U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 40-F

[Check one]

o 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, 2006 **Commission File Number 0-30752**

ÆTERNA ZENTARIS 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
Québec, Québec
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**
Common Shares	NASDAQ Global Market

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

Not Applicable
(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.

53,169,470 Common 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 o 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 o

Disclosure Controls and Procedures

The Registrant's management, including the Registrant's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of December 31, 2006. Based on that evaluation, as of December 31, 2006, the Registrant's Chief Executive Officer and Chief Financial Officer concluded that the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including the Registrant's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

The Registrant's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Registrant's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Canada(1).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Registrant's management, with the participation of the Registrant's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Registrant's internal control over financial reporting based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the Registrant's management has concluded that, as of December 31, 2006, the Registrant's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Registrant's registered public accounting firm regarding internal control over financial reporting. Management's report

(1) Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and significant differences in measurement from generally accepted accounting principles in United States ("U.S. GAAP") are set out in note 24 to our consolidated financial statements included as exhibit 99.2 in this report.

was not subject to attestation by the Registrant's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Registrant to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There has been no change in the Registrant's internal control over financial reporting that occurred during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Notices Pursuant to Regulation BTR

None

Corporate Governance

The Registrant is in compliance with the corporate governance requirements of The Nasdaq Stock Market, Inc. ("NASDAQ") except as described below. The Registrant is not in compliance with the NASDAQ requirement that a quorum for a meeting of the holders of the common stock of the Registrant be no less than 33 1/3% of such outstanding shares. The by-laws of the Registrant provide that a quorum for purposes of any meeting of shareholders of the Registrant consists of at least 20% of the outstanding voting shares. The Registrant received an exemption from NASDAQ from this quorum requirement because the quorum provided for in the by-laws of the Registrant is consistent with generally accepted business practices in Canada, the Registrant's country of domicile, and with the Toronto Stock Exchange, the principal market on which the Registrant's voting shares are traded.

In addition, the Registrant follows certain of its home country practices in lieu of compliance with the NASDAQ requirements that: (i) independent directors of the Registrant have regularly scheduled meetings at which only independent directors are present ("executive sessions"); (ii) the compensation of the chief executive officer and the other executive officers of the Registrant be determined, or recommended to the Registrant's Board of Directors for determination, by a compensation committee comprised solely of independent directors; and (iii) the director nominees be selected, or recommended for selection by the Registrant's Board of Directors, by a nominations committee comprised solely of independent directors. The Chairman of the Board of the Registrant from time to time ensures that directors hold meetings at which senior management is not present, and the Registrant's Corporate Governance, Nominating and Human Resources Committee, which serves as the Registrant's compensation and nominations committee, is comprised of four members,

three of whom are independent directors. See Annex A to the Registrant's Management Proxy Circular dated March 9, 2007, which is filed as Exhibit 99.5 to this annual report on Form 40-F. In accordance with applicable current NASDAQ requirements, the Registrant has provided to NASDAQ letters from outside counsel certifying that these practices are not prohibited by the Registrant's home country law.

Code of Ethical Conduct

On March 29, 2004, the Board of Directors adopted a "Code of Ethical Conduct", which was amended by the Board of Directors on November 3, 2004, December 13, 2005 and March 2, 2007. The December 13, 2005 amendment incorporates changes to the duty to report violations consistent with applicable laws. The Registrant has selected an independent third party supplier to provide a confidential and anonymous communication channel for reporting concerns about possible violations to the Registrant's Code of Ethical Conduct as well as financial and/or accounting irregularities or fraud. A copy of the Code of Ethical Conduct, as amended, is attached as Exhibit 99.7 to this annual report on Form 40-F and is also available on the Registrant's Web site at www.aeternazentaris.com in Investors/Governance. The Code of Ethical Conduct is 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 du Parc-Technologique Boulevard, Quebec City, Quebec, G1P 4P5, Canada.

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. Gérard Limoges, FCA, the Audit Committee's Chairman. The Commission has indicated that the designation of Mr. Limoges as the audit committee financial expert of the Registrant does not (i) make Mr. Limoges 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. Limoges 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.

Audit Committee, External Auditor's Fees and Pre-Approval Policies and Procedures

The Registrant has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Board of Directors is of the view that each of the members of the Audit Committee is "independent" as defined by the Marketplace Rules of NASDAQ.

Information regarding the composition of the Registrant's Audit Committee, the fees billed by the Registrant's external auditor for each of the years ended December 31, 2005 and 2006 and the pre-approval policies and procedures adopted by the Audit Committee is

incorporated into this annual report on Form 40-F by reference from the Registrant's Management Proxy Circular dated March 9, 2007, which is filed as Exhibit 99.5 to this annual report on Form 40-F.

For each of the years ended December 31, 2005 and 2006, none of the non-audit services provided by the Registrant's external auditor were approved by the Audit Committee pursuant to the "de minimis exception" to the pre-approval requirement for non-audit services.

Off-Balance Sheet Arrangements

As at December 31, 2006, the off-balance sheet arrangement consist of letters of garantee. The off-balance sheet arrangements are described in note 23 to our consolidated financial statements which are filed as Exhibit 99.2 to this annual report on Form 40-F.

Contractual Obligations

The Registrant's tabular disclosure of contractual obligations as of December 31, 2006 is incorporated into this annual report on Form 40-F by reference from the Registrant's Management's Discussion and Analysis of Financial Condition and Results of Operations for the financial year ended December 31, 2006, which is filed as Exhibit 99.4 to this annual report on Form 40-F.

Documents Filed Pursuant to General Instructions

In accordance with General Instruction D.(9) of Form 40-F, the Registrant hereby files Exhibit 99.6 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

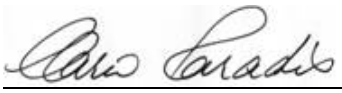
The Registrant has previously filed with the Commission a written consent to service of process and power of attorney on Form F-X.

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.

ÆTERNA ZENTARIS INC.

Date: March 23, 2007

By: 

Name: Mario Paradis

Title: Vice-President, Finance & Administration and Corporate Secretary

EXHIBIT INDEX

Exhibit Number	Document
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
99.1	Annual Information Form of Registrant, dated March 23, 2007, for the year ended December 31, 2006
99.2	Audited Consolidated Balance Sheets of Registrant, including the Notes thereto, as at December 31, 2006 and 2005 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, 2006, 2005 and 2004
99.3	Annual Report of the Registrant for the year ended December 31, 2006
99.4	Management's Discussion and Analysis of Financial Condition and Results of Operations for the financial year ended December 31, 2006
99.5	Registrant's Management Proxy Circular dated March 9, 2007
99.6	Consent of Independent Accountants
99.7	Code of Ethical Conduct, as amended on March 2, 2007

Exhibit 31.1

CERTIFICATION

I, Gilles Gagnon, President and Chief Executive Officer of Æterna Zentaris Inc., certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the Audit Committee of the issuer's Board of Directors (or persons performing the equivalent functions):

   a) a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 23, 2007

Gilles Gagnon
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

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

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

2. Based on my knowledge, this 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 report;

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

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the Audit Committee of the issuer's Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 23, 2007

Dennis Turpin
Vice President and Chief Financial Officer

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 Æterna Zentaris Inc. (the "Company") on Form 40-F for the year ended December 31, 2006 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. § 1350, as adopted pursuant to § 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.

Dated: March 23, 2007

Gilles Gagnon
President and Chief Executive Officer

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 Æterna Zentaris Inc. (the "Company") on Form 40-F for the year ended December 31, 2006 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. § 1350, as adopted pursuant to § 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.

Dated: March 23, 2007

Dennis Turpin
Vice President and Chief Financial Officer

Æterna Zentaris

ANNUAL INFORMATION FORM
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

March 23, 2007

TABLE OF CONTENTS

INTERPRETATION NOTE

In this Annual Information Form, unless the context otherwise requires, the terms « we », « us », « our », « Æterna Zentaris" and the "Company" refer to Æterna Zentaris Inc. on a consolidated basis, including its subsidiaries and divisions and their respective predecessors. Unless otherwise indicated, the information presented in this Annual Information Form is given as at March 1, 2007.

ITEM 1. CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

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 Æterna Inc. On May 26, 2004, the Company modified its Articles of Amendment and changed its name to Æterna Zentaris Inc. ("Æterna Zentaris" or the "Company") as well as to:

i) create a new class of shares, being an unlimited number of Common Shares;

ii) change each issued and outstanding Subordinate Voting Share into one Common Share; and

iii) cancel the Subordinate Voting Shares and the Multiple Voting Shares as a class.

The authorized share capital of the Company consists of an unlimited number of Common Shares, an unlimited number of First Preferred Shares, issuable in series, and an unlimited number of Second Preferred Shares, issuable in series.

Our head office is located at 1405 Parc-Technologique Blvd., Quebec City, Quebec, Canada G1P 4P5. Our telephone number is (418) 652-8525 and our facsimile number is (418) 652-0881. Our web site is www.aeternazentaris.com. Any information or documents on our Web site are not, however, included in, nor shall any of such information or documents be deemed to be incorporated by reference into, this Annual Information Form.

1.2 INTERCORPORATE RELATIONSHIPS

The Æterna Zentaris headquarters are based in Quebec City, Canada, with two wholly-owned subsidiaries; Zentaris GmbH ("Zentaris") based in Frankfurt, Germany and Echelon Biosciences, Inc. ("Echelon") based in Salt Lake City, Utah in the United States. These three companies form the Continuing Biopharmaceutical Operations.

During 2006, we sold a partial interest in Atrium Biotechnologies Inc. ("Atrium"), our former subsidiary and subsequent to year-end, we distributed our remaining interest in Atrium to our shareholders.

Atrium was founded at the end of 1999 to develop, manufacture and market active ingredients, specialty chemicals and finished products in the health and personal care industry. Since its inception, Atrium completed many accretive acquisitions and grew steadily over the years.

On April 6, 2005, Atrium completed its initial public offering in Canada and began trading on the Toronto Stock Exchange the "TSX" under the ticker symbol "ATB".

Throughout 2006, as part of a thorough, strategic planning process, the management and board of directors of Æterna Zentaris made the decision to spin-off Atrium in two phases. On September 19, 2006, we initiated the first phase, a secondary offering to sell 3,485,000 Subordinate Voting Shares of Atrium at a price of CAN$ 15.80 per share. This secondary offering closed on October 18, 2006, generating net

proceeds of nearly $45 million to Æterna Zentaris. With this transaction closed, our remaining interest in Atrium was 11,052,996 Subordinate Voting Shares representing 36.1% of its issued and outstanding shares. Therefore, we no longer had a controlling interest in Atrium as of October 18, 2006.

The second phase was to distribute our remaining interest in Atrium to our Shareholders; referred to as a reduction of the stated capital of Atrium.

On December 15, 2006, the Company's shareholders approved a reduction of the stated capital of its common shares in an amount equal to the fair market value of its remaining interest in Atrium by way of a special distribution in kind to all Æterna Zentaris shareholders. This special distribution was completed on January 2, 2007. For each common share held as of the Record Date of December 29, 2006, Æterna Zentaris shareholders received 0.2078824 Subordinate Voting Shares of Atrium.

ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 THREE YEAR HISTORY

We are a late-stage, global biopharmaceutical company focused on endocrine therapy and oncology. On December 30, 2002, we acquired Zentaris, a biopharmaceutical company based in Frankfurt, Germany. Zentaris was a spin-off of Degussa AG and Asta Medica GmbH, a former pharmaceutical company. With this acquisition, the Company changed its risk profile and inherited an extensive and robust product pipeline with capabilities from drug discovery to commercialization with a particular focus on endocrine therapy and oncology. As part of the acquisition, we also inherited a very experienced pharmaceutical team along with a network of strategic pharmaceutical partners.

In May 2004, we changed our name to Æterna Zentaris Inc.

In early January 2005, we acquired Echelon inclusive of a product pipeline focused on the emerging field of transduction signalling technology thus mainly providing us with complementary strategic fit to our drug discovery activities specifically relating to signal transduction modulators.

During the last three years, we advanced our robust product development pipeline with a focus on our lead product candidates: cetrorelix, ozarelix and perifosine, as well as our promising, targeted earlier-stage programs with high potential.

After the completion of a thorough review process, whereby we examined a number of strategic alternatives for how best to pursue and implement the Company's business plan, we undertook and completed the divestiture of our interest in Atrium and we emerged in January 2007 as a late-stage, pure-play biopharmaceutical company with a strategic focus on endocrine therapy and oncology.

ITEM 3. DESCRIPTION OF THE BUSINESS

3.1 OUR BUSINESS STRATEGY

Æterna Zentaris Inc. is a late-stage, global biopharmaceutical company focused on endocrine therapy and oncology with proven expertise in drug discovery, development and commercialization.

Our strategy is to aggressively advance our robust product development pipeline with a focus on our lead product candidates: cetrorelix, ozarelix and perifosine, as well as our promising targeted earlier-stage programs with high potential.

For 2007, our strategy is to continue to market Cetrotide® (cetrorelix) in collaboration with Merck Serono on a world-wide ex-Japan basis and with Shinogi in Japan. Cetrotide® is sold for *in vitro* fertilization and on the market in more than 80 countries. In addition, we will continue to advance cetrorelix in our Phase 3 program for benign prostatic hyperplasia (BPH) and our partner Solvay Pharmaceuticals ("Solvay") will pursue its late stage program in endometriosis.

In addition, we intend to further advance ozarelix with the collaboration of our partner Spectrum Pharmaceuticals ("Spectrum") in BPH with the goal of reaching late-stage development by the end of 2007, as well as continue our Phase 2 program in hormone-dependent inoperable prostate cancer.

With respect to perifosine, we, along with our partner, Keryx Biopharmaceuticals ("Keryx") will continue development in multiple Phase 1 and 2 trials in oncology. Our goal is to initiate one pivotal trial by the end of the year, dependant on the positive outcome of several Phase 2 ongoing trials.

We also intend to further advance our earlier-stage product candidates with high potential during the year including AN-152 and ZEN-012 both in oncological indications.

Furthermore, we believe we will continue to benefit from Impavido sales and from our reagent business,at Echelon. We intend to continue to seek pharmaceutical partnerships in Asia as well as leverage on our non-core assets.

With this strategy, our expertise and depth, our strategic alliances and financial resources, it is our long-term goal to emerge as a fully integrated specialist-driven global biopharmaceutical company with a strategic focus on endocrine therapy and oncology.

3.2 GROWTH STRATEGY

We are a growing late-stage biopharmaceutical company with a focus in endocrine therapy and oncology with proven expertise in drug discovery, pharmaceutical development and commercialization.

We are committing our resources, our management expertise and depth and our strategic alliances to aggressively advancing our product pipeline.

Ultimately, our objective is to emerge as a fully-integrated specialist-driven biopharmaceutical company with a strategic focus on endocrine therapy and oncology.

3.3 BUSINESS OVERVIEW

We are focused on advancing our product pipeline with a focus on endocrine therapy and oncology. We believe that we have a proven expertise in drug discovery, pharmaceutical development and commercialization.

We believe that the LHRH antagonist and the signal transduction inhibitor therapeutic approaches are the value drivers of our biopharmaceutical activities and have the potential to target large market opportunities. Our LHRH antagonists include cetrorelix involved in *in vitro* fertilization (IVF), endometriosis and BPH and ozarelix which targets BPH and prostate cancer. In addition, our signal transduction inhibitors include our lead compound perifosine targeting multiple types of cancer.

Cetrorelix is our lead LHRH antagonist and is currently marketed by our partners Merck Serono and Shionogi & Co Ltd ("Shionogi") for *in vitro* fertilization under the brand name Cetrotide®.

Cetrorelix is in late-stage development in endometriosis with our worldwide (ex-Japan) partner Solvay. The endometriosis program, a five-study program was initiated in 2005. Two of the five studies are currently under analysis. Importantly, we regained the worldwide (ex-Japan) BPH rights from Solvay in early 2006. During 2006, we had a successful end-of Phase 2 meeting with the FDA, submitted an Investigational New Drug (IND) application and received acceptance of our IND from the FDA for a 1500-patient, Phase 3 program in BPH. We then initiated in early 2007 our first of three studies in the United States for this indication.

Ozarelix is our fourth-generation LHRH antagonist aiming at extended suppression of testosterone levels, without requiring a sophisticated depot formulation for long-lasting activity. Highly statistically significant results of Phase 2 trials both in BPH and in hormone-dependent inoperable prostate cancer were announced in 2006. A Phase 2b study in the BPH indication was initiated by our partner Spectrum in

January 2007 and will include nearly 70 patients. An additional Phase 2 study with ozarelix in hormone-dependent inoperable prostate cancer was also initiated to verify and optimize the findings of our previous study, completed in 2006. Both studies are funded by our partner Spectrum who has exclusive rights to ozarelix in North America and India.

Perifosine, our lead signal transduction inhibitor, is an orally-active first-in-class alkylphosphocholine that demonstrated interactions with vital signal transduction mechanisms in tumor cells and showed induction of apoptosis. Perifosine has also shown anti-tumor activity in several monotherapy trials. Perifosine is being investigated in over ten Phase 1 and 2 clinical trials in monotherapy as well as in combination with chemotherapy, biologics or radiotherapy.

We also have several preclinical and clinical programs under way with various potential development candidates. We also benefit from an important drug discovery unit which includes high throughput screening systems and a library of nearly 120,000 compounds.

3.4 OUR PRODUCT PIPELINE

3.4.1 Pipeline Table

								Partners in major geographies		
Category	**Product**	**Indications**	**Preclinical**	**Phase 1**	**Phase 2**	**Phase 3**	**Marketed**	**America**	**Europe**	**Japan**
Value drivers	Cetrorelix	BPH				•		**AEZS**	**AEZS**	Shionogi
	Cetrorelix	Endometriosis				•		Solvay	Solvay	Shionogi
	Ozarelix	Prostate cancer, BPH			•			Spectrum	**AEZS**	Nippon Kayaku in Oncology
	Perifosine	Multiple cancers						Keryx	**AEZS**	**AEZS**
Oncology	AN-152	Ovarian, endometrium, breast cancer		•				**AEZS**	**AEZS**	**AEZS**
	ZEN-012	Multiple cancers		•				**AEZS**	**AEZS**	**AEZS**
	AN-215	Solid tumours	•					**AEZS**	**AEZS**	**AEZS**
	AN-238	Solid tumours	•					**AEZS**	**AEZS**	**AEZS**
	Erk/PI3K inhibitors	Multiple cancers	•					**AEZS**	**AEZS**	**AEZS**
	Erucylphosphocholine	Multiple cancers	•					**Keryx**	**AEZS**	**AEZS**
	GH-RH antagonists	Multiple cancers	•					**AEZS**	**AEZS**	**AEZS**
	Vaccines	Prostate cancer, melanoma	•					**AEZS**	**AEZS**	**AEZS**
Endocrinology	Cetrotide® (cetrorelix)	*In vitro* fertilization					•	Merck Serono	Merck Serono	Shionogi/Nippon Kayaku
	EP-1572	Cachexia, GH disorders		•				Ardana	Ardana	Ardana
	Ghrelin antagonist	Obesity	•					**AEZS**	**AEZS**	**AEZS**
	Oral LHRH peptidomimetics	Cancer, endometriosis, BPH	•					**AEZS**	**AEZS**	**AEZS**
Infectious diseases	Impavido® (miltefosine)	Leishmaniasis (cutaneous, visceral)					•	Roche/ Tecnofarma	Action Medeor/ Paesel + Lorei	**AEZS**

AEZS rights belong to Æterna Zentaris

3.4.2 LHRH Antagonists

Cetrorelix

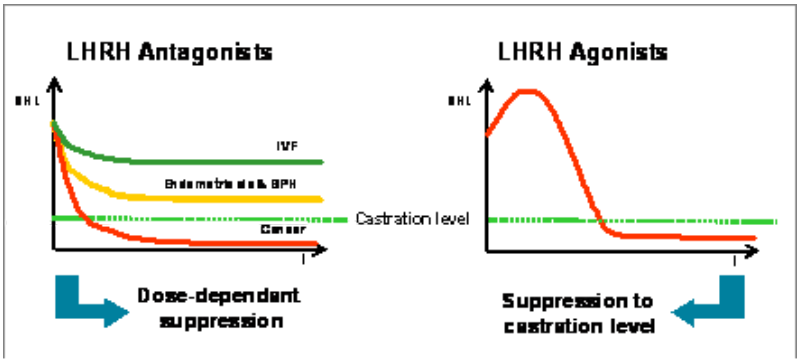
Cetrorelix is a peptide-based active substance which was developed in cooperation with Nobel Laureate Professor Andrew Schally of Tulane University in New Orleans. This compound is an LHRH antagonist (LHRH also known as GnRH) that blocks the pituitary LHRH receptors resulting in a rapid decrease of sexual hormone levels. Moreover, cetrorelix allows the LHRH receptors on the pituitary gland to be blocked gradually. Conversely, the side effects usually associated with the use of agonists and resulting from total hormone withdrawal can be avoided in conditions that do not require a castrating degree of hormone withdrawal. Therefore, in contrast to treatment with 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 antagonists and LHRH agonists

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).

