As part of the agreement, Zentaris will provide certain development services and supply clinical samples to Ardana. On April 2, 2004, Ardana extended its agreement with the Company and acquired full global rights and has been assigned the intellectual property relating to teverelix and the underlying microcrystalline suspension technology for use with LHRH antagonists. In return, Zentaris received a substantial payment at signature and will receive fixed annual guaranteed payments until 2006, as well as potential future income on sales of teverelix.

4.1.2 ENDOCRINOLOGY PIPELINE

CETRORELIX

Cetrorelix is a peptide-based active substance which was developed by Zentaris in cooperation with Nobel Laureate Professor Andrew Schally of Tulane University in New Orleans, which introduced a new class of gynaecology and oncology compounds and therapies. Cooperation started in 1988 and Zentaris is the exclusive licensor of the majority of Dr. Schally's discoveries. The drug product is an LHRH antagonist (also known as GnRH) that blocks the LHRH receptors on the pituitary and rapidly decreases sex hormone levels, (i.e. without a preceding flare-up effect). Moreover, cetrorelix allows the LHRH receptors on the pituitary gland to be blocked gradually. Conversely, the side effects associated with using agonists and total hormone withdrawal can be avoided. In contrast to treatment with other agonists, LHRH antagonists permit dose-dependent hormone suppression which is of critical importance for the tolerability of hormonal therapy.

THE MODE OF ACTION OF CETRORELIX AND THE DISTINCTION BETWEEN LHRH AGONISTS/ANTAGONISTS

LHRH is released by the hypothalamus in the brain and controls the production of sex hormones, (i.e. testosterone in the testes and estrogen and progesterone in ovaries) via the activation of LHRH receptors located on the pituitary gland (hypophysis).

The LHRH receptors on the pituitary gland are stimulated by LHRH agonists and thus initially lead to increased excretion of the hormones LH and FSH, which in turn regulate formation of testosterone and estrogens. The "flare-up" effect can last up to three weeks until the pituitary markedly decreases the release of LH and FSH by desensitization and depletion of LHRH receptors (i.e. down-regulation) resulting in a considerable drop in testosterone and estrogen levels. Though the initial flare-up effect is limited in time, it can sometimes cause, depending on the nature and stage of the particular disorder, considerable additional symptoms or even life-threatening complications, which in turn require additional therapeutic intervention. By simultaneous administration of further drugs, the flare-up effect can be attenuated. However, this treatment also bears a risk of side effects, e.g. disturbances of the function of the stomach, intestines and liver.

During full hormone suppression, LHRH agonists reduce the male sex hormones to values below castration. In women, the hormone levels are far below the values observed after the end of the climacteric. Treatment with an LHRH agonist, therefore, is regularly associated with side effects such as hot flushes, depression, muscle weakness, loss of libido and, especially in women, osteoporosis and ovarian cysts. At the end of treatment, it takes several weeks for the hormone function to return to normal ranges. At the same time, an excessive rebound effect can lead to renewed deterioration of the symptoms.

Because of its different mode of action, cetrorelix avoids the side effects associated with the administration of agonists. Since the effect has a rapid onset, the treatment time with cetrorelix can be much shorter than with agonists. Moreover, in various clinical studies, the effect of cetrorelix therapy lasted much longer than the hormone suppression, which consequently confirms the new therapeutic principle of intermittent treatment. Periods with moderate and well-tolerated hormonal suppression can be followed by intervals without treatment during which side effects are completely avoided. Since there is no necessity for long-term therapy and the overall treatment time is much shorter, the side effects are also reduced. In particular, the risk of osteoporosis in women taking the cetrorelix therapy regimen is considerably diminished.

Cetrorelix may therefore be useful in a variety of malignant and non-malignant indications in which a suppression of the pituitary-gonadal axis is desired. The degree of suppression of gonadotrophins and sex steroids required is dependent on the clinical circumstances and disease treated. For example, in patients undergoing controlled ovarian stimulation (COS) for assisted reproductive techniques (ART), endogenous gonadotrophin secretion has to be controlled, whereas development of the follicle must not be adversely affected.

CETRORELIX IN VITRO FERTILIZATION (COS/ART)

Cetrorelix is the first LHRH antagonist which was approved for therapeutic use as part of IN VITRO fertilization programs in Europe and was launched on the market under the name Cetrotide(R) (cetrorelix acetate). In women who undergo controlled ovarian stimulation (COS) for recovery of ovocytes for subsequent fertilization, Cetrotide(R) prevents premature ovulation. LHRH is a naturally occurring hormone produced by the brain to control the secretion of LH and, therefore, final egg maturation and ovulation. Cetrotide(R) will prevent LH production by the pituitary gland and delays a hormonal event, known as the "LH Surge" which could cause eggs to be released too early in the cycle reducing the opportunity to retrieve the eggs for the ART procedure.

In comparison with LHRH agonists that require a much longer pre-treatment, the use of the LHRH antagonist Cetrotide(R) permits the physician to interfere in the hormone regulation of the women undergoing treatment much more selectively and within a shorter time.

The effectiveness of Cetrotide(R) has been examined in five clinical trials (two Phase II and three Phase III trials). Two dose regimens were investigated in these trials: either a single dose per treatment cycle or multiple dosing. In the Phase II studies, a single dose of 3 mg was established as the minimal effective dose for the inhibition of premature LH surges with a protection period of at least four days. When Cetrotide(R) is administered in a multi-dose regimen, 0.25 mg was established as the minimal effective dose. The extent and duration of LH suppression was found to be dose dependent. In the Phase III program, efficacy of the single 3 mg dose regimen and the multiple 0.25 mg dose regimen was established separately in two controlled studies utilizing active comparators. A third non-comparative study evaluated only the multiple 0.25 mg dose regimen of Cetrotide(R). In the five Phase II and Phase III trials, 184 pregnancies were reported out of a total of 732 patients (including 21 pregnancies following the replacement of frozen-thawed embryos). No drug related allergic reactions were reported from these clinical studies.

CETROTIDE(R) IN THE TYPICAL OVARIAN STIMULATION CYCLE*

[GRAPHIC]

The above figure illustrates how Cetrotide(R) fits into the typical ovarian stimulation cycle

Cetrotide(R) is the only LHRH antagonist that is available in two dosing regimens. With an immediate onset of action Cetrotide(R) permits precise control -- a single dose (3 mg), which controls the LH surge for up to four days, or a daily dose (0.25 mg) given over a short period of time (usually five to seven days). The treatment with Cetrotide(R) can be accomplished during a one-month cycle with a simplified, more convenient and shorter treatment requiring fewer injections than LHRH agonists.

Cetrotide(R) is marketed in a 3 mg and a 0.25 mg subcutaneous injection as cetrorelix acetate by Serono in the US and Europe. Approval for Cetrotide(R) in Japan is pending. It will be marketed by Shionogi and Nippon Kayaku in this country. The market competitor is Ganirelix (Antagon/Orgalutran) from Akzo (Organon) indicated for the inhibition of premature LH surges in women undergoing controlled ovarian hyperstimulation.

CLINICAL DEVELOPMENT OVERVIEW OF CETRORELIX

Cetrorelix has been licensed exclusively to Solvay Pharmaceuticals worldwide for all the indications listed below with the exception of IVF/COS-ART and the Japanese market where rights are held by Shionogi and Nippon Kayaku. On April 29 2004, with our partner Solvay, we announced statistically significant positive results from the completed Phase II clinical program designed to evaluate cetrorelix, in endometriosis, pre-surgical treatment of uterine myomas and benign prostatic hyperplasia (BPH).

CETRORELIX IN BENIGN PROSTATIC HYPERPLASIA (BPH)

RATIONALE FOR DEVELOPMENT IN BPH

BPH is a hormonal enlargement of the male prostate gland. The prostate is located directly at the vesicle outlet in the male surrounding the first part of the urethra. The enlargement puts pressure on the urethra, causing difficulty in urinating. BPH is classified into three stages according to symptoms: 1) the irritant phase, where the patient suffers dysuria (pain when urinating) and nocturia (the urge to urinate during the night); 2) residual urine occurring in the bladder thus increasing problems during urinating; and 3) overflow of the bladder. These can result in formation of bladder stones, congestion of urine, and engorged kidneys; which can in turn lead to life-threatening kidney damage. Enlargement of the male prostate is controlled by testosterone. Testosterone is generally responsible for the proper functioning of the prostate. With increasing age, testosterone can cause benign cell growth. The development of BPH is caused by an imbalance of testosterone and aging.

Because LHRH agonists decrease testosterone to castration levels, treatment of BPH with agonists is not convenient and therefore not the best approach. Drug therapy with plant-based drugs, (alpha)-receptor or (alpha)-reductase blockers is possible but the plant-based and (alpha)-receptor blockers cannot delay further prostate growth. They merely improve the symptoms in 50 percent of patients. Treatment with (alpha)-reductase blockers decreases the size of the prostate; however, this form of therapy is successful only in patients with a greatly increased prostate volume and only after a treatment period of at least 6 months. In contrast, cetrorelix improves the symptoms of BPH and reduces the size of the prostate after a short treatment period without chemical castration. The effects are independent of the prostate volume and are maintained for a long period following treatment withdrawal.

BPH CLINICAL TRIALS

All studies performed so far in patients with symptomatic BPH revealed that cetrorelix is therapeutically active in this indication as demonstrated by an improvement in symptoms such as an increase in urinary peak flow rate and a reduction in prostate volume. Efficacy, initially deduced from the results of uncontrolled pilot studies, was confirmed in a double-blind placebo-controlled study. The improvement in BPH-symptoms was clinically significant, generally lasting for several months, independent from prostate size at study entry and castration levels of testosterone. Cetrorelix has been shown to suppress the formation of the male sex hormone testosterone, which plays a principal role in cell growth of the prostate.

On April 29, 2004, we announced the results for two placebo-controlled Phase II trials that were conducted in BPH. As early as one month following initiation of therapy, data from both trials demonstrated improvement of clinical symptoms, including IPSS (International Prostate Symptom Score) and maximum uroflow in the cetrorelix treatment group, in comparison with the placebo group, and the positive effect lasted three months without additional administration of cetrorelix. Furthermore, the use of cetrorelix was associated with a slight reduction of prostate size and did not have an adverse influence on sexual activity or libido.

CETRORELIX IN ENDOMETRIOSIS

RATIONALE FOR DEVELOPMENT IN ENDOMETRIOSIS

Endometriosis is the displacement of endometrium-like tissue (tissue from the mucous membranes of the uterus) to other organs outside the womb. In the abdomen, the tissue can spread to the fallopian tubes, the ovaries, the bladder, the small and large intestines, the stomach, the lungs or the legs. Estrogen-dependant diseases often regress when estrogen production is reduced. Endometriosis is an estrogen-responsive disease, and the pelvic pain associated with it improves when estrogen production is reduced with bilateral oophorectomy or chronic gonadotropin releasing hormone (GnRH) agonist treatment. Unfortunately, reduction of estrogen production is associated with adverse side effects, such as vasomotor symptoms and bone loss. In women with endometriosis and pelvic pain, the combination of bilateral oophorectomy plus postoperative low-dose ("supplemental") estrogen treatment produces sustained improvement in pain symptoms and reduces the hypo-estrogenic side effects associated with bilateral oophorectomy.

A similar estrogen-level can be induced and was shown to be affected by chronic GnRH agonist treatment in conjunction with low-dose steroid therapy (estrogen plus progestin or progestin only). In both treatment approaches, replacement estrogen treatment is necessary to reduce the hypo-estrogenic effects (e.g. bone loss, climacteric symptoms) caused by both oophorectomy and GnRH agonist. Administration of LHRH agonists can initially lead to a deterioration of symptoms due to the flare-up effect, then, due to the complete suppression of the estrogen to below castration levels values for many months. These symptoms can further deteriorate upon withdrawal of hormonal replacement. The longer the treatment period with traditional LHRH agonists is, the higher the risk of osteoporosis. Its use is therefore restricted to six months and can be extended only if estrogens and progesterones are administered concomitantly.

These side effects can be avoided with cetrorelix therapy because flare-up does not occur, and because it affords the possibility to control the estrogen levels to values seen at the start of the regular monthly cycle. Since the controlled hormone withdrawal has a rapid onset and the monthly bleeding stops quickly, the inflammatory foci of endometriosis are depleted of their basis so that the treatment time can be reduced considerably, hopefully to eight weeks. Initial

experiences show that the effect of therapy persists for many months, and doctors and patients can thus decide whether recurring symptoms are treated by further therapy cycles with cetrorelix or whether any residual endometriosis tissue is removed surgically after treatment. Since the effect of cetrorelix starts within a short period of time and the risk of osteoporosis is low, this therapy can be repeated in several cycles. If appropriate, surgical intervention can be avoided.

ENDOMETRIOSIS CLINICAL TRIALS

Cetrorelix was given at a rate of 3 mg per week over a period of 8 weeks. All patients were free of pain during the course of treatment. A second laparoscopy was performed after 8 weeks and an improvement of the disease was shown in 60% of the cases. The efficacy was comparable to agonists but with the benefit of an almost complete absence of side-effects. Currently in Phase II clinical trials, cetrorelix allows targeted control of the hormone level to give rapid effects, while avoiding the problems of menopause and risks (e.g. osteoporosis) associated with an otherwise complete and long-term withdrawal of hormones. The fast effectiveness can also be ideal for intermittent therapies.

On April 29, 2004, we announced that the placebo-controlled study demonstrated that cetrorelix use was associated with a rapid and durable therapeutic response, namely improvement of endometriosis-related symptoms, such as pelvic pain, extending up to several months following only two intramuscular injections of cetrorelix with a one month interval.

CETRORELIX IN UTERINE MYOMA

RATIONALE FOR DEVELOPMENT IN UTERUS MYOMA

The Company is also developing cetrorelix for the indication of uterine myoma. A uterus myoma is a benign tumor of the uterine muscles. If the entire uterine wall is penetrated by myoma, one refers to uterus myomatosus. Depending upon the length and the direction, it is either referred to as a subserious myoma, which is located below the peritoneal covering of the uterus and grows towards the intestinal cavity, or a submucous myoma, which is located below the mucous membrane and grows into the uterine cavity. The most frequent form is, however, the intramural myoma bound in the muscular layer of the uterus. They lead to pain in the lower abdomen and in some cases to prolonged or severe monthly bleeding outside the normal cycle. This can cause severe blood loss leading to anemia. Infertility and pregnancy problems such as miscarriage or premature delivery are also frequent consequences. When the myoma puts pressure on the intestine or the bladder, the result can be constipation, bladder pain, or a desire to urinate. If the myoma exerts pressure on nerves leaving the spinal cord, the result can be back and neuralgic pain in the legs.

UTERUS MYOMA CLINICAL TRIALS

It was demonstrated that cetrorelix reduces the myomas in the uterus as early as after two to four weeks after commencement of treatment so that the remaining myomas can be surgically removed. Side effects of the therapy can be reduced significantly because there is no flare-up effect and the treatment time is short. Thus, as far as the indication of uterine myoma is concerned, the Company expects cetrorelix to offer clear advantages over the traditional therapies because the disorder can be treated within a short period of time and the customary side effects of the LHRH agonists used so far are avoided. Cetrorelix is the first LHRH antagonist under advanced clinical development for uterus myoma.

COMPETITION FOR CETRORELIX

The market leaders in the indication of BPH are Pfizer and Boehringer Ingelheim both with (alpha)-receptor blockers and Merck Inc. with an (alpha)-reductase blocker. Worldwide, there are five LHRH agonists for the treatment of endometriosis and uterine myoma, each from Takeda-Abbott, Astra-Zeneca, Aventis, Roche and Ipsen Beaufour.

4.1.3 ANTI-INFECTIVE

MILTEFOSINE

Miltefosine is related to a class of substances called phospholipids which constitutes a significant part of cellular membranes. Miltefosine, marketed under the brand name Impavido(R), is the only oral drug for the treatment of visceral leishmaniasis. Leishmaniasis is a parasitic infection which is prevalent in tropical regions but which also occurs repeatedly and with an increasing tendency in industrialized countries in HIV-infected people. According to the WHO, 12 million people are affected. The number of new cases annually is estimated to be 1 to 1.5 million people. Leishmaniasis is present in more than 88 countries worldwide. Areas most greatly affected are the Indian subcontinent, South America, the Middle East, North Africa and some areas of Central Africa.

Depending on the strain of leishmania, which is transmitted by sandflies, the disorder can be present in the following forms:

CUTANEOUS LEISHMANIASIS (CL): In the cutaneous form, this disease occurs most frequently in North and Central Africa, the Middle-East and South America. The skin initially forms protuberances (skin lesions) around the sites of the mosquito bite which can open like ulcers after several weeks or months. Although this form of leishmaniasis is not life-threatening and does not necessarily require medication, drug therapy can accelerate healing and help to prevent formation of scars. However, in about 10 percent of patients, the infection takes a chronic course and requires drug therapy.

VISCERAL LEISHMANIASIS (VL): This infection usually has a subacute or chronic course and particularly affects the liver, spleen, bone marrow and lymph nodes. As a consequence, the patient has a wide variety of general symptoms, e.g. recurrent fever for many weeks, severe enlargement of the spleen and liver, disturbances of the hematopoietic system and blood coagulation, as well as severe emaciation (cachexia). This is the most dangerous form of leishmaniasis which, when untreated, leads to death about six months to two years after the outbreak of the disease. Visceral leishmaniasis occurs in Asia, in particular in India, Bangladesh, and Nepal, Brazil and Central Africa. There is an emergence of cases in the Mediterranean countries where it usually occurs as a co-infection with HIV. In addition, climate researchers estimate in a recent report a distribution to central Europe because of the climate shift.

Not every bite of a sandfly infected with leishmania will cause eruption of the disease because in most cases an intact immune system controls the transmitted leishmania. However, when the body's immune system is weakened, e.g. by an HIV infection, the leishmania can multiply so that the risk of development of visceral leishmaniasis is increased. Since leishmania and HIV pathogens target the same cells in the immune system, i.e. the monocyte-macrophage system, leishmaniasis increases the danger of an infection with the HIV virus leading to an outbreak of the immune defect by a factor of 100 to 1,000.

In developing countries with poor medical care, miltefosine could significantly reduce hospital treatment. Because it is an oral anti-infective, secondary infections (e.g. co-infection with HIV) associated with the use and possible re-use of syringes can be eliminated.

MILTEFOSINE IN CLINICAL TRIALS

On the basis of a small-scale proof-of-concept study in India, a clinical development program was initiated under the supervision of the Special Programme for Research and Training in Tropical Diseases (TDR) of WHO and UNDP. A dose-ranging and pharmacokinetic Phase I/II study and a large Phase III trial comparing miltefosine with Amphotericin B were performed in adult patients. In addition, a dose-ranging and pharmacokinetic study, and a confirmatory Phase III study, were conducted in children. Across all age groups, miltefosine was found to be equally active in patients with newly diagnosed leishmaniasis and in patients with infections unresponsive to prior standard therapy.

Currently used antimony-based standard therapy may have resistance rates of up to 80%, like in the most affected parts of India, and severe side effects such as cardiotoxicity and nephrotoxicity. Impavido(R) was shown to have a cure rate of 95% even in those patients who were resistant to the antimony-based pre-treatment. Impavido(R) is the first orally applicable medication to treat visceral Leishmaniasis. The side effects were generally tolerable and short-lasting (episodes of vomiting, nausea, and diarrhea). Impavido(R) is even suitable for children who account for one third of all cases.

In comparison with the side effects of traditional drugs (cardiac arrhythmia, inflammation of the pancreas, fever and blood abnormalities) the side effects of miltefosine are less severe. Other drugs, like liposomal amphotericin B, which are better tolerated, have to be administered via an injection and are virtually unaffordable for patients living in the affected regions. The phenomenon of resistance is increasingly observed even with administration of high doses of conventional drugs to treat infections. Considering the oral route of administration that does not require hospitalisation, the treatment with Impavido(R) is very cost-effective. This is an important issue as 90% of the patients with visceral leishmaniasis live in countries with limited access to medical facilities/treatment: Bangladesh, Brazil, India, Nepal and Sudan. In addition, the oral route prevents the people from HIV co-infection during intravenous treatment for leishmaniasis, which is a significant problem in developing countries. Impavido(R) has also proven to be effective in cutaneous Leishmaniasis and in HIV patients co-infected with visceral leishmaniasis. More than 32 cases of HIV co-infected patients in Europe, who were not controlled by state-of-the-art treatment, received miltefosine on a compassionate basis and showed encouraging therapeutic effects.

The Company received approval for miltefosine in the treatment of visceral leishmaniasis in India. The Orphan drug status was granted by the EMEA in 2002. The product is marketed under the name Impavido(R) by German Remedies in India, and also by the German medical aid organization action medeor e.V. in order to ensure global access of Impavido(R) to non-governmental organizations (NGO). Impavido(R) is the first oral formulation which can be administered once daily for 28 days. A Phase IV study with over 1100 Indian patients is currently under evaluation. In this study, patients were treated under an outpatient setting and preliminary analyses show a similar cure rate compared with pre-registration trials in which the drug was tested in hospitalized patients. This is an important milestone in order to extend the use of Impavido(R) to the nationwide Leishmaniasis control program in India, but also for other territories.

In addition, the international medical humanitarian organization Medecins Sans Frontieres (MSF) has launched a large study of Impavido(R) in Ethiopia where visceral leishmaniasis with or without HIV co-infection is a major health burden. As a supplement, TDR(WHO) in co-operation with Zentaris, is currently preparing for another study in Ethiopia to cover regulatory aspects which are not the primary focus of MSF. Finally, a study for visceral leishmaniasis in Brazil targets the efficacy of the product in new world leishmania strains.

Recently it has been found in a Phase III trial in South America, in Colombia and Guatemala that Impavido(R) accelerates the healing process in cutaneous leishmaniasis. Compared with patients on placebo, the cure rate in patients with Impavido(R) was significantly (220%) better. A follow-up trial in Bolivia will address the mucosal CL which is a particularly mutilating and difficult-to-treat form of CL occurring in South American countries which can progress to destruction of the entire nose and further parts of the face. The NGO HealthNet has started a study in Afghanistan, to compare oral Impavido(R) with other traditionally used modalities in this country where CL has recently increased dramatically.

In 2003, a file of registration for treatment of visceral leishmaniasis was submitted to the German Health Authorities. After priority review, approval in Germany is expected to be granted in 2004.

Impavido(R) is partnered with German Remedies in India and Bangladesh. There also is an agreement with Roche for the distribution of Impavido(R) in Brazil. Recently, Nimrall became a partner of the Company for the distribution in Pakistan and Afghanistan. More partnerships are currently under negotiations to ensure a fast registration and marketing of this innovative product. A cooperation program is currently under negotiations with the Indian government for use in the public market.

4.1.4 PRECLINICAL PRODUCTS

DEVELOPMENT OF A LOW MOLECULAR WEIGHT TUBULIN INHIBITOR

An important objective of the drug discovery group is to find and develop a low molecular weight compound which inhibits the tubulin system. Tubulin is a protein found in all cells that plays an important role during cell division in that it helps to transmit genetic information to the daughter cells. Inhibition of this process leads to death of the affected cell. The anti-tumor agents Taxol and Vincristine which are widely and successfully used in therapy are based on this principle. Both compounds are expensive natural substances which cause severe side effects when used in humans. A tubulin inhibiting drug can be used, for example, for the treatment of breast cancer and ovarian carcinomas.

ZEN-012 has shown potent IN VITRO antiproliferative activity against a panel of more than 35 established human tumor cell lines including multidrug resistant phenotypes and a markedly differential sensitivity profile in a panel of 14 human tumor xenografts in this clonogenic assay. With these values of activity, ZEN-012 is comparable to vindesine and significantly better than paclitaxel. ZEN-012 is not cross-resistant to cisplatin, vincristine and doxorubicine resistant cell lines. ZEN-012 inhibits the polymerization of map rich bb-tubulin. The cancer cells subsequently undergoing apoptosis after treatment with low concentrations of ZEN-012. During IN VIVO activity, ZEN-012 proved to be a potent inhibitor of IN VIVO tumor growth in different xenograft models including mammary and renal cancers after i.p. and p.o. treatment. Based on the determination of cytotoxic activity we have identified ZEN-012 as a highly cytotoxic compound with cell cycle specific mode of action.

In March 2004, we announced results for ZEN-014, which is a novel pyrazole derivative, discovered by Zentaris, that inhibits tubulin polymerization. It represents a new class of small molecule tubulin binders with antiangiogenic properties which are assumed to be novel, highly potent anticancer drugs. The treatment with non-toxic concentrations of ZEN-014 inhibits endothelial cell sprouting and vessel formation. Cancer cells were arrested completely in the G2M phase of mitosis at nanomolar concentrations and subsequently underwent apoptosis. Several apoptotic parameters, such as cell membrane alterations, increase of caspase 3 and 7 activity, DNA fragmentation and inactivation of the Bcl-2 protein, are detectable in U937 cancer cells after treatment with nanomolar concentrations of ZEN-014. The compound shows an excellent antitumor activity profile in a broad panel of tumor cell lines including paclitaxel and vincristine resistant cells. ZEN-014 exhibits promising IN VIVO activity in a renal cell carcinoma model at a dose of 50 mg/kg after oral application.

DEVELOPMENT OF A NON-PEPTIDE LHRH ANTAGONIST

As previously outlined, the LHRH receptor plays an important role in determining the number of benign and malignant tumors. Cetrorelix, which was developed by Zentaris, is a peptide that blocks the receptor and can thus be used for cancer therapy. Drug discovery searches for small, non-peptide molecules which have the same effect on the receptor. Their advantage lies in the potential for oral administration and producing them in a cost-efficient manner. They represent the next generation of LHRH antagonists. A drug based on these substances would be especially useful for the treatment of BPH, breast cancer and prostate carcinoma.

The development of new orally bioavailable LHRH antagonists for hormonal therapy has yielded several promising compounds. The project has advanced to a stage where the IN VIVO activity has been confirmed for two compounds.

This new class of peptidomimetic LHRH antagonists compete with native LHRH which, like their peptide counterparts, appear to bind deep down in the receptor pocket. The affinity towards human and rat LHRH receptors seems comparable. For D-86077, IN VIVO efficacy in all tested animals has been found after oral administration. Optimization of physicochemical properties (aqueous solubility, metabolic stability etc.), in order to improve oral bioavailability, is currently ongoing. The unique structure of this novel peptidomimetic LHRH antagonist appears highly favourable in the light of recent setbacks for the development of heterocyclic LHRH antagonists.

In January 2004, the Company announced a ground-breaking agreement with Solvay Pharmaceuticals. Based on the agreement, Solvay and Zentaris will jointly push ahead this research project aimed at developing novel, low-molecular weight and orally-bioavailable peptidomimetic LHRH antagonists. Potential indications include endometriosis, uterus myoma, benign prostatic hyperplasia (BPH), as well as malignant disorders such as breast and prostate cancer. As part of the agreement, Solvay Pharmaceuticals has exclusive worldwide rights to all gynecological indications as well as to BPH, while Zentaris has retained exclusive rights to all other indications, including oncology.

DEVELOPMENT OF A GROWTH HORMONE SECRETAGOGUE

Growth hormone secretagogues (GHS) represent a new class of pharmacological agents which directly stimulate growth hormone (GH) secretion from the pituitary gland without the involvement of Growth Hormone Releasing Hormone (GHRH) or somatostatin. There is no GHS on the market yet. Since GH is a potent regulator of lipid, sugar and protein metabolism, the potential clinical uses of GHS are numerous. They include growth retardation in children and treatment of cachexia in AIDS patients, which are currently the only approved uses of therapy of GH. The administration of GH, which has to be injected every day, is cumbersome. Therefore, there is a need for new orally active drugs like GHS. Competitors in this field include Novo-Nordisk, Wyeth-Ayerst and Pfizer with compounds in the early clinical phases.

As part of its university collaboration, Zentaris has access to new peptidomimetic compounds with GH secretagogue properties. The lead development candidate, EP-1572, is a novel peptidomimetic GH secretagogue (GHS) with potent and selective GH-releasing activity in humans. EP-1572 underwent limited clinical pharmacology tests which demonstrated a potent stimulation of the GH secretion after oral administration in human volunteers. This product has been licensed to Ardana Biosciences, which recently initiated an investigator driven dose ranging study.

THE SEARCH FOR NOVEL CYTOSTATICS

In view of the non-specific toxicity of most chemotherapeutic agents against normal cells, efficient targeting of chemotherapeutic drugs to cancerous tissue offers a great potential benefit for patients with advanced or metastatic tumors. Targeted cytotoxic peptide conjugates are hybrid molecules composed of a peptide carrier which binds to receptors on tumors and a cytotoxic moiety. The Company developed several compounds which are at different stages of development.

The most advanced of our cytotoxic analogs of LHRH is AN-152, in which doxorubicin (DOX) is linked to [D-Lys6] LHRH shows high-affinity binding to the LHRH receptor, providing a selective target. These analogs are much less toxic and more effective IN VIVO than the respective radicals in inhibiting tumor growth in LHRH receptor-positive models of human ovarian, mammary, or prostatic cancer. The antiproliferative effects of DOX and AN-152 were assessed - among others - in LHRH receptor positive ovarian and endometrial cancer cell lines. The effect of AN-152 was shown to be receptor-mediated. The cytotoxic effect of AN-152 was regulated by the number of active LHRH receptors on cancer cells. These results demonstrate that the cellular entry of AN-152 is specific for cancers with LHRH receptors; up-regulated by EGF; down-regulated by somatostatin analogs; and the cytotoxicity of the AN-152 paralleled the efficiency of entry.

The antitumor effects of DOX and AN-152 were assessed IN VIVO in human LHRH receptor-positive HEC-1B endometrial and NIH:OVCAR-3 ovarian cancers. Nude mice bearing these tumors s.c. were injected i.v. with saline, AN-152, or doxorubicin at equimolar doses. The tumor volumes were reduced significantly 1 week after treatment with AN-152 at 700 nmol/20g or at 300 nmol/20g. In contrast to DOX alone, no toxic side effects were observed. The growth of OV-1063 human ovarian tumors in nude mice was inhibited significantly 4 weeks after treatment with AN-152 (413 nmol/20g wt.). The toxic effects of an equivalent dose of DOX caused substantial mortality. In the LHRH receptor-positive human ovarian cancer line ES-2 xenografted into nude mice, a single injection of AN-152, at a dose of 345 nmol/20g wt., caused a 34.5% reduction in tumor growth after 28 days, while its cytotoxic moiety DOX was inactive at the same dose.

GHRELIN ANTAGONISTS

Ghrelin is a natural peptide hormone, a peptidic linear molecule of 28 amino acids, and the stomach is recognized as the major source of circulating ghrelin. It is mainly expressed from the neck to the base of the oxyntic gland of the stomach and its levels progressively decline along the gastroinstestinal tract. The expression is not confined to the gastrointestinal system, but is variably present in different tissues.

Ghrelin appears to be under physiological control and acts on the central nervous system (CNS) to stimulate food intake, induces accumulation of fat tissue and its controlled reduction may be a valid therapeutic option. Antagonists of ghrelin receptor binding are therefore seen as a potential treatment of obesity through the modulation of CNS control of gastric function. The use of ghrelin antagonists as appetite suppressants could open up new opportunities for the treatment of obesity.

In addition to the field of obesity, ghrelin could have therapeutic benefits for other potential indications, such as metabolic and cardiovascular diseases, as well as cancer.

On March 11, 2004, the Company added to its portfolio ghrelin antagonist compounds that could be promising agents in the management of obesity. Development of these compounds will be conducted in collaboration with university laboratories in France and Italy through AEterna's subsidiary, Zentaris GmbH.

4.1.5 DRUG DISCOVERY

On the world market there is increasing demand for license projects for active substances in the area of oncology. The average value of license projects in the drug discovery field has increased from about US$35 million at the beginning of the nineties to almost US$60 million. The Company internal drug discovery department provides an important prerequisite for the provision of new patented active substances, which can then be developed further or licensed to third parties. The Company intends to generate revenue on the basis of its own new chemical active substances (New Chemical Entities, or "NCEs") in order to utilize the value-added chain exhaustively over the long term.

STRATEGY OF DRUG DISCOVERY

Drug discovery attempts to find small, synthetically accessible molecules as active substances and to make them available for development as drugs. In some instances, these molecules are oriented towards their natural counterparts, namely hormones, but these are much smaller than the peptides and proteins which occur in the cell. Small molecules as active substances are advantageous in that they can form the basis for the development of drugs which, unlike peptides, can be orally administered and, as a general rule, are significantly cheaper to produce. When absorbed by the body and distributed to the organs, these substances are intended to attack the disease-relevant targets in the tumor cells and eliminate them. The targets are proteins, enzymes and receptors that play an important role in the metabolism of healthy and diseased cells.

Drug discovery concentrates on the search for active substances for innovative targets. Innovative targets are molecular target structures whose connection with the tumor disease has only recently been discovered and elucidated and which permit new therapeutic approaches to be introduced. Furthermore, drug discovery searches for new active substances having improved properties for clinically validated targets for which drugs are already being used in humans and which produce inadequate effects either cause severe side effects, are not economical or are not available in a patient-friendly form.

The Company utilizes the most modern methods for drug discovery, e.g. high-throughput screening (HTS) and computer-assisted data processing, thereby markedly increasing the efficiency of finding effective new molecules. Knowledge of the intended target or the natural messenger substances involved in the disease permits computer simulation of effective molecules which may then be synthesized in the laboratory. Methods of combinatorial chemistry and use of highly-automated technology considerably increase the success rate of discovering new compounds.

To this end, the Company possesses an original substance library for the discovery of active compounds with a comprehensive range of promising natural substances which can serve as models for the construction of synthetic molecules. The initial tests involve 100,000 samples from the Company's internal substance library in the form of high-throughput screening. The hits, i.e. the first active compounds found in the library, are tested further and built up specifically into potential lead structures. Based on two to three lead structures, they are then optimized in a further step to potential development candidates. Expansion of the substance base clearly enhances the chances for successful development.

4.2 STRATEGIC ALLIANCES

CETRORELIX:

ARES TRADING S.A. (SERONO INTERNATIONAL S.A.), VAUMARCUS, SWITZERLAND: Serono holds an exclusive worldwide license (except Japan) to commercialize Cetrotide(R) (cetrorelix in the indication IVF/COS/ART). This agreement provides, amongst other things, the Company with manufacturing income, royalties on worldwide (except Japan) net sales and fixed annual lump sum payments until 2010. The fixed annual lump sum payments will become double digit royalties on Cetrotide(R) worldwide (except Japan) sales thereafter.

SOLVAY PHARMACEUTICALS BV., WEESP. NETHERLANDS: Since September 2002, Solvay obtained an exclusive license to develop, use, commercialize and manufacture cetrorelix worldwide with the exception of Japan and for all indications except for IVF/COS/ART. Solvay undertakes at its own cost all activities necessary to obtain regulatory and marketing approvals for the substance. Furthermore the agreement provides, amongst other things, milestones payments and royalties on future worldwide (except Japan) net sales of cetrorelix.

SHIONOGI & CO. LTD. AND NIPPON KAYAKU CO. LTD. from Japan signed two license and distribution agreements. They were granted a semi-exclusive license for Japan to commercialize cetrorelix. SHIONOGI & CO. LTD. AND NIPPON KAYAKU CO. LTD. also obtained a semi-exclusive license for Japan for the development of cetrorelix for human use.

PERIFOSINE:

Following the acquisition of AOI Pharma, Inc. in January 2004 by KERYX BIOPHARMACEUTICALS, NEW YORK, USA, Keryx has taken over the license and co-operation agreement signed with AOI PHARMA, INC., NEW YORK, USA: Keryx will undertake at its own cost all clinical activities necessary to obtain regulatory and marketing approvals of perifosine for all uses in the USA, Canada and Mexico. The agreement provides, amongst other things, availability of clinical data generated by all parties free of charge, milestones and scale-up royalties on future net sales in USA, Canada and Mexico.

The Company has also entered into a Cooperative Research and Development Arrangement (CRADA) with the NATIONAL CANCER INSTITUTE/NATIONAL INSTITUTES OF HEALTH, USA dated July 14, 1999 for the joint development of perifosine, which agreement was transferred to AOI Pharma, Inc (now Keryx).

D-63153:

BAXTER HEALTHCARE S.A., WALLISELLEN, SWITZERLAND: In 2002 Zentaris granted an exclusive worldwide license to Baxter Healthcare S.A. to develop, manufacture and commercialize D-63153 for all oncological indications. In addition, Baxter Healthcare S.A. received an exclusive option until December 31, 2002 to acquire an exclusive unrestricted license to use D-63153 for all non-oncological indications, which option was exercised by Baxter Healthcare S.A. on December 13, 2002. Baxter undertakes at its own cost all activities necessary to obtain regulatory and marketing approvals for the substance. Furthermore, the agreement provides, amongst other things, milestones and royalties on future worldwide net sales of D-63153.

TEVERELIX:

ARDANA BIOSCIENCE LTD., EDINBURGH, SCOTLAND: In 2002, Zentaris granted an exclusive license to Ardana to develop and commercialize teverelix for all therapeutic uses in all countries of the world with the exception of Japan, Korea and Taiwan. On April 2, 2004, Ardana acquired full worldwide rights and has been assigned the intellectual property relating to teverelix and the underlying microcrystalline suspension technology for the use of teverelix and LHRH antagonists. The agreement provides, amongst other things, signature payment, annual payments until 2006 and royalties on future worldwide (except Japan) net sales.

A license and cooperation agreement with TEIKOKU HORMONE, Japan, granting an exclusive license to develop and commercialize teverelix for certain indications (excluding the IVF/COS/ART indication) for Japan, Korea and Taiwan was terminated on October 14, 2003.

LHRH PEPTIDOMIMETICS:

SOLVAY PHARMACEUTICALS BV., WEESP. NETHERLANDS: In January 2004, the Company and Solvay Pharmaceuticals agreed to jointly push ahead the research project aimed at developing novel, low molecular weight and orally-bioavailable peptidomimetic LHRH antagonists. Potential indications include endometriosis, uterus myoma, benign prostatic hyperplasia (BPH), as well as malignant disorders such as breast and prostate cancer. As part of the agreement, Solvay Pharmaceuticals obtained exclusive worldwide rights to all gynecological indications as well as to BPH, while the Company retained exclusive rights to all other indications, including oncology. The agreement provides, amongst other things, $5 million payment at signature, support of the development, milestones as well as royalties on future net sales of the LHRH peptidomimetics.

GROWTH HORMONE SECRATOGOGUE (GHS):

ARDANA BIOSCIENCE LTD., EDINBURGH, SCOTLAND: In 2002, Ardana was granted an exclusive worldwide license to develop and commercialize the growth hormone secretagogue EP-1572. Ardana undertakes at its own cost all activities necessary to obtain regulatory and marketing approvals for the substance. Furthermore, the agreement provides, amongst other things, milestones as well as royalties on future worldwide net sales of EP-1572.

In addition, AEterna's subsidiary Zentaris has entered into the following collaborative agreements:

Zentaris signed license agreements dated September 17, 2002 with the TULANE EDUCATIONAL FUND (Tulane University, New Orleans, Louisiana, USA) with regard to the substances AN-152, AN-201, AN-238 and AN-215 and to bombesin antagonists. Under the agreements, Zentaris obtained exclusive worldwide licenses to use Tulane's patents to develop, manufacture, market and distribute these substances.

During the three-month period ended March 31, 2004, Zentaris signed several new research agreements with university laboratories.

Two agreements, one with the Laboratory of Aminoacids, Peptides and Proteins of the University of Montpellier, France and another with the Department of Experimental and Environmental Medicine of the University of Milan, Italy, deal with the development of ghrelin antagonists.

According to another agreement signed in the field of oncology with the Institute for Molecular Biotechnology of Jena, and a research group at the University of Munster, both in Germany, Zentaris has gained access to specific university know-how and screening technologies in the field of proteins of the cytoskeleton.

Under all these agreements, Zentaris is obligated to support the research expenditure of the university laboratories and to pay royalties on future sales of the products. In turn, the Company retains exclusive rights for the worldwide exploitation of results generated during the collaborations.

AE-941 (NEOVASTAT):

The exclusive rights for the commercialization and distribution of AE-941 (Neovastat(R)) in oncology are held by GRUPO FERRER INTERNACIONAL, S.A. for certain parts of southern Europe, France, Belgium, Central America and South America, MAYNE PHARMA for Australia, New Zealand, Canada and Mexico and LG LIFE SCIENCES LTD. for Korea.

4.3 ATRIUM BIOTECHNOLOGIES INC.

4.3.1 BACKGROUND AND GENERAL DEVELOPMENT OF THE BUSINESS

From 1991 to 1999, AEterna exploited cosmetics and nutrition through a division which developed and marketed a variety of products and active ingredients on a worldwide scale. In January 2000, AEterna created Atrium in order to exploit the full potential of that division and established an acquisition program with the addition of new specialized shareholders who invested $20 million in exchange of participation shares of Atrium (38%).

In July 2001, Atrium acquired 70% of the issued and outstanding shares of the French company Unipex for $21 million dollars, thereby diversifying its distribution activities of specialized raw materials in the pharmaceutical and fine chemistry sectors. It further increased its participation to 76% through the acquisition of stock from minority shareholders at the beginning of 2003 and it now holds a participation of 80.65% further to a financing granted to its subsidiary in August 2003 at the time of the acquisition of Chimiray/Interchemical.

In April 2002, Atrium also acquired, through its Unipex subsidiary at a cost of $2.3 million, 100% of the privately-owned French company ADF Chimie S.A., a distributor of active and specialty ingredients for the French cosmetics industry, with some 50 clients, including L'Oreal, L.V.M.H. and Chanel. In order to complete its various market segments coverage and position itself as a French leader, Atrium, through Unipex, also acquired Chimiray/Interchemical in August 2003, two parent companies doing business in the same fields as Unipex. In November of the same year, Atrium acquired Siricie S.A., focusing mainly on the development and marketing of active ingredients drawn from marine life for the cosmetics industry. These transactions were followed, in March 2004, by the acquisition of the assets of Pure Encapsulations, Inc., a U.S. company based in the Boston area doing development, manufacturing and marketing of nutritional supplements for physicians and other healthcare professionals, for a cash consideration of approximately $50 million. This acquisition provided Atrium with access to a network of 36,000 physicians and other healthcare professionals while adding more than 270 new quality products to its portfolio of nutritional supplements.

Today, Atrium markets a variety of products including, on the one hand, products manufactured from cell signalling molecules extracted from animal or marine biomass, some of which encourage homeostasis, and on the other hand, a wide variety of fine chemical products manufactured by large companies such as Ajinomoto, Borregaard, Sensus or Ueno. As of today, the food supplements and cosmetics ingredients manufactured for Atrium are marketed in North America, Europe and Asia.

To fill its product portfolio, Atrium has hired qualified professionals responsible for in-licensing and the acquisition of innovative technologies to be commercialized in its international networks.

4.3.2 NUTRITIONAL SUPPLEMENTS

ACTIVITIES

Atrium's expertise consists in developing innovative nutritional ingredients and finished products. In 1998, AEterna transferred part of the responsibility for producing and marketing finished products to its commercial partners. Consequently, Atrium focuses on entering into strategic alliances with partners that have a solid distribution network as well as proven training and marketing programs. Partnership with such companies allows Atrium to enter into different market segments, not only in North America but in Europe and Asia as well. Atrium intends to focus on its own ability to develop innovative active ingredients and high-end products internally, especially through the in-licensing and acquisition of promising new technologies, to carve out a niche in the area of nutritional supplements with scientifically proven

interest.

In October 2000, Atrium acquired a product line in the field of nutritional supplements. This acquisition allowed Atrium to improve its position in different market segments in the United States and elsewhere in the world. In April 2002, Atrium acquired another product line, with half a dozen products, to complete its portfolio. In March 2004, Atrium purchased the assets of Pure Encapsulations, Inc., a U.S. company having a portfolio of more than 270 products sold to a network of 36,000 physicians and other healthcare professionals.

Some nutritional supplements are produced and marketed by Atrium. These products are CarTCell, a liquid cartilage extract, and the NatCell line consisting of growth factors extracted from different tissues. Atrium sells other finished products that incorporate its principal active ingredients and are manufactured by subcontractors. It also subcontracts for certain products under very strict quality control criteria. Its subsidiary, Pure Encapsulations, manufactures its own products in its state-of-the-art plant in Sudbury, Massachusetts.

COMPETITION

The nutritional supplement market is in a consolidation phase characterized by the marked presence of large multinational pharmaceutical companies that have acquired smaller players who sell their products through retail networks. This trend, coupled with an increasingly rigid regulation applicable to the nutritional supplement industry, creates a demand for products with scientific data to support commercial claims. This has also led to the establishment of stricter quality controls for the development of active ingredients and finished products. Atrium's strategy of production and marketing with partners focuses on the specialized market of health and nutrition professionals, it will avoid competing directly with these large multinational pharmaceutical companies and will focus instead on becoming a selected supplier of innovative active ingredients for these major corporations.

4.3.3 COSMETICS

ACTIVITIES

Atrium develops, manufactures and markets natural, biologically active ingredients that help re-establish the skin's natural functions in order to attenuate the signs of aging. The marketing of the active ingredients is often made by established strategic partners such as Estee Lauder Inc.

The main products developed and marketed by Atrium consist of the MDI Complex, a matrix metalloproteinase (MMP) inhibitor, and MRT, a global skin care product consisting of topical product and a dietary supplement from marine biomass. From its acquisition of Siricie S.A., Atrium also added to its portfolio eleven products mainly from marine life having anti-aging properties, like Lanablue, derived from algae and Abyssine 657, a soothing and anti-irritating product based on a deepsea hydrothermal exopolysaccharide. At the end of 2002, Atrium was granted the exclusive rights to commercialize the active ingredients of Fytokem Products Inc. and it concluded a license agreement with respect to the molecule EUK-134, a SOD and catalase mimetic developed by Eukarion Inc., a biotech company located in the United States. Fytokem products include the Canadian Willowherb(TM) and the Tyrostat(TM) lines of products. The EUK-134 is a synthetic free radical scavenger used as an antioxidant.

COMPETITION

The cosmetics industry is characterized by a very high degree of competition. Large multinationals in the industry have far greater resources than those of Atrium to develop and market products aimed at various markets. In addition, a large number of small- and medium-sized businesses are attempting to control certain niche markets. Even though they may have more limited resources, they are strong competitors because they target the same markets targeted by Atrium. Atrium intends to maintain its competitive position by continuing to invest in in-licensing or acquisition activities as well as in the research and development of innovative products originating from the most recent discoveries applied to skin aging.

Atrium's strategy in the cosmetics area is centered on entering into commercial agreements with leaders in the cosmetics industry which will allow for the co-development of innovative active ingredients characterized by their biological properties and safety profile. Atrium expects that its growth in this area will be driven by the development of new products. The emphasis will be on the in-licensing and acquisition of new technologies.

4.3.4 DISTRIBUTION

ACTIVITIES

Unipex, a subsidiary of Atrium, offers its clients a technical support that enables them to successfully incorporate the specialized raw materials in their formulations and processes. These raw materials can be used in the fields of cosmetics, pharmaceutics, fine chemistry, and human and animal food products. These raw materials are supplied by approximately 80 manufacturers selected by Unipex for the quality and innovative characteristics of their products. The Unipex client list contains mostly large French companies such as L'Oreal, Pierre Fabre, Aventis and Sanofi-Synthelabo, to name only a few of its 1,000 clients.

The products marketed by Unipex cover a wide range of products from excipients to generic pharmaceutical molecules. In cosmetics, Unipex distributes mostly fine chemical products that improve the texture and efficacy of end products, as well as several active ingredients that add specific desired cosmetic benefits. In pharmaceutics, Unipex offers excipients, aromatics, preservatives, sweeteners, and active molecules, both natural and synthetic, for use in the industry of generics. In chemistry, the Unipex development and marketing teams are involved in questions of intermediate organic synthesis. In human and animal nutrition, Unipex offers raw materials that improve the texture, taste, and nutritional qualities of final products.

COMPETITION

Unipex operates in a consolidation environment. In fact, over the past few years, many of its customer enterprises have made several acquisitions and are now seeking ways to simplify their purchasing structures. In this way, distributors have rapidly become segmented between those who offer commodities in very large volumes, and those that, like Unipex, concentrate on specialty products with a strong added value. Some commodity distributors have tried to penetrate the specialty products market, but with a low success rate, as this market requires a high level of technical expertise and a completely different logistics organization. Unipex stands out from its competition by the level of competence of its personnel and by having over 30 years of experience in the import and distribution of fine chemical products. Unipex strengthened its products portfolio when it acquired ADF Chimie in 2002 and Chimiray/Interchemical in 2003.

Atrium intends to maintain, and even increase, the market share held by Unipex by making additional acquisitions in Europe and in North America. This will give multinational corporations a single wicket where they will be able to find most of the specialty products they seek without creating a strategic dependence on any particular supplier.

4.4 INTELLECTUAL PROPERTY

Because of the considerable amount of time and the substantial investment required to develop new products and obtain the required marketing approvals, the pharmaceutical industry attaches a considerable amount of importance on obtaining patents and the protection of trade information for new technologies, products and processes. Accordingly, the Company's development and prospects depend, in part, on its ability to obtain patents, protect its know-how and carry on its activities without infringing the exclusivity rights already acquired by third parties.

The Company believes that its patent portfolio significantly contributes to the value and the success of its business. AEterna's strategic approach is to build a portfolio which provides broad protection of technology as well as a tiered patent claim structure to provide specific composition of matter, disease indication and manufacturing process claims. The Company policy is to file patent applications in all major markets in the world. The patent portfolio of AEterna and its subsidiaries comprises about 80 patent families to which were added six patents for cosmetic applications

as part of Atrium's acquisition of Siricie S.A.

AEterna's patent portfolio consists of 7 patent families with the purpose of protecting Neovastat and/or cartilage derived extracts/fractions, the method of making them, various compositions and their uses. The portfolio is comprised of patents and patent applications in major countries including United States, Canada, European countries and Japan.

Following the acquisition of Zentaris in December 2002, the Company extended its intellectual property rights to 70 additional patent families. About 20 patent families are the result of co-operations with external researchers, e.g., the Institute for Biophysical Chemistry of the Max Planck Institute for biophysical chemistry in Gottingen, Germany for the product candidate miltefosine, and Tulane University in New Orleans, Louisiana, USA for cetrorelix, as well as for the product candidates in the area of bombesin antagonists, LHRH antagonists and peptide conjugates with cytotoxic active groups.

There is no guarantee that the patent applications (or any other subsequent application) will obtain patent certification or that third parties will not file infringement claims against the Company's products or processes. Furthermore, even if these patents are granted to the Company, there is no guarantee that such patents will be valid and thus enforceable against third parties alleged to have infringed the rights of the Company. Furthermore, there is no guarantee that the Company will be awarded patents of sufficient scope to afford a truly exclusive position in the market for the products sold by the Company. Procurement of patent rights does not necessarily confer on the patentee the right to manufacture, use or sell a particular compound. Thus, regardless of whether or not the Company is awarded patents, there is a risk that the manufacture, use or sale of the Company's products could infringe the rights of a third party. Patent litigation is very time-consuming and expensive. An adverse result in patent litigation against a third party could result in the invalidation and/or unenforceability of the Company's patent rights. An adverse result in patent litigation infringement against the Company could result in one or more of the following: liability for past damages to the third party, a permanent restraining order against the Company preventing the manufacture, use or sale of the infringing products, and the requirement to obtain a license from the third party.

The situation pertaining to patents, particularly for biopharmaceutical companies, is uncertain and involves many complex legal, scientific and factual questions. There is no clear law or policy covering the extent of allowable claims in these cases or the level of protection granted under these patents.

The Company relies on and intends to continue to rely on trade secrets, exclusive non-patented know-how and continuous technological innovation in order to increase and maintain its competitive position. To protect its rights in the know-how and the technology it develops, whether patentable or not, the Company enters into confidentiality agreements with all its employees, consultants and collaborators. However, there can be no assurance that these agreements will offer adequate protection of the trade secrets, know-how and other exclusive information of the Company in the event of unauthorized use or disclosure. Moreover, if not protected by patents, the activities of the Company may be adversely affected by the activities of competitors who independently develop a substantially equivalent technology.

4.5 RESEARCH AND DEVELOPMENT - FUNDING

AEterna's budget policy for research and development is to have sufficient readily available funds required to undertake studies. AEterna's strategy is to finance research activities through public financings and grants or tax credits for such purposes. In addition, activities are financed through the formation of strategic alliances for the co-development and marketing of the products. During the course of the financial year ended December 31, 2003, AEterna spent approximately $45 million on research and development.