When using LHRH agonists, the LHRH receptors on the pituitary gland are stimulated leading to an initial increased secretion of the hormones LH and FSH, which in turn regulate formation of testosterone and estrogen. The increase or surge of hormonal levels induces a "flare-up" effect that 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 anti-androgens, the flare-up effect can be attenuated. However, this additional treatment also bears the risk of certain 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 ranges below castration level. In women, the hormone levels are far below the ranges observed after the end of the climacteric. Treatment with an LHRH agonist, therefore, is regularly associated with side effects such as hot flashes, depression, muscle weakness, loss of libido and, particularly 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.



We believe that cetrorelix, an LHRH antagonist, because of its different mode of action, can avoid the side effects associated with the administration of agonists. Since LHRH antagonists have a rapid onset of action, 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 avoided and quality of life is restored. Since there is no necessity for long-term therapy and the overall treatment time is much shorter, the risks of side effects are also reduced. In particular, we also believe that the risk of developing osteoporosis in women taking the cetrorelix therapy regimen is diminished.

Cetrorelix might 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 In Vitro *Fertilization (COS/ART)*

Cetrorelix is the first LHRH antagonist which was approved for therapeutic use as part of fertilization programs in Europe and was launched on the market under the trade name Cetrotide® (cetrorelix acetate) in 1999. In women who undergo controlled ovarian stimulation (COS) for recovery of ovocytes for subsequent fertilization, Cetrotide® 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® is designed to prevent LH production by the pituitary gland and to delay the 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 assisted reproductive techniques (ART) procedure.

In comparison with LHRH agonists that require a much longer pre-treatment, the use of our LHRH antagonist, Cetrotide®, 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® has been examined in five clinical trials (two Phase 2 and three Phase 3 trials). Two dose regimens were investigated in these trials: either a single dose per treatment cycle or multiple dosing. In the Phase 2 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® 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 3 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®. In the five Phase 2 and Phase 3 trials, 184 pregnancies were reported out of a total of 732 patients (including 21 pregnancies following the replacement of frozen-thawed embryos). In these studies, drug-related side effects were limited to a low incidence of injected site reactions; however, none of them was serious – like an allergic type of reaction - or required withdrawal from treatment. No drug-related allergic reactions were reported from these clinical studies.

Cetrotide® is the only LHRH antagonist that is available in two dosing regimens. With an immediate onset of action, Cetrotide® 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® can be accomplished during a one-month cycle with a simplified, more convenient and shorter treatment requiring fewer injections than LHRH agonists.

Cetrotide® is marketed in a 3 mg and a 0.25 mg subcutaneous injection as cetrorelix acetate by Merck Serono in the US and Europe. Approval for Cetrotide® in Japan was gained in April 2006. In September 2006, we announced the launch of Cetrotide® in Japan for *in vitro* fertilization. Cetrotide® is marketed in Japan by our partner Shionogi. In return of this agreement, the Company will receive revenue from the supply of Cetrotide® to its Japanese partners. The market competitor is ganirelix (Antagon™/Orgalutran®) from Akzo (Organon) indicated for the inhibition of premature LH surges in women undergoing controlled ovarian hyperstimulation, which, however, is not yet approved in Japan.

Clinical Development Overview of Cetrorelix

In October 2004, cetrorelix completed an extensive seven Phase 2 trial program in urology and gynaecology, a significant part of which was sponsored by our partner Solvay Pharmaceuticals.

Cetrorelix in Benign Prostatic Hyperplasia (BPH)

BPH is a hormone-driven 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-blockers or alpha-reductase inhibitors (5-ARIs) is possible but the plant-based drugs and alpha-blockers cannot delay further prostate growth, they merely improve the symptoms in 50% of patients. Treatment with alpha-reductase inhibitors 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 Phase 2 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 as assessed primarily by the IPSS (International Prostate Symptom Score) as well as an increase in urinary peak flow rate and a reduction in prostate volume. 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 and May 25, 2004, we announced the results of two placebo-controlled Phase 2 trials that were conducted in BPH. As early as one month following initiation of therapy, both trials demonstrated improvement of clinical symptoms, classified and graded according to the IPSS which was paralleled by an increase in maximum uroflow in patients receiving cetrorelix treatment group, compared with patients on placebo group. 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 moreover did not have an adverse influence on sexual activity or libido.

On October 7, 2004, we announced additional results for cetrorelix in BPH, which was a randomized, double-blind, placebo-controlled Phase 2 trial that enrolled patients with symptomatic and objectively defined BPH (decreased urine flow). This trial was conducted in Europe, under the coordination of Professor Frans MJ Debruyne from the Department of Urology, University Medical Center in Nijmegen. During a run-in period, all patients received two intramuscular injections of placebo, two weeks apart. Thereafter, 250 patients with persisting symptomatic BPH were randomized into five equal groups receiving either placebo injections or four different dosage regimens from 60 to 120 mg in two or three injections of a depot formulation of cetrorelix over the course of four weeks.

Patients were followed up for about six months after the last injection for efficacy and safety assessments, as well as for levels of testosterone and quality of life and sexual function. As early as one month following the initiation of therapy, the use of cetrorelix was associated with a dose-dependent, statistically significant improvement of clinical signs and symptoms, including IPSS and maximum uroflow, compared to placebo.

Importantly, for all dosage regimens the therapeutic response lasted until the last observation point, i.e. 24 to 26 weeks following cessation of cetrorelix administration.

On March 16, 2005, we announced that our partners, Shionogi and Nippon Kayaku, are pursuing the development of cetrorelix by initiating the first Phase 2a trial in the Japanese market with cetrorelix in BPH. This trial will evaluate the safety (systemic and local tolerability) and explore efficacy (effects on BPH-related parameters such as the IPSS) of cetrorelix.

On January 30, 2006, we announced that we regained our worldwide rights (ex-Japan) from our partner Solvay to develop and potentially market Cetrorelix in BPH and the ongoing development of cetrorelix in endometriosis was pursued by Solvay.

During 2006, we had a successful end of Phase 2 meeting with the FDA. Following this positive meeting, we filed with the FDA an Investigational New Drug (IND) application, it was accepted and therefore, we initiated our phase 3 program in BPH at the beginning of 2007.

This Phase 3 program will include 3 studies to assess an intermittent dosage regimen of cetrorelix as a potential safe and tolerable treatment providing prolonged improvement in BPH-related signs and symptoms.

On January 8, 2007, we announced the initiation of the first study of the Phase 3 program. This first study is randomized placebo-controlled, includes 600 patients and is being conducted across the United States and Canada under the supervision of Herbert Lepor, MD, Professor at NY University School of Medicine, New York. The primary efficacy endpoint of this study is absolute change in IPSS at baseline before beginning treatment and Week 52, while safety endpoints include changes in sexual function as well as BPH symptom progression. Other important endpoints consist of plasma levels of testosterone and changes in bone mineral density.

The second study of this Phase 3 program will be a multi-center randomized placebo-controlled study with approximately 300 patients in Europe. We currently expect to initiate this study sometime during the second half of 2007.

The third study of the Phase 3 program will be a multi-center open-label, single-armed safety study with approximately 600 patients in both Europe and North America. We expect to initiate this study in the second half of 2007.

Cetrorelix in Endometriosis

Endometriosis is the estrogen-driven 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-dependent diseases often regress when estrogen production is reduced (endometriosis, and the pelvic pain associated with it, improves when estrogen production is reduced). Excessive and prolonged reduction of estrogen production, however, is typically associated with adverse side effects, such as vasomotor symptoms and bone loss.

A similar, very low estrogen level can be induced by oophorectomy (surgical removal of the ovaries) and by chronic LHRH agonist treatment. In both cases, estrogen replacement treatment is necessary to reduce the hypo-estrogenic effects (e.g. bone loss, climacteric symptoms) associated with these therapeutic approaches. 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 estrogen to below castration levels values for many months. These symptoms can further deteriorate upon withdrawal of hormonal replacement. The longer is the treatment period with traditional LHRH agonists, the higher the risk of developing osteoporosis. Its use is therefore restricted to six months and can be extended only if estrogens and progesterones are administered concomitantly.

We believe that the side effects could be avoided with our LHRH antagonist cetrorelix, due to the absence of flare-up effects and to the possibility of controlling estrogen levels at values comparable to the

ones observed at the beginning of the regular monthly cycle. Since the controlled hormone withdrawal is achieved in a very short period of time, complaints from monthly bleeding are reduced while inflammatory *foci* of endometriosis are depleted of their basis. Therefore, we believe that treatment time can be reduced. Initial experiences show that the effect of therapy persists for many months. Since the effect of cetrorelix starts within a short period of time and the risk of developing osteoporosis is low, we believe that cetrorelix therapy can be repeated in several cycles.

Endometriosis Clinical Trials

In earlier Phase 2 clinical trials, cetrorelix was given at a rate of 3 mg per week over a period of eight weeks. All patients were free of pain during the course of treatment. A second laparoscopy was performed after eight 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. Cetrorelix allowed targeted control of the hormone level to show rapid effects, while avoiding the problems of menopause and risks (e.g. osteoporosis) associated with an otherwise complete and long-term withdrawal of hormones. We believe that the rapid onset of action would be ideal for intermittent therapies, allowing for treatment-free intervals with re-dosing at the time when the therapeutic effect starts to fade.

On April 29, 2004, we announced the results of Phase 2 placebo-controlled studies demonstrating 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.

On March 16, 2005, we announced that our worldwide (ex-Japan) exclusive development and marketing partner, Solvay Pharmaceuticals, initiated a full development program for the potential treatment of endometriosis with cetrorelix. On March 5, 2007, we announced that two ot the studies included in the full development program were completed and under analysis by our partner Solvay.

Cetrorelix in Uterine Myoma

As part of the seven Phase 2 programs, cetrorelix was also evaluated 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 subserous 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 however, is the intramural myoma bound in the muscular layer of the uterus. Intramural myoma leads 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

On April 29, 2004, we disclosed positive Phase 2 results from a double-blind, placebo-controlled, multi-center trial evaluating the subcutaneous formulation of cetrorelix, administered weekly for four weeks, as a pre-surgical treatment to 109 women with uterine myomas. In addition to evaluating the safety and tolerability of different doses of the new formulation, the trial also evaluated whether cetrorelix use could lead to the reduction of myoma and uterine volumes within a shorter treatment period than that normally required for LHRH agonists. Data from this trial demonstrated that cetrorelix use led to a reduction of myoma and uterine volumes after a one-month treatment period, which is significantly shorter than the two- to six-month treatment period typically required for LHRH agonists. The best response rate was obtained at a dose of 10 mg of cetrorelix per week. Cetrorelix use did not lead to castration-like symptoms.

Our partner Solvay has not yet initiated additional clinical studies in Uterus Myoma having decided to focus on endometriosis first.

Partners for Cetrorelix

Cetrorelix has been licensed exclusively to Solvay Pharmaceuticals worldwide (ex-Japan) for all indications with the exception of IVF/COS/ART, which rights belong to Merck Serono and Japanese rights are held by Nippon Kayaku and Shionogi in the BPH indication, for which we regained exclusive worldwide (ex-Japan) rights. Japanese rights are held by Shionogi.

Competition for Cetrorelix

The market leaders in the indication of BPH are Pfizer, Astellas/Boehringer Ingelheim, Sanofi-Aventis and Abbott with alpha-blockers and Merck Inc and GlaxoSmithKline with alpha-reductase inhibitors. Worldwide, there are four LHRH agonists for the treatment of endometriosis, including TAP Pharmaceutical Products (Abbott and Takeda), Astra Zeneca and Sanofi-Aventis.

Ozarelix

Ozarelix is a modified LHRH antagonist which is a linear decapeptide sequence. Ozarelix is a 4th generation LHRH antagonist aiming at extended suppression of testosterone levels that does not require a sophisticated depot formulation for long-lasting activity. The aim of this project is to identify an active substance with superior properties for the development of longer-acting formulations that we believe are particularly suitable for tumor therapy.

Single doses of ozarelix depot were tested in healthy male volunteers. Ozarelix was well tolerated and produced a dose-dependent suppression of testosterone. An immediate decrease in testosterone plasma levels was observed in all dose groups reaching levels below 1 ng/ml within the first 12 hours after application. Duration of suppression was dose-dependent and at the highest dose of 60 mg caused testosterone suppression for one month.

On August 12, 2004, we entered into a licensing and collaboration agreement with Spectrum Pharmaceuticals for ozarelix and its potential to treat hormone-dependent cancers as well as benign proliferative disorders, like BPH and endometriosis. Under the terms of the agreement, we granted an exclusive license to Spectrum to develop and commercialize ozarelix for all potential indications in North America (including Canada and Mexico) and India while keeping the rights for the rest of the world. In addition, Spectrum is entitled to receive fifty percent of upfront, milestone payments and royalties received from our Japanese partner, Nippon Kayaku, that are generated in the Japan market.

BPH clinical trials

In October 2006, we announced positive and highly statistically significant Phase 2 results for ozarelix in BPH. The multi-center double-blind, randomized, placebo-controlled dose-ranging Phase 2 trial included 144 patients who received different intramuscular dosage regimens of ozarelix, or a placebo, to assess its safety and efficacy. Ozarelix was administered on day 1 or day 1 and 15. The primary efficacy endpoint of improving clinical symptoms of BPH at week 12, as measured by significant changes in IPSS, was achieved at all dosage regimens. However, the best results in terms of the most important decrease of the IPSS score were obtained with a dose of 15 mg administered on day 1 and 15. The observed mean decrease of the IPSS score at week 12 was minus 8.6, it peaked at minus 9.4 at week 20 and was still at minus 8.7 as of week 28. Testosterone suppression levels were maintained above castration levels at all times. Secondary efficacy parameters such as uroflow, residual urinary volume, quality of life, and circulating testosterone levels were also measured and showed good results. The outcome of the trial demonstrated an excellent safety profile with ozarelix were patients had no serious side effects. The erectile function was also not effected at any dose regimens.

On January 3, 2007, Spectrum announced the FDA's acceptance of a Phase 2b protocol for ozarelix in BPH. Spectrum initiated the study in January 2007 which will involve approximately 70 patients. Dr Claus Roehrborn from the UT Southwestern Medical Center at Dallas, Department of Urology, will serve as the lead investigator. The Phase 2b study is a randomized placebo-controlled trial of ozarelix. Patients will be dosed with 15 mg of ozarelix or placebo on day 1 and 15 and will be followed for six months. The primary endpoint of the study will be the improvement of BPH symptoms as measured by IPSS. The study will also measure urine flow, residual urine volume and quality of life.

Prostate cancer clinical trials

In August 2006, we announced positive Phase 2 result for ozarelix in hormone-dependent inoperable prostate cancer. This open-label, randomized-controlled dose-finding trial enrolled 64 patients receiving different intramuscular dosage regimens of ozarelix to assess its safety and efficacy. The study achieved its primary endpoint of defining a tolerable dosage regimen of ozarelix that would ensure continuous suppression of testosterone at castration level for a three-month test period. A secondary efficacy endpoint aimed at assessing tumor response as determined by a 50% or greater reduction of serum PSA level, compared to baseline, was also achieved. The best results regarding the primary endpoint of continuous suppression were obtained with a dose of 130 mg per cycle where all patients remained suppressed to castration until at least day 85. In patients with continuous testosterone suppression below castration level, tumor response as measured by PSA levels was 97%. Following these results, the Company, in collaboration with its partner Spectrum, has initiated an

additional Phase 2 study in European centers to verify and optimize the findings derived from the cohort of patients having received 130 mg of ozarelix per cycle.

On August 3, 2006, we announced a licensing and collaboration agreement with Nippon Kayaku for ozarelix. Under the terms of the agreement, we granted Nippon Kayaku an exclusive license to develop and market ozarelix for all potential oncological indications in Japan. In return, the Company received an upfront payment upon signature and is eligible to receive payments upon achievement of certain development and regulatory milestones, in addition to low double-digit royalties on potential net sales. Spectrum is entitled to receive fifty percent of the upfront, milestone payments and royalties received from Nippon Kayaku.

ZEN-019 Non-Peptide LHRH Antagonist

As outlined above, the LHRH receptor plays an important role in a number of benign and malignant tumors. The Company's drug discovery unit searches for small, non-peptide molecules which have the same effect on the receptor. Their advantage lies in the potential for oral administration.

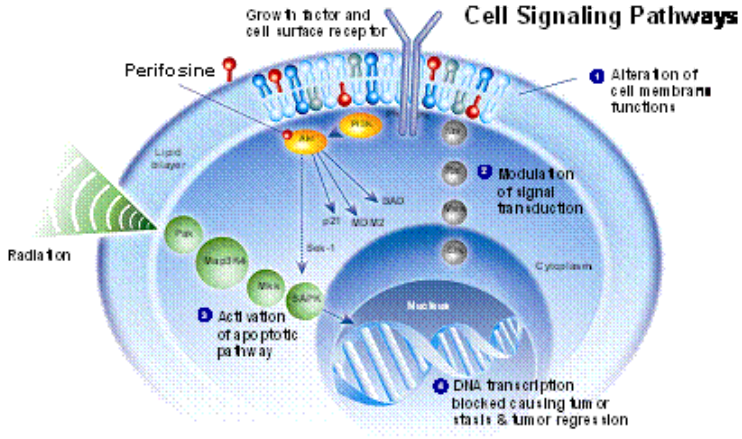
ZEN-019 is a new orally bioavailable LHRH antagonist for hormonal therapy that advanced to a pre-clinical stage where the *in vivo* activity has been confirmed.

We have exclusive worldwide rights for all therapeutic areas for ZEN-019.

3.4.3 Signal Transduction Inhibitors

Perifosine

Perifosine is an alkylphosphocholine compound with structural similarity to phospholipids, which are the main constituents of cellular membrane,s and it is an active ingredient with anti-tumor capacities. In tumor cells, perifosine has demonstrated interactions with vital signal transduction mechanisms and induction of programmed cell death (apoptosis).



Perifosine exerts a marked cytotoxic effect in 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 have demonstrated that perifosine possesses antitumor activity, including tumor models that are resistant to currently available agents for cancer therapy. This activity is based on a direct and relatively specific action on tumors. A dose relationship was also shown.

In preclinical and clinical Phase 1 trials (solid tumors), this orally administered agent has been found to have good tolerability. Five Phase 1 trials have been conducted on perifosine, including the trial presented at the June 2004 ASCO meeting in combination with radiotherapy.

In four trials, the use of perifosine as a single agent in a total of 94 patients provided initial encouraging evidence of anti-tumor activity. In particular, investigators observed two partial responses (>50% reduction) in patients with sarcoma and sixteen stable diseases in patients with breast, prostate, pancreatic and other forms of cancer.

Based on findings in various tumor models, the U.S. National Cancer Institute (NCI), along with our North American partner, Keryx, investigated additional dosage regimens of perifosine in oncology patients. A number of screening Phase 2 studies examine perifosine as a single agent in several tumor types, including prostate, breast, pancreatic, head and neck, sarcoma and melanoma. Encouraging results showing anti-tumor activity were obtained in soft tissue sarcoma, breast and prostate cancers and lead to further development in these indications.

A proof-of-concept Phase 1 study of perifosine in combination with radiotherapy conducted by the NCI of the Netherlands was completed in 2004. Results from this trial were presented at ASCO 2004. A total of 21 radiotherapy-naïve patients, 17 of whom had advanced non-small cell lung cancer (NSCLC) and 14 had become refractory to prior chemotherapy, received oral perifosine doses ranging from 50 mg to 200 mg/day concurrently with standard doses of radiotherapy. The trial data demonstrated an acceptable safety and tolerability profile, with 150 mg/day established as the dose recommended for use in subsequent clinical trials. Also demonstrated was preliminary evidence of anti-tumor activity at all dosage levels, including complete or partial responses (complete disappearance and decreased tumor size, respectively), or stable disease, with a median follow-up for responders of eight months. Importantly, in the cohort of 10 patients who were treated with 150 mg/day, the established dose recommended for use in subsequent clinical trials, there were three complete responses, three partial responses, and four patients with stable disease.

On September 22, 2005, we announced the commencement of a Phase 2 clinical study of perifosine in combination with radiotherapy in patients suffering from non-small cell lung cancer. This is a randomized, double-blind, placebo-controlled trial to assess the efficacy and safety of a 150 mg daily dose of perifosine when combined with radiotherapy in 160 patients with inoperable Stage III NSCLC. The trial is being conducted in collaboration with the Netherlands Cancer Institute. The lead investigator is Marcel Verheij, MD PhD, of the Department of Radiation Oncology / Division of Cellular Biochemistry, at The Netherlands Cancer Institute in Amsterdam.

On March 2, 2006, our North American partner, Keryx, announced the initiation of a corporate-sponsored Phase 2 trial, multi-cancer, clinical program to evaluate perifosine as a treatment for leukemia. Dr Frank Giles, Professor, Department of Leukemia, at the MD Anderson Cancer Center in Houston, TX, is the principal investigator. This Phase 2 trial will assess the objective response rate and evaluate the pharmacokinetics and safety and tolerability of perifosine as a single agent in relapsed or refractory acute myeloid leukemia (AML), acute lymphocytic leukemia (ALL), chronic lymphocytic leukemia (CLM), high-risk myelodysplastic syndrome (MDS) and chronic myeloid leukemia in the blastic phase.

In June 2006, we announced positive data of perifosine in patients with advanced renal cell carcinoma (RCC). Keryx disclosed results from an interim analysis performed at the end of the first year of accrual, and the results of the RCC group met protocol requirements for expansion of this cohort of a Phase 2, multi-center trial of perifosine that included multiple types of tumor. Of the thirteen patients with RCC, seven were evaluable for response. Three of them (43%) had a partial response and an additional 2

patients (29%) achieved long-term stable disease. Two patients (29%) had progressive disease. Additional patients will be enrolled in this study.

In November 2006, Keryx presented intermediary results of the Phase 2 study of imatinib plus perifosine in patients with imatinib-resistant gastrointestinal stromal tumor (GIST). The primary endpoint of this study is to evaluate the efficacy and toxicity of the combination imatinib and perifosine in patients with imatinib-resistant GIST. To date, 16 patients have been enrolled in the current study. Of the 12 patients with evaluable disease, there were 2 partial responses by Choi criteria (17% objective response rate (ORR)) and 1 partial response by RECIST criteria (8% ORR). Grade 3 and 4 adverse events were rare and included fatigue, myalgias, ocular toxicity and nausea/emesis. The early data from the current study suggest that the addition of perifosine to imatinib is well-tolerated and may have efficacy in the treatment of patients with imatinib-resistant GIST.

In December 2006, we announced positive interim Phase 2 data on perifosine in patients with relapsed and refractory multiple myeloma (MM). Investigators concluded that perifosine alone or in combination with dexamethasone has activity in patients with advanced, relapsed/refractory MM, achieving response and/or stabilization of disease in 69% of evaluable patients to date. In this ongoing Phase 2 study, patients with relapsed/refractory MM are treated with perifosine (150 mg oral daily dose) to assess the single agent activity of perifosine in this patient population. If patients progress on perifosine alone, Dexamethasone (20 mg, twice weekly) is added to their perifosine regimen.

The following are the ongoing trials sponsored by Keryx:

Therapeutic category	Trial description
Renal	Phase 1 Study of Perifosine + Sorafenib for Patients With Advanced Cancers
	Phase 1 Study of Perifosine + Sunitinib for Patients With Advanced Cancers
Sarcoma	Phase 2 Trial of Perifosine in Patients With Chemo-Insensitive Sarcomas
	Phase 2 study of imatinib plus perifosine in patients with imanitib-resistant gastrointestinal stromal tumor (GIST)
Blood	Phase 2 study of Efficacy of Perifosine Alone and in Combination With Dexamethasone for Patients With Multiple Myeloma
	Phase 1/2 Study of Safety & Efficacy of Perifosine & Bortezomib +/- Dexamethasone for Myeloma Patients
	Phase 2 Study of Perifosine in Patients With Refractory and Relapsed Leukemia
	Phase 1 Study of Perifosine + Lenalidomide and Dexamethasone for Patients With Multiple Myeloma
	Phase 2 Study of Perifosine in Patients With Relapsed/Refractory Waldenström's Macroglobulinemia
	Phase 1 Study of UCN-01 in Combination With Perifosine in Patients With Relapsed and Refractory Acute Leukemias (trial sponsored by NCI)
Lung	Phase 1/2 Trial of Perifosine in the Treatment of Non-Small Cell Lung Cancer
Breast	Phase 2 trial of perifosine plus trastuzumab in patients with breast cancer
	Phase 2 trial of perifosine in combination with endocrine therapy for breast cancer
Prostate	Phase 2 trial of perifosine in combination with chemotherapy
Glioma	Phase 2 Clinical Trial of Perifosine for Recurrent/Progressive Malignant Gliomas
Exploratory trials	Phase 2 trial of Perifosine in patients for whom no standard therapy exists
	Phase 2 Placebo-Controlled Study of Perifosine in Combination With Single Agent Chemotherapy for Metastatic Cancer Patients

Partners for Perifosine

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 United States, Canada and Mexico. In January 2004, AOI was acquired by Keryx, which is pursuing the clinical development of perifosine under the same conditions as AOI. The agreement, in particular, provides us free access to all data from Keryx and its partner's studies, as well as milestone payments and scale-up royalties to be paid to us on future net sales of perifosine in North America. We own rest of the world rights of perifosine.

ZEN-027 Erucylphosphocholine

On January 6, 2005, we announced the initiation of preclinical development of erucylphosphocholine (ZEN-027), an analog of perifosine which is suitable for intravenous administration. Like perifosine, ZEN-027 belongs to a new class of compounds based on alkylphosphocholines. ZEN-027 possesses distinctive reduced hemolytic activity thus allowing for intravenous injection.

On January 6, 2005, we also licensed to Keryx, our current North American partner for perifosine, certain rights to develop and market ZEN-027 in North America, South Africa, Israel, Australia and New Zealand while keeping rights for the rest of the world. According to the agreement with Keryx, the preclinical development costs of ZEN-027 are shared between Keryx and Æterna Zentaris.

In 2006, toxicity studies of erucylphosphocholine were actively pursued. Acute and 4-week toxicity studies in rats were completed and a 4–week toxicity study in dogs was initiated. These preclinical data are a prerequisite for the performance of a Phase 1 clinical study which is currently planned in 2007. Expenditures for the preclinical development of erucylphosphocholine are shared between Keryx and Æterna Zentaris.

Other Signal Transduction Inhibitors

In addition to our activities with alkylphosphocholines, we are seeking for small molecule agonists and antagonists to lipid protein signaling interactions that are new and potentially important therapeutic targets.

We are focusing our efforts on single and dual inhibitors of Ras-Raf-Mek-Erk and PI3K-Akt pathways. The Ras-Raf-Mek-Erk and the PI3K-Akt pathways are constitutively activated in many cancer types, and influence both tumor development and progression.

Both signaling pathways represent promising therapeutic targets for the treatment of tumors. We have now identified a new compound class with inhibitory activity against both the Erk and PI3K kinases. These small molecules inhibit the kinases at nanomolar concentrations in a dose-dependent manner by competing directly at the ATP binding site. In a broad kinase panel, the molecules are very selective against other kinases. In cellular experiments the compounds inhibit the activation of downstream targets Akt and Rsk1, and can stop the proliferation of various human cancer cell lines. We are currently performing first *in vivo* studies with frontrunner compounds. Further optimization of the lead class is ongoing with respect to pharmacokinetic parameters, in order to select a development candidate as soon as possible.

Miltefosine

Miltefosine, marketed under the brand name Impavido®, is the only oral drug for the treatment of visceral and cutaneaous 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 World Health Organization (WHO), 12 million people are affected globally. 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. Regions most greatly affected are the Indian subcontinent, South America, the Middle East, North Africa and some areas of Central Africa.

Depending on the species 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% 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 within six months to two years following the outbreak of the disease. Visceral leishmaniasis occurs in Asia, in particular in India, Bangladesh and Nepal, in Brazil and in Central Africa. Co-infection with HIV is increasingly a problem in India, Africa and Brazil. 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.

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 has the potential to be included in an elimination program of the WHO.

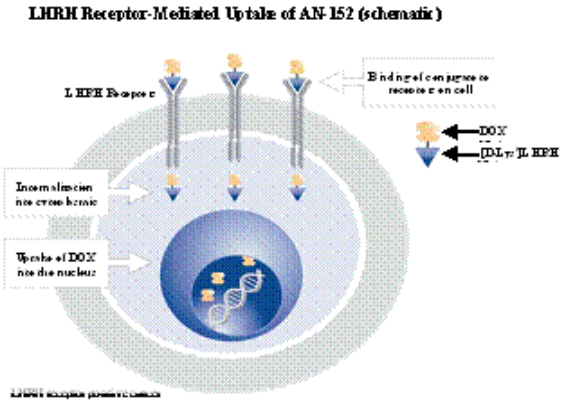
Registration Status

Impavido® is the first oral formulation and has to be administered for 28 days. The Company received approval for Impavido® for the treatment of visceral leishmaniasis in India in 2002 and in Germany in 2004. Furthermore, in 2005 and 2006, we received approval to market Impavido® in cutaneous and visceral leishmaniasis in several Latin American countries and the Indian subcontinent. Orphan drug status was granted for visceral leishmaniasis by the European Agency for the Evaluation of Medicinal Products (EMEA) in 2002. In 2006, Miltefosine was also granted orphan drug status by the FDA.

Partners for Impavido® (Miltefosine)

Impavido® is partnered with German Remedies in India and Bangladesh. It is also partnered with Roche for its distribution in Brazil, and Nimrall in Pakistan and Afghanistan. An agreement was signed for South America (excluding Brazil) with the company Tecnofarma. In Germany, distribution of the registered product is carried out by our partner Paesel + Lorei. B.A. Shiraz has been announced to be our partner for the territory of Iran.

3.4.4 Tumor targeting Cytotoxic Conjugates and Cytotoxics



Cytotoxic Conjugates

In view of the non-specific toxicity of most chemotherapeutic agents against normal cells, targeting such drugs to cancerous tissue offers a potential benefit for patients with advanced or metastatic tumors. Targeted cytotoxic peptide conjugates are hybrid molecules composed of a cytotoxic moiety linked to a peptide carrier which binds to receptors on tumors. Cytotoxic conjugates are designed to achieve differential delivery, or targeting, of the cytotoxic agent to cancer vs. normal cells.

Our cytotoxic conjugates represent a novel oncological strategy to control and reduce toxicity and improve the effectiveness of cytotoxic drugs. The development strategy was to create targeted conjugates with high cytotoxic activity based on doxorubicin (DOX), an approved and commercialized product or 2-pyrrolino-DOX which is 500 to 1,000 times more active then the parent compound. We are developing several candidates in which doxorubicin or 2-pyrrolino-DOX were coupled to the peptide carriers targeting LHRH (AN-152 & AN-207), somatostatin (AN-238) or bombesin (AN-215) receptors. These conjugates are 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.

In AN-152, the most advanced of the cytotoxic conjugates, doxorubicin is chemically linked to an LHRH agonist, a modified natural hormone with affinity for the LHRH receptor. This design allows for the specific binding and selective uptake of the cytotoxic conjugate by LHRH receptor positive tumors. Potential benefits of this targeted approach are manifold, and include a more favorable safety profile with lower incidence and severity of side effects, as normal tissues are spared from toxic effects of doxorubicin. In addition, the targeted approach may enable treatment of LHRH receptor positive cancers that have become refractory to doxorubicin given in its non-targeted form.

In preclinical studies conducted to date in several animal models of LHRH receptor positive human cancer cell lines, AN-152's anti-tumor activity and tolerability were shown to be superior to that of doxorubicin. As would be expected, AN-152 was not active or was significantly less active than doxorubicin in LHRH receptor negative cancer cell lines. On January 18, 2005, we announced the initiation of a company-sponsored Phase 1 dose-ranging study with this targeted anti-cancer agent AN-152 and we expect to disclose the detailed Phase 1 results in 2007.

In June 2006, we announced positive Phase 1 results for AN-152 in patients with gynaecological and breast cancers which showed that the compound has a good safety profile and no dose-limiting toxicities. Eight patients received AN-152 by intravenous infusion. Infusion was well tolerated at all dosages, without supportive treatment. Pharmacokinetic analyses showed dose-dependent plasma levels of AN-152 and only minor (10-20%) release of doxorubicin. Recruitment is ongoing. Stabilization of disease was observed in one of eight patients in the ongoing Phase 1 study.

On November 27, 2006, we disclosed additional positive Phase 1 results regarding AN-152 in patients with gynaecological and breast cancers. Further data showed the compound's good safety profile and established the maximum tolerated dose at 267 mg/m^2, which is equimolar to a doxorubicin dose of 77 mg/m^2. This dose will be the recommended dose for a Phase 2 trial. The ongoing Phase 1 open-label, multi-center, dose-escalation, safety and pharmacokinetic study conducted in Europe includes 17 patients suffering from breast, endometrial and ovarian cancers with proven LHRH receptor status. At a dose of 267 mg/m^2, one partial response and three cases of stable disease were observed from a group of seven patients. The Phase 2 trials will focus on endometrial and ovarian cancers, two forms of cancer where LHRH receptors are highly expressed, with an AN-152 dose of 267 mg/m^2.

Lobaplatin

Lobaplatin is a platinum derivative that has demonstrated lower toxicity in preclinical studies 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 tolerated at recommended dosages. Treatment was not associated with typical side effects often seen with cisplatinum, such as nephrotoxocity (impairment of kidney function), otoxicity (loss of hearing capacity), neurotoxicity (effects on sensory function). In addition, vomiting was less severe than published data from both cisplatinum and carboplatinum. Characteristic toxicity of lobaplatin is a short-lasting, spontaneously reversible drop in thrombocyte count (blood platelets).

In a Phase 2 study conducted in China that included 284 patients with a broad range of solid and non-solid tumors, safety and particularly good therapeutic efficacy were demonstrated in patients with breast cancer, small cell lung cancer (SCLC), and chronic myeloid leukemia (CML) (a cancer of the

hematopoietic system). The 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 were the basis for approval of the product in China including all three indications: breast cancer, SCLC, and CML.

In China, lobaplatin has been approved by the Chinese health authorities for the treatment of inoperable, advanced breast cancer, SCLC and CML. In December 2002, we signed a contract with Hainan Chang An Pharmaceuticals Ltd. for the marketing in China of lobaplatin. The contract includes the worldwide manufacturing rights of lobaplatin by Hainan Chang An Pharmaceuticals. The technology transfer agreement provided for a first payment to us upon signature and a later manufacturing-related payment.

We intend to license-out our rights for Lobaplatin.

3.4.5 Tubulin Inhibitors / Vascular Targeting Agents

Development of a Low Molecular Weight Tubulin Inhibitor

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 the death of the affected cell. The anti-tumor agents taxol and vincristine, which are widely used in cancer therapy, are based on this principle. Both compounds are expensive natural substances and cause severe side effects when used in humans.

We are currently identifying and developing novel tubulin inhibitors which, compared with currently used products, exhibit in animal models improved efficacy, have a more acceptable side effect profile, an incomplete or no cross-resistance and are administered orally.

ZEN-012 and ZEN-017 are drug development candidates with an excellent tolerability profile showing excellent *in vivo* activity in various tumor models including mammary, colon, melanoma and leukemia cancers after per os administration. This compound expresses different modes of action. Strong anticancer activity is combined with pro-apoptotic and anti-angiogenic properties. ZEN-012/017 inhibits the polymerization of cancer tubulin rather than bovine brain tubulin, and it destroys the mitotic spindel of the cancer cells. ZEN-012/017 arrests the cancer cells in the G_2M phase at a nanomolar concentration and induced apoptosis. ZEN-012/017 is not cross-resistant to cisplatin, vincristine and doxorubicine in cell lines resistant to these drugs. With this profile of activity, ZEN-012/017 is a promising candidate for further preclinical development.

In April 2006, we disclosed preclinical results on ZEN-017/ZEN-012 at the AACR meeting. Presented results summarized a preclinical trial on ZEN-012/ZEN-017. Anti-proliferative effects of the active metabolite ZEN-012 were studied in a panel of 35 established human tumor cell lines including multi-drug resistant phenotypes. Given orally once weekly, ZEN-017 proved to be a potent inhibitor of *in vivo* tumor growth in melanoma, mammary, colon, as well as in leukemia cancers at acceptable and very well tolerated doses. The prodrug ZEN-017 is cleaved under physiological conditions to the active compound ZEN-012. Mode-of-action studies revealed that ZEN-012 effectively inhibits tubulin polymerization (IC_{50} = 1490 nM) and induces apoptosis in U937 cells. Furthermore, it was demonstrated that ZEN-012 inhibits topoisomerase II activity.

On January 8, 2007, we announced the initiation of a Phase 1 trial for ZEN-012 in patients with solid tumors and lymphoma. This open-label, dose-escalation, multi-center, intermittent treatment Phase 1 trial is being conducted in the United States with Daniel D. Von Hoff, MD, Senior Investigator at the Translational Genomics Research Institute in Phoenix, AZ, as the lead investigator. The trial will include up to 50 patients who have either failed standard therapy or for whom no standard therapy exists. Primary endpoint of the Phase 1 trial will focus on determining the safety and tolerability of ZEN-012 as well as establishing the recommended Phase 2 dose and regimen. Secondary endpoints are aimed at establishing the pharmacokinetics and determining the efficacy based on standard response criteria.

Æ-941 (Neovastat®)

Æ-941 (Neovastat®) is an oral antiangiogenic product with multiple mechanisms of action. A Phase 3 Study of Æ-941 with induction chemotherapy (IC) and concomitant chemoradiotherapy (CRT) for Stage 3 Non-Small Cell Lung Cancer (NSCLC) was conducted by the US National Cancer Institute (NCI) (NCI T99-0046, RTOG 02-70, MDA 99-303). On March 5, 2007, we announced our decision to terminate this development program following interim results of the pivotal Phase 3 trial in non small-cell lung cancer which showed that Neovastat, combined with induction chemotherapy and concomitant chemoradiotherapy, had proven to be safe but did not reach the main endpoint of improving overall patient survival by 25% compared to the placebo-control arm.

RC-3095

RC-3095 is an antagonist to a growth factor, bombesin, present in various tumors, in particular in small-cell lung cancer (SCLC), 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 cancers such as small cell lung, pancreatic, colorectal, breast and prostate.

In a Phase 1 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 1, patients with different tumor types showed clinical response. Based on these Phase 1 data, additional studies are exploring the activity of RC-3095 as a monotherapy in SCLC and prostate cancer. We decided to terminate the clinical development of RC-3095 at the end of 2006.

3.4.6 GH-RH Modulators

Development of a Growth Hormone Secretagogue

Growth hormone secretagogues (GHS) represent a new class of pharmacological agents that directly stimulate growth hormone (GH) secretion from the pituitary gland without the involvement of growth hormone-releasing hormone (GH-RH) or somatostatin. We believe that there is currently no GHS on the market. 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, we believe that there would be a demand for new orally active drugs like GHS.

As part of our university collaboration, we accessed 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 that demonstrated a potent stimulation of the GH secretion after oral administration in human volunteers. This product has been licensed to Ardana Bioscience Ltd. ("Ardana"), which initiated an open, randomized, placebo-controlled Phase 1 dose-ranging study in April 2004. Thirty-six (36) healthy subjects were included in this study to receive either the reference hormone GH-RH by

I.V. route or one of the following dose levels of EP-1572: 0.005, 0.05 or 0.5 mg/kg by oral route. EP-1572 at the dose of 0.5 mg/kg orally caused an increase in growth hormone release equivalent to that induced by GH-RH intravenously. The compound was well tolerated and no other hormones showed a significant modification after any dose of EP-1572.

In June 2006, Ardana presented results regarding EP-1572 at the 2006 Endo Convention. These results referred to the Phase 1 trial regarding the stimulating effects of EP-1572 on growth hormone following both oral and intra-duodenal administration in healthy males. This study showed that EP-1572 was well tolerated by the 36 volunteers enrolled and no adverse events were reported. Administration of EP-1572 either orally or via intra-duodenal infusion results in increased levels of growth hormone in the blood. This stimulation of growth hormone appears to be selective as no other hormones/analytes that were measured (cortisol, ghrelin, prolactin, insulin, glucose and ACTH (Adrenocorticotropic hormone)) were affected in a dose-dependent or statistically significant way by administration of EP-1572 either orally or via intra-duodenal infusion.