On November 10, 1999, the Company announced that it had signed three investment agreements for an aggregate of up to $29.42 million with a special federal operating agency known as Technology Partnerships Canada ("TPC") which reports to Industry Canada. This investment, which is in the form of contributions of 30% of eligible expenses, paid as they are generally incurred, will be used for the pursuit of the clinical development program of AE-941 (Neovastat(R)) in oncology, dermatology and ophthalmology. The repayment of each of these contributions will be conditional on the successful marketing of a drug resulting from the clinical development program to which the

contribution relates. Each contribution will be repayable in the form of royalties payable to TPC from the commencement of such marketing until December 31, 2008, in the case of oncology and dermatology, and December 31, 2010, in the case of ophthalmology, even if the amounts repaid by the Company at such time exceed the contribution paid by TPC. If, on December 31, 2008, in the case of oncology and dermatology, and December 31, 2010, in the case of ophthalmology, the repayments do not total the amount of the contribution, the repayments will continue until such amount is reached or until December 31, 2013, in the case of oncology and dermatology, and December 31, 2015, in the case of ophthalmology, whichever is earlier. Pursuant to these agreements, the Company will remain the owner of all intellectual property resulting from the development programs except in certain circumstances, including default by the Company under the investment agreements, in which case TPC may assume ownership of such intellectual property if the Company does not elect to pay predetermined liquidated damages.

The investment agreements provide that TPC is not obligated to make payments to the Company, in whole or in part, if it is not satisfied with the overall financing or progress of a clinical development program. The investment agreements also provide that the Company cannot license products resulting from the programs without the approval of TPC and contain covenants on the part of the Company not to pay dividends if such payments would prevent the implementation of a program or the payment of royalties to TPC.

4.6 HUMAN RESOURCES

As at March 31, 2004, AEterna's team, including all subsidiaries, included 287 people, excluding consultants, collaborators and members of the Scientific Board. 94 of these persons were involved directly or indirectly in research and development activities, 42 in production and 151 in administration, sales, accounting, human resources and other managerial functions. Each employee has signed a confidentiality agreement and a non-competition agreement which, in management's view, provides AEterna with adequate protection. The Company relies on strategic alliances and contract research organizations to obtain supplementary expertise and additional resources.

None of AEterna's or its subsidiaries' employees are governed by a collective agreement.

4.7 ENVIRONMENT

The Company is subject to various federal and provincial environmental laws and regulations. The Company complies, in all material respects, with all provisions of these environmental laws and regulations.

Environmental protection requirements do not have any financial or operational effects on the capital expenditures, earnings and competitive position of the Company.

4.8 SALES ACTIVITIES

The Company manages its business and evaluates performance based on three operating segments, which are the biopharmaceutical, the cosmetics and nutrition and the distribution segments. Sales activities by geographic region are detailed in note 19 to the consolidated financial statements for the financial years ended December 31, 2003, 2002 and 2001.

ITEM 5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 ANNUAL INFORMATION

The selected financial information provided below has been taken from the audited consolidated financial statements of AEterna for its three most recently completed financial years.

The data below should be read together with the consolidated financial statements and notes thereto as well as the following items.

CONSOLIDATED STATEMENTS OF OPERATIONS
(expressed in thousands of Canadian dollars, except per share data)

	YEARS ENDED DECEMBER 31,		
	2003(1)	2002(1)	2001
REVENUES	166,413	101,204	43,777
OPERATING EXPENSES			
Cost of sales	98,048	77,443	29,950
Selling, general and administrative	29,103	17,777	13,039
Research and development costs	45,347	26,062	22,681
Research and development tax credits and grants	(1,223)	(1,933)	(5,989)
Depreciation and amortization	9,421	2,421	1,850
	180,696	121,770	61,531
OPERATING LOSS	(14,283)	(20,566)	(17,754)
INTEREST INCOME	2,146	3,079	3,569
INTEREST EXPENSE(2)	(4,835)	(508)	(786)
FOREIGN EXCHANGE GAIN (LOSS)	(1,574)	(195)	127
LOSS BEFORE THE FOLLOWING ITEMS	(18,546)	(18,190)	(14,844)
INCOME TAX RECOVERY (EXPENSE)	(5,932)	(4,425)	4,752
GAIN (LOSS) ON DILUTION(3)	(64)	424	10,223
NON-CONTROLLING INTEREST	(3,605)	(3,591)	(3,600)
NET LOSS FOR THE YEAR	(28,147)	(25,782)	(3,469)
BASIC AND DILUTED NET LOSS PER SHARE(4)	(0.65)	(0.67)	(0.11)

(1) These increases are mainly attributed to Atrium's acquisition of the French company Unipex in 2001 and to AEterna's acquisition of the German company Zentaris at the end of 2002.

(2) In 2003, AEterna issued convertible terms loans in an aggregate principal amount of $25 million. Proceeds from the issuance of these convertible term loans are allocated among long-term convertible term loans and shareholders' equity, resulting in a debt discount that is amortized to interest expense over the term of the loans.

(3) In 2000, Atrium, the Company's subsidiary, issued 2,000,000 common shares for a cash consideration of $20,000,000, which were classified as a liability for the Company. In May 2001, certain terms of the Atrium Shareholders' Agreement were amended such that the Company reclassified the common shares issued by Atrium to its minority shareholders from a liability to equity. Accordingly, in the second quarter of the financial year ending December 31, 2001, the Company recognized a gain on dilution and a minority interest in Atrium.

(4) Fully diluted net loss per share is determined using the weighted average number of Multiple Voting Shares and Subordinate Voting Shares and stock options issued and outstanding as at the end of the financial year. Options to purchase Subordinates Voting Shares were not included in the 2003, 2002 and 2001 compilations of diluted loss per share because the inclusion would be anti-dilutive.

CONSOLIDATED BALANCE SHEETS
(expressed in thousands of Canadian dollars)

	December 31,		
	2003	2002	2001
Cash, cash equivalents and short-term investments	64,369	81,534	54,064
Other current assets	70,278	94,898	34,277
	134,645	176,432	88,341
Long-term assets	161,134	154,536	46,011
Total assets	295,779	330,968	134,352
Current liabilities	61,442	132,232	26,877
Deferred revenues	10,563	12,438	-
Long-term debt and convertible term loans	35,052	9,969	10,401
Other long-term liabilities	32,649	41,317	116
Non-controlling interest	29,952	24,676	18,339
	169,658	220,632	55,733
Shareholders' equity	126,121	110,336	78,619
Total liabilities and shareholders' equity	295,779	330,968	134,352

5.2 DIVIDENDS

Since its incorporation, AEterna has not paid any dividends and does not anticipate paying any dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

6.1 FORM 44-101F2 DISCLOSURE

Management's discussion and analysis of the financial condition and results of operations for the financial year ended December 31, 2003, which is incorporated herein by reference, was filed with the various securities commissions or similar securities regulatory authorities in each of the provinces of Canada on March 18, 2004. The reader is encouraged to also refer to the consolidated financial statements and notes to the financial statements for the financial years ended December 31, 2003, 2002 and 2001.

ITEM 7. MARKET FOR SECURITIES

7.1 MARKET FOR SECURITIES

The Subordinate Voting Shares of AEterna are listed on the Toronto Stock Exchange under the symbol AEL, and, since May 10, 2000, on the Nasdaq National Market, under the symbol AELA.

ITEM 8. NAME, ADDRESS, OCCUPATION AND SECURITY HOLDING

8.1 DIRECTORS

The Board of Directors of the Company currently consists of nine directors. Each director remains in office until the following annual shareholders' meeting or until the election of his or her successor, unless he or she resigns or his or her office becomes vacant as a result of his or her death, removal or any other cause.

The following table sets forth, for each director, the name, position, municipality of residence, principal occupation, security holdings, and the period during which he or she has acted as a director:

NAME AND MUNICIPALITY OF RESIDENCE	PRINCIPAL OCCUPATION	DIRECTOR SINCE	NUMBER OF SUBORDINATE VOTING SHARES HELD
Marcel Aubut Quebec City, Quebec	Managing Partner Heenan Blaikie Aubut (law firm)	1996	40,000
Francis Bellido, PhD(1) Beaconsfield, Quebec	President and Chief Executive Officer Biomundis Biotechnology Investment Fund	2002	--------
Stormy Byorum(1) New York, NY	Chief Executive Officer Cori Investment Advisors, LLC (strategic and financial advisory services company)	2001	12,000
Eric Dupont, PhD(2) Sainte-Petronille, Ile d'Orleans, Quebec	Executive Chairman AEterna Laboratories Inc.	1991	4,758,413
Prof. Dr. Jurgen Engel Frankfurt, Germany	Chairman and Managing Director Zentaris GmbH Executive Vice President, Global R&D and Chief Operating Officer AEterna Laboratories Inc.	2003	--------
Gilles Gagnon Sherbrooke, Quebec	President and Chief Executive Officer AEterna Laboratories Inc.	2002	3,950
Pierre Laurin, PhD(2) Verdun, Quebec	Executive in Residence HEC Montreal (management faculty of university)	1998	11,200
Pierre MacDonald(1)(2) Verdun, Quebec	President and Chief Executive Officer MacD Consult Inc. (a consulting company)	2000	10,000
Henri A. Roy(2) Montreal, Quebec	Chairman, President and General Manager Societe generale de financement du Quebec (SGF) (investment entity of the Goverment of Quebec)	2003(3)	--------

(1) Member of the Audit Committee.
(2) Member of the Corporate Governance Committee.
(3) Mr. Roy was appointed director in order to fill a vacancy on the Corporation's Board of Directors on November 19, 2003

8.2 EXECUTIVE OFFICERS

The table below sets forth the name, municipality of residence and the position with AEterna of each of its senior executive officers on the date hereof.

NAME AND MUNICIPALITY OF RESIDENCE	PRINCIPAL OCCUPATION
Eric Dupont, PhD Sainte-Petronille Ile d'Orleans, Quebec	Executive Chairman
Gilles Gagnon Sherbrooke, Quebec	President and Chief Executive Officer
Prof. Dr. Jurgen Engel Frankfurt, Germany	Executive Vice President, Global Research and Development and Chief Operating Officer
Dr. Eckhard Gunther Frankfurt, Germany	Vice President, Drug Discovery
Mario Paradis, CA Quebec, Quebec	Senior Finance Director and Corporate Secretary
Dr. Matthias Rischer Frankfurt, Germany	Vice President, Pharmaceutical Development
Dennis Turpin, CA Quebec, Quebec	Vice President and Chief Financial Officer

Over the past five years, the directors and officers mentioned above have held their present principal occupation, with the exception of the following members:

Mr. Henri A. Roy is a seasoned executive with considerable experience in directing and taking charge of challenging corporate situations. He also has extensive investment expertise of private and public capital markets. Mr. Roy has held executive positions in several key industrial sectors, both in North America and overseas. He was Senior Vice President for Cambior Inc. from 1986 until 2000. From 2001 until 2003, he acted as Chairman and Chief Executive Officer of Dolphin Telecommunications Ltd., Telesystem Europe, and HDR Capital Inc. Since 2003, Mr. Roy has served as Chairman, President and General Manager of Societe generale de financement du Quebec (SGF).

Prof. Dr. Engel has been Chairman and Managing Director of Zentaris GmbH since January 2003. Previously, he was Chief Executive Officer of Zentaris AG after having been head of Corporate Research and Development including drug discovery, at Asta Medica AG in Frankfurt, Germany.

Head of drug discovery at Zentaris AG since January 2001, Dr. Gunther has more than 15 years of experience in the biotechnology and biopharmaceutical industries, as a researcher as well as a manager. At Asta Medica, he was Group Leader Planning & Controlling, Research Coordination and Head of Research Coordination, before becoming Head of Medicinal Chemistry Oncology.

Head of the Pharmaceutical Development at Zentaris since January 2001. Between 1992 and 1999, Dr. Rischer was a top executive at the multinational Asta Medica, as Head of two analytical labs in the Department of Pharmaceutical Development before becoming Head of the Department of Pharmaceutical Development Analytics. He had overall analytical responsibility for new projects for the treatment of several diseases such as cancer, diabetes, Parkinson and infertility.

The directors and executive officers of AEterna, as a group, beneficially own or control, directly or indirectly, approximately 11% of the Subordinate Voting Shares of AEterna. The directors and executive officers of AEterna do not beneficially own any of the voting securities of Atrium or any of its subsidiaries.

ITEM 9. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, the principal securityholders of the Company, options to purchase securities and interests of insiders interested in material transactions, is contained in AEterna's Management Proxy Circular dated April 23, 2004.

Other additional financial information is provided in the Company's consolidated financial statements for the financial year ended December 31, 2003.

When securities of the Company are in the course of a distribution pursuant to a short form prospectus, or when a preliminary short form prospectus has been filed in respect of the Company's securities, the Company will provide the following documents to any person or company requesting them to the Corporate Secretary:

1. a copy of this Annual Information Form, together with a copy of any document or the pertinent pages of any documents incorporated by reference in this Annual Information Form;

2. a copy of the comparative consolidated financial statements of the Company incorporated in its annual report for the year ended December 31, 2003, together with the accompanying auditors' report and copies of any subsequent quarterly financial statements that have been filed, if any, for any period after the end of its most recently completed financial year;

3. a copy of the management proxy circular of the Company dated April 23, 2004;

4. a copy of any other document that is incorporated by reference into the preliminary short form prospectus or the final short form prospectus and is not required to be provided under clauses 1, 2 or 3 above.

At any other time, one copy of any documents referred to in clauses 1, 2 and 3 above shall be provided by the Company which may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Company.

ALL REQUESTS FOR THE ABOVE-MENTIONED DOCUMENTS MUST BE ADDRESSED TO THE CORPORATE SECRETARY OF AETERNA LABORATORIES INC. AT 1405 BOULEVARD DU PARC-TECHNOLOGIQUE, QUEBEC CITY, QUEBEC, CANADA G1P 4P5, OR BY FAX AT (418) 652-0881.

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF
AETERNA LABORATORIES INC.

We have audited the consolidated balance sheets of AETERNA LABORATORIES INC. as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit, other capital and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Quebec, Quebec, Canada
February 25, 2004, except as to note 25 which is as of March 3, 2004

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

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in note 3 to the consolidated financial statements. Our report to the Shareholders dated February 25, 2004, except as to note 25 which is as of March 3, 2004 is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

/s/ PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Quebec, Quebec, Canada
February 25, 2004, except as to note 25 which is as of March 3, 2004

EXHIBIT 3

AETERNA LABORATORIES INC.

Consolidated Financial Statements
DECEMBER 31, 2003, 2002 AND 2001

[PRICEWATERHOUSECOOPERS LOGO]

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF
AETERNA LABORATORIES INC.

We have audited the consolidated balance sheets of AETERNA LABORATORIES INC. as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit, other capital and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

[Signature of PricewaterhouseCoopers LLP]

CHARTERED ACCOUNTANTS

Quebec, Quebec, Canada
February 25, 2004, except as to note 25 which is as of March 3, 2004

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AETERNA LABORATORIES INC.
Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	AS AT DECEMBER 31,	
	2003 $	2002 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	22,414	12,494
Short-term investments (note 21)	41,953	69,040
Accounts receivable (notes 5 and 6)	48,191	74,840
Inventory (notes 5 and 7)	16,169	16,335
Prepaid expenses and deferred charges	3,314	2,041
Future income tax assets (note 18)	2,604	1,682
	134,645	176,432
PROPERTY, PLANT AND EQUIPMENT (notes 8 and 17)	19,599	21,688
DEFERRED CHARGES	1,322	1,047
INTANGIBLE ASSETS (notes 9 and 17)	65,513	90,300
GOODWILL (note 10)	61,184	24,252
FUTURE INCOME TAX ASSETS (note 18)	13,516	17,249
	295,779	330,968
LIABILITIES		
CURRENT LIABILITIES		
Promissory note (note 5)	-	43,000
Accounts payable and accrued liabilities (note 11)	53,062	42,557
Income taxes	3,490	3,783
Balances of purchase price (note 4)	1,113	39,690
Current portion of long-term debt	3,777	3,202
	61,442	132,232
DEFERRED REVENUES	10,563	12,438
CONVERTIBLE TERM LOANS (note 12)	19,920	-
LONG-TERM DEBT (note 13)	15,132	9,969
EMPLOYEE FUTURE BENEFITS (note 14)	6,658	6,042
FUTURE INCOME TAX LIABILITIES (note 18)	25,991	35,275
NON-CONTROLLING INTEREST	29,952	24,676
	169,658	220,632
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 15)	187,601	153,578
OTHER CAPITAL	7,486	854
DEFICIT	(73,011)	(44,864)
CUMULATIVE TRANSLATION ADJUSTMENT	4,045	768
	126,121	110,336
	295,779	330,968

SUBSEQUENT EVENT (note 25)

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

APPROVED BY THE BOARD OF DIRECTORS

/s/ ERIC DUPONT
- ----------------------------------
Eric Dupont, PhD
Director

/s/ PIERRE MACDONALD

Pierre MacDonald, MSc
Director

AETERNA LABORATORIES INC.
Consolidated Statements of Deficit

(expressed in thousands of Canadian dollars)

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
BALANCE - BEGINNING OF YEAR	44,864	19,082	15,613
Net loss for the year	28,147	25,782	3,469
BALANCE - END OF YEAR	73,011	44,864	19,082

Consolidated Statements of Other Capital

(expressed in thousands of Canadian dollars)

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
BALANCE - BEGINNING OF YEAR	854	-	-
Conversion option related to convertible term loans (note 12)	6,187	-	-
Stock-based compensation costs (notes 3 and 15d)	445	107	-
Issuance of warrants	-	747	-
BALANCE - END OF YEAR	7,486	854	-

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

AETERNA LABORATORIES INC.
Consolidated Statements of Operations

(expressed in thousands of Canadian dollars, except share and per share data)

	YEARS ENDED DECEMBER 31,		
	2003 $	2002 $	2001 $
REVENUES	166,413	101,204	43,777
OPERATING EXPENSES			
Cost of sales	98,048	77,443	29,950
Selling, general and administrative	29,103	17,777	13,039
Research and development costs	45,347	26,062	22,681
Research and development tax credits and grants (note 17)	(1,223)	(1,933)	(5,989)
Depreciation and amortization			
Property, plant and equipment	3,745	1,992	1,353
Intangible assets	5,676	429	330
Goodwill	-	-	167
	180,696	121,770	61,531
OPERATING LOSS	(14,283)	(20,566)	(17,754)
OTHER REVENUES (EXPENSES)			
Interest income	2,146	3,079	3,569
Interest expense			
On redeemable common shares of the subsidiary	-	-	(437)
On long-term debt and convertible term loans	(4,113)	(485)	(274)
Other	(722)	(23)	(75)
Foreign exchange gain (loss)	(1,574)	(195)	127
	(4,263)	2,376	2,910
LOSS BEFORE INCOME TAXES	(18,546)	(18,190)	(14,844)
INCOME TAX RECOVERY (EXPENSE) (note 18)	(5,932)	(4,425)	4,752
LOSS BEFORE THE FOLLOWING ITEMS	(24,478)	(22,615)	(10,844)
GAIN (LOSS) ON DILUTION (note 4e and 4i)	(64)	424	10,223
NON-CONTROLLING INTEREST	(3,605)	(3,591)	(3,600)
NET LOSS FOR THE YEAR	(28,147)	(25,782)	(3,469)
BASIC AND DILUTED NET LOSS PER SHARE (note 2)	(0.65)	(0.67)	(0.11)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (note 20)	42,993,432	38,584,537	30,968,710

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

AETERNA LABORATORIES INC.
Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	YEARS ENDED DECEMBER 31,		
	2003 $	2002 $	2001 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year	(28,147)	(25,782)	(3,469)
Items not affecting cash and cash equivalents			
Depreciation and amortization	9,421	2,421	1,850
Stock-based compensation costs	477	53	-
Future income taxes	1,866	1,860	(5,674)
Interest expense	-	-	437
Loss (gain) on dilution	64	(424)	(10,223)
Non-controlling interest	3,605	3,591	3,600
Employee future benefits	528	18	-
Deferred charges	141	-	-
Deferred revenues	(1,177)	-	-
Accretion on convertible term loans	1,245	-	-
Change in non-cash operating working capital items (note 16)	(2,516)	(3,634)	(2,327)
	(14,493)	(21,897)	(15,806)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance (repayment) of promissory note	(43,000)	43,000	-
Net proceeds from the issuance of convertible term loans	24,415	-	-
Payments on balance of purchase price (note 4f)	(2,358)	-	-
Increase in long-term debt	7,904	-	-
Repayment of long-term debt	(3,109)	(2,608)	(2,620)
Issuance of warrants	-	747	-
Issuance of shares	36,580	57,442	19,459
Share issue expenses	(2,557)	(1,324)	(1,954)
Issuance of shares by a subsidiary, net of redemption	41	2,000	-
	17,916	99,257	14,885
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short-term investments	(49,464)	(56,658)	(24,911)
Proceeds from the sale of short-term investments	76,552	29,751	44,228
Business acquisitions, net of cash and cash equivalents acquired (note 4)	(18,839)	(43,474)	(13,475)
Acquisition of a product line	(40)	(435)	-
Purchase of property, plant and equipment	(1,194)	(5,146)	(610)
Additions to intangible assets	(628)	(1,423)	(344)
	6,387	(77,385)	4,888
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,810	(25)	3,967
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	110	526	766
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	12,494	11,993	7,260
CASH AND CASH EQUIVALENTS - END OF YEAR	22,414	12,494	11,993
ADDITIONAL INFORMATION			
Interest paid	431	466	478
Income taxes paid	4,242	1,776	1,462

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

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

1 INCORPORATION AND NATURE OF ACTIVITIES

AEterna Laboratories Inc. ("AEterna or the "Company"), incorporated under the Canada Business Corporations Act, is organized into three operating segments. The biopharmaceutical segment focuses on the development of novel therapeutic approaches with an extensive product portfolio, including two already marketed and several other products in early and late-stage development in oncology, endocrinology and infectious diseases. Cetrorelix is sold in the United States and Europe to the IN VITRO fertilization market, and is in Phase II clinical trials for endometriosis, uterus myoma and enlarged prostate. Miltefosine is sold for black fever and has successfully completed a Phase III trial in parasitic skin disease.

The cosmetics and nutrition segment is dedicated to the development, manufacturing and marketing of cosmetics, active ingredients and nutritional products. The distribution segment specializes in value-added services by supporting innovation, importing and distributing raw materials and high-end brand-name activities. These two segments are operated by Atrium Biotechnologies Inc. and its subsidiaries.

On December 17, 2003, the Company decided to stop the clinical development in renal cell carcinoma with Neovastat (R). The Company continues to develop fourteen products and to market two others in different indications including Neovastat (R) which is in phase III in non-small cell lung cancer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles conform, in all material respects, with accounting principles generally accepted in the United States, except as described in note 23. The significant accounting policies, which have been consistently applied, are summarized as follows:

BASIS OF CONSOLIDATION

The Company's consolidated financial statements include the accounts of the Company and all of its subsidiaries, accounted for using the full consolidation method. Intercompany transactions and related balances have been eliminated. The subsidiaries and the Company's percentage of interest are as follows:

	PERCENTAGE OF INTEREST	
	2003 %	2002 %
SUBSIDIARIES		
AEterna GmbH	-	100.00
Zentaris GmbH (previously Zentaris AG - merger with AEterna GmbH in 2003)	100.00	100.00
Atrium Biotechnologies inc. ("Atrium")	61.76	61.76
Atrium Biotech USA inc.	100.00	100.00
Siricie S.A.	100.00	-
Unipex Finance S.A.	80.65	70.28
Interchemical S.A.	100.00	-
Chimiray S.A.	100.00	-

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the allowance for doubtful accounts, provisions for obsolete inventory, future income tax assets, the useful lives of property, plant and equipment, the valuation of intangible assets and goodwill, the fair value of options granted and certain accrued liabilities. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Foreign subsidiaries

Zentaris GmbH ("Zentaris"), a German subsidiary of AEterna and Atrium Biotech USA inc., a subsidiary of Atrium, are considered to be integrated foreign operations. As a result, the foreign subsidiaries' accounts are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate for the year. Gains and losses resulting from translation are reflected in the statement of operations.

Unipex Finance S.A. ("Unipex") and its subsidiaries, Interchemical S.A. and Chimiray S.A., as well as Siricie S.A., which are all French subsidiaries of Atrium, are considered to be self-sustaining foreign operations. As a result, the foreign subsidiaries' financial statements, whose functional currency is other than the Canadian dollar, are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at the average rate for the year. Gains and losses resulting from translation are deferred in the "Cumulative translation adjustment" account under "Shareholders' Equity".

Transactions denominated in foreign currencies are translated into Canadian dollars as follows:

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the monthly average exchange rate. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks, exclusive of bank advances, as well as all highly liquid short-term investments. The Company considers all highly liquid short-term investments having a term of less than three months at the acquisition date to be cash equivalents.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

SHORT-TERM INVESTMENTS

Short-term investments, which are valued at the lower of amortized cost and market value, are mainly composed of bonds which do not meet the Company's definition of cash and cash equivalents.

INVENTORY

Inventory is valued at the lower of cost and market value. Cost is determined using the first in, first out basis. Cost of finished goods includes raw materials, labour and manufacturing overhead under the absorption costing method. Market value is defined as replacement cost for raw materials and as net realizable value for finished goods.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost, net of related government grants and accumulated depreciation. Depreciation is calculated using the following methods and annual rates:

	METHODS	ANNUAL RATES %
Building	Straight-line	5
Equipment	Declining balance and straight-line	20
Office furniture	Declining balance and straight-line	10 and 20
Computer equipment	Straight-line	25 and 33 1/3
Automotive equipment	Straight-line	20

The carrying value of property, plant and equipment is evaluated whenever significant events occur which may indicate a permanent impairment in value, based upon a comparison of the carrying value to the fair value.

DEFERRED CHARGES

Deferred charges relate to deferred upfront payments made by a subsidiary in connection with research and development collaborations and to financing charges. These deferred charges are included in the statement of operations over the progress of the research and development work related to the contracts and on the term of the convertible term loans, respectively.

INTANGIBLE ASSETS

Intangible assets consist of patents, trademarks, licenses, distribution agreements and organization costs. Patents and trademarks represent costs, including professional fees, incurred for the filing of patents and the registration of trademarks for product marketing and manufacturing purposes, net of related government grants and accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives of eight to fifteen years for patents, ten years for trademarks, licenses and distribution agreements, and three to five years for organization costs, which are fully amortized as at December 31, 2003.