Ghrelin Receptor Ligands

Ghrelin is a peptide predominantly produced by the stomach. Apart from a potent GH-releasing action, Ghrelin has other activities including stimulation of lactotroph and corticotroph function, influence on the pituitary gonadal axis, stimulation of appetite, control of energy balance, influence on sleep and behavior, control of gastric motility and acid secretion, and influence on pancreatic exocrine and endocrine function as well as on glucose metabolism. The recent discovery of ghrelin and its receptors opens up new opportunities for the development of drugs that will treat metabolic disorders. There is indeed a possibility that ghrelin analogs, acting as either agonists or antagonists, might have clinical impact without affecting GH level. The use of ghrelin antagonists as appetite suppressants or inhibitors of lipogenesis could open up new opportunities for the treatment of obesity and associated diseases (e.g. diabetes, cardiovascular diseases). The use of ghrelin agonists could have therapeutic benefits which are expected to offer hope for cachectic or anorexic patients.

In 2004, we established a research and license collaboration agreement with Le Centre National de la recherche scientifique and University Montpellier I and II, France, acting in their own names, as well as in the name and on behalf of the Laboratoire des Aminoacides, Peptides et Protéines (LAPP) (UMR 5810), directed by Dr. Jean Martinez, for the synthesis and characterization of new chemical entities acting as ghrelin receptor ligands. According to the agreement, we have the worldwide rights to develop and exploit the new compounds for any indication. Compounds with the most potent affinity for the ghrelin receptors will be investigated further through an international network of academic investigators with expertise in the field of endocrinology in order to identify clinical development candidates.

Additionally, we also established a research contract with the Department of Experimental and Environmental Medicine of the University of Milan, Italy, under the direction of Prof. Vittorio Locatelli, for the pharmacological characterization of potentially ghrelin receptor ligands.

In August 2005, we filed a first patent application to protect a series of new chemical entities characterized as ghrelin receptor ligands.

In May 2006, we established a research project agreement with the University of Montreal. This research project will focus on the characterization of ghrelin receptor ligands on fat tissue. This project is led by Huy Ong, Professor at the Faculty of Pharmacy, at the University of Montreal.

In August 2006, we also initiated a research collaboration with the Hôpital Laval (Quebec City) under the direction of Dr. Denis Richard. This research collaboration will focus on the pharmacological characterization of ghrelin receptor ligands *in vivo* (e.g. the effects in diet-induced obesity models).

In October 2006, we presented for the first time our *in vivo* data on the capacity of ghrelin antagonists of selectively inhibiting food intake. This study, using a rat model, outlined the capacity of ghrelin antagonists' ability to inhibit appetite without affecting growth hormone secretion and represents evidence that ghrelin antagonist compounds can selectively inhibit food intake. It further supports the hope that ghrelin antagonist compounds have the potential to be useful for the treatment of obesity.

GH-RH Antagonists

GH-RH is a hormone secreted in the brain by the hypothalamus that acts on the pituitary gland to stimulate the synthesis and the release of growth hormone (GH). Many tumor types are potentially dependent on levels of GH and insulin-like growth factors, IGF-I and IGF-II, which stimulate cell proliferation while inhibiting programmed cell death (apoptosis).

GH-RH antagonists represent a potential novel class of promising anti-cancer agents that may offer distinct advantages compared to other classes of anti-tumor agents, with utility in a variety of tumor types. GH-RH antagonists possess the ability to exert both direct (by blocking GH-RH receptors on tumor cells) and indirect (by blocking the secretion of GH from the pituitary and thereby suppressing the production of IGF-I in the liver) anti-proliferative effect.

Early evidence for the anti-tumor activity of GH-RH antagonists was provided by research conducted at Tulane University, which demonstrated that GH-RH antagonists inhibit the growth of a broad range of cancer cell lines, including pancreatic, colorectal, prostate, breast, renal, small-cell/non small-cell lung cancer, osteosarcoma and glioblastoma. Importantly, GH-RH antagonists were shown to have a direct anti-proliferative effect *in vitro* on certain cancer cell types, an action that is thought to be mediated by the presence of locally-produced GH-RH, which may act as an autocrine growth factor, and its receptors in the respective cancer cell lines. GH-RH antagonists also inhibit indirectly the production of IGF-I and IGF-II in tumors.

In 2006, selected GHRH antagonists have been provided to several of our academic partners for further preclinical evaluation.

3.4.7 Immunotherapy / Vaccines

Cellular proteins expressed by oncogenes have been recognized as a major cause of tumor development. One of the central oncoproteins involved in cancer formation are the Raf proteins. Based on these proteins, new unique therapeutic strategies, new predictive animal models and new development products have been generated to efficiently combat cancer. These consist of virulence attenuated, gene modified bacteria expressing tumor antigens, including oncoproteins or enzymes. Such bacteria are used for vaccination as well as tumor targeting and delivery of antitumoral compounds towards the tumor tissues. This new vaccine approach, therefore, exploits the ability of bacteria to induce potent immune responses as well as direct these responses against malignancies. The immunogenicity of the vaccine will be further enhanced by the capacity of bacteria to colonize tumor tissues. This property will be used to transport substances, e.g. proteins, into the tumor tissue, which are capable of converting non-toxic pro-drugs into active drugs. The use of bacterial carriers for therapeutic vaccination against tumors and the concept of bacterial tumor targeting will be further developed with the Julius-Maximilians-University of Würzburg, including the highly recognized researchers Prof. Dr. Ulf R. Rapp, who is member of our Scientific Advisory Board, and Prof. Dr. Werner Goebel. Prof. Rapp is a known expert in the field of cell and tumor biology and Prof. Goebel is a pioneer in the field of vaccines based on recombinant bacteria.

The preclinical proof of principle has already been shown in a transgenic animal model and is supported by several patent applications. The most advanced products are bacterial tumor vaccines which are based on the approved human vaccine strain *Salmonella typhi* Ty21a. The principle of these recombinant vaccine strains is the secretion of the tumor antigen using a so-called Type I secretion machinery derived from *Escherichia coli*. To date, two different vaccine strains have been generated up to GMP scale production – a melanoma vaccine encompassing a mutated form of the oncogene B-Raf, which is present in more than 65% of melanomas, and a prostate cancer vaccine strain expressing and secreting prostate specific antigen (PSA). For both vaccines, the preclinical proof of principle has been demonstrated in distinct animal models and the immunogenicity could be further enhanced compared to our already published strains (patent application filed in November 2006). The GMP production of one of these strains is scheduled for 2007. Upon availability of GMP material, we intend to initiate a Phase 1 study.

3.4.8 Drug Discovery

There is an increasing demand on the world market for active substances. Our internal drug discovery unit provides an important prerequisite for the provision of new patented active substances, which can then be developed further or licensed to third parties.

The drug discovery unit concentrates on the search for active substances for innovative targets which open the door to the introduction of new therapeutic approaches. Furthermore, this unit 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, cause severe side effects, are not economical or are not available in a patient-friendly form.

To this end, we possess 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 120,000 samples from our 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.

As a complement to these activities, our acquisition of Echelon has provided novel biological targets in the lipid signaling pathway. In addition, Echelon has developed numerous biological assays that will permit complementary and synergistic testing of our library of compounds.

3.5 STRATEGIC ALLIANCES

Cetrorelix

Merck Serono holds an exclusive worldwide license (ex-Japan) to commercialize Cetrotide® (cetrorelix in the indication IVF/COS/ART). This agreement provides the Company, among other things, with manufacturing income, royalties on worldwide (ex-Japan) net sales as well as fixed annual lump sum payments until 2010. After 2010, these fixed annual lump sum payments will become high, double-digit royalties on the net worldwide sales of Cetrotide® (ex-Japan) with the other terms of the agreement remaining inchanged.

Solvay Pharmaceuticals Bv., Weesp, Netherlands: Since September 2002, Solvay has an exclusive license to develop, use, commercialize and manufacture cetrorelix worldwide (ex-Japan) and for all indications except for IVF/COS/ART and, as announced in January 2006, for BPH. Solvay undertakes, at its own cost, all activities necessary to obtain regulatory and marketing approvals for cetrorelix in endometriosis. Additionally, the agreement provides milestones payments and low double- digit royalties on future net worldwide (ex-Japan, as well as sales in IVF/COS/ART and BPH) sales of cetrorelix.

Nippon Kayaku Co. Ltd of Japan has the right to manufacture and **Shionogi & Co. Ltd. of Japan** has the right to commercialize Cetrotide® in Japan. We also granted Shionogi the exclusive rights to develop and commercialize cetrorelix for human use in Japan.

Ozarelix

Spectrum Pharmaceuticals Inc., Irvine CA, USA: On August 12, 2004, we entered into a licensing and collaboration agreement with Spectrum for the LHRH antagonist ozarelix. Under the terms of the agreement, we granted Spectrum an exclusive license to develop and commercialize ozarelix for all potential indications in North America (including Canada and Mexico) and India. Upon signature of this agreement, we received an upfront payment which included cash and shares of the capital of Spectrum and we are eligible to receive payments upon achievement of certain development and regulatory milestones, in addition to royalties (scale-up royalties from high single to low double-digit) on potential net sales.

On August 3, 2006, we entered into a licensing and collaboration agreement with **Nippon Kayaku Co. Ltd. of Japan**. Under the terms of the agreement, we granted Nippon Kayaku an exclusive license to

develop and market ozarelix for all potential oncological indications in Japan. In return, we received an upfront payment upon signature and we are eligible to receive payments upon achievement of certain development and regulatory milestones, in addition to low double-digit royalties on potential net sales. Spectrum is entitled to receive fifty percent of the upfront, milestone payments and royalties received from Nippon Kayaku.

Teverelix

Ardana Bioscience Ltd., Edinburgh, Scotland: In 2002, Zentaris granted an exclusive license to Ardana to develop and commercialize teverelix for all therapeutic uses worldwide with the exception of Japan, Korea and Taiwan. On April 2, 2004, Ardana acquired full worldwide rights and was assigned the intellectual property rights relating to teverelix and the underlying microcrystalline suspension technology for the use of teverelix and LHRH antagonists. The agreement provides, among other things, payment upon signature, annual guaranteed payments until December 2006 and royalties (low single-digit) on future worldwide net sales.

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 United States, Canada and Mexico. The agreement provides, among other things, availability of data generated by all parties free of charge, milestones and scale-up royalties (from high single to low double-digit) on future net sales in the United States, Canada and Mexico.

Miltefosine (Impavido®)

Impavido® is partnered with **German Remedies** in India and Bangladesh. It is also partnered with **Roche** for distribution in Brazil and **Nimrall** in Pakistan and Afghanistan. An agreement was signed for South America ex-Brazil with the company **Tecnofarma**. An agreement was signed for Iran with the company **B.A. Shiraz** and for Iraq with the company **Pioneer Pharmaceuticals**. In Germany, distribution of the registered product will be effected by our partner **Paesel + Lorei**. Cooperation with Action Medeor, a German drug aid organization, ensures availability of Impavido® to Non-Governmental Organizations (NGOs) worldwide for public use. More partnerships are currently under negotiations to ensure an expeditious registration and marketing of this innovative product.

ZEN-027 Erucylphosphocholine

On August 26, 2004, we licensed certain rights to **Keryx Biopharmaceuticals, New York, USA** to develop and market ZEN-027 in North America, South Africa, Israel, Australia and New Zealand while keeping rights for the rest of the world. The agreement provides, among other things, availability of all data generated by all parties free of charge, milestones and scale-up royalties (from high single to low double-digit) on future net sales in the United States, Canada, Mexico, Israel, New Zeland, Australia and South Africa.

Growth Hormone Secretagogue (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, among other things, milestone payments as well as low double-digit royalties on future net worldwide sales of EP-1572.

In addition, we have entered into the following collaborative agreements:

We 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, we obtained exclusive worldwide licenses to use Tulane's patents to develop, manufacture, market and distribute these substances.

On October 27, 2004, we announced that we had entered into a license and collaboration agreement with Tulane University, in New Orleans, for the development of growth hormone-releasing hormone (GH-RH) antagonists, a novel class of potential anti-cancer agents. Under the terms of the agreement, we obtained worldwide exclusive rights to develop and commercialize GH-RH antagonists for all potential indications, including cancer and endocrine disorders.

On April 21, 2005, we announced a new research collaboration with Würzburg/Germany-based Julius-Maximilians-University on the development of tumor vaccines based on attenuated bacterial carriers. We also acquired patent rights from the university and the inventors covering several aspects of both immunotherapeutic approaches against cancer as well as bacterial tumor targeting. The goal of this collaboration is the development of vaccines against prostate cancer and melanoma.

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. Two other agreements concerning preclinical development of ghrelin antagonist compounds and the role of ghrelin in the development of obesity were signed in 2006, one with the University of Montreal and another one with the Hôpital Laval in Québec City.

Pursuant 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 Münster, both in Germany, we have gained access to specific university know-how and screening technologies in the field of proteins of the cytoskeleton.

Under all these agreements, we are obligated to support some of the research expenses incurred by the university laboratories and pay royalties on future sales of the products. In turn, we have retained exclusive rights for the worldwide exploitation of results generated during the collaborations.

3.6 INTELLECTUAL PROPERTY - PATENTS

We believe that we have a comprehensive intellectual property portfolio that covers the compound, manufacturing process, composition and methods of medical use for its lead drugs. Our patent portfolio consists of approximately 80 patent families (issued, granted or pending in the U.S., Europe and other jurisdictions).

Of the issued or granted patents, the seven described below form the core of our patent portfolio with regard to our lead drugs.

- US patent 5,198,533 provides protection in the U.S. for the compound cetrorelix and other (LHRH) antagonists as well as their use. This U.S. patent will expire in July 2007. A request for patent term extension for up to five years has been filed.

- US patent 6,828,415 is a manufacturing process and medical use patent protecting different formulations of cetrorelix. It also specifically protects the lyophilization process used to manufacture cetrorelix, the lyophilizate as process product and the use of this drug for *in vitro* fertilization. This U.S. patent will expire in February 2014.

- US patent 5,773,032 covers a long-acting formulation of cetrorelix consisting of poorly soluble particles of 5 nm to 200 nm in size. The patent not only protects cetrorelix pamoate as a long-acting formulation but also prevents the development of other LHRH antagonist drugs that are based on this drug-delivery system. This U.S. patent will expire in November 2014. A patent term extension of up to five years may be possible and will be requested upon marketing approval of Cetrorelix pamoate.

- US patent 6,054,432 represents an important method-of-use patent, which covers a therapeutic regimen for treating BPH, where Cetrorelix is administered at a dosage of about 0,5 mg per day over an unlimited time period without effecting testosterone castration. The U.S. patent will expire in August 2017.

- US patent 7,005,418 represents an important method-of-use patent, which covers the therapeutic management of extrauterine proliferation of endometrial tissue (endometriosis), chronic pelvic pain and/or fallopian tube obstruction by administering an LHRH antagonist in the form of a short-term induction treatment for a period of about 4 to 12 weeks. The U.S. patent will expire in September 2020.

- US patent 6,172,050 provides protection in the U.S. for the compound perifosine and other related alkyl phospholipid derivatives as well as their medical use, such as for the treatment of cancer. This U.S. patent expires in July 2013 and a patent-term extension of up to five years will be requested upon receiving marketing approval of perifosine.

- US patent 6,627,609 provides protection in the U.S. for the compound ozarelix and related third-generation LHRH antagonists as well as their medical use. This U.S. patent will expire in March 2020. A patent term extension of up to five years will be requested upon marketing approval of ozarelix.

The table below lists some of our issued or granted patents in the United States and Europe:

Patent No	Title	Country	Expiry Date
Cetrorelix			
EP 0 299 402	LHRH antagonists	Germany, Great Britain, France, Switzerland and others	2008-07-11
US 5,198,533	**LHRH antagonists**	**U.S.**	**2007/07/17**
EP 0 611 572	Process to prepare a cetrorelix lyophilized composition	Germany, Great Britain, France, Switzerland and others	2014/ 02/04
US 6,828,415	**Process to prepare a cetrorelix lyophilized composition**	**U.S.**	**2014-02-22**
US 6,716,817	Process to prepare a cetrorelix lyophilized composition	U.S.	2014/02/22
US 6,863,891	Process to prepare a cetrorelix lyophilized composition	U.S.	2014/02/22
US 6,867,191	Process to prepare a cetrorelix lyophilized composition	U.S.	2014-02-22
EP 1 150 717	Sustained release salts of pharmaceutically active peptides and process for production	Germany, Great Britain, France, Switzerland and others	2020-01-29
EP 1 309 607	Method for the synthesis of peptide salts, their use and the pharmaceutical preparations	Germany, Great Britain, France, Switzerland and others	2021-08-09
US 6,780,972	Method for the synthesis of peptide salts, their use and the pharmaceutical preparations	U.S.	2021-08-24
CH 638592	A composition for the sustained and controlled release of medicamentous substances	Switzerland	2012-07-15
FR 2680109	A composition for the sustained and controlled release of medicamentous substances	France	2012-07-21
GB 2257973	A composition for the sustained and controlled release of medicamentous substances	Great Britain	2012-07-21
US 5,637,568	A composition for the sustained and controlled release of medicamentous substances	U.S.	2014-06-10
US 5,773,032	Long-acting injection suspensions and a process for their preparation	U.S.	2014-11-25

Patent No	Title	Country	Expiry Date
EP 0 732 941	**Long-acting injection suspensions and a process for their preparation**	**Germany, Great Britain, France, Switzerland and others**	**2014-11-25**
EP 6 571 70	Products for administering an initial high dose of cetrorelix and producing a combination package	Germany, Great Britain, France, Switzerland and others	2014-11-24
US 5,663,145	Products for administering an initial high dose of cetrorelix and producing a combination package	U.S.	2014-12-08
US 6,054,432	Means for treating prostate hypertrophy and prostate cancer	U.S.	2017-08-07
US 5,998,377	Means for treating prostate hypertrophy and prostate cancer	U.S.	2017-08-07
US 6,071,882	Means for treating prostate hypertrophy and prostate cancer	U.S.	2017-08-07
US 6,300,313	Means for treating prostate hypertrophy and prostate cancer	U.S.	2017-08-07
US 7,005,418	Method for the therapeutic management of extrauterine proliferation of endometrial tissue, chronic pelvic pain and fallopian tube obstruction	U.S.	2020-09-21
Perifosine			
EP 0 579 939	Methods of using therapeutic phospholipid derivatives	Germany, Great Britain, France, Switzerland and others	2013-06-03
US 6,172,050	**Methods of using therapeutic phospholipid derivatives**	**U.S.**	**2013-07-07**
US 6,479,472	Methods of using therapeutic phospholipid derivatives	U.S.	2013-07-07
US 6,903,080	Methods of using therapeutic phospholipid derivatives	U.S.	2013-07-07
Ozarelix			
EP 1 163 264	LHRH antagonists having improved solubility properties	Germany, Great Britain, France, Switzerland and others	2020-03-11
US 6,627,609	**LHRH antagonists having improved solubility properties**	**U.S.**	**2020-03-14**

Bold items represent core patents.

3.7 RISK FACTORS

Our business entails significant risks. In addition to the usual risks associated with a business, you will find on pages 17 to 19 of our annual Management's Discussion and Analysis ("MD&A") dated March 5, 2007, for the financial year ended December 31, 2006, a general description of certain significant risk factors which are applicable to our business, which pages are incorporated by reference into this Annual Information Form.

ITEM 4. DIVIDENDS

4.1 DIVIDENDS

Since our incorporation, we have not paid any dividends and we do not anticipate paying any dividends in the foreseeable future.

ITEM 5. GENERAL DESCRIPTION OF CAPITAL STRUCTURE

5.1 GENERAL DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of shares of the following classes:

- *Common Shares*: The holders of the Common Shares are entitled to one (1) vote for each Common Share held by them at all meetings of shareholders, except meetings at which only shareholders of a specified class of shares are entitled to vote. In addition, the holders are entitled to receive dividends if, as and when declared by our Board of Directors on the Common Shares. Finally, the holders of the Common Shares are entitled to receive the remaining property of the Company upon any liquidation, dissolution or winding-up of the affairs of the Company, whether voluntary or involuntary.

- *Preferred Shares*: The First and Second Preferred Shares are issuable in series with rights and privileges specific to each class. The holders of Preferred Shares are not entitled to receive notice of or to attend or vote at meetings of shareholders.

All classes are without nominal or par value. On March 1, 2007, there were 53,179,470 Common Shares and no Preferred Shares issued and outstanding.

ITEM 6. MARKET FOR SECURITIES

6.1 TRADING PRICE AND VOLUME

Our Common Shares are listed and posted for trading on the Toronto Stock Exchange ("TSX") and are quoted on the NASDAQ Global Market ("NASDAQ").

The following table sets forth, for the periods indicated, the reported high, low, and closing sale prices (in Canadian dollars) and the volume of our Common Shares traded on the TSX.

	TSX (in Canadian dollars)			
Month	High	Low	Close	Volume
January 2006	7.61	5.85	6.88	2,646,212
February 2006	7.72	6.80	6.92	2,070,682
March 2006	7.80	6.67	7.80	2,749,435
April 2006	8.79	7.71	7.94	2,981,808
May 2006	8.23	6.76	7.44	3,048,662
June 2006	7.79	6.01	6.43	2,478,469
July 2006	6.60	5.52	6.20	1,689,565
August 2006	6.41	5.76	6.00	1,773,728
September 2006	6.67	5.58	5.72	2,302,584
October 2006	6.14	5.41	5.73	3,787,777
November 2006	6.17	5.52	6.03	1,795,256
December 2006*	7.11	4.51	4.72	3,729,266

The following table sets forth, for the periods indicated, the reported high, low, and closing sale prices (in U.S. dollars) and the volume of our Common Shares traded on the NASDAQ.

	NASDAQ (in U.S. dollars)			
Month	High	Low	Close	Volume
January 2006	6.55	5.05	6.03	1,090,817
February 2006	6.69	5.86	6.08	812,897
March 2006	6.67	5.82	6.63	1,425,056
April 2006	7.55	6.60	7.08	1,066,792
May 2006	7.45	6.01	6.75	1,055,170
June 2006	7.10	5.40	6.00	827,786
July 2006	6.09	4.90	5.47	453,410
August 2006	5.74	4.91	5.45	297,290
September 2006	6.02	5.00	5.13	587,310
October 2006	5.47	4.78	5.10	555,140
November 2006	5.65	4.88	5.30	791,643
December 2006*	6.18	3.93	4.05	1,756,349

(*) On January 2, 2007, we effected a one-time special distribution in kind of all 11,052,996 Subordinate Voting Shares of the capital of Atrium on a *prorate* basis to our shareholders. The "ex-distribution" date for the special distribution was December 27, 2006.

ITEM 7. DIRECTORS AND OFFICERS

7.1 DIRECTORS

Our Board of Directors currently consists of eleven 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, place of residence, principal occupation, security holdings, and the period during which he or she has acted as a director:

Name and Place of Residence	Principal Occupation	Director Since	Number and Percentage of Common Shares Held in the Company	
Marcel Aubut Quebec, Canada	Managing Partner Heenan Blaikie Aubut (law firm)	1996	57,500	0.11%
Stormy Byorum(1) New York, USA	Senior Managing Director Stephens Cori Capital Advisors, (a full service, privately owned investment bank)	2001	12,000	—
José P. Dorais(3) Quebec, Canada	Partner Miller Thomson Pouliot LLP (law firm)	2006	—	—
Éric Dupont, PhD(2) Quebec, Canada	Executive Chairman of the Board Æterna Zentaris Inc.	1991	3,767,413	7.1%
Prof. Dr. Jürgen Engel Frankfurt, Germany	Executive Vice President, Global R&D and Chief Operating Officer Æterna Zentaris Inc.	2003	31,279	0.06%

Name and Place of Residence	Principal Occupation	Director Since	Number and Percentage of Common Shares Held in the Company	
Jürgen Ernst(2) Brussels, Belgium	Vice Chairman of the Board Æterna Zentaris Inc. Former Managing Director Pharmaceutical Sector of Solvay S.A. (international chemical and pharmaceutical group)	2005	8,850	—
Gilles Gagnon Quebec, Canada	President and Chief Executive Officer Æterna Zentaris Inc.	2002	70,617	0.13%
Pierre Laurin, PhD(2) Quebec, Canada	Executive in Residence HEC Montréal (management faculty of university)	1998	11,200	—
Gérard Limoges, FCA(1) Quebec, Canada	Corporate Director	2004	5,000	—
Pierre MacDonald(1)(2) Quebec, Canada	Chairman of the Board Eurocopter Canada Ltd. (helicopters manufacturer)	2000	11,500	—
Gerald J. Martin California, USA	Corporate Director Former Vice President, Corporate Licensing and Technology Alliances at Abbott Laboratories Inc.	2006	—	—

(1) Member of the Audit Committee.
(2) Member of the Corporate Governance, Nominating and Human Resources Committee.
(3) Mr. Dorais was appointed director as the nominee proposed by SGF Santé Inc. on May 3, 2006.

Notes:

Mr. Marcel Aubut served as a director of Albums DF Ltée, a privately held company based in Longueuil, Quebec, from September 5, 1997 to September 16, 2003, which company became bankrupt on December 6, 2003.

Mr. Pierre Laurin served as a director of Microcell Telecommunications Inc. ("Microcell") from May 1999 until May 2003. Microcell entered into a Plan of Reorganization and of Compromise and Arrangement with its creditors and shareholders effective May 1, 2003 pursuant to the *Companies' Creditors Arrangement Act* (Canada). Mr. Laurin was a member of the Special Committee of the Board of Directors of Microcell created in connection with the foregoing restructuring.

Mr. Pierre MacDonald served as a director of Slater Steel Inc. ("SSI"), a manufacturer of specialty steel products from February 1998 until August 2004. SSI and its subsidiaries filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) and under Chapter 11 of the US Bankruptcy Code on June 2, 2003, and they have conducted an orderly wind-down.

7.2 EXECUTIVE OFFICERS

The table below sets forth the name, place of residence and the position with Æterna Zentaris of each of its executive officers on the date hereof.

Name and Place of Residence	Principal Occupation
Éric Dupont, PhD Quebec, Canada	Executive Chairman of the Board
Gilles Gagnon Quebec, Canada	President and Chief Executive Officer
Prof. Dr. Jürgen Engel Frankfurt, Germany	Executive Vice President, Global Research and Development and Chief Operating Officer

Name and Place of Residence	Principal Occupation
Dr. Eckhard Günther Frankfurt, Germany	Vice President, Drug Discovery
Mario Paradis, CA Quebec, Canada	Vice President, Finance & Administration and Corporate Secretary
Dr. Matthias Rischer Frankfurt, Germany	Vice President, Pharmaceutical Development
Dr. Manfred Peukert Frankfurt, Germany	Vice President, Medical Affairs
Dennis Turpin, CA Quebec, Canada	Vice President and Chief Financial Officer

During the past five years, the directors and executive officers mentioned above have held their present principal occupations, except as indicated below.

Prof. Dr. Jürgen Engel was, prior to December 2002, 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.

Dr. Eckhard Günther was, prior to December 2002, Head of drug discovery at Zentaris AG after having been at Asta Medica AG in Frankfurt, Germany, for many years as a researcher as well as a manager.

Mario Paradis was appointed Vice President, Finance & Administration on May 2, 2006 and Corporate Secretary on February 27, 2004. He joined the Company as Finance Director in June 1999 and was named Senior Finance Director in 2001.

Dr. Manfred Peukert was, prior to December 2002, Head of Medical Affairs at Zentaris AG, after having been Global Head of Medical Research at Asta Medica AG in Frankfurt, Germany. He has a broad experience in many therapeutic areas with a specific expertise in the management of medical research projects in oncology and endocrinology.

Dr. Matthias Rischer was, prior to December 2002, Head of the Pharmaceutical Development at Zentaris AG, after having taken managerial positions in Pharmaceutical Development at Asta Medica AG in Frankfurt, Germany.

As of March 1, 2007, our directors and executive officers, as a group, beneficially owned or exercised control or direction over, directly or indirectly, approximately 3,983,329 Common Shares, representing 7.5% of our issued and outstanding Common Shares.

ITEM 8. LEGAL PROCEEDINGS

8.1 LEGAL PROCEEDINGS

There are no outstanding material legal proceedings to which Æterna Zentaris or any of our subsidiaries is a party, nor, to our knowledge, are any such proceedings contemplated.

ITEM 9. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the best of our knowledge, as of March 1, 2007, (i) none of our directors or executive officers, (ii) no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction

over, more than 10 percent of our Common Shares, and (iii) no associate or affiliate of any of the persons or companies referred to in (i) and (ii) above, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect us, except as set forth below.

In February 2006, Solidarity Fund (QFL) and SGF Santé Inc., each of whom holds more than 10% of the outstanding Common Shares of the Company, exercised its right to convert its portion of a convertible loan under a loan agreement originally entered into among the Company, Solidarity Fund (QFL) and SGF Santé Inc. in 2003, pursuant to which each of the foregoing shareholders loaned the Company a principal amount of CAN$12.5 million. Upon conversion by Solidarity Fund (QFL) and SGF Santé Inc. of both all principal and interest due under the convertible loan agreement, the Company issued to each of them 3,477,544 Common Shares in accordance with the provisions of the agreement and additional arrangements. Following the conversion and share issuance described above, there remains no amount of indebtedness outstanding under the loan agreement.

ITEM 10. TRANSFER AGENT AND REGISTRAR

10.1 TRANSFER AGENT AND REGISTRAR

The name and principal address of the registrar and transfer agent for the Common Shares, being the only class of our publicly listed securities, is indicated below:

Computershare Trust Company

1500 University Street, 7th Floor
Montreal, Quebec
Canada H3A 3S8

ITEM 11. MATERIAL CONTRACTS

11.1 MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contract entered into by us during the financial year ended December 31, 2006 is the agreement dated September 22, 2006, whereby the Company, Atrium and a number of other selling shareholders entered into an underwriting agreement with a syndicate of underwriters led by RBC Dominion Securities Inc. providing for the sale by the Company and such other selling shareholders to the underwriters of an aggregate of 3,930,000 Subordinate Voting Shares of the capital of Atrium at a price of Cdn$15.80 per share (the "Underwriting Agreement"), of which the Corporation agreed to sell to the underwriters 3,485,000 Subordinate Voting Shares of the capital of Atrium. The secondary offering transaction contemplated by the Underwriting Agreement closed on October 18, 2006. A complete copy of the Underwriting Agreement has been filed on the SEDAR website at www.sedar.com under the Company's profile.

ITEM 12. INTERESTS OF EXPERTS AND AUDIT COMMITTEE DISCLOSURE

12.1 NAMES AND INTEREST OF EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants. They have prepared an independent auditors' report dated March 2, 2007 in respect of the Company's consolidated financial statements as at December 31, 2006 and 2005, with accompanying notes as at and for each of the year in the three-year period ended December 31, 2006. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Quebec and the rules of the US Securities and Exchange Commission.

12.2 AUDIT COMMITTEE DISCLOSURE

Multilateral Instrument 52-110 – *Audit Committees* ("MI 52-110") requires issuers to disclose in their annual information forms certain information with respect to the existence, charter, composition, and education and experience of the members of their Audit Committees, as well as all fees paid to external auditors. The Audit Committee Charter is attached as Schedule A to this annual Information Form and is also accessible on the Company's Web site at *www.aeternazentaris.com*.

COMPOSITION OF THE AUDIT COMMITTEE

Ms. Stormy Byorum, Mr. Gérard Limoges, FCA, who is the Chair of the Committee, and Mr. Pierre MacDonald are the members of the Company's Audit Committee, each of whom is independent and financially literate within the meaning of MI 52-110.

EDUCATION AND RELEVANT EXPERIENCE

The education and relevant experience of each of the members of the Audit Committee are described below.

Stormy Byorum – Ms. Byorum is currently Senior Managing Director of Stephens Cori Capital Advisors, a strategic and financial advisory services company. Before 1996, Ms. Byorum held various positions at Citicorp. Ms. Byorum holds a Master's of Business Administration (MBA) degree from the University of Pennsylvania.

Gérard Limoges, FCA – Mr. Limoges served as the Deputy Chairman of Ernst & Young LLP Canada until his retirement in September 1999. After a career of 37 years with Ernst & Young, Mr. Limoges has been devoting his time as a director of a number of companies. Mr. Limoges began his career with Ernst & Young in Montreal in 1962. After graduating from the Management School of Université de Montréal (HEC Montréal) in 1966, he became a chartered accountant and partner of Ernst & Young in 1971.

Pierre MacDonald – Mr. MacDonald was Vice President of James Bay Energy Corporation where he was responsible for administration, finance, internal audit and information systems. He subsequently was the Senior Vice President for Eastern Canada for Bank of Montreal, a position which involved the review and evaluation of the financial statements and creditworthiness of borrowers in a wide variety of industries. He then became Vice Chairman of the Treasury Board of the Government of Quebec. Mr. MacDonald served as the Chairman of the Audit Committee of Teleglobe Inc. for six years. He recently completed a term of six years as Chairman of the Risk Management Committee and member of the Audit Committee of the Export Development Corporation. Mr. MacDonald received Bachelor of Arts, Bachelor of Commerce and Masters of Commerce degrees from Laval University in Quebec City.

PRE-APPROVAL POLICIES AND PROCEDURES

Form 52-110F1 requires the Company to disclose whether its Audit Committee has adopted specific policies and procedures for the engagement of non-audit services and to prepare a summary of these policies and procedures. The mandate of the Audit Committee (attached as Schedule A to this Annual Information Form) provides that it is such committee's responsibility to approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and, when required, the framework for pre-approval of such services. The Audit Committee delegates to its Chairman the pre-approval of such non-audit fees.

EXTERNAL AUDITOR SERVICE FEES

In addition to performing the audit of the Company's consolidated financial statements and its subsidiaries, PricewaterhouseCoopers LLP provided other services to the Corporation and its subsidiaries and billed the Company and its subsidiaries the following fees for each of the Company's two most recently completed financial years. Fees for the financial year ended December 31, 2006 exclude all such fees

billed by PricewaterhouseCoopers LLP to the Company's former subsidiary, Atrium, since, on October 18, 2006, the Company initiated the divesture of its interest in Atrium upon closing of a secondary offering and completed the spin-off by distributing its remaining investment in Atrium to all shareholders on January 2, 2007.

FEES	FINANCIAL YEAR ENDED DECEMBER 31, 2006 $	FINANCIAL YEAR ENDED DECEMBER 31, 2005 $
Audit Fees(1)	252,084	576,757
Audit-Related Fees(2)	149,873	10,220
Tax Fees(3)	29,084	181,029
All Other Fees(4)	56,753	193,554(5)
TOTAL FEES:	**487,794**	**961,560**

(1) Refers to the aggregate fees billed by the Company's external auditor for audit services.

(2) Refers to the aggregate fees billed for assurance and related services by the Company's external auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under (1) above, including professional services rendered by the Company's external auditor for accounting consultations on proposed transactions, and consultations related to accounting and reporting standards.

(3) Refers to the aggregate fees billed for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning.

(4) Refers to the aggregate fees billed for products and services provided by the Company's external auditor, other than the services reported under (1), (2) and (3) above.

(5) These fees were primarily incurred in connection with the preparation of a prospectus filed by the Company's subsidiary, Atrium, as part of its initial public offering in April 2005.

ITEM 13. ADDITIONAL INFORMATION

13.1 ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, the principal securityholders of the Company and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular dated March 9, 2007, available on SEDAR at www.sedar.com. Additional financial information is provided in the Company's consolidated financial statements and Management's Discussion and Analysis for the financial year ended December 31, 2006.

All information incorporated by reference into this Annual Information Form is contained or included in one of our continuous disclosure documents filed with the Canadian securities regulatory authorities which may be viewed on SEDAR at www.sedar.com. Where a section of this Annual Information Form incorporates by reference information from one of our other continuous disclosure documents, such section makes specific reference to the document in which such information is originally contained or included, as well as to the relevant page and/or section.

ITEM 14. FORWARD-LOOKING STATEMENTS

14.1 FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking and prospective. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. Those risks include, among others, business conditions in the pharmaceutical and related

industries, as well as the general economy, changes in governmental regulation, changes in the healthcare industry, competitive factors such as those influencing expenditures for research and development, or the availability of markets for the Company's products. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this document.

There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company specifically disclaims any obligation to update these forward-looking statements. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this document are made as of the date hereof and the Company undertakes no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise.

SCHEDULE A – AUDIT COMMITTEE CHARTER

1. MISSION STATEMENT

The Audit Committee (the "Committee") will assist the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee will review the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and with the Code of Ethical Conduct. In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, and the external auditors. To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the company's business, operations, and risks.

The function of the Committee is oversight and while it has the responsibilities and powers set forth in this charter, it is neither the duty of the Committee to plan or to conduct audits or to determine that the company's financial statements are complete, accurate and in accordance with generally accepted accounting principles, nor to maintain internal controls and procedures.

2. POWERS

The Board authorizes the Audit Committee, within the scope of its responsibilities, to:

- Perform activities within the scope of its charter.
- Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- Set and pay the compensation for any advisors it employs.
- Ensure the attendance of company officers at meetings as appropriate.
- Have unrestricted access to members of management, employees and relevant information.
- Communicate directly with the internal and external auditors.

3. COMPOSITION

The Audit Committee shall be formed of three members, each of which shall be a director not holding a management function.

Each member shall provide a useful contribution to the Committee.

All members shall be independent of management.

All members must be financially literate.

The chairperson of the Audit Committee shall be appointed by the Board from time to time.

The term of the mandate of each member shall be one year.

The quorum requirement for any meeting shall be two members.

The secretary of the Audit Committee shall be the secretary of the company or any other individual appointed by the Board.

MEETINGS

If deemed necessary, the Audit Committee may invite other individuals (such as the Executive Vice President and COO or the Vice President and CFO).

External auditors shall be invited, if needed, to make presentations to the Audit Committee.

The Committee shall meet at least four times a year. Special meetings may be held if needed. If deemed necessary, external auditors may invite members to attend any meeting.

The Audit Committee will meet with the external auditors at least once a year without management presence.

The minutes of each meeting shall be recorded.

4. ROLE AND RESPONSIBILITIES

A. Financial Information

i) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

ii) Ask management and external auditors about significant risks and exposures and the plans to minimize such risks.

iii) Review the unaudited interim financial statements, the audited annual financial statements in addition to any documents which accompany such financial statements, such as the report of the external auditors, prior to filing or disclosure. Determine whether they are complete and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles and recommend their approval to the Board of Directors.

iv) Review and recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including Management's Discussion and Analysis of financial condition, all sections of the Annual Report and press releases concerning annual and interim financial results, and consider whether the information is adequate and consistent with members' knowledge about the company and its operations.

v) Review the compliance of the President and Chief Executive Officer and of the Chief Financial Officer certification on the company's controls and procedures disclosure of information and the attestation by management of the financial reports.

vi) Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures.

vii) Focus on judgmental areas such as those involving valuation of assets and liabilities including, for example, the accounting for and disclosure of: obsolete or slow-moving inventory; loan losses; warranty, product, and environmental liability; litigation reserves and other commitments and contingencies.

viii) Meet with management and the external auditors to review the financial statements and the results of the audit.

ix) Consider management's handling of proposed audit adjustments identified by the external auditors.

x) Ensure that the external auditors communicate certain required matters to the Committee.

xi) Be briefed on how management develops and summarizes quarterly financial information, the extent to which the external auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis.

xii) Meet with management and, if a pre-issuance review was completed, with the external auditors, either by telephone or in person, to review the interim financial statements and the results of the review.

xiii) To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:

- Actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
- Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices;
- Generally accepted accounting principles have been consistently applied;
- There are any actual or proposed changes in accounting or financial reporting practices;
- There are any significant or unusual events or transactions;
- The company's financial and operating controls are functioning effectively;
- The company has complied with the terms and conditions of loan agreements or security indentures; and
- The interim financial statements contain adequate and appropriate disclosures.

xiv) Ensure that the external auditors communicate certain required matters to the Committee.

B. External Audit

i) Review the professional qualification of the auditors (including background and experience of partner and auditing personnel).

ii) Consider the independence of the external auditor and any potential conflicts of interest.

iii) Review on an annual basis the performance of the external auditors and make recommendations to the Board for their compensation, their appointment, retention and termination of their appointment.

iv) Oversee the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.

v) Make sure to receive periodic reports from the external auditors.

vi) Review the external auditors' scope and plan of the annual audit, as well as the approach for the current year in light of the company's present circumstances and changes in regulatory and other requirements.

vii) Annually, or more frequently as may be required, consult with the external auditors, without the presence of management, as to internal controls, the fullness and accuracy of the financial statements, any significant difficulties encountered during the course of the audit or access to required information, the quality of financial personnel, the level of co-operation received from management any unresolved material differences of opinion or disputes.

viii) Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.

ix) Discuss with the external auditor the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.

x) Approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and, when required, the framework for pre-approval of such services.

xi) Ensure the company has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.