(tabular amounts in thousands of Canadian dollars,
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Intangible assets with finite lives are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the assets is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of its carrying value over its fair value. Finite-lived intangible assets are written down for any permanent impairment in value of the unamortized portion. As at December 31, 2003, there were no events or circumstances indicating that the carrying value may not be recoverable. The Company does not have indefinite-lived intangible assets.

GOODWILL

Goodwill represents the excess of the purchase price over the fair values of the net assets of entities acquired at the respective dates of acquisition. Goodwill is tested annually, or more frequently if impairment indicators arise, for impairment in relation to the fair value of each reporting unit to which goodwill applies and the value of other assets in that reporting unit. An impairment charge is recorded for any goodwill that is considered impaired.

EMPLOYEE FUTURE BENEFITS

Some of the Company's subsidiaries maintain defined benefit plans and two defined contribution plans for their employees. These subsidiaries accrue their obligations under employee benefit plans and the related costs. In this regard, the following policies have been adopted:

- The cost of pension and other retirement benefits earned by employees is actuarially determined using the projected unit credit method and benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees.

- The net actuarial gain (loss) of the benefit obligation is reported in the statement of operations as it arises.

DEFERRED REVENUES

Deferred revenues relate to upfront payments received by a subsidiary in connection with research cooperation agreements. These revenues are included in the statement of operations based on the progress of the research and development work related to the contracts.

REVENUE RECOGNITION

The biopharmaceutical segment is currently in a phase in which potential products are being further developed or marketed jointly with strategic partners. The existing cooperation and royalty agreements usually foresee one-time payments (upfront payments), payments for research and development services in the form of cost reimbursements, milestone payments and royalty receipts for licensing and marketing product candidates.

Payments received at the beginning of research cooperation agreements (upfront payments) are not recorded as revenue when received but are amortized based on the progress of the research and development work concerned.

(tabular amounts in thousands of Canadian dollars,
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Milestone payments are recognized when appropriate development results are achieved and agreed by the customer. Royalty receipts for marketing products are only to be paid by cooperation and royalty partners when product revenues are achieved and are accordingly first recorded as revenues by the Company at such time.

Revenues from sales of products are recognized, net of estimated sales allowances and rebates, when title passes to customers, which is at the time goods are shipped.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Changes in the net future income tax assets or liabilities are included in the statement of operations. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is not more likely than not that some or all of the future income tax assets will be realized.

RESEARCH AND DEVELOPMENT TAX CREDITS AND GRANTS

The Company is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government ("Federal") and the government of the Province of Quebec ("Provincial"). Federal SR&ED tax credits are earned on qualified Canadian SR&ED expenditures at a rate of 20% and can only be used to offset Federal income taxes otherwise payable. Refundable provincial SR&ED tax credits are generally earned on qualified SR&ED salaries, subcontracting and university contract expenses incurred in the Province of Quebec, at a rate of 17.5% (20% in 2002).

SR&ED tax credits and grants are accounted for using the cost reduction method. Accordingly, tax credits and grants are recorded as a reduction of the related expenses or capital expenditures in the period the expenses are incurred. The refundable portion of SR&ED tax credits is recorded in the year in which the related expenses or capital expenditures are incurred and the non-refundable portion of SR&ED tax credits and grants is recorded at such time, provided the Company has reasonable assurance the credits or grants will be realized.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet generally accepted criteria for deferral, which are capitalized and amortized against operations over the estimated period of benefit. As at December 31, 2003, no costs have been deferred.

(tabular amounts in thousands of Canadian dollars,
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LOSS PER SHARE

In order to calculate the loss per share, subordinate and multiple voting shares are considered as common shares.

The basic net loss per share is calculated using the weighted average number of common shares outstanding during the year.

The diluted net loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents such as options, warrants and convertible term loans. This method requires that the diluted net loss per share be calculated using the treasury stock method, as if all common share equivalents had been exercised at the beginning of the reporting period, or period of issuance, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period.

3 CHANGES IN ACCOUNTING POLICIES

a) YEAR ENDED DECEMBER 31, 2003

STOCK-BASED COMPENSATION PLANS

On January 1, 2002, the Company adopted the recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation made in exchange for goods and services and requires the use of the fair value method to account for awards to non-employees and direct awards of stock to employees and encourages, but does not require, the use of the fair value method to account for stock-based compensation costs arising from awards to employees. On October 15, 2003, this section was amended to require expensing of all stock-based compensation awards in the financial statements for fiscal years beginning on or after January 1, 2004 with early adoption encouraged. In accordance with the transitional provisions of this section, the Company has decided to adopt the revisions in the current year and used the prospective method as a transitional method, as permitted under those amendments. According to this method, all stock-based compensation granted during the twelve-month period ended December 31, 2003 have been recorded in the corresponding period without restatement of prior years. However, the Company is still required to provide pro-forma disclosures relating to net loss and net loss per share as if stock-based compensation costs had been recognized in the financial statements using the fair value method for options granted in 2002. These disclosures have been presented in note 15.

IMPAIRMENT OF LONG-LIVED ASSETS

In December 2002, the CICA issued Handbook Section 3063, "Impairment of Long-lived Assets", which is effective for fiscal years beginning on or after April 1, 2003 with early adoption encouraged. Under this Section, an impairment loss is measured as the difference between the carrying value of an asset and its fair value. The Company adopted this Section in 2003 without effect on operations or balance sheets.

(tabular amounts in thousands of Canadian dollars,
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DISCLOSURE OF GUARANTEES

On January 1, 2003, the Company prospectively adopted Accounting Guideline 14 of the CICA Handbook, "Disclosure of Guarantees". This new guideline requires certain disclosure about obligations under guarantees other than product warranties. The adoption of this guideline had no impact on the Company's financial statements since the Company has no guarantee that falls into the scope of this new guideline.

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

On May 1, 2003, the Company prospectively adopted Section 3475 of the CICA Handbook, "Disposal of Long-Lived Assets and Discontinued Operations". Under this new section, a long-lived asset to be disposed of other than by sale continues to be classified as held and used until it is disposed of; a long-lived asset classified as held for sale is measured at the lower of its carrying value of fair value less cost to sell; a loss recognized on classification of long-lived assets as held for sale or a group of assets as a discontinued operation does not include future operating losses, other than to the extent to which they are included in the fair value of the asset; and discontinued operations are defined more broadly than under existing rules. The adoption of this new standard had no impact on the Company's financial statements since the Company did not have such operations.

b) STANDARDS APPLICABLE FOR FISCAL YEAR 2004

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In July 2003, the CICA issued new Handbook Section 1100 "Generally Accepted Accounting Principles" ("GAAP"), which is effective for fiscal years beginning on or after October 1, 2003. This new section defines GAAP, establishes the relative authority of various types of CICA Accounting Standards Board pronouncements, says what to do when the Handbook does not cover a particular situation and clarifies the role of "industry practice" in setting GAAP. The Company will adopt this new standard on January 1, 2004. Adopting this standard is not expected to have a significant impact on the Company's financial statements.

GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

In July 2003, the CICA issued new Handbook Section 1400 "General Standards of Financial Statement Presentation" which is effective for fiscal years beginning on or after October 1, 2003. This new section confirms that the financial statements of an entity must present fairly in accordance with Canadian generally accepted accounting principles its financial position, results of operations and cash flows. The Company will adopt this new standard on January 1, 2004. Adopting this standard is not expected to have a significant impact on the Company's financial statements.

(tabular amounts in thousands of Canadian dollars,
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HEDGING RELATIONSHIPS

The CICA has issued Accounting Guideline 13 "Hedging Relationships", which establishes certain conditions regarding when hedge accounting may be applied and which is effective for fiscal years beginning on or after January 1, 2004. AcG 13 addresses the identification, designation, documentation, and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under this new guideline, the Company will also be required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative instrument that does not qualify for hedge accounting will be reported on a mark-to-market basis in earnings. The adoption of this guideline as at January 1, 2004 will not have any significant impact on the Company's financial statements since there are no significant hedging transactions as of this date.

4 BUSINESS ACQUISITIONS

ACQUISITIONS IN 2003

a) Interchemical S.A. and Chimiray S.A.

On August 5, 2003, Unipex, a French subsidiary of Atrium, acquired 100% of the issued and outstanding common shares of Interchemical S.A. and Chimiray S.A. for a total consideration of $18,689,300 of which an amount of $14,184,390 was paid cash, net of cash and cash equivalents acquired of $3,583,081, and $921,829 as a balance of purchase price, non-interest bearing, payable on January 15, 2004. These companies are specializing in the distribution of fine chemicals and active ingredients. The results of operations have been included in the statement of operations since August 5, 2003, being the date of acquisition. Concerning the acquisition of these companies, an independent valuation report was issued on October 1, 2003 confirming that no specific identifiable intangible assets has any material value which could be separated from goodwill.

b) Siricie S.A.

On November 18, 2003, Atrium acquired 100% of the issued and outstanding common shares of Siricie S.A. for a total consideration of $2,039,721 of which an amount of $1,810,849 was paid cash, net of cash and cash equivalents acquired of $73,867, and $155,005 as a balance of purchase price, non-interest bearing, payable at the latest in October 2004. This company is specializing in the development of active ingredients drawn from marine life for the cosmetics industry. The results of operations have been included in the statement of operations since November 18, 2003, being the date of acquisition. The purchase price allocation shown is preliminary and is based on the Company's estimates of fair value. The final allocation is expected to be completed within the next six months and may result in a portion of the purchase price being allocated from goodwill to identifiable intangible assets.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The net assets acquired at the allocated values are as follows:

	INTERCHEMICAL S.A. AND CHIMIRAY S.A. $	SIRICIE S.A. $
Assets		
Current assets	17,973	1,130
Property, plant and equipment	395	79
Intangible assets	4	200
Future income tax assets	531	71
	18,903	1,480
Liabilities		
Current liabilities	15,197	-
Long-term liabilities	1,019	898
	16,216	898
Net identifiable assets acquired	2,687	582
Goodwill	16,002	1,458
Purchase price	18,689	2,040
Less: Cash and cash equivalents acquired	(3,583)	(74)
Balance of purchase price	(922)	(155)
Net cash used for the acquisition	14,184	1,811

Goodwill is not deductible for income tax purposes.

c) Product line acquired in 2002 by Atrium Biotech USA Inc.

The contingent payments in 2003 resulting from the acquisition of a product line in 2002 by Atrium Biotech USA Inc., a subsidiary of Atrium, amounted to $40,000 (US$30,336). That amount has been recorded as goodwill. Atrium Biotech USA Inc. does not expect to incur any additional payments.

d) Unipex

On January 13, May 27, and July 16, 2003, Atrium acquired 23,760 common shares of the outstanding capital stock of Unipex for a cash consideration of $2,843,766. Those acquisitions have been accounted for as step acquisitions. Atrium also made an additional investment by acquiring 70,400 treasury common shares of Unipex, increasing its interest to 80.65% (70.28% in 2002). The excess of the purchase price over the net identifiable assets on the date of acquisition is $3,174,618 and is recorded as goodwill not deductible for income tax purposes.

(tabular amounts in thousands of Canadian dollars,
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e) Gain (loss) on dilution

On May 27, 2003, pursuant to the issuance of 2,200 common shares by Unipex, a loss on dilution amounting to $66,544 was recognized.

On September 14, 2003 as a result of the issuance of 2,000 shares by Atrium, a gain on dilution amounting to $2,137 was recognized. Subsequently, as a result of the redemption of those shares, goodwill amounting to $9,375 was recognized.

ACQUISITIONS IN 2002

f) Zentaris

On December 30, 2002, AEterna GmbH, a new subsidiary of AEterna, acquired 100% of the issued and outstanding shares of Zentaris. Zentaris is an integrated biopharmaceutical and biotechnological company which develops and produces innovative products and technologies for patient-friendly therapies in oncology and endocrinology.

The net assets acquired and the purchase price were subject to adjustments subsequent to the review of the audited financial statements of Zentaris as at December 31, 2002. Following the adjustments relating to the review of the audited financial statements of Zentaris in December 31, 2002, the total consideration paid for the acquisition of Zentaris is $85,494,850 (euro 51,917,491).

The purchase price allocation, following the acquisition of Zentaris' shares in December 2002, was finalized upon receipt of an independent valuation report during the second quarter of 2003, resulting in a decrease of $19,583,843 in intangible assets, $8,041,577 in future income tax liabilities and in an allocation of $11,542,266 as goodwill. On the acquisition date, two products developed by Zentaris have generated profits resulting from their sales. The developed technology and in-process research and development (R&D) have been valued using a discounted cash flow approach, resulting in an allocated fair value of $66,942,949. The goodwill related to this transaction amounted to $11,542,266 and it will not be amortized but tested annually for impairment in relation to the fair value of this reporting unit to which goodwill applies. The results of operations have been consolidated in the statement of operations from December 30, 2002, being the date of acquisition.

The balance of purchase price, bearing interest at the EURIBOR rate for a three-month term deposit plus 1%, was due and payable on the earlier of September 30, 2003 or the merger date of AEterna GmbH and Zentaris. This amount was offset in 2003 against the receivable from a former affiliated company of Zentaris resulting in a cash disbursement of $2,358,000.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

g) ADF Chimie S.A. (merger with Unipex in 2002)

On May 1, 2002, Unipex Finance S.A., a French subsidiary of Atrium, acquired 100% of the issued and outstanding common shares of ADF Chimie S.A., for a total consideration of $2,315,471 of which an amount of $1,329,178 was paid cash, net of cash acquired of $548,106, and $438,187 as a balance of purchase price. The acquisition is subject to contingent payments specified in the agreement for an approximate amount of $807,827 (euro 487,700) payable in cash at the latest in July 2005. These contingent payments will be recorded as goodwill when the related conditions have been met. ADF Chimie S.A. is a distributor of active and specialty ingredients for the cosmetics industry. The results of operations have been included in the statement of operations from May 1, 2002, being the date of acquisition.

The net assets acquired at the allocated values are as follows:

	ZENTARIS $	ADF CHIMIE S.A. $
Assets		
Current assets	51,330	1,880
Property, plant and equipment	2,934	7
Intangible assets	66,943	-
Future income tax assets	14,891	-
	136,098	1,887
Liabilities		
Current liabilities	15,778	665
Deferred revenues	12,438	-
Employee future benefits	5,886	-
Future income tax liabilities	28,043	-
	62,145	665
Net identifiable assets acquired	73,953	1,222
Goodwill	11,542	1,093
Purchase price	89,495	2,315
Consideration		
Cash	(3,646)	(548)
Balance of purchase price	(39,748)	(438)
	(43,394)	(986)
Net cash used for the acquisition	42,101	1,329

Goodwill is non-deductible for income tax purposes.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

h) Other acquisitions

On April 15, 2002, Atrium Biotech USA Inc. acquired a product line for a total cash consideration of $435,394. The acquisition was subject to contingent payments specified in the agreement for a maximum amount of $300,000 of which $100,000 were paid and recorded as goodwill in 2002. The balance of $200,000 may be payable at the latest in October 2003 if the related conditions have been met; it will be then recorded as goodwill. The results of operations of this acquisition have been included in the statement of operations since April 15, 2002, being the date of acquisition. Based upon the allocation of the purchase price, the transaction resulted in $212,134 of goodwill and $223,260 of inventory. The goodwill acquired is deductible for income tax purposes.

On September 8, 2002, Atrium acquired 300 common shares of the outstanding capital stock of Unipex, increasing its interest in the latter to 70.28% (70.2% in 2001) for a cash consideration of $31,171. The excess of the purchase price over the net carrying value on the date of acquisition is $26,221 and is recorded as goodwill not deductible for income tax purposes.

i) Gain on dilution

On September 13, 2002, as a result of the issuance of 166,667 shares by Atrium, a gain on dilution amounting to $424,751 was recognized.

ACQUISITION IN 2001

j) Unipex

On July 2, 2001, Atrium acquired 70.2% of the issued and outstanding common shares of Unipex for total cash consideration of $21,000,390. Unipex specializes in providing value-added services of importation, in supporting innovation, and in distributing raw materials and high-end brand-name additives for multinational corporations. Under the shareholders' agreement, the minority shareholders of Unipex will have the right to exchange their shares for shares of Atrium in the event of its listing on the stock exchange.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The acquisition has been accounted for using the purchase method, and the results of operations have been consolidated from the date of acquisition. The fair value of net assets acquired is as follows:

	$
Assets	
Current assets	28,216
Property, plant and equipment	1,103
Identifiable intangible assets	304
	29,623
Liabilities	
Current liabilities	15,337
Long-term liabilities	10,475
	25,812
Net identifiable assets acquired	3,811
Net identifiable assets acquired - 70.2%	2,675
Goodwill	18,325
Purchase price	21,000
Less: Cash and cash equivalents acquired	(7,526)
Net cash used for the acquisition	13,474

An amount of $8,300,000 out of the total amount of goodwill is deductible for income tax purposes over the following years.

5 CREDIT FACILITIES AND PROMISSORY NOTE

Atrium has an available line of credit, bearing interest at prime rate and renewable annually. A moveable hypothec without delivery on accounts receivable and inventory amounting to $5,806,880 has been pledged as security for the line of credit of an authorized amount of $5,000,000. As at December 31, 2003 and 2002, the line of credit was unused. Zentaris has an available unsecured line of credit of an authorized amount of $1,628,000 (euro 1,000,000), bearing interest at a rate of 8% and renewable in July 2004. As at December 31, 2003, that line of credit was unused.

The promissory note bearing interest at prime rate plus 1% was due on demand. A moveable hypothec on the universality of the Company's accounts receivable, cash equivalents and short-term investments has been given as security. The promissory note was repaid on January 15, 2003.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

6 ACCOUNTS RECEIVABLE

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Trade, net of an allowance for doubtful accounts of $305 ($247 in 2002)	42,569	30,980
Receivable from a former affiliated company of Zentaris, bearing interest at the EURIBOR rate for a three-month term deposit plus 1% (note 4f)	-	37,576
Interest	846	754
Grants	1,646	2,939
Research and development tax credits recoverable	677	860
Commodity taxes	1,146	1,094
Other	1,307	637
	48,191	74,840

7 INVENTORY

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Raw materials	6,572	6,965
Finished goods	9,597	9,370
	26,169	16,335

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

8 PROPERTY, PLANT AND EQUIPMENT

	AS AT DECEMBER 31,			
	2003		2002	
	COST $	ACCUMULATED DEPRECIATION $	COST $	ACCUMULATED DEPRECIATION $
Land	452	-	459	-
Building	13,575	2,531	13,582	1,920
Equipment	11,552	4,583	10,367	2,341
Office furniture	1,253	696	1,147	579
Computer equipment	1,941	1,552	1,648	778
Automotive equipment	288	100	140	37
	29,061	9,462	27,343	5,655
Less:				
Accumulated depreciation	9,462		5,655	
	19,599		21,688	

9 INTANGIBLE ASSETS

	AS AT DECEMBER 31,			
	2003		2002	
	COST $	ACCUMULATED DEPRECIATION $	COST $	ACCUMULATED DEPRECIATION $
Patents and trademarks	71,094	6,685	90,201	1,040
Licences and distribution agreements	1,203	99	1,206	112
Organization costs	189	189	190	145
	72,486	6,973	91,597	2,297
Less:				
Accumulated amortization	6,973		1,297	
	65,513		90,300	

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

Changes in the Company's intangible assets are as follows:

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Balance - Beginning of year	90,300	2,065
Adjustment related to purchase price allocation (note 4f)	(19,584)	-
Acquisitions	599	88,313
Amortization	(5,676)	(429)
Effect of foreign exchange rate	(126)	351
Balance - End of year	65,513	90,300

10 GOODWILL

The net carrying value of goodwill is composed as follows:

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Balance - Beginning of year	24,252	22,188
Adjustment related to purchase price allocation (note 4f)	11,594	-
Acquisitions	20,675	1,431
Effect of foreign exchange rate	4,663	633
Balance - End of year	61,184	24,252

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Trade payable	33,149	27,009
Accrued liabilities on research contracts	2,383	3,747
Interest on convertible term loans	2,250	-
Advance payment related to a licensing agreement	999	1,016
Salaries and employee benefits	2,291	2,250
Deferred revenues	5,564	4,867
Other accrued liabilities	6,426	3,668
	53,062	42,557

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

12 CONVERTIBLE TERM LOANS

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Term loans bearing interest at an annual rate of 12%, payable annually or at maturity at the Company's option for which moveable hypothecs on all assets, with the exception of equipment and shares of a subsidiary, have been given as collateral. The equity component of the loans, which corresponds to the holders' option to convert the notes into equity shares of the Company, was valued at the date of the loans and is classified as other capital. The loans and the unpaid interest, if any, are convertible at all times at the holders' option into subordinate voting shares of the Company at a conversion price of $5.05 per subordinate voting share up to a maximum of 6,955,089 shares. The nominal amount of the $25 million loans as well as the unpaid accrued interest, if not converted by the holders, are repayable by the Company on March 31, 2006	19,920	-

13 LONG-TERM DEBT

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Loan from the federal and provincial governments, non-interest bearing, payable in five annual equal and consecutive instalments, beginning in July 2004	4,000	4,000
Loans payable in euros and for which the shares of the subsidiary Unipex S.A. have been given as collateral euro 1,128,124 (euro 2,225,756 in 2002) bearing interest at LIBOR rate plus 1%, payable in quarterly instalments including principal and interest, maturing in October 2004	1,836	3,687
euro 2,286,735 (euro 2,286,735 in 2002) bearing interest at EURIBOR rate plus 2.5%, interest payable annually, maturing in October 2005	3,723	3,788
Unsecured bank loans payable in euros		
euro 5,000,000 bearing interest at EURIBOR rate plus 1%, principal payable in accretion annually from August 2004 and interest payable half-yearly from February 2004, maturing in August 2008	8,140	-
euro 526,696 bearing interest at a rate of 4.45%, payable in quarterly instalments including principal and interest, maturing in January 2008	858	-
(forward)	18,557	11,475

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

	AS AT DECEMBER 31, 2003 $	2002 $
(brought forward)	18,557	11,475
euro 26,907 bearing interest at a rate of 4.35%, payable in quarterly instalments including principal and interest, maturing in January 2006	44	-
Balance of purchase price, non-interest bearing, payable in euros in monthly instalments of $10,100 (euro 6,098), maturing in July 2006	308	434
Loan from a shareholder of a subsidiary, bearing interest at 4%, reimbursed during 2003	-	1,262
	18,909	13,171
Less: Current portion	3,777	3,202
	15,132	9,969

The principal instalments due on long-term debt for the next five years amount to $3,776,708 in 2004, $6,018,780 in 2005, $2,767,161 in 2006, $3,048,838 in 2007 and $3,296,921 in 2008.

14 EMPLOYEE FUTURE BENEFITS

Some group companies in France and in Germany provide unfunded defined benefit pension plans for some classes of employees. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependant pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country.

The following table provides a reconciliation of the changes in the plans' accrued benefits obligations:

	PENSION BENEFITS $	OTHER BENEFITS $
Obligation - Beginning of year	5,350	692
Current service cost	277	21
Interest cost	287	36
Actuarial loss (gain)	187	(136)
Benefits paid	(49)	(104)
Business acquisition	95	-
Effect of foreign currency exchange rate changes	2	-
Obligation - End of year	6,149	509

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The significant actuarial assumptions adopted to determine the Company's accrued benefits obligations are as follows:

ACTUARIAL ASSUMPTIONS	PENSION BENEFITS	OTHER BENEFITS
Discount rate	2.5% and 5.75%	5.75%
Pension benefits increase	1.25%	1.25%
Future salary increase	0.5% to 3.75%	2.75%

Pensions of former employees are not increased.

With the exception of those offered by Zentaris acquired on December 31, 2002, the employee future benefits maintained by one of the Company's subsidiaries are not significant and therefore, the disclosures otherwise required for the years ended December 31, 2001 and 2002 have not been provided.

15 SHARE CAPITAL

a) Authorized

Unlimited number of shares of the following classes:
- Common
  - Multiple voting shares, voting and participating, ten votes per share, convertible into one subordinate voting share at the option of the holder
  - Subordinate voting shares, voting and participating, one vote per share
- Preferred, first and second ranking, issuable in series, with rights and privileges specific to each class.

As at December 31, 2003, there are neither multiple voting shares nor preferred shares issued and outstanding.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

b) Issued

	AS AT DECEMBER 31,					
	2003		2002		2001	
	NUMBER	AMOUNT $	NUMBER	AMOUNT $	NUMBER	AMOUNT $
MULTIPLE VOTING SHARES						
Balance - Beginning of year	4,727,100	1,862	4,852,723	1,911	4,852,723	1,911
Conversion of shares	(4,727,100)	(1,862)	(125,623)	(49)	-	-
Balance - End of year	-	-	4,727,100	1,862	4,852,723	1,911
SUBORDINATE VOTING SHARES						
Balance - Beginning of year	35,961,927	151,716	27,978,321	95,602	25,219,151	78,097
Conversion of shares	4,727,100	1,862	125,623	49	-	-
Issued pursuant to the stock option plan	141,965	1,030	257,983	1,189	802,170	3,803
Issued pursuant to a private placement	-	-	7,600,000	56,253	-	-
Issued pursuant to public offerings	4,500,000	35,550	-	-	1,957,000	15,656
Share issue expenses	-	(2,557)	-	(1,377)	-	(1,954)
Balance - End of year	45,330,992	187,601	35,961,927	151,716	27,978,321	95,602
TOTAL SHARE CAPITAL	45,330,992	187,601	40,689,027	153,578	32,831,044	97,513

c) Common share issues

Effective on May 29, 2003, all the multiple voting shares were converted into the same number of subordinate voting shares.

On July 24, 2003, pursuant a bought deal, the Company issued 4,500,000 subordinate voting shares at a price of $7.90 per share for gross proceeds of $35,550,000. Pursuant to the exercise of stock options, the Company issued 141,965 subordinate voting shares at an average of $7.25 per share for proceeds of $1,029,630.

On April 9, 2002, pursuant to a private placement, the Company issued 7,600,000 subordinate voting shares at prices ranging from $7.40 to $7.45 per share for gross proceeds of $56,253,333. Pursuant to the exercise of stock options, the Company issued 257,983 common shares at an average price of $4.60 per share for proceeds of $1,188,722.

In 2001, pursuant to a public offering, the Company issued 1,957,000 subordinate voting shares at a price of $8.00 per share for gross proceeds of $15,656,000. Pursuant to the exercise of stock options, the Company issued 802,170 common shares at an average price of $4.74 per share for proceeds of $3,803,051.

(tabular amounts in thousands of Canadian dollars,
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d) Company's stock option plan

In December 1995, the Company's Board of Directors adopted a stock option plan for its directors, senior executives, employees and other collaborators providing services to the Company. The number of shares that are issuable under the plan shall not exceed 4,069,352. Options granted under the plan expire after a maximum period of ten years following the date of grant. Options granted under the plan generally vest over a three-year period.

The following table summarizes the stock option activity under this plan:

	2003		2002		2001	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $
Balance - Beginning of year	2,949,872	6.96	2,877,671	7.05	2,641,591	6.01
Granted	1,074,564	4.09	1,048,895	5.97	1,441,350	8.04
Exercised	(141,965)	7.25	(257,983)	4.61	(802,170)	4.74
Expired	(172,285)	5.74	(382,129)	6.19	(186,100)	9.35
Forfeited	(512,751)	7.07	(336,582)	7.35	(217,000)	7.56
Balance - End of year	3,197,435	6.02	2,949,872	6.96	2,877,671	7.05
Options exercisable - End of year	1,272,574	7.05	1,025,640	6.92	1,315,080	5.97

The following table summarizes the stock options outstanding as at December 31, 2003:

	OPTIONS OUTSTANDING			OPTIONS CURRENTLY EXERCISABLE	
EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $
$3.75 to $7.00	2,119,710	8.39	4.98	673,392	5.42
$7.01 to $10.00	969,225	5.01	8.17	490,682	8.33
$10.01 to $14.35	108,500	1.42	11.22	108,500	11.22
	3,197,435	7.13	6.02	1,272,574	7.05

In 2003, the Company granted to certain collaborators 30,000 options (40,000 in 2002) with a fair value of $76,018 ($107,032 in 2002) which have been recorded as other capital.

(tabular amounts in thousands of Canadian dollars,
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ASSUMPTIONS USED IN DETERMINING STOCK-BASED COMPENSATION COSTS

The table below shows the assumptions used in determining stock-based compensation costs under the Black-Scholes option pricing model:

	YEARS ENDED DECEMBER 31,	
	2003	2002
Dividend yield	Nil	Nil
Expected volatility	64.3%	57.0 %
Risk-free interest rate	3.96%	3.72 %
Expected life (years)	3.92	2.7
Number of stock options granted	1,074,564	1,048,895
Weighted average fair value of options granted ($)	2.03	2.29
COMPENSATION COSTS ($)	444,935	257,489

Had compensation costs been determined using the fair value method at the date of grant for awards granted during 2002 under this stock option plan, the Company's pro-forma net loss, basic and diluted loss per share for the year ended December 31, 2003 would have been $29,368 and $0.68 ($26,039 and $0.67 in 2002).

e) Atrium's stock option plan

On November 1, 2000, the Board of Directors of Atrium adopted a stock option plan for its directors and employees providing services to Atrium. The exercise price of these options is equivalent to their fair value established annually from a specific formula and approved by the Board of Directors. The number of shares that are issuable under the plan shall not exceed 650,000. Options granted under the plan generally vest over a five-year period, with 20% vesting on an annual basis starting on the first anniversary of the date of grant, and they expire after a maximum period of ten years following the date of grant.

The Company's ownership percentage of the subsidiary will change as a result of future exercises of stock options and outstanding subsidiary stock options may dilute the Company's share of profits in the calculation of loss per share.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The following table summarizes the stock option activity under this plan:

	2003		2002		2001	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $
Balance - Beginning of year	578,500	10.97	545,500	10.78	347,500	10.00
Granted	30,000	12.29	60,000	12.29	230,000	11.84
Exercised	(2,000)	10.00	-	-	-	-
Forfeited	(9,000)	11.27	(27,000)	10.00	(32,000)	10.00
Balance - End of year	597,500	11.03	578,500	10.97	545,500	10.78
Options exercisable - End of year	280,000	10.66	155,500	10.36	66,500	10.00

The following table summarizes the stock options outstanding as at December 31, 2003:

	OPTIONS OUTSTANDING			OPTIONS CURRENTLY EXERCISABLE	
EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE $
$10.00	327,500	6.19	10.00	199,500	10.00
$12.29	270,000	8.13	12.29	80,500	12.29
	597,500	7.07	11.03	280,000	10.66

f) Warrants

Pursuant to the April 9, 2002 private placement, the Company issued 7,466,666 warrants for subordinate voting shares of the Company at a price of $0.10 per warrant for an amount of $746,667. Expiring March 31, 2003, 3,800,000 warrants may be exercised at a price of $13.00 per share and 3,666,666 warrants, expiring December 31, 2003 may be exercised at a price of $20.00 per share subject to certain conditions. Those warrants have now expired.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

16 STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
Change in non-cash operating working capital items			
Accounts receivable	(1,071)	(6,048)	(879)
Inventory	3,670	(960)	(904)
Prepaid expenses and deferred charges	(956)	(212)	(497)
Accounts payable and accrued liabilities	(3,884)	2,603	431
Income taxes	(275)	983	(478)
	(2,516)	(3,634)	(2,327)

17 GRANTS

Under the federal contribution program called Technology Partnerships Canada ("TPC"), the Company received a grant equivalent to 30% of the eligible expenses incurred by the Company in the development of AE-941 in oncology, dermatology and ophthalmology to a maximum of $29,400,000. This contribution will be repaid only upon the approval by Canadian or American health authorities of AE-941 derived products for each indication according to the corresponding generated income. Royalties will be paid based on a percentage of gross project revenues under the terms and conditions stipulated in the agreements entered into between TPC and the Company.

As at December 31, 2003, grants (reimbursement of grants) in the amount of ($539,571) [$103,125 in 2002 and $4,354,839 in 2001] have been recognized, of which an amount of ($545,120) [$103,125 in 2002 and $4,261,965 in 2001] has been recorded as a grant (reimbursement of grants) in the statement of operations, nil [nil in 2002 and $36,098 in 2001] as a decrease in property, plant and equipment and $5,549 [nil in 2002 and $56,776 in 2001] as a decrease in intangible assets. If the Company has to repay this contribution, the payments will be accounted for as an expense or in addition to property, plant and equipment or intangible assets in the period the condition for repayment has arisen. As at December 31, 2002, a reimbursement of grants, in the amount of $323,599 has been accounted for in addition to intangible assets.

During the period from January 1, 1999 to December 31, 2003, the Company recognized total grants of $14,334,082 of which an amount of $13,493,504 has been recorded as a grant in the statement of operations, $756,898 as a decrease in property, plant and equipment and $83,680 as a decrease in intangible assets.

(tabular amounts in thousands of Canadian dollars,
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18 INCOME TAXES

The reconciliation of the combined Canadian federal and Quebec provincial income tax rate to the income tax expense (recovery) is as follows:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
Combined federal and provincial statutory income tax rate	33.05%	35.16%	37.16%
Income tax recovery based on statutory income tax rate	$ (6,129)	$ (6,396)	$ (5,516)
Manufacturing and processing tax credit	678	1,162	691
Non-deductible interest expense	-	-	162
Change in valuation allowance	10,557	9,487	(124)
Accretion on convertible term loans	386	-	-
Stock-based compensation costs	138	-	-
Variation in statutory income tax rate of foreign subsidiaries	224	(50)	126
Change in promulgated rate	340	357	-
Additional tax deduction	(113)	(108)	(12)
Other	(149)	(27)	(79)
	$ 5,932	4,425	$ (4,752)
Income tax expense (recovery) is represented by:			
Current	$ 3,859	$ 2,565	$ 922
Future	2,073	1,860	(5,674)
	$ 5,932	$ 4,425	$ (4,752)

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

Significant components of future income tax assets and liabilities are as follows:

	AS AT DECEMBER 31,		
	2003	2002	2001
	$	$	$
Future income tax assets			
Current			
Deferred revenues	2,134	-	-
Acquisition costs	470	-	-
Other	-	1,682	30
	2,604	1,682	30
Long-term			
Research and development costs	12,489	9,554	7,502
Share issue expenses	1,173	1,016	1,071
Operating losses carried forward	21,916	14,914	2,858
Property, plant and equipment	289	-	-
Intangible assets and goodwill	3,084	4,390	5,780
Employee future benefits	509	425	-
Deferred revenues	4,349	6,749	-
Other	63	-	-
	43,872	37,048	17,211
Valuation allowance	(30,356)	(19,799)	(10,312)
	13,516	17,249	6,899
	16,120	18,931	6,929
Future income tax liabilities			
Property, plant and equipment	-	347	575
Deferred charges	504	556	-
Intangible assets	25,487	34,372	-
	25,991	35,275	575
FUTURE INCOME TAX ASSETS (LIABILITIES), NET	(9,871)	(16,344)	6,354

As at December 31, 2003, the Company has non-refundable research and development tax credits of $12,489,000 which can be carried forward to reduce Canadian federal income taxes payable and expire at the latest in 2013. No tax benefit has been accounted for in connection with those credits.

The carryforwards and the tax credits claimed could be subjected to a review and a possible adjustment by the Canadian federal and Quebec provincial tax authorities.

The majority of the loss carryforwards will expire no later than December 31, 2010.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

19 SEGMENT INFORMATION

The Company manages its business and evaluates performance based on three operating segments, which are the biopharmaceutical, the cosmetics and nutrition and the distribution segments. The accounting principles used for these three segments are consistent with those used in the preparation of these consolidated financial statements.

INFORMATION BY GEOGRAPHIC REGION

Revenues by geographic region are detailed as follows:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
Canada	951	1,301	481
United States	6,395	4,671	3,894
Europe			
Switzerland	20,424	-	-
France	101,046	83,915	30,810
Other	29,458	6,450	4,021
Asia	7,448	4,385	4,317
Other	691	482	254
	166,413	101,204	43,777

Revenues have been allocated to geographic regions based on the country of residence of the related customers.

Long-lived assets by geographic region are detailed as follows:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
Canada	18,785	20,688	16,025
United States	1,578	1,543	1,234
France	49,824	24,186	22,398
Germany	76,109	89,823	-
	146,296	136,240	36,657

Long-lived assets consist of property, plant and equipment, intangible assets and goodwill.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

THE PRINCIPAL FINANCIAL INFORMATION FOR EACH OF THESE SEGMENTS IS AS FOLLOWS:

	2003				
	BIOPHAR-MACEUTICAL $	COSMETICS AND NUTRITION $	DISTRIBUTION $	CONSOLIDATED ADJUSTMENTS $	TOTAL $
REVENUES	46,106	15,291	105,526	(510)	166,413
OPERATING EXPENSES					
Cost of sales	6,756	2,509	88,772	11	98,048
Selling, general and administrative	15,478	5,046	8,653	(74)	29,103
Research and development costs	44,670	677	-	-	45,347
Research and development tax credits and grants	(943)	(280)	-	-	(1,223)
Depreciation and amortization	8,824	222	375	-	9,421
	74,785	8,174	97,800	(63)	180,696
OPERATING INCOME (LOSS)	(28,679)	7,117	7,726	(447)	(14,283)
OTHER REVENUES (EXPENSES)					
Interest income	1,763	201	182	-	2,146
Interest expense	(4,288)	-	(547)	-	(4,835)
Foreign exchange gain (loss)	(145)	(978)	(451)	-	(1,574)
EARNINGS (LOSS) BEFORE INCOME TAXES	(31,349)	6,340	6,910	(447)	(18,546)
INCOME TAX RECOVERY (EXPENSE)	(1,154)	(2,111)	(2,667)	-	(5,932)
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	(32,503)	4,229	4,243	(447)	(24,478)
Gain (loss) on dilution	2	(66)	-	-	(64)
Non-controlling interest	-	(1,592)	(2,184)	171	(3,605)
NET EARNINGS (LOSS) FOR THE YEAR	(32,501)	2,571	2,059	(276)	(28,147)
SEGMENT ASSETS	179,882	15,565	100,434	(102)	295,779
GOODWILL	11,585	3,100	46,499	-	61,184
ACQUISITION OF LONG-LIVED ASSETS EXCLUDING GOODWILL	1,723	51	48	-	1,822
ACQUISITION OF GOODWILL	11,585	1,507	19,177	-	32,269

One customer from the distribution segment represents more than 10% of the Company's revenues for which the sales represent 11% (13% in 2002 and 12% in 2001).

One customer from the biopharmaceutical segment represents more than 10% of the Company's revenues for which the sales represent 12% in 2003.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

	2002				
	BIOPHAR-MACEUTICAL $	COSMETICS AND NUTRITION $	DISTRIBUTION $	CONSOLIDATED ADJUSTMENTS $	TOTAL $
REVENUES	315	13,386	87,859	(356)	101,204
OPERATING EXPENSES					
Cost of sales	-	2,308	75,476	(341)	77,443
Selling, general and administrative	7,536	4,327	5,914	-	17,777
Research and development costs	25,269	793	-	-	26,062
Research and development tax credits and grants	(1,599)	(334)	-	-	(1,933)
Depreciation and amortization	1,999	114	308	-	2,421
	33,205	7,208	81,698	(341)	121,770
OPERATING INCOME (LOSS)	(32,890)	6,178	6,161	(15)	(20,566)
OTHER REVENUES (EXPENSES)					
Interest income	2,510	272	297	-	3,079
Interest expense	(2)	-	(506)	-	(508)
Foreign exchange gain (loss)	5	(23)	(177)	-	(195)
EARNINGS (LOSS) BEFORE INCOME TAXES	(30,377)	6,427	5,775	(15)	(18,190)
INCOME TAX RECOVERY (EXPENSE)	-	(2,435)	(1,990)	-	(4,425)
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	(30,377)	3,992	3,785	(15)	(22,615)
Gain (loss) on dilution	424	-	-	-	424
Non-controlling interest	-	(1,482)	(2,109)	-	(3,591)
NET EARNINGS (LOSS) FOR THE YEAR	(29,953)	2,510	1,676	(15)	(25,782)
SEGMENT ASSETS	244,709	25,016	62,411	(1,168)	330,968
GOODWILL	-	1,519	22,733	-	24,252
ACQUISITION OF LONG-LIVED ASSETS EXCLUDING GOODWILL	95,488	1,109	244	-	96,841
ACQUISITION OF GOODWILL	-	312	1,119	-	1,431

(tabular amounts in thousands of Canadian dollars,
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	2001				
	BIOPHAR-MACEUTICAL $	COSMETICS AND NUTRITION $	DISTRIBUTION $	CONSOLIDATED ADJUSTMENTS $	TOTAL $
REVENUES	-	11,367	82,629	(219)	43,777
OPERATING EXPENSES					
Cost of sales	-	1,913	28,172	(135)	29,950
Selling, general and administrative	6,542	3,983	2,514	-	13,039
Research and development costs	22,063	618	-	-	22,681
Research and development tax credits and grants	(5,774)	(215)	-	-	(5,980)
Depreciation and amortization	1,437	179	234	-	1,850
	24,268	6,478	30,920	(135)	61,531
OPERATING INCOME (LOSS)	(24,268)	4,889	1,709	(84)	(17,754)
OTHER REVENUES (EXPENSES)					
Interest income	2,371	840	358	-	3,569
Interest expense	(437)	-	(349)	-	(786)
Foreign exchange gain (loss)	92	100	(65)	-	(127)
EARNINGS (LOSS) BEFORE INCOME TAXES	(22,242)	5,829	1,653	(84)	(14,844)
INCOME TAX RECOVERY (EXPENSE)	-	(5,468)	(716)	-	(4,752)
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	(22,242)	11,297	937	(84)	(10,092)
Gain (loss) on dilution	10,223	-	-	-	10,223
Non-controlling interest	-	(3,186)	(414)	-	(3,600)
NET EARNINGS (LOSS) FOR THE YEAR	(12,019)	8,111	523	(84)	(3,469)
SEGMENT ASSETS	64,097	18,729	51,902	(376)	134,352
GOODWILL	-	1,206	20,982	-	22,188
ACQUISITION OF LONG-LIVED ASSETS EXCLUDING GOODWILL	753	183	18	-	954
ACQUISITION OF GOODWILL	-	-	19,576	-	19,576

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

20 LOSS PER SHARE

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted net loss per share calculation:

	2003	2002	2001
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,993,432	38,584,537	30,968,710
Diluted effect of stock options	118,953	142,098	615,650
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	43,112,385	38,726,635	31,584,360
ITEMS EXCLUDED FROM THE CALCULATION OF DILUTED NET LOSS PER SHARE BECAUSE THE EXERCISE PRICE WAS GREATER THAN THE AVERAGE MARKET PRICE OF THE COMMON SHARES OR DUE TO THEIR ANTI-DILUTIVE EFFECT			
Stock options	1,281,183	1,298,349	283,503
Subordinate voting shares which would be issued following the conversion of the convertible term loans	3,712,871	-	-

For the years ended December 31, 2003, 2002 and 2001, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options and convertible term loans was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

21 FINANCIAL INSTRUMENTS

SHORT-TERM INVESTMENTS

	2003 $	2002 $
Discount notes and commercial paper, bearing interest at effective annual rates ranging from 2.44% to 3.49% in 2003 and from 2.42% to 4.54% in 2002, maturing on different dates from April 2004 to August 2005 in 2003 and from January 2003 to February 2007 in 2002	8,521	13,964
Bonds, bearing interest at effective annual rates ranging from 2.31% to 4.79% in 2003 and from 3.09% to 7.08% in 2002, maturing on different dates from February 2004 to April 2007 in 2003 and from February 2003 to April 2012 in 2002	33,432	55,076
	41,953	69,040

FOREIGN CURRENCY RISK

Since the Company operates on an international scale, it is exposed to currency risks as a result of potential exchange rate fluctuations. As at December 31, 2003, there are no significant outstanding forward exchange contracts.

FAIR VALUE

Cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and balances of purchase price are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of short-term investments is $42,046,465 ($69,925,301 in 2002). The fair value of long-term debt and convertible term loans has been established by discounting the future cash flows at an interest rate corresponding to that which the Company would currently be able to obtain for loans with similar maturity dates and terms. The fair value of long-term debt and convertible term loans is $45,727,332 ($13,427,346 in 2002).

CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Cash and cash equivalents are maintained with high-credit quality financial institutions. Short-term investments consist primarily of bonds issued by high-credit quality corporations and institutions. Consequently, management considers the risk of non-performance related to cash and cash equivalents and short-term investments to be minimal.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Company performs on-going credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible.

INTEREST RATE RISK

The Company's exposure to interest rate risk is as follows:

Cash and cash equivalents	Variable interest rate
Short-term investments	Fixed interest rate
Accounts receivable	Non-interest bearing
Unused lines of credit	Prime rate and 8%
Accounts payable and accrued liabilities	Non-interest bearing
Balances of purchase price	Non-interest bearing
Convertible term loans	As described in note 12
Long-term debt	As described in note 13

22 COMMITMENTS

The Company is committed to various operating leases totalling $2,595,000 in 2004, $1,859,000 in 2005, $1,818,000 in 2006 and $1,696,000 in 2007 and in 2008.

The Company is also committed to some service and manufacturing contracts totalling $3,105,000 in 2004 and $2,934,000 in 2005.

23 SUMMARY OF DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND IN THE UNITED STATES

As a registrant with the Securities and Exchange Commission in the United States, the Company is required to reconcile its financial statements for significant differences between generally accepted accounting principles as applied in Canada (Canadian GAAP) and those applied in the United States (U.S. GAAP).

Additional disclosures required under U.S. GAAP have been provided in the accompanying financial statements and notes. In addition, the following summarizes differences between Canadian and U.S. GAAP and other required disclosures under U.S. GAAP.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The following summary sets out the material adjustments to the Company's reported net loss, net loss per share and shareholders' equity which would be made to conform with U.S. GAAP:

STATEMENTS OF OPERATIONS

		YEARS ENDED DECEMBER 31,		
		2003 $	2002 $	2001 $
Net loss for the year under Canadian GAAP		(28,147)	(25,782)	(3,469)
Stock-based compensation costs	a)	(64)	(254)	(256)
Accretion on convertible term loans	f)	1,245	-	-
In-process R&D, net of related future income taxes	d)	(16,276)	-	-
Amortization of in-process R&D		1,266	-	-
Financing costs allocated to other capital	f)	(34)	-	-
Interest expense	b)	-	-	437
Amortization of organization costs	c)	45	87	41

Net loss for the year under U.S. GAAP		(41,965)	(25,949)	(3.247)
Other comprehensive loss				
Unrealized gains on short-term investments	e)	94	885	869
Less: Reclassification of adjustments for gains realized in net loss		(885)	(1,390)	-
Net unrealized losses (gains)		(791)	(505)	869
Foreign currency translation adjustments		3,277	580	188
Comprehensive loss		(39,479)	(25,874)	(2,190)
Basic and diluted net loss per share under U.S. GAAP		(0.92)	(0.67)	(0.10)
Weighted average number of shares outstanding under U.S. GAAP		42,993,432	38,584,537	30,968,710

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

STATEMENTS OF DEFICIT

		YEARS ENDED DECEMBER 31,		
		2003	2002	2001
		$	$	$
Deficit in accordance with Canadian GAAP		(73,011)	(44,864)	(19,082)
Stock-based compensation costs				
Current year	a)	(64)	(254)	(256)
Cumulative effect of prior years		(4,898)	(4,644)	(4,388)
Accretion on convertible term loans				
Current year	f)	1,245	-	-
In-process R&D, net of related future income taxes	d)	(16,276)	-	-
Amortization of in-process R&D, net of related income taxes		1,266	-	-
Amortization of financing costs allocated to other capital	f)	(34)	-	-
Amortization of organization costs				
Current year	c)	45	87	41
Cumulative effect of prior years		128	41	-
Deficit in accordance with U.S. GAAP		(91,599)	(49,634)	(23,685)

SHARE CAPITAL

	AS AT DECEMBER 31,	
	2003	2002
	$	$
Share capital in accordance with Canadian GAAP	187,601	153,578
Stock-based compensation costs related to stock option plan for underwriting compensation		
Current year	-	-
Cumulative effect of prior years	(896)	(896)
Share capital in accordance with U.S. GAAP	186,705	152,682

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

OTHER CAPITAL

		AS AT DECEMBER 31,	
		2003	2002
		$	$
Other capital in accordance with Canadian GAAP		7,486	854
Reclassification of convertible term loans		(6,325)	-
Reclassification of financing costs related to convertible term loans		137	-
Stock-based compensation costs			
Current year	a)	64	254
Cumulative effect of prior years		4,898	4,644
Stock-based compensation costs related to stock option plan for underwriting compensation			
Current year	a)	-	-
Cumulative effect of prior years		896	896
Other capital in accordance with U.S. GAAP		7,156	6,648

ACCUMULATED OTHER COMPREHENSIVE INCOME

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
Foreign currency translation adjustments			
Balance - Beginning of year	768	188	-
Change during the year	3,277	580	188
Balance - End of year	4,045	768	188
Unrealized gains (losses) on short-term investments and forward exchange contracts			
Balance - Beginning of year	885	1,390	521
Change during the year	(791)	(505)	869
Balance - End of year	94	885	1,390
Accumulated other comprehensive income	4,139	1,653	1,578

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

BALANCE SHEETS

The following table summarizes the significant differences between the balance sheet items under Canadian GAAP as compared to U.S. GAAP as at December 31, 2003 and 2002:

		AS AT DECEMBER 31, 2003		AS AT DECEMBER 31, 2002	
		AS REPORTED	U.S. GAAP	AS REPORTED	U.S. GAAP
		$	$	$	$
Intangible assets	d)	65,513	40,132	90,300	90,300
Convertible term loans	f)	19,920	25,000	-	-
Future income tax liabilities	d)	25,991	15,620	35,275	35,275
Shareholders' Equity					
Share capital		187,601	186,705	153,578	152,682
Other capital	f)	7,486	7,156	854	6,648
Deficit		(73,011)	(91,599)	(44,864)	(49,634)
Cumulative translation adjustment		4,045	-	768	-
Accumulated other comprehensive income		-	4,139	-	1,653

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003, 2002 and 2001, there are no significant differences between the statements of cash flows under Canadian GAAP as compared to U.S. GAAP.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

a) STOCK-BASED COMPENSATION

Through December 31, 2002, the Company and its subsidiaries accounted for their stock-based compensation plan under the intrinsic value method in accordance with APB 25. There is no expense recognized for stock options as they were granted at the stock price on the grant date and, therefore they have no intrinsic value. Effective January 1, 2003, the Company has adopted Statement of Financial Accounting Standard ("SFAS") No. 123 using the prospective transition method. SFAS 123 requires all stock-based compensation awards, including stock options, to be accounted for at fair value. Under this prospective transition method, all new awards granted to employees on or after January 1, 2003 are accounted for at fair value. Awards outstanding as of December 31, 2002, if not subsequently modified, continue to be accounted for under APB 25. Fair value is based on a Black-Scholes valuation model with compensation costs recognized in earnings over the required service period. The Company provides additional pro-forma disclosures as required under SFAS No.123 for stock options granted before the adoption of this standard.

As required under Canadian GAAP, all stock-based compensation awards granted since January 1, 2003 have been expensed in the financial statements using the fair value method. Pro-forma disclosures are required for stock options granted to employees from January 1, 2002 to December 31, 2002.

b) REDEEMABLE COMMON SHARES OF THE SUBSIDIARY

As required under Canadian GAAP, redeemable common shares of the subsidiary, issued in 2000, that were redeemable at the option of the holders were classified as liabilities in accordance with the substance of the contractual arrangement and the definition of a financial liability, and the accretion of the redeemable common shares is recorded as interest expense. Under U.S. GAAP, those shares are considered as "mandatorily redeemable"; they were then classified outside of shareholders' equity and long-term liabilities, in the mezzanine section of the balance sheet. Interest expense was charged to deficit.

c) ORGANIZATION COSTS

Under U.S. GAAP, all organization costs are expensed as incurred. Under Canadian GAAP, organization costs are accounted for as intangible assets and are amortized on a straight-line basis over a five-year period.

d) RESEARCH AND DEVELOPMENT COSTS

Under U.S. GAAP, all development costs are expensed as incurred. Under Canadian GAAP, development costs which meet generally accepted criteria for deferral are capitalized and amortized. As at December 31, 2003, the Company had not deferred any development costs.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

Furthermore, under U.S. GAAP, in-process research and development acquired in a business combination is written off at the time of acquisition and no future income taxes are recognized on this asset in the purchase price allocation process. Under Canadian GAAP, in-process research and development acquired in a business combination is capitalized and amortized over its estimated useful life. Future income taxes are recognized on the acquisition date on that asset in the purchase price allocation process.

e) SHORT-TERM INVESTMENTS

Short-term investments, which are classified as available-for-sale securities, include the Company's investment in bonds for which the Company does not have the positive intent or ability to hold to maturity. Under U.S. GAAP, available-for-sale securities are carried at fair value with unrealized gains and losses net of the related tax effects as part of other comprehensive loss.