C. Internal Control

i) Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensuring that all individuals possess an understanding of their roles and responsibilities.

ii) Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.

iii) Satisfy itself as to the adequacy of company's review procedures regarding disclosure of other financial information.

iv) Gain an understanding of the current areas of financial risk and how these are being handled by the management.

v) Focus on the extent to which management reviews computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.

vi) Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

vii) Ensure that the external auditors keep the Audit Committee informed about fraud, illegal acts, deficiencies in internal control, and any other matter deemed appropriate.

viii) Establish procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (2) for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

D. Corporate governance

i) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.

ii) Periodically obtain updates from management, general counsel, and tax director regarding compliance.

iii) Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

iv) Review the findings of any examinations by regulatory agencies.

v) Ensure that a Code of Ethical Conduct is formalized in writing and that all employees are aware of it.

vi) Review periodically the content of the Code of Ethical Conduct and make sure employees are informed of amendments.

vii) Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the Code of Ethical Conduct and the guidelines for acceptable business practices.

viii) Review the program for monitoring compliance with the Code of Ethical Conduct.

ix) Periodically obtain updates from management and general counsel regarding compliance.

E. Other Responsibilities

i) Meet with the external auditors and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.

ii) Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.

iii) Review, with the company's counsel, any legal matters that could have a significant impact on the company's financial statements.

iv) Review the policies and procedures in effect for considering officers' expenses and perquisites.

v) If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.

vi) Perform other oversight functions as requested by the full Board.

vii) Regularly update the Board of Directors about Committee activities and make appropriate recommendations.

viii) Ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business.

ix) Prepare any reports required by law or listing rules or requested by the Board, for example a report on the Audit Committee's activities and duties to be included in the section on corporate governance in the Annual Report.

x) Prepare and review with the Board, in the manner the Committee deems appropriate, an annual performance evaluation of the Committee and its members, comparing its performance with the requirements of this charter.

xi) Review and update the Committee charter annually.

xii) Discuss any changes required to be made to this charter with the Board and ensure the charter and any such changes are approved by the Board.

Revised and approved by the Board of Directors on February 28, 2006.

Management's Reports

Responsibility for Financial Information

The following consolidated financial statements of Æterna Zentaris 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, administrative and disclosure 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 outside and 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 as well as 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, 2006, 2005 and 2004, in accordance with Canadian generally accepted accounting standards. The external auditors, having been appointed by the shareholders, 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.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Canada.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the Company's management has concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

Gilles Gagnon, MSc, MBA
President and Chief Executive Officer
Quebec, Quebec, Canada
March 2, 2007

Dennis Turpin, CA
Vice President and Chief Financial Officer

Æterna Zentaris Inc.

Consolidated Financial Statements
December 31, 2006, 2005 and 2004
(expressed in thousands of US dollars)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
LLP/s.r.l./s.e.n.c.r.l.
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Report of Independent Auditors

To the Shareholders of
Æterna Zentaris Inc.

We have audited the consolidated balance sheets of ***Æterna Zentaris Inc.*** as at December 31, 2006 and 2005 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, 2006. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 2, 2007

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l. and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Æterna Zentaris Inc.
Consolidated Balance Sheets

(expressed in thousands of US dollars)

	As at December 31, 2006 $	As at December 31, 2005 $
Assets		
Current assets		
Cash and cash equivalents	9,356	12,381
Short-term investments (note 22)	51,663	22,480
Accounts receivable		
Trade	7,035	9,592
Other (note 6)	2,737	2,324
Income taxes	941	21
Inventory (note 7)	5,367	5,500
Prepaid expenses	2,671	2,477
Future income tax assets (note 18)	21,953	2,163
Current assets of discontinued operations (note 2)	—	106,738
	101,723	163,676
Investment in an affiliated company (note 2)	57,128	—
Property, plant and equipment (note 9)	13,432	14,107
Deferred charges and other long-term assets (note 8)	1,354	1,520
Intangible assets (note 10)	39,106	41,354
Goodwill (note 11)	10,748	9,777
Non-current assets of discontinued operations (note 2)	—	189,351
	223,491	419,785

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	10,021	7,601
Income taxes	—	4,490
Deferred revenues	5,570	4,622
Current portion of long-term debt	719	719
Current liabilities of discontinued operations (note 2)	—	46,742
	16,310	64,174
Deferred revenues	8,468	11,087
Convertible term loans (note 13)	—	28,440
Long-term debt (note 14)	704	1,426
Employee future benefits (note 15)	8,167	7,455
Future income tax liabilities (note 18)	10,963	8,628
Non-current liabilities of discontinued operations (note 2)	—	189,044
	44,612	310,254
Shareholders' Equity		
Share capital (note 16)	168,466	130,344
Other capital	6,226	10,474
Deficit	(10,114)	(43,224)
Cumulative translation adjustment	14,301	11,937
	178,879	109,531
	223,491	419,785

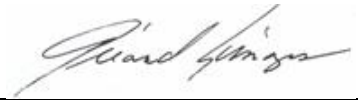
Subsequent event (note 2)

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

Approved by the Board of Directors

Director

Éric Dupont, PhD



Director

Gérard Limoges, FCA

Æterna Zentaris Inc.
Consolidated Statements of Deficit

(expressed in thousands of US dollars)

	Years Ended December 31,		
	2006	**2005**	**2004**
	$	**$**	**$**
Balance – Beginning of year	43,224	53,795	49,370
Loss on settlement of the equity portion of convertible term loans (note 13)	280	—	—
Net loss (earnings) for the year	(33,390)	(10,571)	4,425
Balance – End of year	10,114	43,224	53,795

Consolidated Statements of Other Capital

(expressed in thousands of US dollars)

	Years Ended December 31,

	2006 $	2005 $	2004 $
Balance – Beginning of year	10,474	6,059	5,088
Conversion option related to convertible term loans (note 13)	(6,339)	2,129	—
Stock-based compensation costs (note 16e)	2,120	2,286	1,075
Exercise of stock options (note 16c)	(29)	—	(104)
Balance – End of year	6,226	10,474	6,059

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

Æterna Zentaris Inc.
Consolidated Statements of Operations

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

	Years Ended December 31,		
	2006 $	2005 $	2004 $
Revenues	41,392	47,204	42,972
Operating expenses			
Cost of sales	11,747	8,596	7,992
Selling, general and administrative	17,235	15,281	13,137
Research and development costs	28,652	27,075	23,431
Research and development tax credits and grants	(1,564)	(536)	(845)
Depreciation and amortization			
Property, plant and equipment	2,972	1,796	1,958
Intangible assets	6,457	4,575	4,178
	65,499	56,787	49,851
Loss from operations	(24,107)	(9,583)	(6,879)
Other revenues (expenses)			
Interest income	1,446	1,238	1,286
Interest expense			
Long-term debt and convertible term loans	(1,287)	(6,979)	(4,150)
Other	(163)	(38)	(69)
Foreign exchange gain (loss)	298	(88)	(491)
Gain on disposal of a long-term investment	409	—	—
	703	(5,867)	(3,424)
Share in the results of an affiliated company	1,575	—	—
Loss before income taxes	(21,829)	(15,450)	(10,303)
Income tax recovery (expense) (note 18)	29,129	(493)	(273)
Net earnings (loss) from continuing operations	7,300	(15,943)	(10,576)
Net earnings from discontinued operations (note 2)	26,090	26,514	6,151
Net earnings (loss) for the year	33,390	10,571	(4,425)
Net earnings (loss) per share from continuing operations			
Basic and diluted	0.14	(0.35)	(0.23)
Net earnings (loss) per share			
Basic	0.64	0.23	(0.10)
Diluted	0.62	0.23	(0.10)
Weighted average number of shares outstanding (note 20)			
Basic	52,099,290	46,139,814	45,569,176

Diluted	52,549,260	46,139,814	45,569,176

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

Æterna Zentaris Inc.
Consolidated Statements of Cash Flows

(expressed in thousands of US dollars)

	Years Ended December 31,		
	2006	2005	2004
	$	$	$
Cash flows from operating activities			
Net earnings (loss) for the year	33,390	10,571	(4,425)
Net earnings from discontinued operations	(26,090)	(26,514)	(6,151)
Net earnings (loss) from continuing operations	7,300	(15,943)	(10,576)
Items not affecting cash and cash equivalents			
Depreciation and amortization	9,429	6,371	6,136
Stock-based compensation costs	2,120	2,286	1,071
Future income taxes	(29,262)	424	(5,596)
Gain on disposal of a long-term investment	(409)	—	—
Share in the results of an affiliated company	(1,575)	—	—
Employee future benefits	(115)	2,338	712
Deferred charges	(841)	2,707	(2,198)
Deferred revenues	(3,258)	(10,291)	13,389
Accretion on convertible term loans	1,227	4,479	1,514
Foreign exchange loss (gain) on long-term items denominated in foreign currency	(587)	375	(19)
Change in non-cash operating working capital items (note 17)	255	3,856	(5,273)
Net cash used in continuing operating activities	(15,716)	(3,398)	(840)
Net cash provided by discontinued operating activities	23,673	16,332	10,681
Net cash provided by operating activities	7,957	12,934	9,841
Cash flows from financing activities			
Repayment of long-term debt	(749)	(684)	(605)
Issuance of shares pursuant to the exercise of stock options	81	130	1,282
Share issue expenses	(112)	(108)	(127)
Net cash provided by (used in) continuing financing activities	(780)	(662)	550
Net cash provided by (used in) discontinued financing activities	(7,794)	89,587	24,541
Net cash provided by (used in) financing activities	(8,574)	88,925	25,091
Cash flows from investing activities			
Purchase of short-term investments	(79,300)	(25,945)	(17,518)
Proceeds from the sale of short-term investments	49,264	26,775	28,531
Proceeds from the sale of a long-term investment	1,387	—	—
Business acquisitions, net of cash and cash equivalents acquired (note 5)	(32)	(37)	—
Purchase of property, plant and equipment	(1,894)	(1,318)	(1,539)
Acquisition of amortizable intangible assets	(5)	(589)	(81)
Net cash provided by (used in) continuing investing activities	(30,580)	(1,114)	9,393
Net cash provided by (used in) discontinued investing activities	11,930	(94,468)	(39,333)
Net cash used in investing activities	(18,650)	(95,582)	(29,940)
Effect of exchange rate changes on cash and cash equivalents	1,356	(2,748)	1,458
Net change in cash and cash equivalents	(17,911)	3,529	6,450
Cash and cash equivalents – Beginning of year	27,267	23,738	17,288
Cash and cash equivalents – End of year	9,356	27,267	23,738
Cash and cash equivalents related to:			
Continuing operations	9,356	12,381	13,568
Discontinued operations	—	14,886	10,170
	9,356	27,267	23,738

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

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

1 Incorporation and nature of activities

Æterna Zentaris Inc. ("Æterna Zentaris" or the "Company"), incorporated under the Canada Business Corporations Act, is a growing global biopharmaceutical company focused on endocrine therapy and oncology with proven expertise in drug discovery, development and commercialization.

2 Sales of an interest in Atrium Biotechnologies Inc. and subsequent to year-end distribution of the remaining interest

During 2006, the Company completed a lengthy and detailed review process whereby it examined a number of strategic alternatives for how best to pursue and implement its business plan of becoming a "pure play" biopharmaceutical company with a focus on endocrine therapy and oncology. Among the alternatives considered was the divestiture of Æterna Zentaris' interest in Atrium Biotechnologies Inc. ("Atrium") and the resulting focus on advancing its development pipeline.

On September 19, 2006, the Company initiated a Secondary Offering to sell 3,485,000 Atrium Subordinate Voting Shares at a price of CAN$15.80 per share.

On October 18, 2006, the Company closed this Secondary Offering for net proceeds of $45 million. The gain on the disposal of this investment amounted to $29,248,000 including $1,643,000 related to cumulative translation adjustments.

Concurrently with the closing of the Secondary Offering and in accordance with the articles of Atrium, the Company's remaining Atrium Multiple Voting Shares were automatically converted into Atrium Subordinate Voting Shares on a one-for-one basis such that the Company subsequently owned 11,052,996 Atrium Subordinate Voting Shares representing approximately 36.1% of the issued and outstanding shares of Atrium. The Company also announced its intent to distribute this remaining interest to all its shareholders. As of that date, Atrium was excluded from the consolidation since the Company's control ceased. Furthermore, all historical operations and cash flows recorded through the consolidation of Atrium until that date have been reported as discontinued operations and therefore, these operations and cash flows will be presented as such in the future in the statement of operations and in the statement of cash flows. The Company's remaining interest in Atrium is now presented as a long-term investment, accounted for using the equity method.

On December 15, 2006, the Company's shareholders approved a reduction in the stated capital of the Company in an amount equal to the fair market value of its remaining interest in Atrium for the purpose of effecting a special distribution in kind of all 11,052,006 subordinate voting shares of Atrium held by the Company. On January 2, 2007, Æterna Zentaris' shareholders received approximately 0.2079 of an Atrium subordinate voting share for each one of their common shares.

This special distribution will be accounted for as a nonreciprocal transfer to shareholders measured at the carrying value of the investment in Atrium on the date of the distribution. As the special distribution will be considered as a taxable transaction for the Company and treated as a reduction of the stated capital for tax purposes, the share capital of the Company will be reduced by the fair value of the Atrium shares distributed, the long-term investment in Atrium will be removed from the balance sheet and the difference, taking into account the related income taxes and cumulative translation adjustment, will be recorded as Other Capital.

For the years ended December 31, 2006, 2005 and 2004, previously consolidated revenues and expenses of Atrium, representing the former Active Ingredients & Specialty Chemicals Segment as well as the Health & Nutrition Segment, have been reclassified from continuing operations to discontinued operations.

	Years Ended December 31,		
	2006	2005	2004
	$	$	$
Revenues	239,535	200,863	136,240
Earnings before the following items	28,360	21,414	17,146
Gain on disposal of Atrium shares	29,248	—	—
Income tax expense (a)	(19,923)	(6,838)	(6,093)
Gain (loss) on dilution of investments (b)	(628)	19,002	(74)
Earnings before non-controlling interest	37,057	33,578	10,979
Non-controlling interest	(10,967)	(7,064)	(4,828)

Net earnings from discontinued operations	26,090	26,514	6,151
Net earnings per share from discontinued operations			
Basic	0.50	0.57	0.13
Diluted	0.48	0.57	0.13

(a) In 2006, an amount of $7,006,000 is related to the gain on disposal of Atrium shares and an amount of $5,692,000 is related to future income tax liabilities on unremitted earnings of Atrium.

(b) Gain (loss) on dilution of investments

Following the exercise of Atrium's stock options, Atrium issued 627,500 subordinate voting shares between January 1 and October 18, 2006. As a consequence, a loss on dilution amounting to $628,000 was recognized.

On April 6, 2005, Atrium completed its Initial Public Offering through the issuance of 4,166,667 subordinate voting shares at a price of CAN$12.00 per share for total gross proceeds of $40,957,000 (CAN$50,000,000). Immediately prior to the closing of the aforementioned offering, Atrium completed the acquisition of the non-controlling interest in Unipex Finance S.A.S. for an amount of $7,289,000. This amount was settled through the issuance of 741,584 subordinate voting shares of Atrium at the offering price of CAN$12.00 per share. Moreover, pursuant to the acquisition of Douglas Laboratories by Atrium in December 2005, Atrium issued 917,532 subordinate voting shares at a price of CAN$10.95 per share. Following the exercise of Atrium's stock options during 2005, Atrium also issued 387,000 subordinate voting shares at an average price of CAN$2.28 for total proceeds of $884,000. As a consequence of these transactions, the Company's economic interest in Atrium decreased from 61.1% to 48.46%, generating a gain on dilution of investments amounting to $19,002,000.

On October 27, 2004, pursuant to the issuance of 145,000 subordinate voting shares of Atrium, a loss on dilution amounting to $74,000 was recognized.

Major classes of assets and liabilities as of December 31, 2005 have been reclassified and are presented as discontinued operations as follows:

	$
Assets	
Current assets	
Cash	14,886
Other current assets	91,852
Current assets of discontinued operations	106,738
Intangible assets	68,027
Goodwill	109,392
Other long-term assets	11,932
Non-current assets of discontinued operations	189,351
	296,089
Liabilities	
Current liabilities of discontinued operations	46,742
Long-term debt	105,877
Non-controlling interest	64,531
Other long-term liabilities	18,636
Non-current liabilities of discontinued operations	189,044
	235,786

3 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements differ in certain respects from those prepared in accordance with United States generally accepted principles (US GAAP) and do not provide certain disclosures which would be found in US GAAP financial statements, as permitted by the regulations of the Securities and Exchange Commission of the United States. These recognition and measurement differences are described in note 24 “Summary of differences between generally accepted accounting principles in Canada and in the United States”. The significant accounting policies, which have been consistently applied, are summarized as follows:

Basis of consolidation

These consolidated financial statements include all companies in which the Company, directly or indirectly has more than 50% of the voting rights or over which it exercises control. Companies are included in the consolidation from the date that control is transferred to the Company while companies sold are excluded from the consolidation from the date that control ceases. The purchase method of accounting is used to account for acquisitions. Intercompany transactions, balances and unrealized gains and losses on transactions between the companies included in the basis of consolidation are eliminated.

Investments in affiliated companies

Investments in companies over which the Company is to exercise significant influence, generally participation of between 20% and 50% of the voting rights, but over which it does not exercise control, are accounted for by using the equity method. The Company’s share of its affiliated results of operations is recognized in the statement of operations.

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 and liabilities, the useful lives of property, plant and equipment and intangible assets, the valuation of intangible assets and goodwill, the fair value of options granted and employee future benefits and certain accrued liabilities. Actual results could differ from those estimates.

Foreign currency translation

Reporting currency and self-sustaining subsidiaries

The Company uses the US dollar as its reporting currency. Assets and liabilities of subsidiaries whose functional currency is other than the US dollar are translated using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate in effect during the year. Gains and losses are included in the cumulative translation adjustment account in shareholders’ equity.

Foreign currency transactions and integrated foreign subsidiaries

The financial statements of integrated foreign operations and transactions denominated in currencies other than the functional currency are remeasured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rate in effect on the date of the balance sheet. Non-monetary assets and liabilities are remeasured at historical rates, unless such assets and liabilities are carried at market, in which case, they are translated at the exchange rate in effect on the date of the balance sheet. Revenues and expenses are remeasured at the monthly average exchange rate. Gains and losses resulting from such remeasurement 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.

Short-term investments

Short-term investments, which are valued at the lower of amortized cost and market value, consist mainly 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 and work in progress 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 and work in progress.

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	4 and 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 ¹ˆ₃
Automotive equipment	Straight-line	20
Leasehold improvements	Straight-line	Remaining lease term

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 over the term of the convertible term loans, respectively.

Intangible assets

Intangible assets with finite useful lives consist of patents and trademarks, customer relationships as well as technology and other. 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 with finite useful lives are amortized on a straight-line basis over their estimated useful lives of eight to fifteen years for patents, ten years for trademarks and customer relationships, and from three to seven years for technology and other.

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 not amortized and is subject to an annual impairment test, or more frequently if events or changes in circumstances indicate that it might be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based upon discounted cash flows, exceeds the net carrying amount of that reporting unit as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. In the event that the carrying amount exceeds the sum of the discounted cash flows, a second test must be performed whereby the fair value of the segment's goodwill must be estimated to determine if it is less than its carrying amount. Fair value of goodwill is estimated in the same way as goodwill is determined at the date of the acquisition in a business combination, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit.

Impairment of long-lived assets

Property, plant and equipment and 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 asset 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, which fair value is determined based upon discounted cash flows or appraised values, depending on the nature of assets.

Employee future benefits

One of the Company's subsidiaries maintains defined contribution and unfunded defined benefit plans as well as other benefit plans for its employees. Its obligations are accrued under employee benefit plans and the related costs. In this regard, the following policies have been adopted:

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

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

For defined contribution plans, the pension expenses recorded in the statement of operations is the amount of contribution the Company is required to pay for services rendered by employees.

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 Company is currently in a phase in which potential products are being further developed or marketed jointly with strategic partners. The existing licensing 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. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value.