Under Canadian GAAP, short-term investments are valued at the lower of amortized cost and market value.

f) CONVERTIBLE TERM LOANS

Under Canadian GAAP, proceeds from the issuance of convertible term loans are allocated among long-term convertible term loans and shareholder's equity, resulting in a debt discount that is amortized to expense over the term of the loans. The financing costs related to those loans have been allocated on a pro-rata basis between deferred charges and other capital. Under U.S. GAAP, those costs are all included in deferred charges and amortized over the term of the loans, and convertible term loans are totally considered as long-term debt.

ACCOUNTING FOR STOCK-BASED COMPENSATION

Under U.S. GAAP, the Company shall measure compensation cost related to awards of stock options using the intrinsic value method of accounting. In this instance, however, under SFAS 123, Accounting for Stock-Based Compensation, the Company is required to make pro-forma disclosures of net earnings (loss), basic net earnings (loss) per share and diluted net earnings (loss) per share as if the fair value based method of accounting had been applied.

The fair value of options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions: a risk-free interest rate of 3.72% for 2002 and 5.1% for 2001, an expected volatility of 57% for 2002 and 60% for 2001, dividends of nil and an expected life of 2.7 years for 2002 and 4.7 years for 2001. The weighted average grant-date fair value of options granted during the years ended December 31, 2002 and 2001 was $2.29 and $4.16, respectively.

(tabular amounts in thousands of Canadian dollars,
except share/option and per share/option data and as otherwise noted)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

If the fair value based method had been used to account for stock-based compensation costs related to stock options issued to employees before January 1, 2003, the net loss and related net loss per share figures under U.S. GAAP would be as follows:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	$	$	$
Pro-forma net loss for the year	43,187	26,206	3,916
Basic and diluted pro-forma net loss per share	1.00	0.68	0.13

RENTAL EXPENSES

Rental expenses amounted to approximately $2,611,000 in 2003 ($171,000 in 2002 and $121,000 in 2001).

UNAUDITED PRO-FORMA INFORMATION ON BUSINESS ACQUISITIONS

Under U.S. GAAP, pro-forma information must be provided as though the business acquisition had occurred at the beginning of the reported periods.

The following unaudited pro-forma information reflects the results of operations as if the 2002 acquisitions had been completed on January 1, 2002.

Such information is not necessarily indicative of the actual results which would have been achieved, nor is it necessarily indicative of future consolidated results of the Company:

	$ (UNAUDITED)
Revenues	132,872
Net loss	(36,985)
Basic and diluted net loss per share	(0.96)

The acquisitions made in 2003 are considered insignificant for pro-forma information purposes.

24 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

25 SUBSEQUENT EVENT

On March 3, 2004, Atrium, through its new incorporated subsidiary, Atrium Pureco, Inc., completed the acquisition of the operating assets of Pure Encapsulations, Inc. for a total consideration of approximately US$37,100,000 ($50,000,000) of which an amount of US$35,000,000 will be paid cash and US$2,100,000 as a balance of purchase price. This company, based in the United States, is focused mainly on the development, manufacturing and marketing of nutritional supplements geared towards physicians and other healthcare professionals. The financing of the transaction resulted from the issuance of a senior debt of $27,000,000 and a subordinate debt in the amount of $13,407,000.

This acquisition will be accounted for using the purchase method and the results of operations will be included in the consolidated financial statements of the Company from the date of acquisition, being March 3, 2004.

EXHIBIT 4

ANNUAL REPORT 2003 AETERNA LABORATORIES INC.

Discover a new player on the international markets
AEterna/Zentaris

Company Profile

AEterna Laboratories Inc. along with its wholly-owned subsidiary Zentaris GmbH, is a biopharmaceutical company with an extensive product portfolio, including 2 already marketed and several other products at early and late-stage development in oncology, endocrinology, and infectious diseases.

Cetrorelix (Cetrotide(R)) is sold in the U.S. and Europe and in several other countries to the in vitro fertilization market, and is in Phase II clinical trials for endometriosis, uterus myoma and enlarged prostate (BPH). Miltefosine (Impavido(R)) is sold for black fever and has successfully completed a Phase III trial in parasitic skin disease. Neovastat(R) is in a Phase III trial for non-small cell lung cancer. Perifosine, a novel orally-active AKT inhibitor, is in Phase II trials for multiple cancers. Several other clinical programs are underway with various potential development candidates, supported by a worldwide network of scientific and marketing partnerships. Furthermore, AEterna benefits from a discovery platform of 100,000 molecules, which is generating promising new compounds.

In addition, AEterna owns 62% of Atrium Biotechnologies Inc. which develops and markets active ingredients and specialty chemicals in the health and personal care industry for the cosmetics, pharmaceutical, chemical and nutritional sectors. In 2003, Atrium sales exceeded $120 million.

2003 Highlights

January: Signing of product partnership with Hainan Chang An in China for Lobaplatin(R),a novel platinum cancer drug.

February: Launching of Impavido(R) in India for black fever, through partnership with German Remedies. Milestone payment from Baxter for the LHRH antagonist D-63153.

March: Final balance purchase price settlement of $40 million for the acquisition of Zentaris. Marketing agreement for Neovastat with LG Life Sciences in Korea.

April: Closing of $25 million convertible term loan.

May: Serono agreement to market Cetrotide(R) for in vitro fertilization extended through 2010.

July: Positive Phase III trial results with Miltefosine (Impavido(R)) for cutaneous leishmaniasis, a severe skin disease. Closing of $35.6 million bought deal financing.

August: AEterna subsidiary Atrium acquires Chimiray/Interchemical for $18 million.

September: Neovastat(R) Phase III trial results in kidney cancer do not meet primary endpoint. Thereafter, in December, further development of Neovastat(R) in kidney cancer stopped and workforce reduced by 20%. Two-year extension to U.S. National Cancer Institute (NCI) agreement to pursue Neovastat(R) Phase III trial in lung cancer.

November: Atrium acquires Siricie S.A. for $2 million.

Subsequent to year-end Signing of partnership with Solvay Pharmaceuticals to develop novel oral LHRH antagonist compounds for a variety of indications, such as breast and prostate cancer, endometriosis, uterus myoma and benign prostate hyperplasia. Signing of partnership with Roche to market Impavido(R) in Brazil for visceral and cutaneous leishmaniasis.

Products Already on the Market

2003 was a year of integration and consolidation for AEterna as a group. Among major milestones, AEterna, through Zentaris, gained access to two revenue-generating products: Cetrotide(R) and Impavido(R).

Cetrotide(R) (Cetrorelix) Cetrotide(R) was the first luteinizing hormone-releasing hormone (LHRH) antagonist treatment approved for in vitro fertilization. It is administered to women to prevent premature ovulation in order to increase fertility success rate. Developed in cooperation with Nobel prize winner, Professor Andrew Schally of Tulane University, in New Orleans, it was launched in Europe in 1999 and in the United States in 2001. Cetrotide(R) is currently marketed worldwide by Serono, except for Japan where approval is pending. Cetrotide(R), is the only treatment in its class to offer a choice of two highly effective dosage strengths which enable precise control. Due to its immediate onset of action, Cetrotide(R) permits a simplified, more convenient and shorter treatment involving fewer injections and causing less side-effects than other forms of in vitro fertilization treatment.

Impavido(R) (Miltefosine) Impavido(R) is the first oral drug against visceral leishmaniasis, also known as black fever, which affects millions of people in under-developed countries. If untreated, this infectious disease will be lethal. Impavido(R) is currently available in India through cooperation with German Remedies. Impavido(R) is highly effective with a cure-rate of approximately 95% and has been proven less toxic than current therapies. Additionally, since the current injectable therapies available require patient hospitalization, an oral drug such as Impavido(R), which can be administered once daily for 28 days, certainly is a more convenient treatment for patients as well as an important avenue that can bring substantial savings in healthcare costs.

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A Diversified International Biopharmaceutical Company

A turning point in our history: In 2003, AEterna took its place on the global biopharmaceutical stage and became an international player in the industry. With the integration of Zentaris, the Company decisively enlarged and enhanced its worldwide operations. Specialized in developing innovative therapies in oncology, endocrinology, and anti-infectives, the new combined entity benefits from established capabilities that extend from fundamental discovery to drug approval.

Diversification: The integration of Zentaris has made the Company a completely new, diversified entity, with a very extensive pipeline. With this acquisition, AEterna now has two revenue-generating marketed pharmaceuticals: Cetrotide(R) (Cetrorelix) and Impavido(R) (Miltefosine). The consolidated entity also encompasses several other products at balanced stages of discovery and clinical trial: one in Phase III, four in Phase II, one in Phase I and eight at the preclinical stage. Additionally, the acquisition of Zentaris brought to AEterna a library of 100,000 proprietary molecules, as well as an intellectual property portfolio encompassing seventy patent families.

Risk management: Perhaps most significantly vis-a-vis continued growth, AEterna over the last year increased the number of its codevelopment, manufacturing, and marketing alliances with pharma and biotech companies from four to fourteen. Together with its deep, innovative and well diversified pipeline, this yields a superior risk management profile for the Company in terms of both range and financing:

Range: In the biopharmaceutical business, risk is best managed through the pursuit and availability of different clinical and pre-clinical projects. The AEterna/Zentaris pipe-line follows a multi-track endeavour in three principal therapeutic fields - oncology, endocrinology, and anti-infectives. Besides its own proprietary drug discovery unit, the

Company's global scientific network produces a steady stream of inno-vative new development projects.

Financing: The AEterna/Zentaris business model is to dis-cover, license-in and license-out innovative products, and reap revenues from projects even at the earliest stage of development. This model minimizes risk through alliance commitments that provide for AEterna's partners to pay most development costs, while AEterna retains significant commercial rights.

Expertise: AEterna as a group benefits from immense added credibility in regard to the development of targeted therapies. The research and development teams have proved themselves experts at gearing the development of compounds to precisely the right strategic target. This track record has succeeded in attracting lucrative partnership and financing agreements very early in the development process.

High performance: The acquisition of Zentaris, which was cash flow positive in 2002 and 2003, boosted AEterna's revenues by $46 million in 2003. Combined with Atrium's solid performance, consolidated revenues reached $166 million in 2003, an increase of 64% over last year.

Growth potential: The stepping stones for further growth have been secured. Valuable synergies exist within the AEterna group which allow the Company to involve itself in a wide scope of discovery and clinical activities. The Zentaris acquisition particularly positioned the group to broaden its future and carries the potential of powerful value creation.

Company Structure

AEterna owns 100% of the biopharmaceutical company, Zentaris GmbH, based in Frankfurt, Germany, which generated $46 million in revenues in 2003.

AEterna also owns 62% of Atrium Biotechnologies Inc., based in Quebec City, Canada which develops and markets active ingredients and speciality chemicals in the health and personal care industry for the cosmetics, pharmaceutical, chemical and nutritional sectors. In 2003, Atrium sales exceeded $120 million.

The AEterna group has over 200 employees in North America and Europe.

Message to Shareholders

We have completed a pivotal period of expansion and transition at AEterna. The year just ended might best be referred to as "a year of integration and consolidation." Indeed, the seamless integration of Frankfurt-based Zentaris GmbH into AEterna was our major achievement of 2003. With the harmonization of the two companies' operations we have vindicated our acquisition strategy, and simultaneously multiplied the Company's ability to grow. In effect, AEterna has evolved markedly beyond its roots as a biotechnology company. With products on the market, a pipeline characterized by a targeted therapies platform, and a continuous flow of projects at all development stages, it has become a consolidated, diversified, biopharmaceutical company.

This important evolution was the purpose behind the integration of Zentaris. It was also the fruit of the remarkable growth of our subsidiary, Atrium Biotechnologies which acquired two more companies in 2003. Positioned for leadership, your Company is now a multi-faceted presence in the marketplace -- an international group.

As a result of the Zentaris acquisition, AEterna enjoys an impressive cash flow from two established and still market-expanding pharmaceutical products (Cetrotide(R) and Impavido(R)), as well as a deep and balanced pipeline of 14 development-stage products in oncology, endocrinology, and infectiology. With this acquisition, we are now involved in 20 clinical studies mostly supported by our 14 partners who also bring us milestone and royalty payments. Moreover, building upon a successful strategy initiated by Zentaris, our business model will allow us to manage our own direct discovery with minimal risk.

As exemplified by our collaboration with Solvay Pharma for our oral LHRH peptidomimetic, it is now possible to bring compounds at very early stages of development to the attention of large pharmaceutical companies. This model creates greater opportunity for us, yet incurs less cost.

Of course, we are in this fortunate position due to our vast molecule library and to the successful development of validated targets. Indeed, it has always been a challenge to authenticate the most suitable targets for drug discovery. Failure rates for drug candidates aimed at insufficiently validated targets are extremely high, and costly. Dr. Jurgen Engel, Executive Vice President, Global Research & Development and Chief Operating Officer at AEterna, and his team, designed a decision-making process of the most rigorous nature. The result is that they have proved themselves experts at maximizing the likelihood of taking the right direction at the junctures of research and early development. This is the quality and value of the "validated target" process. Not surprisingly, the alliances it attracts promise to be characterized by financing at earlier and earlier stages of drug development, when the risk is highest, without compromising partnerships at later phases.

Among our 2003 achievements, we are particularly proud of the extension of our partnership with Swiss giant biotech Serono for the marketing of Cetrotide(R) for in vitro fertilization. This vote of confidence will provide us with long-term guaranteed fixed revenues. From a product perspective, the robustness of our pipeline was also illustrated with positive Phase III results with Impavido(R), a drug that provides a new alternative and relief to the devastating symptoms caused by the different forms of leishmaniasis, a parasitic disease that can be found in morethan eighty-eight countries.

On the other hand, AEterna's one setback of the year involved the antiangiogenesis cancer compound, Neovastat(R). Unfortunately, the drug fell short of reaching its Phase III primary clinical endpoint in monotherapy for renal cell carcinoma, a form of kidney cancer. While the compound showed no overall efficacy, it did demonstrate some in a sub-set of patients. Based on those results and on an analysis of the competitive environment, as well as on the potential of our portfolio, we made a corporate decision not to pursue further activities in this indication, but to continue the Phase III U.S. NCI sponsored lung cancer trial with Neovastat(R) in combination therapy.

This situation, however, dramatically demonstrated how diversified AEterna has become with the acquisition of Zentaris. Far from being dependent on any single drug, AEterna can now rely on an extensive product pipeline.

The depth of the AEterna group was illustrated as well by the increasingly impressive sales performance and net earnings of our subsidiary, Atrium, which also purchased two European-based companies in 2003: Chimiray/Interchemical, a marketer of specialty chemicals and active ingredients, and Siricie S.A., specialized in the development and marketing of active ingredients drawn from marine life for the cosmetics industry.

Going forward, our key ingredients for success are the discovery-enhancing, risk-reducing, and revenue-generating fundamentals that we have put in place. AEterna has pursued an acquisition strategy that has reinforced and expanded its core strength, while lowering its risk profile through field diversification. We have cultivated partnerships in scientific development, in finance, and in codevelopment with pharmaceutical and biotech companies worldwide. And in our clinical development strategy, we have placed emphasis on the creation of technology platforms, opening the way for the use of particular molecules in a variety of indications.

As we pursue our global growth strategy in 2004, we expect to extend the market for Cetrotide(R) in Japan for in vitro fertilization. We also anticipate developing new markets for Impavido(R) in visceral leishmaniasis, as well as gaining its approval in South America for cutaneous leishmaniasis. Moreover, we will pursue our clinical, preclinical and drug discovery activities with our current partners while seeking additional partnerships to continue to bring forward novel therapeutics.

In 2004, reflecting our core philosophy and long-term goal of creating high value, we will invest over $30 million in R&D. We aim too, in the year ahead, to become cash flow positive and work toward profitability. Given the expansion we have experienced and the success of the integration we have orchestrated, we will intensify our acquisition strategy by focusing on companies which meet our specific criteria. This past year has clearly aligned the basics for AEterna. With our own discovery platform and a library of proprietary molecules, combined with the diversification in field and drugs at each development stage, we boast a rich pipeline. With our network of pharmaceutical and biotech partnerships, we have established a solid financial and marketing position. In brief, all components are now in place for the AEterna group to achieve significant growth and to become a new player on the international markets. We would like to take this opportunity to thank all our employees and collaborators for their dedication and hard work over this past year.

Gilles Gagnon, MSc, MBA
President and CEO

Eric Dupont, PhD
Chairman

Product Pipeline

Marketed

Cetrotide(R) (Cetrorelix)
In vitro fertilization
Luteinizing hormone-releasing hormone (LHRH) antagonist
Cetrotide(R) was the first LHRH antagonist treatment approved for in vitro fertilization. It is administered to women to prevent premature ovulation. Due to its immediate onset of action, Cetrotide(R) is a more convenient and shorter treatment, involving fewer injections and causing less side-effects than other treatments.
15% of couples in developed countries have infertility problems (1)
Treatments should double to 1 million per year by 2010 (2,3)

Impavido(R)(Miltefosine)
Visceral leishmaniasis (black fever)
Cutaneous leishmaniasis (severe parasitic skin disease)
Signal transduction inhibitor

Impavido(R) is the first approved oral drug against visceral leishmaniasis, an infectious deadly disease. Impavido(R) is highly effective with a cure-rate of approximately 95%.
Positive Phase III trial results for cutaneous leishmaniasis were released in 2003.
2 million new cases per year (3)

Lobaplatin
Leukemia, breast and lung cancer
3rd generation platinum derivative
Treatment with this effective chemotherapy agent has been approved in China.
Over 105,000 new cases of breast cancer, 7,000 new cases of CML Leukemia and 49,000 new cases of small-cell lung cancer per year
China market only (4)

Phase III

Neovastat(R)
Non-small cell lung cancer
Multifunctional oral angiogenesis inhibitor
This novel approach against cancer aims at stopping tumor growth by preventing the formation of new blood vessels which feed tumors.
1 million new cases per year (4,5)

Phase II

Cetrorelix
Luteinizing hormone-releasing hormone (LHRH) antagonist
Benign prostatic hyperplasia (BPH)
Testosterone mediated growth of prostate tissue causes BPH. Cetrorelix is an intermittent treatment which reduces testosterone to levels where libido is not affected.
Affects about 33 million men 60+

Endometriosis
The growth of the endometrium tissue outside the uterus is dependent upon the level of the female sex hormone, estrogen, which leads to endometriosis. Reducing estrogen without reaching post-menopausal levels, produces a rapid regression of endometriosis. Affects about 10% to 20% of women of child-bearing age

Uterine myoma
The growth of uterus myoma depends on the level of estrogen. Reducing the estrogen level using Cetrorelix has produced rapid shrinkage of the myoma. Affects 15% of all women of child-bearing age (6)

D-63153
Prostate cancer
Luteinizing hormone-releasing hormone (LHRH) antagonist
This product belongs to a new class of antagonists with favorable physical-chemical properties, better suited for the development of long-term depot formulations required for tumor therapy.
Over 540,000 new cases per year (4,7)

Perifosine
Solid tumors
Novel orally-active AKT inhibitor
Perifosine is an oral chemotherapy agent which can induce programmed cell death (apoptosis). Considerable antitumor activity was shown in different tumor animal models.
2.4 million new cases per year for 6 indications (4)

RC-3095
Solid tumors
Bombesin antagonist
Bombesin is a growth factor for a variety of tumors. Blocking the bombesin receptor may be an effective way to control the growth of tumors in certain types of cancer including lung and prostate cancer.

Phase I

Teverelix
Prostate cancer
Luteinizing hormone-releasing hormone (LHRH) antagonist
Teverelix immediately suppresses sexual hormones in a dose-dependent manner and can be used for the treatment of prostate cancer, endometriosis and BPH.
Over 540,000 new cases per year (4,7)

Preclinical
LHRH- peptidomimetic
Gynecology
Urology
Solid tumors
Luteinizing hormone-releasing hormone (LHRH) antagonist
The LHRH receptor plays an important role in a number of benign and malignant tumors. Orally-bioavailable LHRH antagonists for hormonal therapy have been synthesized.

D-81050
D-82318
Solid tumors
Small molecule tubulin inhibitors
D-81050 is a novel oral anticancer agent with multiple mechanisms of action and activity in drug resistant tumor models. D-82318 is a new potent tubulin inhibitor with strong induction of apoptosis designed to overcome Taxol resistance.

AN-152
AN-215
AN-238
Solid tumors
Tumor targeted cytotoxic-conjugates
Cytotoxic peptide conjugates are specifically targeted to various cancer cells and may lead to a selective anticancer therapy.

EP-1572
TBD
Small molecule growth hormone secretagogue (GHS)
EP-1572 is orally active and belongs to a new class of GHS which directly stimulate growth hormone (GH) secretion from the pituitary gland. The potential clinical uses of GHS are numerous and none yet have reached the market.

Ghrelin antagonists
Obesity
Small molecule ghrelin antagonists
Ghrelin is a natural peptide hormone produced by the stomach that increases appetite and induces accumulation of fat tissue. The use of ghrelin antagonists as appetite suppressants could open up new opportunities for the treatment of obesity.

Number of new cases per year worldwide, except Lobaplatin (China only)

(1) Datamonitor, Treatments Trends in Infertility, 2002
(2) World Health Organization (WHO) and Assisted Reproductive Technology, 1999
(3) World Health Organization (WHO)
(4) Globocan 2000 (WHO) IARC/Press, Lyon 2001
(5) Pharmacor-Onkos Plus-Non-Small Cell Lung Cancer Decision Resources 2003 (6) Decision Resources (7) Datamonitor 2003 - Pipeline Insight : Prostate 2003

International Partnerships

AEterna/Zentaris has developed an international network of 14 pharmaceutical and biotech partners which assume most of the development costs of the products in its portfolio.

Marketed Products

Serono
Cetrotide(R) (in vitro fertilization) World (excl. Japan)

Shionogi/Nippon Kayaku
Cetrotide(R) (in vitro fertilization) Japan (pending approval)

Cooperation: WHO
Impavido(R) (black fever) India

German Remedies
Impavido(R) (black fever) India, Bangladesh

Roche
Impavido(R) (skin disease and black fever) Brazil

Hainan Chang An
Lobaplatin (breast cancer, CML leukemia and small-cell lung cancer) China

Phase III

Grupo Ferrer Internacional
Neovastat(R) (lung cancer)
Southern Europe, France, Belgium, South and Central America

Mayne Pharma
Neovastat(R) (lung cancer)
Australia, New Zealand, Canada and Mexico

LG Life Sciences
Neovastat(R) (lung cancer)
Korea

US NCI

Phase II

Solvay
Cetrorelix (endometriosis, uterine myoma, benign prostate hyperplasia)
World (excl. Japan)

Shionogi / Nippon Kayaku
Cetrorelix (endometriosis, uterine myoma, benign prostate hyperplasia)
Japan

Baxter Oncology
D-63153 (prostate cancer)
World

Keryx
Perifosine (multiple cancers)
USA, Canada, Mexico

US NCI

Phase I

Ardana Bioscience
Teverelix (prostate cancer)
World (excl. Japan, Taiwan, Korea)

Preclinical

Solvay
LHRH peptidomimetic (genecology, prostate hyperplasia)
World

Ardana
EP-1572 (endocrinology)
World

Expertise at all levels
1- Dr. Jurgen Engel, PhD, Executive Vice President, Global Research & Development and Chief Operating Officer, AEterna, Chairman and Managing Director, Zentaris GmbH
2- Dennis Turpin, CA, Vice President and Chief Financial Officer, AEterna
3- Matthias Seeber Managing Director, Zentaris GmbH
4- Dr. Manfred Peukert, MD, Head of Clinical Development, Zentaris GmbH
5- Dr. Matthias Rischer, PhD, Vice President, Pharmaceutical Development, AEterna
6- Dr. Eckhard Gunther, PhD, Vice President, Drug Discovery, AEterna

A biopharmaceutical company depends upon scientific and clinical expertise, financial acumen, and profound market knowledge. The AEterna group's reliance at all levels on top flight minds and specialty-focused partner organizations, is foundational to our success. This emphasis on retaining the finest strategic talent informs every aspect of our corporate culture.

Inspirational leadership / Guiding our biomedical research team is Dr. Jurgen Engel, a seasoned senior executive in the pharmaceutical industry with more than 25 years experience in drug research and development. With Doctorate degrees in chemistry and medicinal pharmacy, Dr. Engel spearheaded the research and development of numerous medical active ingredients and technologies, including the LHRH antagonist Cetrotide(R), the anti-allergic agent Azelastine, Tramadol SR, and the MDPI (multidose dry powder inhaler). In 1995, he was awarded the Galenus-von-Pergamon Prize for the development of alkylphospholipids as a new class of anti-tumor agent.

Nobel Prize expertise / Dr. Engel and his team work with renowned scientists from around the world, including two Nobel Prize laureates. Our internationally marketed drug, Cetrotide(R), was developed in cooperation with Dr. Andrew Schally of Tulane University in New Orleans. Professor Schally's work in isolating and synthesizing hormones produced by the hypothalamus earned him the 1977 Nobel Prize for Medicine. Also, during the past year, we were proud to welcome to our Scientific Advisory Board, Dr. Hartmut Michel, Director of the prestigious Max-Planck Institute for Biophysics in Germany. Dr. Michel was awarded the Nobel Prize in chemistry in 1988 for his research in protein crystallization. His unique knowledge in molecular structure promises to contribute importantly to the AEterna group's drug development program.

Distinguished scientific advisors / During the past year, we modified our Scientific Advisory Board, comprised of highly regarded practitioners of medical research. The Board's membership represents for AEterna an extraordinary resource of experience and wisdom. It reinforces our team of top researchers in oncology and endocrinology, the two sectors that form the focus of our research strategy.

Marketing muscle / The intricacies involved in accessing the global marketplace for medical therapeutics demand specialized abilities in planning, implementation and management. Our network of corporate alliances has, in each case, partnered AEterna's products with codevelopers and marketers ideally positioned to optimize the product's success. For example, AEterna's partner in the marketing of Cetrotide(R), is Serono, one of the world's largest biotechnology companies with 4,500 employees and therapeutics sold in over 100 countries.

High performance / At the AEterna group we believe strongly that success is driven by a relentless culture devoted to high performance. An uncompromising commitment to quality in every area, from scientific research to business development, regulatory affairs and marketing, thus comprises the hallmark of our decision-making.

ATRIUM

A fast growing component of the AEterna family, Atrium Biotechnologies is itself a group that develops and markets active ingredients and specialty chemicals in the health and personal care industry for the cosmetics, pharmaceutical, chemical and nutritional sectors. Founded in January 2000, its portfolio encompasses more than 800 products sold throughout the Americas, Europe and Asia to over 2,000 institutional clients, including Estee Lauder, L'Oreal, Clarins, Chanel, Aventis, Sanofi-Synthelabo, and Nestle. In 2003, Atrium's sales exceeded $120 million.

2003 Highlights

Acquisition for approximately $18 million of Chimiray/Interchemical, a privately-owned French company involved in the marketing of specialty chemicals and active ingredients, confirming Atrium's leadership position in Europe.

Acquisition of Siricie S.A., a French company focused mainly on the development and marketing of active ingredients drawn from marine life for the cosmetics industry, doubling Atrium's portfolio of active ingredients in this sector.

Addition of close to ten new distributors in key countries to strengthen Atrium's international network for the marketing of its proprietary and high-value cosmetic active ingredients and specialized nutritional products.

Acquisition of additional shares of French subsidiary, Unipex, increasing Atrium's ownership in the company to 80%.

Recipient of the Profit 100 Award for a second consecutive year. The award recognizes Canadian companies registering the best growth over the last five years.

Recipient of the 50 Best Managed Corporations Award as a leading Canadian corporation for a second consecutive year.

MESSAGE FROM ATRIUM'S CEO

In a year characterized by consolidation and integration, Atrium pursued its growth according to a three-point strategy: organic growth, growth through licensing and growth through acquisitions.

The purchase of well-positioned Chimiray/Interchemical in August demonstrated Atrium's commitment to establish a leadership role in its field and further strengthened its position as a frontrunner, not only in France, but across Europe. The group now ensures the value-added development of products, and distributes active ingredients and specialty chemicals from more than 80 world-class manufacturers to more than 2,000 institutional clients.

The acquisition of Siricie S.A. in November doubled Atrium's portfolio of proprietary active ingredients marketed to cosmetics manufacturers, and positioned the Company as a first-rate supplier of innovative ingredients in this field. Furthermore, this acquisition extended our services to the performance of clinical studies in the cosmetics sector.

With these accomplishments, Atrium attained its principal strategic goals for 2003. The Company's objective has always been to achieve a top ranking in each of its sectors of activity. Only such credentials, along with a vigilant management team, can guarantee that Atrium will consistently outperform its competitors in an industry that is undergoing consolidation, while creating value for our stakeholders.

All the while, Atrium has maintained a balance among its different commercial activities. For example, the Company has been able to profit from the marketing of active ingredients which it obtained, through its in-licensing program, from biotechnology companies late in 2002. These ingredients have found a growing market among cosmetics manufacturers.

In financial terms, Atrium reached its 2003 objectives. We generated revenues in excess of $120 million, a growth rate of nearly 20% over last year.

In the latter part of 2003, the Company concentrated on integration of capabilities and systems, with the aim of maximizing the Atrium group's considerable new synergies. The group harmonized its various administrative systems, and integrated its range of services. This major alignment of resources and capabilities has laid the foundation for further growth in 2004.

The year ahead will entail further growth based upon penetration of additional global markets, as well as upon our continuing strategy of targeted acquisition and in-licensing. Most significantly, we plan expansion of our North American operations, with emphasis on deployment in the United States, where considerable opportunity exists for Atrium. We anticipate achieving a significant inroad on the vast American marketplace.

Luc Dupont
President of the Executive Committee and Chief Executive Officer
Atrium Biotechnologies Inc.

Continued Growth

Since its creation in 2000, Atrium has demonstrated its ability to constantly outperform the industry. In just four years, sales have soared from $8 million to $120 million, an increase of 1,400% while its operating income has grown by 350%, from $4.1 million to $14.4 million.

Expertise at all Levels

1- Richard Bordeleau, President
2- Rene Augtsburger, Vice President, Sales&Marketing, Nutrition
3- Manon Deslauriers, Vice President, Legal Affairs and Secretary
4- Jocelyn Harvey, CA, Vice President and Chief Financial Officer
5- Nancy Labonte, Sales Director, Cosmetics
6- Serge Yelle, PhD, Vice President, Business Development
7- Alain Thibodeau, PhD, Director, Scientific Affairs Stephane Gagne (absent from photo), Vice President, Sales&Marketing, Asia

Atrium: Specialists in Health and Personal Care Products

Atrium develops and markets active ingredients and specialty chemicals for the health and personal care industry for the cosmetics, pharmaceutical, nutritional and chemical sectors, according to the industry's highest quality standards such as GMP and ISO.

800 product portfolio - 2,000 institutional clients worldwide

Cosmetics
- - Sophisticated active ingredients
- - Functional ingredients (sunscreen, vitamins, etc.)
- - Preservatives

Pharmacy
- - Active, natural or synthetic molecules
- - Excipients for all galenic forms
- - Additives such as flavouring agents, antiseptics, antioxidants, etc.

Human Nutrition
- - Functional ingredients
- - Additives and processing aids
- - Nutritional supplements
- - Nutritional specialties

Organic Chemistry
- - Wide range of intermediates
- - Contract manufacturing network

Specialty Chemicals
- - High-value pigments
- - Resins
- - Rheology modifiers
- - Performance chemicals

Veterinary, Animal Nutrition
- - High-performance functional ingredients
- - Additives

MANAGEMENT REPORT

The following consolidated financial statements of AEterna Laboratories Inc. and all other financial information contained in this annual report are the responsibility of management. Management has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles. When it was possible to use different accounting methods, management chose those that it felt were the most appropriate in the circumstances. The financial statements include amounts based on the use of estimates and best judgment. Management has determined these amounts in a reasonable way in order to ensure that the financial statements are presented accurately in all important regards. Management has also prepared the financial information presented elsewhere in the annual report, and has ensured that it is in accordance with the financial statements.

Management maintains systems of internal accounting and administrative controls. The systems are used to provide a reasonable degree of certainty that the financial information is relevant, reliable and accurate, and that the Company's assets are correctly accounted for and effectively protected.

The Board of Directors is responsible for ensuring that management assumes its responsibilities with regard to the presentation of financial information, and has ultimate responsibility for examining and approving the financial statements. The Board assumes this responsibility principally through its Audit Committee which is comprised of non-management directors. The Audit Committee met with management as well as with external

auditors to discuss the internal monitoring system for presenting financial information, to address issues related to the audit and the presentation of financial information, to ensure that all parties carry out their duties correctly, and to examine the financial statements and the report of the external auditors.

The consolidated financial statements have been audited on behalf of shareholders by external auditors PricewaterhouseCoopers LLP for each of the years ended December 31, 2003, 2002 and 2001, in accordance with Canadian generally accepted accounting principles. The external auditors were given full and unrestricted access to the Audit Committee to discuss matters related to their audit and the reporting of information.

The Board of Directors has approved the Company's consolidated financial statements on the recommendation of the Audit Committee.

CORPORATE GOVERNANCE

GENERAL
The responsibility to oversee the conduct of the business and to guide management of AEterna resides with the Board of Directors.

DIRECTORS
The Board of Directors consists of nine members, including three officers and six external directors. In addition to the Board of Directors, two committees were formed to assist the Directors in their responsibilities. These are the Audit Committee and the Corporate Governance Committee.

AUDIT COMMITTEE
The Audit Committee is comprised of three external directors. The Audit Committee assists the Board of Directors by reviewing the Company's internal controls and auditing procedures, any relevant accounting or regulatory matters and by recommending the appointment of external auditors.

CORPORATE GOVERNANCE COMMITTEE
The Corporate Governance Committee consists of four directors, including three external directors. The Corporate Governance Committee is responsible for proposing all nominees to the Board and its committees and for assessing performance of individual directors and the Board as a whole. The Corporate Governance Committee also reviews overall compensation issues for senior management, and assesses the performance of the Chief Executive Officer and senior management.

The Board believes that the Board and its Committees carry out effective governance of the Company's affairs. The Board will continue to review the Company's governance practices and will make changes as required.

DIRECTORS

Marcel Aubut, O.C., Q.C.
Quebec, Quebec
Managing Partner
Heenan Blaikie Aubut

Dr. Francis Bellido, PhD (1)
Beaconsfield, Quebec
President and Chief Executive Officer
Biomundis Biotechnology Investment Fund

Stormy Byorum, MBA (1)
New York, NY
Chief Executive Officer
Cori Investment Advisors, LLC

Dr. Eric Dupont, PhD (2)
Sainte-Petronille
Ile d'Orleans, Quebec
Chairman of the Board
AEterna Laboratories Inc.

Prof. Dr. Jurgen Engel, PhD
Frankfurt, Germany
Chairman and Managing Director
Zentaris GmbH
Executive Vice President,
Global Research & Development
and Chief Operating Officer
AEterna Laboratories Inc.

Gilles R. Gagnon, MSc, MBA
Sherbrooke, Quebec
President and Chief Executive Officer
AEterna Laboratories Inc.

Dr. Pierre Laurin, PhD, O.C. (2)
Verdun, Quebec
Executive in Residence
H.E.C. Montreal

Pierre MacDonald, MSc (Comm) (1) (2)
Verdun, Quebec
President and Chief Executive Officer
MacD Consult Inc.

Henri A. Roy, MBA (2)
Montreal, Quebec
Chairman, President and General Manager
Societe generale de financement du Quebec (SGF)

(1) Member of the Audit Committee
(2) Member of the Corporate Governance Committee

SENIOR OFFICERS

Dr. Eric Dupont, PhD
Sainte-Petronille
Ile d'Orleans, Quebec
Chairman of the Board
AEterna Laboratories Inc.

Gilles R. Gagnon, MSc, MBA
Sherbrooke, Quebec
President and Chief Executive Officer
AEterna Laboratories Inc.

Prof. Dr. Jurgen Engel, PhD
Frankfurt, Germany
Chairman and Managing Director
Zentaris GmbH
Executive Vice President,
Global Research and Development
and Chief Operating Officer
AEterna Laboratories Inc.

Dr. Eckhard Gunther, PhD
Frankfurt, Germany
Vice President, Drug Discovery
AEterna Laboratories Inc.

Dr. Matthias Rischer, PhD
Frankfurt, Germany
Vice President, Pharmaceutical Development
AEterna Laboratories Inc.

Dennis Turpin, CA
Quebec, Quebec
Vice President and Chief Financial Officer
AEterna Laboratories Inc.

CORPORATE INFORMATION

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Internet: www.aeterna.com

Ticker symbols
AEL - The Toronto Stock Exchange (TSX)
AELA - The Nasdaq Stock Market, Inc. (NASDAQ)

Transfer Agent and Registrar
National Bank Trust Inc.
1100 University Street
9th Floor
Montreal, Quebec H3B 2G7

Auditors
PricewaterhouseCoopers LLP
900 Rene-Levesque Blvd. East
Suite 500
Quebec, Quebec G1R 2B5

Intellectual Property Solicitors
Goudreau Gage Dubuc
Tour de la Bourse
800, Place Victoria
Bureau 3400
Montreal, Quebec H4Z 1E9

Haynes and Boone, LLP
901 Main Street, Suite 3100
Dallas, TX 75202 U.S.A.

Corporate Solicitors
Ogilvy Renault
1981, McGill College, Suite 1100
Montreal, Quebec H3A 3C1

Arnold & Porter
399 Park Avenue
New York, NY 10022-4690 U.S.A.

Annual Meeting
May 26, 2004, 10:30 a.m.
Ritz-Carlton Hotel
1228, Sherbrooke Street West
Montreal, Quebec H3G 1H6

AETERNA'S SCIENTIFIC ADVISORY BOARD

External members:

Dr. Gerald Batist, MD, CM, FACP,
Director of the McGill Center for Translational
Research in Cancer, Chair and Professor,
Department of Oncology and Medicine,
McGill University, Jewish General Hospital,
Montreal, Canada

Dr. Richard Beliveau, PhD,
Director of the Molecular Oncology Laboratory
of the Cancer Research Centre, Sainte-Justine Hospital, Montreal, Canada

Dr. W.K. (Bill) Evans, MD, FRCPC,
Executive Vice President, Clinical Programs,
Cancer Care Ontario, Toronto, Canada

Prof. Dr. Rene Frydman, MD, PhD,
Head of the Department of Gynecology and Obstetrics at the Hopital Antoine
Beclere in Clamart (Paris), France

Prof. Dr. Klaus H.R. Diedrich, MD, PhD,
Director of the Department of Gynecology and Obstetrics at the University Clinic
in Luebeck, Germany

Dr. Fernand Labrie, OC, OQ, MD, PhD,
Head, Centre hospitalier de l'Universite Laval (CHUL) Research Center, Quebec,
Canada

Dr. Hartmut Michel, PhD,
Director, Max-Planck Institute for Biophysics, Frankfurt, Germany. Nobel Prize
laureate in chemistry, 1988.

EXHIBIT 5

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING ANALYSIS EXPLAINS THE VARIATIONS IN THE COMPANY'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOW. THIS DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE INFORMATION CONTAINED IN AETERNA LABORATORIES INC.'S CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES FOR THE YEARS ENDED ON DECEMBER 31, 2003, 2002 AND 2001. ALL FIGURES ARE IN CANADIAN DOLLARS.

OVERVIEW

AEterna Laboratories Inc. ("AEterna" or "the Company") and its subsidiaries are involved in three segments of operations: biopharmaceutical, cosmetics-nutrition and distribution segments. AEterna, along with its wholly-owned subsidiary Zentaris GmbH, represents the biopharmaceutical segment with an extensive product portfolio, including two already marketed and several other products in early and late-stage development in oncology, endocrinology and infectious diseases. Cetrorelix (Cetrotide(R)) is sold in the U.S. and Europe to the IN VITRO fertilization market, and is in Phase II clinical trials for endometriosis, uterus myoma and enlarged prostate (BPH). Miltefosine (Impavido(R)) is sold for black fever and has successfully completed a Phase III trial in parasitic skin disease. Neovastat(R) is in a Phase III trial for non-small cell lung cancer. Perifosine is in Phase II trials for multiple cancers. Several other clinical programs are underway with various potential development candidates, supported by a worldwide network of scientific and marketing partnerships. Furthermore, it benefits from a discovery platform of 100,000 molecules which will be useful in identifying and developing future products such as the peptidomimetic LHRH (Luteinizing Hormone Releasing Hormone) antagonist for which an agreement was signed with Solvay Pharmaceuticals B.V. ("Solvay") in January 2004.

The cosmetics and nutrition segment is dedicated to the development, manufacturing and marketing of cosmetics, active ingredients and nutritional products. On the other hand, the distribution segment specializes in value-added services by supporting innovation, importing and distributing raw materials and high-end brand-name activities. These two segments are operated by Atrium Biotechnologies Inc. ("Atrium") and its subsidiaries.

AEterna seeks to ensure continued growth of its activities by acquiring companies and/or products, as well as by fulfilling its existing pipeline from its drug discovery platform and continuing to sign agreements with strategic worldwide partners. Furthermore, as part of its growth strategy and its acquisition program, Atrium, through its subsidiary, Unipex Finance S.A. ("Unipex"), acquired 100% of all issued and outstanding shares of privately-owned companies Chimiray and Interchemical. These companies focuse mainly on the distribution of fine chemicals and active ingredients.

The Company reported revenues of $166.4 million, an operating loss of $14.3 million and a net loss of $28.1 million for the year ended December 31, 2003. In the past years, substantially all of the revenues were derived from Atrium. In 2003, the biopharmaceutical segment provided a revenue of $46.1 million mainly as a result of the acquisition of Zentaris

in December 2002. As part of an existing agreement with Baxter Healthcare S.A., AEterna received an important milestone for further assessment of the D-63153 compound, an LHRH antagonist currently being assessed in a Phase II clinical trial for prostate cancer. Also in 2003, the Company extended the existing agreement with Serono for worldwide marketing rights for Cetrotide(R), except for Japan. The amended agreement provides for Zentaris to receive a signature fee, as well as fixed annual payments and royalties until December 2010, followed by royalties.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared according to generally accepted accounting principles in Canada. Furthermore, these financial statements were reconciled to take into account the important differences with generally accepted accounting principles in the United States, as indicated in Note 23 of the consolidated financial statements. These accounting principles require that management make estimates that could have an impact on assets and liabilities in the financial statements. The significant accounting policies which the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

BASIS OF CONSOLIDATION

The consolidated financial statements of AEterna include the accounts of the Company and all of its subsidiaries, accounted for using the full consolidation method. Intercompany transactions and related balances have been eliminated. The subsidiaries and the Company's percentage of interest are as follows:

	PERCENTAGE OF INTEREST	
	2003	2002
	%	%
SUBSIDIARIES		
Zentaris GmbH (merged with AEterna GmbH in 2003)	100.00	100.00
AEterna GmbH	-	100.00
Atrium Biotechnologies Inc.	61.76	61.76
Atrium Biotech U.S.A. inc.	100.00	100.00
Siricie S.A.	100.00	-
Unipex Finance S.A.	80.65	70.28
Interchemical S.A.	100.00	-
Chimiray S.A.	100.00	-

REVENUE RECOGNITION AND DEFERRED REVENUES

In the biopharmaceutical segment, in which there are existing agreements with strategic partners, revenues increased significantly in 2003. The existing cooperation and royalty agreements usually provide for upfront, codevelopment and milestone payments, as well as royalties on sales made by the partners. Finally, with regard to certain agreements, the Company has to provide manufacturing of the products and, therefore, generate product sales.

Payments received at the beginning of research cooperation agreements (upfront payments) are not recorded as revenue when received, but are amortized based on the progress of the research and development work concerned. Milestone payments are recognized when appropriate development results are achieved and agreed by the customer. Royalty receipts for marketing products are only to be paid by commercial partners when product revenues are actually achieved and are accordingly first recorded as revenues by the Company at such time.

Revenue from product sales is recognized net of sales discounts, allowances, returns, rebates and chargebacks. Amounts received from customers as prepayments for products to be shipped in the future are reported as deferred revenues.

RESEARCH AND DEVELOPMENT COSTS

All research and development ("R&D") costs, which do not meet generally accepted criteria for deferral, are expensed as incurred. Development costs, which meet generally accepted criteria for deferral, are capitalized and amortized against earnings over the estimated period of benefit. To date, no costs have been deferred. Acquired in-process R&D having no alternative future uses is written off at the time of acquisition. No in-process R&D acquired from Zentaris was written off.

VALUATION OF GOODWILL AND INTANGIBLE ASSETS

We account for our business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. While we may employ experts to assists us with these matters, such determination involve considerable judgment, and often involve the use of significant estimates and assumptions, including those respect to future cash inflows and outflows, discount rates and asset lives. These determinations will affect the amount of amortization expense recognized in future periods.

On January 1, 2002, we adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") and discontinued the amortization of goodwill accordingly. Prior to this date, goodwill was amortized on a straight-line basis over its expected useful life of fifteen and twenty years. We review the carrying values of goodwill and intangible assets when conditions arise that indicate that any impairment may have occurred. Examples of these conditions include significant underperformance relative to historical or expected future results, significant changes in the manner of our use of the acquired assets or our strategy, significant negative industry or economic trends, or significant decline in our share price or market capitalization.

Goodwill is tested annually for impairment in relation to the fair value of each reporting unit to which goodwill applies. An impairment charge is recorded for any goodwill that is considered impaired. Based on the impairment test performed as of December 31, 2003, we concluded that no goodwill impairment charge was required.

Intangible assets consist mainly of patents, trademarks, licenses, and distribution agreements. They are amortized on a straight-line basis over their estimated useful lives of eight to fifteen years. Intangible assets with definite lives are reviewed for impairment when events or

circumstances indicate that costs may not be recoverable. At year-end, there were no events or circumstances indicating that the carrying value may not be recoverable.

ACCOUNTING FOR INCOME TAXES

We operate in multiple jurisdictions, and our profits are taxed pursuant to the tax laws of these jurisdictions. Our effective tax rate may be affected by the changes in, or interpretations of, tax laws in any given jurisdiction, utilization of net operating losses and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management's assessment of matters, such as the ability to realize future tax assets. As a result of these considerations, we must estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in future tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our future tax assets will be recovered from future taxable income and establish a valuation allowance for any amounts we believe will not be recoverable. Establishing or increasing a valuation allowance increases our income tax expense.

Significant management judgment is required in determining our provision for income taxes, our income tax assets and liabilities, and any valuation allowance recorded against our net income tax assets. We recorded a valuation allowance as at December 31, 2003, due to uncertainties related to our ability to utilize some of our income tax assets before they expire. The valuation allowance was based on our estimates of taxable income by jurisdiction in which we operate and the period over which our income tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to amend our valuation allowance, which could materially impact our financial position and results of operations.

STOCK-BASED COMPENSATION PLANS

On January 1, 2002, AEterna adopted the recommendations issued by the CICA and, at that time, we had chosen not to use the fair value method to account for the stock-based compensation costs arising from awards to employees. The fair value method was only used for stock-based payments made in exchange for goods and services. Starting on January 1, 2004, we have to use the fair value method to account for stock-based compensation costs. We decided to use the prospective method as transitional method, as permitted under the amendments made to the recommendations during 2003. According to this method, all stock-based compensations granted during the twelve-month period ended December 31, 2003 will be recorded in the corresponding period without restatement of prior years. However, AEterna is still required to provide pro forma disclosures relating to net loss and net loss per share as if stock-based compensation costs had been recognized in the financial statements using the fair value method for options granted to employees in 2002.

BUSINESS ACQUISITIONS

On August 5, 2003, Unipex acquired 100% of the issued and outstanding common shares of Interchemical S.A. and Chimiray S.A. for a total consideration of $18.7 million, of which an amount of $14.2 million was paid in cash, net of cash acquired of $3.6 million, and $0.9 million as a balance of purchase price. These companies are focused mainly on the

distribution of fine chemicals and active ingredients. The results of operations have been included in the statement of operations since August 5, 2003, being the date of acquisition.

During 2003, Atrium acquired 23,760 common shares of the outstanding capital stock of Unipex for a cash consideration of $2.8 million. In addition, Atrium also invested in its subsidiary by acquiring 70,400 treasury common shares of Unipex, thereby increasing its interest in the latter to 80.65 %.

Finally, on November 18, 2003, Atrium acquired 100% of the issued and outstanding common shares of Siricie S.A. for a total consideration of $2 million. This company specializes in the development of active ingredients drawn from marine life for the cosmetics industry.

SUBSEQUENT EVENTS

On January 23, 2004, we entered into an extensive collaboration agreement with Solvay. Based on the agreement, we will jointly push forward the development of novel, low molecular weight and orally-bioavailable peptidomimetic LHRH antagonists. As part of the agreement, Solvay secures itself exclusive worldwide rights to all gynecological indications as well as to BPH, while we retain exclusive rights to all other indications, including oncology. The contract provides us to receive, an amount of $5 million, upon signature, representing an upfront payment and past development costs, as well as future milestone payments during further preclinical and clinical development and royalties on future sales.

On February 2, 2004, we entered into a partnership with Produtos Roche QFSA in Sao Paulo ("Roche") for the marketing of Impavido(R) in Brazil, an oral drug for leishmaniasis. Under this agreement, Roche will support us in the registration process and will market the product in Brazil, while Zentaris will supply Impavido(R) to Roche. Brazil is the country in South America that is most affected with the deadly visceral leishmaniasis (black fever) and the painful cutaneous leishmaniasis (parasitic skin disease).

On March 3, 2004, Atrium has completed the acquisition of Pure Encapsulations Inc. (Pure) for approximately $50 million. Based in Sudbury, Massachusetts in the United States, Pure is focused mainly on the development, manufacturing and marketing of nutritional supplements geared toward physicians and other healthcare professionals. Financing of the transaction resulted from the issuance of a senior debt of $27 million and from a subordinate debt in the amount of $13.4 million.

RESULTS OF OPERATIONS BY SEGMENT

This section must be read in conjunction with the Segment Information (note 19) of AEterna's consolidated financial statements.

Biopharmaceutical Segment

REVENUES

Revenues increased from $0.3 million to $46.1 million for the year ended December 31, 2003. The acquisition, in December 2002, of Frankfurt-based Zentaris provided most of the revenues in this segment. Zentaris' revenues reached $31.7 million in 2002. Revenues in 2003

were generated by the marketing of Cetrotide(R) and Impavido(R) as well as milestones payments, R&D contract fees and the amortization of upfront payments. Revenues from R&D contract fees and from the amortization of upfront payments come mainly from the development of Cetrorelix and Teverelix.

In 2004, Cetrotide(R) is expected to increase its revenues since our commercial partner, Serono, is growing its reproductive health business year to year. Impavido(R) has been launched in 2003 for private-use in India and we expect to extend its marketing for public-use, as well as to file for additional marketing authorizations in other countries.

OPERATING EXPENSES

COST OF SALES amounted to $6.8 million in 2003 and is related to the production of Cetrotide(R) and Impavido(R). Sales and royalties generated by these two products amounted to $24.4 million leaving a marginal contribution of $17.6 million or 72% in 2003. We expect the cost of sales to remain steady in percentage of corresponding sales and royalties next year.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES have increased by $8 million going from $7.5 million in 2002 to $15.5 million in 2003. In 2001, these expenses reached $6.5 million. All of the increase for 2003 resulted from the acquisition of Zentaris in December 2002. The increase in 2002 was due to normal salary raises and significant professional fees related to our acquisition program, which triggered several due diligences and consulting fees. We expect that SG&A costs will be maintained in 2004.

R&D EXPENSES totalled $44.7 million in 2003 in comparison with $25.3 million in 2002 and $22.1 million in 2001. This increase of $19.4 million for 2003 is attributable to the acquisition of Zentaris, whereby the investment in R&D amounted to $21.7 million for the twelve-month period ended December 31, 2003. We expect a significant decrease in R&D costs in 2004 since Neovastat is now in a Phase III study in non-small cell lung cancer, which is partially supported by the US National Cancer Institute and because we decided to stop the clinical development in renal cell carcinoma with Neovastat on December 17, 2003.

R&D TAX CREDITS AND GRANTS amounted to $0.9 million in 2003 compared with $1.6 million in 2002 and $5.8 million in 2001. These amounts are recorded using the cost reduction method and are generally earned on qualified R&D expenses incurred in the Province of Quebec. The significant decrease in 2002 is explained by the fact that, during 2001, the maximum limit for eligible expenses was reached for the oncology project within the Technology Partnerships Canada (TPC) program.