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements when the Company has no significant future performance obligations and collectibility of the fees is assured. Upfront payments received at the beginning of licensing agreements are not recorded as revenue when received but are amortized based on the progress to the related research and development work. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectibility is assured, and when there are no significant future performance obligations in connection with the milestones. In those instances where the Company has collected upfront or milestone payments but has ongoing future obligations related to the development of the drug product, revenue recognition is deferred and amortized over the period of its future obligations.

Royalty revenue is recorded when the amount of the royalty fee is determinable and collection is reasonably assured.

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, when there are no future performance obligations, when the purchase price is fixed and determinable, and collection is reasonably assured.

Stock-based compensation costs

Since January 1, 2003, the Company accounts for all forms of employee stock-based compensation using the fair value-based method. Stock-based compensation costs are amortized to expense over the vesting periods.

Prior to this date, no stock-based compensation costs were recognized for grants of stock-based awards to employees. However, the Company is required to disclose pro forma information with respect to net earnings (loss) and net earnings (loss) per share as if stock-based compensation costs were recognized in the financial statements for all reporting years using the fair value-based method for outstanding stock options granted during 2002 (note 16).

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. Future income tax assets and liabilities are measured using substantively enacted and enacted tax rates expected to apply in the years in which the differences are expected to reverse.

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 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. No costs have been deferred during any periods.

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 Québec (“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 Québec, at a rate of 17.5%.

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.

Earnings (loss) per share

Basic net earnings (loss) per share are (is) calculated using the weighted average number of common shares outstanding during the year.

Diluted net earnings (loss) per share are (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 and convertible term loans. This method requires that diluted net earnings (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.

4 New accounting standards

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3865 “Hedges”, Section 1530 “Comprehensive Income” and Section 3251 “Equity”.

Section 3855 expands on Section 3860 “Financial Instruments – Disclosure and Presentation”, by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530 “Comprehensive Income” introduces a new requirement to temporarily present certain gains and losses outside net income.

Consequently, Section 3250 “Surplus” has been revised as Section 3251 “Equity”.

Recognition of financial assets and liabilities

Short-term investments

The short-term investments will be classified as available-for-sale investments. The Company will continue to recognize transactions on the settlement date.

These investments will be recognized at fair value. Unrealized gains and losses will be recognized, net of income taxes, if any, in “Accumulated other comprehensive income”. Upon the disposal or impairment of these investments, these gains or losses will be reclassified in the consolidated statement of operations.

Effective interest rate method

Premiums and discounts on short-term investments and long-term debt will be accounted for using the effective interest rate method.

Transition

The recognition, derecognition and measurement methods used as well as the hedge accounting policies used to prepare the consolidated financial statements of periods prior to the effective date of the new standards were unchanged and, therefore those financial statements will not be restated.

Sections 1530, 3251, 3855 and 3865 will be adopted by the Company on January 1, 2007. As of this date, the Company will recognize all of its financial assets and liabilities in the consolidated balance sheet according to their classification. Any adjustment made to a previous carrying amount will be recognized as an adjustment to the balance of deficit at that date or as the opening balance of a separate item in “Accumulated other comprehensive income”, net of income taxes, if any.

The following items will be recognized as an adjustment to the opening balance of “Accumulated other comprehensive income”, net of income taxes:

- The difference between the carrying amount and the fair value of investments classified as available for sale;
- Reclassification of the unrealized foreign currency translation adjustments.

Effective interest rate method

The impact of the use of the effective interest rate method will be recognized as an adjustment to the opening balance of deficit, net of income taxes, if any.

These transition adjustments will not have a material impact on the Company’s consolidated balance sheet.

5 Business acquisition

Echelon Biosciences Inc. (“Echelon”)

On January 1, 2005, the Company completed the acquisition of 100% of the issued and outstanding common shares of Echelon for a total consideration of $2,935,522, of which an amount of $36,718 including all acquisition-related costs, was paid cash, net of cash and cash equivalents acquired of $161,734, and the balance was paid through the issuance of 443,905 common shares of the Company, the price per share corresponds to the weighted moving average trading prices of the Company for the last fifteen consecutive trading days ending on December 31, 2004. The acquisition is subject to contingent payments specified in the agreement for an approximate amount of $3,500,000 of which an amount of $2,900,000 will be payable in shares and the balance of $600,000 payable in cash at the latest in January 2008 once the conditions will have been met. During 2005, an amount of $196,000 has been recorded as contingent consideration payable, thus having the effect of increasing goodwill. This amount has been settled through a cash payment of $32,000 and the issuance of 23,789 common shares of the Company.

This company, based in the United States, focuses on the transduction signalling technology.

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

	$
Assets	
Current assets	750
Property, plant and equipment	445
Intangible assets	
Customer relationships	909
Patents and trademarks	100
Technologies	1,364
Other long-term assets	111
	3,679
Liabilities	
Current liabilities	781
Long-term liabilities	81
Future income tax liabilities	832
	1,694
Net identifiable assets acquired	1,985
Goodwill	951
Purchase price	2,936
Less:	
Cash and cash equivalents acquired	162
Shares issued	2,737
Net cash used for the acquisition	37

Patents and trademarks, customer relationships and technologies are amortized on a straight-line basis over their estimated useful lives of five to seven years.

Goodwill and intangible assets are not deductible for income tax purposes.

6 Other receivables

	As at December 31, 2006 $	2005 $
Interest	592	401
Grants *	857	1,415
Research and development tax credits recoverable	103	—
Commodity taxes	880	351
Other	305	157
	2,737	2,324

* These grants represent a holdback of a contribution from a federal program called Technology Partnerships Canada (“TPC”). The Company received a contribution equivalent to 30% of the eligible expenses incurred by the Company in the development of an angiogenesis inhibitor in oncology, dermatology and ophthalmology. Since the pharmaceutical development has been terminated, the Company does not expect to make any reimbursements in connection with this program.

7 Inventory

	As at December 31, 2006 $	2005 $
Raw materials	3,233	3,598

Work in progress	1,070	1,077
Finished goods	1,064	825
	5,367	5,500

8 Deferred charges and other long-term assets

	As at December 31, 2006 $	2005 $
Deferred charges	1,151	595
Investments at cost, disposed of during the year	—	925
Other	203	—
	1,354	1,520

9 Property, plant and equipment

	As at December 31, 2006 Cost $	2006 Accumulated depreciation $	2005 Cost $	2005 Accumulated depreciation $
Land	52	—	52	—
Building	11,031	3,280	11,054	2,844
Equipment	12,793	8,338	11,013	5,973
Office furniture	665	505	658	467
Computer equipment	1,091	871	872	745
Automotive equipment	32	30	70	53
Leasehold improvements	990	198	594	124
	26,654	13,222	24,313	10,206
Less:				
Accumulated depreciation	13,222		10,206	
Net amount	13,432		14,107	

In 2006, following the decision to terminate the pharmaceutical development of one of its products, the Company has recorded an impairment on related manufacturing equipment in order to bring it down to its fair value, which is based on management's best estimate of the resale value. Accordingly, an amount of $1,060,856 has been recorded as an impairment loss included in depreciation of property, plant and equipment.

10 Intangible assets

	As at December 31, 2006 Cost $	2006 Accumulated amortization $	2005 Cost $	2005 Accumulated amortization $
Patents and trademarks	57,203	20,002	51,646	12,621
Customer relationships	938	188	940	94
Technology and other	2,025	870	1,953	470
	60,166	21,060	54,539	13,185
Less: Accumulated amortization	21,060		13,185	
Net amount	39,106		41,354	

In 2006, following the decision to terminate the pharmaceutical development of certain products, the Company recorded an impairment on certain patents and trademarks. Accordingly, an amount of $1,815,172 has been recorded as an impairment loss included in amortization of intangible assets.

11 Goodwill

The change in the carrying value is as follows:

	$
Balance as at December 31, 2004	9,646
Acquisition (note 5)	951
Impact of foreign exchange rate	(820)
Balance as at December 31, 2005	9,777
Impact of foreign exchange rate	971
Balance as at December 31, 2006	10,748

12 Accounts payable and accrued liabilities

	As at December 31, 2006 $	2005 $
Trade payable	7,019	4,001
Advance payment related to a licensing agreement	—	728
Salaries and employee benefits	460	482
Other accrued liabilities	2,542	2,390
	10,021	7,601

13 Convertible term loans

On February 14 and 17, 2006, the Solidarity Fund QFL (the “Fund”) and SGF Santé inc. (“SGF”) have respectively exercised their right to early convert the entirety of their convertible term loans in the principal amount of CAN$12.5 million each that they had extended to the Company in April 2003 and that were to mature on March 31, 2006. In accordance with the terms of the convertible term loans, and additional arrangements between the Company, the Fund and SGF, Æterna Zentaris has issued to each of the loan holders 3,477,544 of its common shares upon conversion of their loans, representing the principal and interest due to the stated maturity date under the loans, based on the conversion price that had been agreed upon in the loan agreements.

For accounting purposes, the convertible term loans are separated between debt and equity, the equity portion representing the value of the holders’ conversion options. As a consequence of this transaction, the Company recorded a loss on settlement of long-term debt amounting to $599,190, representing an inducement to the original terms of the loan agreements. An amount of $280,000 has been recorded in the statement of deficit, and the remainder has been charged to expense in the statement of operations and has been included in the accretion on convertible term loans in the statement of cash flows.

14 Long-term debt

	As at December 31, 2006 $	2005 $
Loan from the federal and provincial governments, (CAN$1,600 in 2006; CAN$2,400 in 2005) non-interest bearing, payable in five annual equal and consecutive instalments since July 2004	1,373	2,064
Promissory note, bearing interest at a rate of 5.67%, payable in monthly instalments including principal and interest, collateralized by the laboratory equipment of a subsidiary, maturing in June 2008	50	81
	1,423	2,145
Less:		
Current portion	719	719
	704	1,426

The principal instalments due on long-term debt for the next two years amount to $719,490 in 2007 and $703,688 in 2008.

15 Employee future benefits

Our subsidiary in Germany provides unfunded defined benefit pension plans and unfunded postemployment benefit plans for some groups of employees. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependant pensions.

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

	Pension benefit plans			Other benefit plans		
	2006	2005	2004	2006	2005	2004
	$	$	$	$	$	$
Obligation – Beginning of year	6,932	5,634	4,486	523	398	393
Current service cost	293	200	200	39	23	23
Interest cost	293	269	253	22	19	21
Actuarial loss (gain)	(674)	1,748	342	53	182	27
Benefits paid	(64)	(65)	(60)	(70)	(43)	(94)
Effect of foreign currency exchange rate changes	767	(854)	413	53	(56)	28
Obligation – End of year	7,547	6,932	5,634	620	523	398
Expenses (recovery) recognized	(88)	2,217	795	114	224	71

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

	Pension benefit plans			Other benefit plans		
Actuarial assumptions	2006	2005	2004	2006	2005	2004
	%	%	%	%	%	%
Discount rate for expenses	4.00	5.25	5.25	4.00	5.25	5.25
Discount rate for liabilities	4.50	4.00	5.25	4.50	4.00	5.25
Pension benefits increase	1.25	1.25	1.25	1.25	1.25	1.25
Rate of compensation increase	2.75 to 3.75	2.75 to 3.75	2.75 to 3.75	2.75	2.75	2.75

The last actuarial reports give effect to the pension and postemployment benefit obligations as at December 31, 2006. The next actuarial reports are planned for December 2007.

Defined contribution plans

Total expenses amount to $263,810 in 2006 ($215,788 in 2005 and $175,699 in 2004) for defined contribution pension plans.

The Company also sponsors a 401K plan in its U.S. subsidiary. Under this plan, the Company may contribute a discretionary amount equal to a percentage of employee contributions to the plan and may also make discretionary profit sharing contribution. During the years ended December 31, 2006 and 2005, the Company did not record any contribution.

Total cash payments for employee future benefits in 2006, consisting of cash contributed by the Company to its defined contribution plans as well as direct payments to retired employees, amount to $398,340 ($323,382 in 2005 and $330,144 in 2004).

16 Share capital

(a) Authorized

Unlimited number of shares of the following classes:
Common, 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, 2006, there are no preferred shares issued and outstanding.

(b) Issued

	As at December 31,					
	2006		2005		2004	
	Number	Amount	Number	Amount	Number	Amount
		$		$		$
Common shares						
Balance – Beginning of year	46,139,814	130,344	45,670,909	127,585	45,330,992	126,326
Conversion of convertible term loans (note 13)	6,955,088	37,786	—	—	—	—
Issued pursuant to the stock option plan	22,000	110	25,000	130	339,917	1,386
Issued pursuant to the acquisition of Echelon (note 5)	23,789	163	443,905	2,737	—	—

Issued pursuant to the acquisition of a patent from a senior officer (note 21)	28,779	175	—	—	—	—
Share issue expenses	—	(112)	—	(108)	—	(127)
Balance – End of year	53,169,470	168,466	46,139,814	130,344	45,670,909	127,585

(c) Common share issues

Pursuant to the exercise of stock options, the Company issued, during fiscal 2006, 22,000 common shares for total proceeds of $81,000. Consequently, stock-based compensation costs of $29,000 relating to those exercised options have been reclassified from other capital to share capital.

Pursuant to the exercise of stock options, the Company issued, during fiscal 2004, 339,917 common shares at an average price of $3.77 per share for proceeds of $1,282,000. Consequently, stock-based compensation costs of $104,000 relating to those exercised options have been reclassified from other capital to share capital.

(d) Shareholder right plan

On March 29, 2004, the Company adopted a shareholder right plan (the “Rights Plan”). The rights issued to the shareholders under the Rights Plan will be exercisable, under certain conditions, only when a person or entity, including any related party(ies), acquires or announces his (its) intention to acquire more than twenty (20) percent of the outstanding common shares of the Company (as such, shares may be redesignated or reclassified) without complying with the “permitted bid” provisions of the Rights Plan or without approval of the Company’s Board of Directors. Should such an acquisition occur, each right would, upon exercise, entitle a holder, other than the person pursuing the acquisition together with its related party(ies), to purchase common shares of the Company at a fifty (50) percent discount to the market price of the Company’s shares at that time.

(e) Company’s stock option plan

In December 1995, the Company’s Board of Directors adopted a stock option plan (the “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 Stock Option Plan shall not exceed 4,543,744. Options granted under the Stock Option Plan expire after a maximum period of ten years following the date of grant. Options granted under the Stock Option Plan generally vest over a three-year period.

The following table summarizes the stock option activity under the Stock Option Plan:

	2006		2005		2004	
	Number	Weighted average exercise price (CAN$)	Number	Weighted average exercise price (CAN$)	Number	Weighted average exercise price (CAN$)
Balance – Beginning of year	3,843,592	6.16	3,480,592	6.58	3,197,435	6.02
Granted	45,000	6.41	686,500	5.63	913,000	8.06
Exercised	(22,000)	3.98	(25,000)	6.31	(339,917)	4.99
Expired	(346,000)	7.68	(65,000)	8.34	(2,050)	7.04
Forfeited	(30,500)	6.21	(233,500)	10.31	(287,876)	6.97
Balance – End of year	3,490,092	6.02	3,843,592	6.16	3,480,592	6.58
Options exercisable – End of year	2,736,099	5.88	2,260,930	6.17	1,743,429	6.90

The following table summarizes the stock options outstanding as at December 31, 2006:

	Options outstanding			Options currently exercisable	
Exercise price (CAN$)	Number	Weighted average remaining contractual life	Weighted average exercise price (CAN$)	Number	Weighted average exercise price (CAN$)
3.75 to 5.00	932,593	6.70	3.93	932,593	3.93
5.01 to 7.00	1,337,166	7.43	5.68	881,664	5.70
7.01 to 10.90	1,220,333	7.13	8.01	921,842	8.03

	3,490,092	7.13	6.02	2,736,099	5.88

Following the one-time distribution of the Company's remaining interest in Atrium on January 2, 2007 and as contemplated under the Stock Option Plan (see note 2), the Board of Directors of the Company approved an equitable adjustment to all unexercised options outstanding pursuant to the Stock Option Plan. The adjustment was a reduction in the exercise price of all outstanding stock options of CAN$2.02 per common share.

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,		
	2006	2005	2004
Dividend yield	Nil	Nil	Nil
Expected volatility	58.1%	62.1%	64.2%
Risk-free interest rate	4.06%	3.92%	3.48%
Expected life (years)	5.77	5.80	4.30

Had compensation costs been determined using the fair value method at the date of grant for awards granted in 2002 under this stock option plan, the Company's pro forma net earnings (loss), basic and diluted net earnings (loss) per share after giving effect to the grant of these options in 2002 are:

	Years Ended December31,	
	2005	2004
	$	$
Pro forma net earnings (loss)	10,429	(4,542)
Pro forma net earnings (loss) per share		
Basic	0.23	(0.10)
Diluted	0.23	(0.10)

17 Statements of cash flows

	Years Ended December 31,		
	2006	2005	2004
	$	$	$
Change in non-cash operating working capital items			
Accounts receivable	2,623	1,245	(7,194)
Inventory	660	(591)	(171)
Prepaid expenses	288	(811)	243
Accounts payable and accrued liabilities	1,955	4,652	(1,079)
Income taxes	(5,271)	(639)	2,928
	255	3,856	(5,273)

	Years Ended December 31,		
	2006	2005	2004
	$	$	$
Additional information			
Interest paid			
From continuing operations	4	34	68
From discontinued operations	7,784	1,908	1,794
Income taxes paid			
From continuing operations	5,756	709	2,965
From discontinued operations	8,698	6,084	4,301

18 Income taxes

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

	Years Ended December 31,		
	2006	2005	2004
Combined federal and provincial statutory income tax rate	32.02%	31.02%	31.02%

Income tax recovery based on statutory income tax rate	$ (6,990)	$ (4,792)	$ (3,196)
Change in valuation allowance	(22,792)	5,547	2,544
Accretion on convertible term loans	258	1,448	469
Stock-based compensation costs	679	739	333
Difference in statutory income tax rate of foreign subsidiaries	(995)	124	244
Change in enacted rate used	(2,428)	(2,780)	—
Tax loss consolidation strategy (note 21)	2,376	827	—
Other	763	(620)	(121)
	$ (29,129)	$ 493	$ 273

	Years Ended December 31, 2006	2005	2004
Income tax expense (recovery) is represented by:			
Current	$ 133	$ 69	$ 5,869
Future	(29,262)	424	(5,596)
	$ (29,129)	$ 493	$ 273
Current			
Domestic	$ —	$ —	$ —
Foreign	133	69	5,869
	$ 133	$ 69	$ 5,869
Future			
Domestic	$ (25,036)	$ —	$ —
Foreign	(4,226)	424	(5,596)
	$ (29,262)	$ 424	$ (5,596)
	$ (29,129)	$ 493	$ 273

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

	As at December 31, 2006 $	2005 $
Future income tax assets		
Current		
Deferred revenues	2,303	1,913
Inventory	157	250
Operating losses carried forward (a)	17,996	—
Research and development costs (a)	1,497	—
	21,953	2,163
Long-term		
Research and development costs	11,584	13,833
Share issue expenses	229	355
Operating losses carried forward	7,101	21,857
Property, plant and equipment	1,455	1,317
Intangible assets and goodwill	206	—
Employee future benefits	966	1,176
Deferred revenues	3,658	4,732
Other	—	175
	25,199	43,445
Valuation allowance	(13,463)	(35,719)

	11,736	7,726
	33,689	9,889
Future income tax liabilities		
Long-term		
Accounts receivable	11	35
Investment in an affiliated company (a)	5,829	—
Property, plant and equipment	154	144
Deferred charges and other long-term assets	604	249
Intangible assets	15,396	15,926
Investment tax credits	629	—
Other	76	—
	22,699	16,354
Future income tax assets (liabilities), net	10,990	(6,465)
Classified as follows:		
Future income tax assets	21,953	2,163
Future income tax liabilities	(10,963)	(8,628)
	10,990	(6,465)

(a) The future income tax assets and liabilities will be realized on January 2, 2007 following the distribution of the remaining shares held in Atrium.

As at December 31, 2006, the Company has non-refundable research and development tax credits of $5,683,000 which can be carried forward to reduce Canadian federal income taxes payable and expire from 2011 to 2016. No tax benefit has been accounted for in connection with those credits.

As at December 31, 2006, the Company had available operating losses in Canada. The following table summarizes the year of expiry of these operating losses by tax jurisdiction:

Year of expiry	Canada	
	Federal $	Provincial $
2008	6,181	—
2009	17,301	11,563
2010	17,427	17,107
2014	7,906	7,760
2015	5,496	5,155
	54,311	41,585

Furthermore, the Company had available operating losses in Germany amounting to $16.8 M for which there is no expiry date.