DEPRECIATION AND AMORTIZATION amounted to $8.8 million in 2003 in comparison with $2 million for 2002 and $1.4 million in 2001. This significant increase is attributable to the depreciation and amortization of capital assets and intangible assets related to the acquisition of Zentaris in December 2002. The increase in 2002 was mainly due to the amortization of capital assets as a result of major investments made in that particular year, amounting to $5 million, for the scale-up of the production line in view of the marketing of Neovastat. Intangible assets are amortized over their estimated useful lives of eight to fifteen years. We expect that depreciation and amortization will be maintained in 2004.

INTEREST INCOME for 2003 amounting to $1.8 million compared to $2.5 million in 2002 and $2.4 million in 2001. The decrease for the twelve-month period ended December 31, 2003 is primarily due to the cash used for the acquisition of Zentaris.

INTEREST EXPENSE

Interest expense consists mainly of financing costs on the convertible term loans, the balance of purchase price settled in March 2003 and the promissory note of $43 million reimbursed in January 2003 as interim financing related to Zentaris' acquisition. In prior years, we had no interest expense. Since the convertible term loans will be outstanding for a twelve-month period in 2004 instead of a nine-month period in 2003, we expect to increase our interest expense in 2004.

INCOME TAX EXPENSE

Notwithstanding this segment had generated an operating loss, we recorded an income tax expense which was related to earnings generated by Zentaris from our operations in Germany. For our Canadian operations, we have to establish a valuation allowance against future income tax assets because it is more likely than not that some or all of the future income tax assets will not be realized.

Cosmetics and Nutrition Segment

REVENUES

Revenues in this segment are derived from manufacturing and marketing of cosmetic, active ingredients and nutritional products. In 2003, revenues reached $15.3 million, which represents an increase of $1.9 million or 14.2% in comparison with the prior year. In 2002, the revenues amounted to $13.4 million in comparison with $11.4 million in 2001. The 2003 increase was mainly attributable to additional market share at the international level, as well as to in-licensing activities. Since sales in US dollars represent more than 84% of revenues, this increase would have been even greater if the average US dollar exchange rate had not decreased by 10.7% in 2003 compared with 2002. We expect a significant increase in this segment as we acquired Pure Encapsulations in March 2004 whose revenues exceeded $25 million in 2003.

OPERATING EXPENSES

THE COST OF SALES amounted to $2.5 million in 2003 compared with $2.3 million in 2002 and $1.9 million in 2001. These costs are directly proportional to sales to which they are related to and consist mainly of raw materials and manufacturing costs. As a percentage of revenues, there is no significant change for the last three years where the cost of sales varied from 16.4% to 17.2%.

SG&A EXPENSES amounted to $5.0 million in comparison with $4.3 million in 2002 and $4.0 million in 2001. The increase of $0.7 million in 2003 is mainly attributable to the increase of the sales forces, especially for the US territory.

FOREIGN EXCHANGE LOSS amounted to $1 million in 2003. This loss is attributable to the effect of the strengthening Canadian dollar on our US short-term investments and working capital

denominated in US dollars. We are maintaining US dollar cash and cash equivalents to meet our future requirements in US dollars.

INCOME TAX EXPENSE amounted to $2.1 million in 2003 compared with $2.4 million in 2002 and a tax recovery of $5.5 million recorded in 2001. This variation of $7.9 million in 2002 is attributable to $7.6 million of income tax recovery related to future income tax assets recorded in 2001, and the balance of $0.3 million corresponds to income taxes related to increased earnings in 2002. This income tax recovery was recorded as it is more likely than not that Atrium will realize this future income tax asset.

Distribution Segment

REVENUES

Revenues in this segment are derived from the distribution of raw materials and brand-name active ingredients to multinational firms in the cosmetic, industrial chemicals, fine chemicals, pharmaceutical and nutrition sectors. In 2003, revenues reached $105.5 million, which represents an increase of $17.6 million or 20% in comparison with the prior year. This increase is mainly attributable to the acquisition of Chimiray/Interchemical in August 2003.

In 2002, the sales amounted to $87.9 million in comparison with $32.6 million in 2001. This increase is attributable to the acquisition of Unipex, as the acquisition took place on July 2, 2001. Should we have considered the sales of Unipex for a period of twelve months in 2001, we would have had an increase of 36% with revenues totalling $64.4 million in 2001. This increase is mainly related to the successful integration of Unipex's operations, the intensification and focus of our sales forces, as well as the good market conditions of that segment.

We expect to continue to increase revenue from this segment in 2004, as a consequence of the acquisition of Chimiray/Interchemical realized in August 2003.

OPERATING EXPENSES

THE COST OF SALES amounted to $88.8 million in 2003 compared with $75.5 million in 2002 and $28.2 million in 2001. These costs are directly proportional to sales to which they are related to. The gross margin, as a percentage of revenues, had increased by 1.8% in 2003 from 14.1% to 15.9%. This significant increase is related to better margin of products from ADF Chimie S.A and Chimiray/Interchemical, as well as to gross margin increase of existing products of Unipex. We expect to remain at the same level of gross margin in 2004.

SG&A EXPENSES amounted to $8.7 million in comparison with $5.9 million in 2002 and $2.5 million in 2001. The increase of $2.8 million in 2003 is mainly attributable to the acquisition of Chimiray/Interchemical in August 2003. The increase of $3.4 million in 2002 is due to the acquisition of Unipex in July 2001.

INTEREST EXPENSE is directly related to the existing long-term debt and other current operations of Unipex and remains steady over the last three years. We increased our long-term debt for an amount of $5.7 million resulting mainly from the acquisition of Chimiray/Interchemical in August 2003. We, therefore, expect to increase the corresponding interest expense in 2004.

FOREIGN EXCHANGE LOSS amounted to $0.5 million in 2003 in comparison with $0.2 million in 2002. This loss is attributable to the effect of the strengthening Euro on working capital denominated in foreign currency.

CONSOLIDATED INFORMATION

NET LOSS for 2003 was $28.1 million or $0.65 per share in comparison with net losses of $25.8 million or $0.67 per share in 2002, and $3.5 million or $0.11 per share in 2001. This increase of $2.3 million is mainly due to amortization of intangible assets, to non-cash interest expenditure and to one-time $1.9 million expenditure related to the year-end restructuring. In 2002, the increase of $22.3 million was attributable to an income tax recovery accrual and a gain on dilution in 2001, amounting to $18.9 million, while the balance of $3.4 million results principally from the increase of R&D investments net of related grants.

The weighted average number of shares outstanding used to establish the basic and diluted net loss per share increased from 38.6 million shares for the year ended December 31, 2002 to 43 million shares for the year ended December 31, 2003. This increase of 4.4 million shares is mainly related to a bought deal closed on July 24, 2003, for which we issued 4.5 million subordinate voting shares. Consequently, notwithstanding the increase of the consolidated net loss, the basic and diluted net loss per share has gone down by $0.02 from $0.67 to $0.65 per share.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity consists of cash, cash equivalents and short-term investments. As at December 31, 2003, the liquidity amounted to $64.4 million in comparison with $81.5 million as of December 31, 2002. The working capital amounted to $73.2 million as at December 31, 2003, while it was $44.2 million in 2002. The variation of our liquidity is explained below, on a consolidated basis, per type of activities.

OPERATING ACTIVITIES
The cash flow used in our operational activities amounted to $14.5 million in 2003 compared with $21.9 million in 2002 and $15.8 million in 2001. The decrease of $7.4 million in 2003 is mainly attributable to the reduction of the burn rate for an amount of $6.3 million and the balance is related to change in working capital items. In 2002, the increase of $6.1 million was primarily attributable to increased R&D expenses in the biopharmaceutical segment, as well as to increases contained in the working capital accounts.

FINANCING ACTIVITIES
The cash flow from financing activities amounted to $17.9 million for 2003 and was made of cash received of $66.3 million from convertible term loans, a bought deal closed in July 2003 and a new long-term debt incurred following the acquisition of Chimiray/Interchemical. In counterpart, we have disbursed for financing activities an amount of $48.4 million for the repayment of the promissory note, the balance of purchase price and payment of long-term debt. In 2002, cash flow from financing activities amounted to nearly $100 million and is explained by a private placement of $57 million concluded in April 2002, and a promissory note of $43 million issued for the acquisition of Zentaris in December 2002. For the year 2001, cash flows from financing activities were essentially proceeds from AEterna's public financings and from shares issued in relation to the exercise of the Company's stock option less payment of long-term debt.

INVESTING ACTIVITIES

The cash flow used in investing activities (excluding change in short-term investments) amounted to $20.7 million in 2003. An amount of $18.9 million was used for business acquisitions, while $1.8 million was used for the purchase of capital assets and intangible assets. In 2002, $45.3 million was used for acquisitions of companies, intangible assets and product lines, as well as for distribution agreements for the cosmetics and nutrition segment. Furthermore, an amount of $5.1 million represented capital investments mainly for the scale-up of the production line for Neovastat. In 2001, the cash flow used in investing activities amounted to $14.4 million, from which an amount of $13.5 million was used to acquire Unipex and the balance for the purchase of long-term assets, resulting in a disbursement of $0.9 million.

Since the inception of the Company, AEterna financed the R&D activities with income generated by the former Cosmetics and Nutrition division, proceeds of public and private sales of its equity and loans from strategic partners. While Atrium will continue to generate net earnings in 2004 ($7.1 million in 2003) and we will continue to efficiently control our biopharmaceutical burn rate, we do not expect the need for additional financing, within the next year, for our current operations. However, as part of our growth strategy, additional cash may be needed for potential acquisitions.

We believe that our liquidity added to funds generated by operations in the upcoming years will be sufficient to meet our cash requirements, including development of products of our existing pipeline, research of new candidates arising from our drug discovery department, capital expenditures and repayment of long-term debt.

We have certain contractual obligations and commercial commitments. The following table indicates our cash requirements to respect these obligations:

(in thousands of Canadian dollars)	PAYMENTS DUE BY PERIOD			
	Total	Less than 1 year	1-3 years	4-5 years
	$	$	$	$
LONG-TERM DEBT	18,909	3,777	8,786	6,346
OPERATING LEASES	9,664	2,595	3,677	3,392
COMMERCIAL COMMITMENTS	6,039	3,105	2,934	-
TOTAL CONTRACTUAL CASH OBLIGATIONS	34,612	9,477	15,397	9,738

OUTLOOK

Biopharmaceutical Segment

We expect that Cetrotide(R), which is sold by Serono, will continue to derive significant revenues in 2004. Furthermore, Cetrotide(R) is pending approval in Japan and, should authorization be successful, we would benefit from a milestone payment from our partner Shionogi.

Revenues generated from Impavido(R) are expected to increase in 2004, since we expect to extend marketing to public-use in India and file for new territories and indications.

We expect to continue to benefit from the support of existing partners for our R&D activities. R&D investment should decrease significantly following our work force reduction and the focus of our R&D efforts. Finally, as part of our growth strategy, we intend to pursue our acquisition program.

Cosmetic and Nutrition Segment and Distribution Segment

We expect to achieve an organic growth and continue to acquire technologies and/or companies in these two segments. As a result of recent acquisitions, these two segments are expected to continue to grow in 2004.

RISK FACTORS

RISKS ASSOCIATED WITH OPERATIONS

- - Most of our biopharmaceutical products are currently at an early development stage. It is impossible to ensure that the R&D on these products will result in the creation of profitable operations;

- - We are currently developing our products based on R&D activities conducted to date, and we may not be successful in developing or introducing to the market these or any other new products or technology. If we fail to develop and deploy new products on a successful and timely basis, we may become non-competitive and unable to recoup the R&D and other expenses we incur to develop and test new products;

- - Even if successfully developed, our biopharmaceutical products may not gain market acceptance among physicians, patients, healthcare payers and the medical community which may not accept or utilize our products. If our biopharmaceutical products do not achieve significant market acceptance, our business and financial conditions will be materially adversely affected;

- - We rely heavily on our proprietary information in developing and manufacturing our product candidates. Despite efforts to protect our proprietary rights from unauthorized use or disclosure, third parties may attempt to disclose, obtain or use our proprietary information or technologies;

- - We have to forge and maintain strategic alliances to develop and market products in our current pipeline. If we are unable to reach agreements with such collaborative partners, or if any such agreements are terminated or substantially modified, we may be unable to obtain sufficient licensing revenue for our products, which might have a material adverse effect on their development and on us.

CASH FLOW AND FINANCIAL RESOURCES

We believe that we would be able to obtain long-term capital, if necessary, to support our corporate objectives, including the clinical development program of our products. Our planned cash requirements may vary materially in response to a number of factors, including: R&D on our products; clinical trial results; increases in our manufacturing capabilities;

changes in any aspect of the regulatory process; and delays in obtaining regulatory approvals. Depending on the overall structure of current and future strategic alliances, we may have additional capital requirements related to the further development of existing or future products.

The development of our subsidiary Atrium may also require, in addition to the cash generated by its operations, other sources of financing. However, it is impossible to guarantee the availability of additional financial resources or that it will be available under acceptable conditions.

We have not entered into any significant forward currency contracts or other financial derivatives to hedge foreign exchange risk and, therefore, we are subject to foreign currency transaction and translation gains and losses. Foreign exchange risk is managed primarily by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency.

KEY PERSONNEL

Our success is also dependent upon our ability to attract and retain a highly qualified work force, and to establish and maintain close relations with research centres. The competition in that regard is very severe. Our success is dependent to a great degree on our senior officers, scientific personnel and consultants. The failure to recruit qualified staff and the loss of key employees could compromise the pace and success of product development.

ACQUISITION PROGRAM

We intend to continue to acquire new technologies and/or corporations. There is no assurance that the Company will make certain acquisitions or that it will succeed in integrating the newly-acquired technologies or corporations into its operations. The failure to successfully integrate the personnel and operations of businesses which we may acquire in the future with ours could have a material adverse effect on our operations and results.

VOLATILITY OF SHARE PRICES

Share prices are subject to changes because of numerous different factors related to its activity including reports of new information, changes in the Company's financial situation, the sale of shares in the market, the Company's failure to obtain results in line with the expectations of analysts, an announcement by the Company or any of its competitors concerning technological innovation, etc. During the past few years, shares of AEterna, other biopharmaceutical companies and the investment market in general have been subjected to extreme fluctuations that were unrelated to the operational results of the companies affected. There is no guarantee that the market price of the Company's shares will be protected from any such fluctuations in the future.

SAFE HARBOUR STATEMENT

Except for historical data, this report contains statements that, by their very nature, are projections involving time periods, risks and other factors, known or unknown, which are beyond the Company's control.

Each of these factors may produce results or performances that differ significantly from expectations. For example, the results of current clinical trials cannot be foreseen, nor can changes in policy or actions taken by such regulatory authorities as the U.S. Food and Drug Administration and the Therapeutic Products Directorate of Health Canada, or any other organization responsible for enforcing regulations in the pharmaceutical industry.

On behalf of management,

/s/ Dennis Turpin

Dennis Turpin
Vice President and Chief Financial Officer

QUARTERLY SUMMARY FINANCIAL INFORMATION (UNAUDITED)
(expressed in thousands of Canadian dollars,except per share data)

	1ST QUARTER $	2ND QUARTER $	3RD QUARTER $	4TH QUARTER $	YEARS ENDED DECEMBER 31 $
2003					
REVENUES	40,813	38,875	37,829	48,896	166,413
OPERATING LOSS	(1,265)	(1,031)	(5,303)	(6,684)	(14,283)
NET LOSS	(4,834)	(4,571)	(9,238)	(9,504)	(28,147)
BASIC AND DILUTED NET LOSS PER SHARE*	(0.12)	(0.11)	(0.20)	(0.21)	(0.65)
2002					
REVENUES	25,349	23,440	24,407	28,008	101,204
OPERATING LOSS	(3,962)	(4,473)	(5,529)	(6,602)	(20,566)
NET LOSS	(5,652)	(5,899)	(6.222)	(8,009)	(25,782)
BASIC AND DILUTED NET LOSS PER SHARE *	(0.17)	(0.15)	(0.15)	(0.20)	(0.67)

* Basic and diluted per share data are calculated independently for each of the quarters presented. Therefore, the sum of this quarterly information may not equal the corresponding annual information.

EXHIBIT 6

PRICEWATERHOUSECOOPERS LOGO

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Annual Report on Form 40-F of AEterna Laboratories Inc. for the year ended December 31, 2003 of our report dated February 25, 2004, except as to note 25 which is as of March 3, 2004 relating to the consolidated financial statements for the three-years ended December 31, 2003.

[Signature of PricewaterhouseCoopers LLP]

CHARTERED ACCOUNTANTS

Quebec, Quebec, Canada
February 25, 2004

EXHIBIT 7

CODE OF ETHICAL CONDUCT

AEterna Laboratories Inc. ("AEterna") and all of the directors, officers and employees of AEterna and its subsidiaries (collectively with AEterna, the "Company") are committed to preserving the reputation of the Company for integrity and excellence and conducting the businesses and activities of the Company honestly and ethically and in compliance with applicable laws, rules and regulations.

Accordingly, the Board of Directors of AEterna has adopted this Code of Ethical Conduct, which applies to all directors, officers and employees of the Company and its subsidiaries, including, but not limited to, AEterna's principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. This Code of Ethical Conduct is intended to meet the requirements for a code of ethics under the Sarbanes-Oxley Act of 2002 (and the related regulations adopted by the Securities and Exchange Commission) and the applicable Marketplace Rules of The Nasdaq Stock Market, Inc.

This Code of Ethical Conduct does not summarize all of the Company's policies. You must also comply with the Company's other policies which are set forth elsewhere. In addition, this Code of Ethical Conduct reflects general principles of conduct and does not anticipate or cover in detail every topic or situation. If you have a question about anything covered in this Code of Ethical Conduct or if you are unsure about whether some action would be consistent with this Code of Ethical Conduct, you agree to ask to the Corporate Secretary of AEterna (the "Compliance Officer"). Similarly, if you should encounter a situation in which you are unsure what to do, you agree to tell the Compliance Officer and ask for help.

Nothing in this Code of Ethical Conduct should be construed as changing the at will employment relationship between the Company and its employees.

POLICIES AND PRACTICE

GENERAL CONDUCT; CONFLICTS OF INTEREST

You should act ethically, honestly and with integrity. Your duty to act ethically, honestly and with integrity includes avoiding actual or apparent conflicts of interest between your personal, private interests and the interests of the Company, including using your position to receive improper personal benefits. This obligation applies to both business relationships and personal activities. A "conflict of interest" exists whenever your interests (financial or otherwise) interfere or conflict in any way (or even appear to interfere or conflict) with the Company's interests. A conflict of interest can arise when you take actions or have interests that may make it difficult to perform your work for the Company objectively and effectively. Conflicts of interest may also arise when you, or members of your family, receive improper personal benefits as a result of your position with the Company, regardless of from where those benefits are received.

You also owe the Company a duty to advance its legitimate interests when the opportunity to do so arises. You are prohibited from (i) taking for yourself personally opportunities that properly belong to the Company or are discovered through the use of the Company's resources, property, information or your position with the Company; (ii) using corporate property, information (confidential or otherwise) or position for personal gain; or (iii) competing with the Company.

You should conduct your personal affairs so that there can be no unfavorable reflection on the Company, either express or implied. You must report to the Compliance Officer any interest or relationship that you believe might compromise or appear to compromise your duty of loyalty to the Company or otherwise might present conflict of interest concerns. In addition, if you become aware of any conflict of interest on the part of anyone else at the Company, you must report it to the Compliance Officer.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

In performing your duties on behalf of the Company, you must comply with all applicable governmental laws, rules and regulations, as well as the rules and regulations of any stock exchanges and quotation systems on which AEterna's securities are listed.

PUBLIC DISCLOSURE; CONFIDENTIALITY OF NON-PUBLIC INFORMATION

As a public company, AEterna must provide full, fair, accurate, timely, and understandable disclosure in reports and documents that AEterna files with, or submits to, the Securities and Exchange Commission or other regulators and in other public communications by AEterna.

Consequently, the Company's books, business records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions and must conform both to applicable legal and regulatory requirements, including, if applicable, maintaining the financial and accounting records in accordance with generally accepted accounting principles, and to the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation.

In addition, all employees, officers and directors of the Company are expected to comply with the Company's disclosure controls and procedures to ensure that material information relating to the Company is timely recorded, processed, summarized and reported in accordance with all applicable laws, rules and regulations. You must ensure that all information or data that you report to management is accurate and honest, and you must fully and accurately comply with all audits, requests for special record keeping or retention of documents, documents or other material from or on behalf of the Company's auditors or the Company's management.

You must also take all reasonable measures to protect the confidentiality of non-public information about the Company and its customers obtained or created in connection with your activities and prevent the unauthorized disclosure of such information unless required by applicable law or regulation or legal or regulatory process.

COMPLIANCE WITH THIS CODE OF ETHICAL CONDUCT

All employees, officers and directors of the Company, regardless of level or seniority in the Company, have a duty to review, understand and adhere strictly to the guidelines set forth in this Code of Ethical Conduct. In addition, you will be required to certify in writing that you (i) received a copy of this Code of Ethical Conduct, (ii) have read and understand this Code of Ethical Conduct, including your duty to report violations or other questionable conduct, and (ii) have complied with, and will continue to comply with, this Code of Ethical Conduct. The required certification form is attached to this Code of Ethical Conduct. Please sign it and return it to the Compliance Officer.

The Company is committed to holding all employees, officers and directors accountable for adherence to this Code of Ethical Conduct.

DUTY TO REPORT VIOLATIONS OF THIS CODE OF ETHICAL CONDUCT; NO RETALIATION

If you reasonably believe that anyone connected with the Company may have, or is about to, violate this Code of Ethical Conduct, you must promptly bring the matter to the attention of the Compliance Officer. If you do not believe that talking to the Compliance Officer is appropriate or if it does not result in a response with which you are comfortable, then you should contact any of AEterna's executive officers or any member of AEterna's Board of Directors. If requested, the Company will keep your name confidential except as required by applicable law.

Failure to report a known violation of this Code of Ethical Conduct is itself a violation of this Code of Ethical Conduct and may result in disciplinary measures.

If you have questions or concerns regarding accounting or auditing matters, then, in addition to the reporting procedures described above, you may also confidentially and anonymously submit such questions or concerns to the Audit Committee of the Board of Directors of AEterna.

The Company will not tolerate retaliation of any kind against any person whom in good faith reports to the Company potential issues relating to violations of this Code of Ethical Conduct. Any director, officer or employee of the Company who commits such retaliation will be subject to disciplinary measures. If you believe that you have been penalized, discharged, disciplined or otherwise penalized for reporting a violation in good faith, you should immediately report that belief in accordance with the reporting procedures described above.

DISCIPLINARY ACTIONS

The Company is committed to the appropriate, prompt investigation and follow-up of any violation or suspected violation of this Code of Ethical Conduct. Reports of violations will be investigated under the Compliance Officer's supervision, in such manner as the Compliance Officer finds appropriate. You are expected to cooperate in the investigation of reported violations. The Compliance Officer has the power to monitor, make determinations, and recommend action to the Board of Directors of AEterna with respect to violations of this Code of Ethical Conduct.

Violations of this Code of Ethical Conduct may result in disciplinary measures, including, depending on the individual circumstances, the level of involvement and knowledge and the severity of the violation, (i) warning and/or reprimand; (ii) probation; (iii) suspension; (iv) salary reduction; (v) bonus reduction or elimination; (vi) demotion; or (vii) termination.

In addition, violations of this Code of Ethical Conduct may also constitute violations of law and may result in civil and criminal penalties for you, your supervisors and/or the Company.

WAIVERS OF ANY PROVISION OF THIS CODE OF ETHICAL CONDUCT

Any request for a waiver of any provision of this Code of Ethical Conduct for a director, officer or employee of the Company must be in writing and addressed to the Compliance Officer. The Board of Directors of AEterna must approve any waiver with respect to this Code of Ethical Conduct that involves a director or an executive officer of AEterna. Waivers of any provision of this Code of Ethical Conduct for a director, officer or employee of the Company (other than a person who is a director or executive officer of AEterna) may be made by the Compliance Officer.

AEterna is required to publicly disclose any waivers granted to a director or executive officer of AEterna, along with the reasons for such waivers, in accordance with the provisions of the Securities Exchange Act

of 1934, as amended, and the relevant rules, if any, of any stock exchanges and quotation systems on which AEterna's securities are listed.

AMENDMENTS TO THIS CODE OF ETHICAL CONDUCT

The Board of Directors of AEterna may update or otherwise amend this Code of Ethical Conduct. When there are material changes, the Company will provide each director, officer and employee of the Company with an updated copy of the Code of Ethical Conduct and may require each director, officer and employee of the Company to execute a new Certification.

Adopted and approved by the Board of Directors on March 29, 2004.

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Gilles Gagnon, President and Chief Executive Officer of AEterna Laboratories Inc., certify that:

1. I have reviewed this annual report on Form 40-F of AEterna Laboratories Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ GILLES GAGNON
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Gilles Gagnon
President and Chief Executive Officer

Dated: May 17, 2004

A signed original of this written statement required by ss. 906 has been provided to AEterna Laboratories Inc. and will be retained by AEterna Laboratories Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Dennis Turpin, Vice President and Chief Financial Officer of AEterna Laboratories Inc., certify that:

1. I have reviewed this annual report on Form 40-F of AEterna Laboratories Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ DENNIS TURPIN
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Dennis Turpin
Vice President and Chief Financial Officer

Dated: May 17, 2004

A signed original of this written statement required by Section 906 has been provided to AEterna Laboratories Inc. and will be retained by AEterna Laboratories Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of AEterna Laboratories Inc. (the "Company") on Form 40-F for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gilles Gagnon, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gilles Gagnon
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Gilles Gagnon
President and Chief Executive Officer

Dated: May 17, 2004

A signed original of this written statement required by SS. 906 has been provided to AEterna Laboratories Inc. and will be retained by AEterna Laboratories Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of AEterna Laboratories Inc. (the "Company") on Form 40-F for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Turpin, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dennis Turpin
- --
Dennis Turpin
Vice President and Chief Financial Officer

Dated: May 17, 2004

A signed original of this written statement required by Section 906 has been provided to AEterna Laboratories Inc. and will be retained by AEterna Laboratories Inc. and furnished to the Securities and Exchange Commission or its staff upon request.