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

19 Segment information for continuing operations

Subsequent to the divestiture in Atrium, the Company operates in one single business segment, being the biopharmaceutical segment.

Information by geographic region

Revenues by geographic region are detailed as follows:

	Years Ended December 31,		
	2006 $	2005 $	2004 $
Canada	92	150	—
United States	5,910	6,189	853
Europe			
Switzerland	20,829	19,605	21,381
United Kingdom	5,336	6,801	5,008
Netherlands	1,760	11,731	14,559
Other	1,125	505	544
Japan	6,194	134	396
Other	146	2,089	231
	41,392	47,204	42,972

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

Customers who represent more than 10% of sales are as follows:

	2006 %	2005 %	2004 %
Customer 1	49	42	45
Customer 2	12	14	12
Customer 3	3	25	34

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

	Years Ended December 31, 2006 $	2005 $
Canada	8,821	12,045
United States	3,436	3,930
Germany	51,029	49,263
	63,286	65,238

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

The following table presents revenues by source:

	2006 $	2005 $	2004 $
Revenues			
Sales and royalties	27,716	23,643	19,479
License fees	13,652	23,530	23,493
Other	24	31	—
	41,392	47,204	42,972

20 Earnings (loss) per share

The following table sets forth the computation of basic and diluted net earnings (loss) per share:

	2006 $	2005 $	2004 $
Net earnings (loss) from continuing operations	7,300	(15,943)	(10,576)
Net earnings from discontinued operations	26,090	26,514	6,151
Impact of assumed conversion of dilutive stock options of Atrium	(754)	(552)	(156)
Net earnings from discontinued operations, adjusted for dilution effects	25,336	25,962	5,995
Net earnings (loss) adjusted for dilution effects	32,636	10,019	(4,581)
Basic weighted average number of shares outstanding	52,099,290	46,139,814	45,569,176
Dilutive effect of stock options	449,970	286,868	417,453
Diluted weighted average number of shares outstanding	52,549,260	46,426,682	45,986,629

Items excluded from the calculation of diluted net earnings (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	1,893,539	2,169,697	1,563,259
Common shares which would be issued following the conversion of the convertible term loans	776,237	6,043,564	5,396,040

For the years ended December 31, 2005 and 2004, the diluted amounts per share were the same amounts as the basic amounts 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 amounts per share for those years were calculated using the basic weighted average number of shares outstanding.

21 Related party transactions

	2006 $	2005 $	2004 $
Administrative revenues	35	33	128
Lease revenues	304	248	214
Subcontracting revenues and sales of raw materials	66	92	340
Subcontracting expenses	44	337	—
Patent acquired from a senior officer (note 16)	175	—	—

These above transactions with our former subsidiary Atrium and a senior officer are in the normal course of operations. They are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. The price of the shares issued for the acquisition of the patent was based on the closing trading price of the Company's shares on February 28, 2006, being the day before the signing of the agreement.

The transactions with Atrium include amounts that occurred before October 18, 2006 and that were previously eliminated from the consolidated financial statements but which will continue to occur after the disposal.

At the end of the year, amounts due to and (from) the former subsidiary are payable (redeemable) on demand and have resulted from the transactions mentioned above.

Tax loss consolidation strategy

On September 15, 2005, the Company obtained a one-day loan of $129 million from a financial institution to advance $129 million to its former subsidiary Atrium by way of a subordinate 7% interest-bearing promissory note. This note is unsecured and payable on demand.

On the same day, Atrium acquired $129 million in preferred shares from 4296672 Canada Inc., a wholly-owned subsidiary of the Company. The dividend rate on the preferred shares was 7.05%. 4296672 Canada Inc. used the proceeds to advance $129 million to the Company through an interest-free loan, payable on demand. Then, the funds were used by the Company to repay the daylight loan to the financial institution.

With respect to that arrangement that terminated in October 2006, when the Company ceased to be the controlling shareholder of Atrium, we had received a tax ruling delivered by Canada Revenue Agency. All transactions have been eliminated during the consolidation process and income tax savings resulting from the interest expense deduction have been presented as discontinued operations.

On December 22, 2004, the Company sold a technology to its former subsidiary, Atrium, in consideration of the issuance by Atrium of 537,996 subordinate voting shares. This transaction has been accounted for at the carrying amount of the net assets sold, being nil.

Under the amended agreement, the Company will pay Atrium up to $1,287,000 (CAN$1,500,000) of fees related to the registration, repositioning and marketing of the product. A total amount of $715,000 has been recorded in 2005 and 2004 and the remainder has been recorded and paid in 2006.

22 Financial instruments

Short-term investments

	2006 $	2005 $
Discount notes and commercial paper, bearing interest at effective annual rates ranging from 4.29% to 4.31% in 2006 and at an annual rate of 2.98% in 2005, maturing on different dates from March to June 2007, in 2006 and in February 2006, in 2005	8,649	631
Bonds, bearing interest at effective annual rates ranging from 2.81% to 4.43% in 2006 and from 2.0% to 4.33% in 2005, maturing on different dates from March 2007 to November 2008 in 2006 and from January 2006 to September 2007 in 2005	43,014	20,348

Mutual fund units	—	1,501
	51,663	22,480

Fair value

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The fair value of short-term and long-term investments is $51,702,449 ($22,655,602 in 2005), and nil ($1,065,520 in 2005) respectively. 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 approximate fair value of long-term debt and convertible term loans is respectively $1,342,000 and nil ($1,969,000 and $29,334,000 in 2005).

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, 2006 and 2005, there are no significant forward exchange contracts outstanding.

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 institutions and corporations. Consequently, management considers the risk of non-performance related to cash and cash equivalents and short-term investments to be minimal.

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. Allowance for doubtful accounts amounted to $7,000 and $10,000 as at December 31, 2006 and 2005, respectively.

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
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 14

23 Commitments and guarantee

The Company is committed to various operating leases for its premises totalling $2,280,000 in 2007, $1,894,000 in 2008, $1,680,000 in 2009 $1,641,000 in 2010 and $1,437,000 in 2011.

The Company is also committed to some service and manufacturing contracts totalling $5,478,000 in 2007, $2,180,000 in 2008, $1,179,000 in 2009 and $88,000 in 2010.

In October 2004, the Company entered into a $2.3 M (€1.75 M) bank guarantee in favour of one of its landlords in Germany with respect to the Company's lease obligation. This guarantee will mature in 2009.

24 Summary of differences between generally accepted accounting principles in Canada and in the United States

As a company listed on the NASDAQ national market, the Company is required to reconcile its financial statements for significant measurement differences between generally accepted accounting principles as applied in Canada (Canadian GAAP) and those applied in the United States (U.S. GAAP).

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

Statements of Operations

	Years Ended December 31,		
	2006	2005	2004
	$	$	$

Net earnings (loss) for the year under Canadian GAAP	33,390	10,571	(4,425)
Accretion on convertible term loans (c)	502	4,479	1,514
Loss on conversion of convertible term loans (c)	(280)	—	—
Amortization of in-process R&D (a)	2,348	1,610	1,605
Other (b)	(10)	(32)	(120)
Deferred taxes (d)	(749)	—	—
Income tax effects of the above adjustments	(939)	(658)	(656)
Net earnings (loss) for the year under U.S. GAAP	34,262	15,970	(2,082)
Out of which:			
Net earnings (loss) from continuing operations	8,172	(10,544)	(8,158)
Net earnings from discontinued operations	26,090	26,514	6,076
Basic net earnings (loss) per share	0.66	0.34	(0.05)
From continuing operations	0.16	(0.23)	(0.18)
From discontinued operations	0.50	0.57	0.13
Diluted net earnings (loss) per share	0.64	0.34	(0.05)
From continuing operations	0.16	(0.23)	(0.18)
From discontinued operations	0.48	0.57	0.13
Weighted average number of shares outstanding under U.S. GAAP			
Basic	52,099,290	46,139,814	45,569,176
Diluted	52,549,260	46,139,814	45,569,176

Reconciliation of shareholders' equity to conform to U.S. GAAP

The following summary sets out the significant differences between the Company's reported shareholders' equity under Canadian GAAP as compared to U.S. GAAP. Please see corresponding explanatory notes for additional information.

	Years Ended December 31,	
	2006	2005
	$	$
Shareholders' equity in accordance with Canadian GAAP	178,879	109,531
Adjustment of convertible term loans (c)	—	(992)
In-process R&D (a)	(14,348)	(15,128)
Other	39	346
Deferred tax effect (d)	5,134	6,040
	169,704	99,797

Statement of comprehensive income

	Years Ended December 31,		
	2006	2005	2004
	$	$	$
Net earnings (loss) for the year under U.S. GAAP	34,262	15,970	(2,082)
Other comprehensive income (loss)			
Foreign currency translation adjustments	3,011	(7,660)	3,993
Change in fair value of investments (e)	(274)	(139)	379
Change in fair value of interest rate swap, net of income taxes (f)	78	(78)	—
Comprehensive income	37,077	8,093	2,290

Accumulated other comprehensive income, net of related income taxes, consists of the following:

	As at December 31,	
	2006	2005
	$	$
Foreign currency translation adjustments	12,826	9,815
Unrealized gains on investments	39	313
Interest rate swap	—	(78)

Accumulated other comprehensive income	12,865	10,050

The following table summarizes the shareholders' equity activity under U.S. GAAP since December 31, 2003:

	Share Capital $	Deficit $	Other Capital $	Accumulated Other Comprehensive Income $	Shareholders' Equity $
Balance as at December 31, 2003	125,731	(62,002)	4,844	13,555	82,128
Net loss as per U.S. GAAP	—	(2,082)	—	—	(2,082)
Stock-based compensation costs	—	—	1,085	—	1,085
Variation in fair value of investments	—	—	—	379	379
Exercise of stock options	1,376	—	(104)	—	1,272
Share issue expenses	(116)	—	—	—	(116)
Foreign currency translation adjustments	—	—	—	3,993	3,993
Balance as at December 31, 2004	126,991	(64,084)	5,825	17,927	86,659
Net earnings as per U.S. GAAP	—	15,970	—	—	15,970
Stock-based compensation costs	—	—	2,286	—	2,286
Variation in fair value of investments	—	—	—	(139)	(139)
Variation in fair value of interest rate swap	—	—	—	(78)	(78)
Exercise of stock options	130	—	—	—	130
Issuance of shares pursuant to a business acquisition	2,737	—	—	—	2,737
Share issue expenses	(108)	—	—	—	(108)
Foreign currency translation adjustments	—	—	—	(7,660)	(7,660)
Balance as at December 31, 2005	129,750	(48,114)	8,111	10,050	99,797
Net earnings as per U.S. GAAP	—	34,262	—	—	34,262
Stock-based compensation costs	—	—	2,120	—	2,120
Variation in fair value of investments	—	—	—	(274)	(274)
Variation in fair value of interest rate swap	—	—	—	78	78
Exercise of stock options	110	—	(29)	—	81
Conversion of convertible term loans	30,403	—	—	—	30,403
Issuance of shares pursuant to:					
a contingent consideration paid upon business acquisition	163	—	—	—	163
acquisition of a patent from a senior officer	175	—	—	—	175
Share issue expenses	(112)	—	—	—	(112)
Foreign currency translation adjustments	—	—	—	3,011	3,011
Balance as at December 31, 2006	160,489	(13,852)	10,202	12,865	169,704

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, 2006 and 2005:

		As at December 31, 2006		As at December 31, 2005	
		As reported $	U.S. GAAP $	As reported $	U.S. GAAP $
Intangible assets	(a)	39,106	24,758	41,354	26,156
Convertible term loans	(c)	—	—	28,440	29,432
Future income tax liabilities	(a)	10,963	5,829	8,628	2,588

Statements of cash flows

For the years ended December 31, 2006, 2005 and 2004, there are no significant differences between the statements of cash flows under Canadian GAAP as compared to U.S. GAAP.

(a) Research and development costs

Under U.S. GAAP, in-process research and development acquired in a business combination is written off at the time of acquisition. Under Canadian GAAP, in-process research and development acquired in a business combination is capitalized and amortized over its estimated useful life.

(b) Other

Other adjustments required when considering the significant differences between Canadian and U.S. GAAP include individually minor amounts related to the following items:

- stock-based compensation costs adjustments related to variable accounting under U.S. GAAP for grants made in 2002 that became completely vested in 2004;
- financing costs arising from the convertible notes (see (c) below) allocated to other capital under Canadian GAAP that are amortized in earnings under U.S. GAAP;
- organization costs deferred and amortized under Canadian GAAP that are expensed as incurred under U.S. GAAP.

(c) Convertible term loans

Under Canadian GAAP, proceeds from the issuance of convertible term loans are allocated among long-term convertible term loans and shareholders' 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. Furthermore, under U.S. GAAP, the entire incremental consideration to induce conversion is recorded in earnings.

(d) Deferred taxes

This adjustment reflects the accounting of an additional valuation allowance for U.S. GAAP purposes arising from different amounts of temporary differences under U.S. GAAP.

(e) Investments

Investments, which are classified as available-for-sale securities, include the Company's investment in discount notes, commercial paper and bonds for which the Company does not have the positive intent or ability to hold to maturity and an investment in shares of a publicly traded company. 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 income.

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

(f) Interest rate swap

Under Canadian GAAP, the Company accounts for Atrium's interest rate swap using the accrual method. U.S. GAAP requires all derivative instruments to be recognized at fair value on the consolidated balance sheet. Under U.S. GAAP, this swap has been designated as a cash flow hedge. Accordingly, the changes in fair value are recorded in other comprehensive income until the related interest expense is recorded in income.

(g) Recently adopted and pending accounting pronouncements

FASB Statement No. 123R — Share-Based Payment (SFAS 123R)

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123R which replaces FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", and eliminates the ability to account for share-based payment transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123R covers the accounting requirements for a wide range of share-based compensation arrangements. SFAS 123R requires that compensation cost for employee stock-based compensation be measured based on the grant-date fair value and recognized in the financial statements over the vesting period (fair value method).

The Company adopted this statement on January 1, 2006 and this adoption had no significant impact on its financial statements.

FASB Statement No. 158 — Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158)

In September 2006, the FASB issued SFAS 158. This statement amends SFAS 87, "Employers' Accounting for Pensions", and SFAS 106, "Employers' Accounting for Post-Retirement Benefits Other than Pensions", to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in OCI, net of tax effects, until they are amortized as a component of net periodic cost.

SFAS 158 is effective for the fiscal year ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company adopted this standard on December 31, 2006 and its adoption had no impact on its financial statements.

FASB Interpretation No. 48 — Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48)

In June 2006, the FASB issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of deficit. The Company has not yet evaluated its impact on its financial position or results of operations.

FASB Statement No. 157 — Fair Value Measurements (SFAS 157)

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 157 will have on its consolidated financial statements.

25 Comparative figures

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

A LATE-STAGE CLINICAL BIOPHARMACEUTICAL COMPANY

ÆTERNA ZENTARIS

ANNUAL REPORT 2006

COMPANY STRENGTHS

Depth	Deep and focused pipeline at all stages of development
Breadth	Ability to penetrate large and growing markets
Execution	Successful achievement of clinical and corporate milestones

ÆTERNA ZENTARIS INC.
(TSX: AEZ, NASDAQ: AEZS)

Please note that all amounts are in US dollars

ÆTERNA ZENTARIS INC. IS A **LATE-STAGE, PURE PLAY** GLOBAL BIOPHARMACEUTICAL COMPANY FOCUSED ON **ENDOCRINE THERAPY AND ONCOLOGY**, WITH PROVEN EXPERTISE IN DRUG DISCOVERY, DEVELOPMENT AND COMMERCIALIZATION

2006 HIGHLIGHTS

In 2006, *Æterna Zentaris* delivered solid results

Late-stage programs

CETRORELIX

- Acceptance by FDA of IND for Phase 3 program in benign prostatic hyperplasia (BPH)
- Launch of Cetrotide® (cetrorelix) in Japan for *in vitro* fertilization
- Regained exclusive worldwide (ex-Japan) rights for cetrorelix in BPH

OZARELIX

- Positive Phase 2 results in BPH Initiation of Phase 2b trial
- Positive Phase 2 results in prostate cancer Initiation of Phase 2b trial
- Exclusive license granted to Nippon Kayaku for ozarelix in oncology in Japan

PERIFOSINE

- Positive interim Phase 2 data in advanced renal cell carcinoma
- Positive Phase 2 results in multiple cancers
- Initiation of multiple Phase 1 and Phase 2 trials in cancer

EARLIER-STAGE PROGRAMS

AN-152

- Positive top line Phase 1 results for breast and gynaecological cancers

ZEN-012

- Acceptance by FDA of IND for Phase 1 trial in solid tumors and lymphoma

PURE PLAY CORPORATE STRATEGY

Æterna Zentaris spins off subsidiary Atrium and emerges as a pure play biopharmaceutical company

- Secondary offering ensuring financial stability to execute business plan
- Distribution of remaining Atrium shares to Æterna Zentaris shareholders

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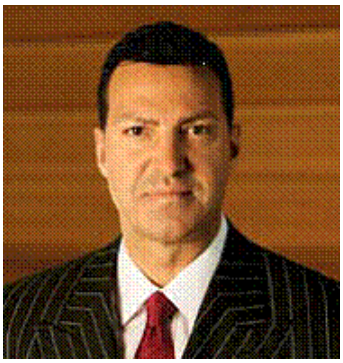
Gilles Gagnon, MSc, MBA
President & CEO



Eric Dupont, PhD
Executive Chairman of the Board

MESSAGE TO SHAREHOLDERS

In 2006, the progress of our lead drug candidates through advanced clinical trials and the spin-off of our subsidiary Atrium Biotechnologies enabled us to successfully achieve our goal of emerging as a latestage, pure play biopharmaceutical company. Reaching this milestone in our evolution represents a fulfillment of both our drug development and corporate strategies that we have tediously executed for many years.

Driven by positive clinical results, we are aggressively moving two product candidates through late-stage trials. In early clinical and preclinical development, we are targeting several extremely promising compounds with high future potential. In our library of 120,000 proprietary molecules resides the currency of a fruitful pipeline for many years to come. In addition, and perhaps most critically, the members of Æterna Zentaris' management have collectively participated during their careers in the development and launch of over twenty drugs; this resource of talent powerfully distinguishes the Company in a marketplace that rewards depth of experience.

UNLOCKING THE FULL VALUE OF THE COMPANY

While very encouraging data resulted from our clinical trials in 2006, conditions grew increasingly ripe for Æterna Zentaris to become a pure play company. Accordingly, in October of 2006, we sold 24 % of our equity in our subsidiary, Atrium Biotechnologies, raising nearly $45 million through a secondary offering. Subsequent to year end, the Company distributed the remainder of our equity in Atrium to Æterna Zentaris shareholders as a return on their investment — with that, we emerged as a pure play biopharmaceutical company.

Since 1991 our ownership of Atrium — a leading developer, manufacturer and marketer of value-added products for the cosmetics, pharmaceutical, chemical and nutrition industries — had served us well as a strong financial leverage. With our pipeline carrying us closer to major breakthroughs, the route that promises optimal benefit became clear. By divesting our stake in Atrium, we began unlocking the full value of our pipeline. Æterna Zentaris is now devoted exclusively to discovering, developing and marketing biopharmaceutical products with a focus on endocrine therapy and oncology.

DELIVERING CLINICAL RESULTS

CETRORELIX

In 2006, our flagship product candidate, cetrorelix, reached a pivotal evolutionary milestone in the history of Æterna Zentaris. After a successful end-of-Phase 2 meeting with the FDA, we received approval to file for a Phase 3 program targeting benign prostatic hyperplasia (BPH) and as we closed the year, we initiated the first study of this extensive Phase 3 program.

The launch of our extensive 1,500 patient Phase 3 program in BPH with cetrorelix brings us yet another step closer to bringing this compound to market. Importantly, we have all of the resources to advance cetrorelix in BPH on our own through to an NDA submission. We are very excited about the fact that cetrorelix has not only the potential to conveniently, safely and effectively treat men who suffer from BPH, but also create tremendous value to our shareholders. The global commercial opportunity in treating BPH cannot be overstated as it represents a market that exceeds $4 billion.

Furthermore, we achieved another milestone by launching cetrorelix - under the brandname Cetrotide® - on the Japanese market through our partner Shionogi for *in vitro* fertilization. Cetrotide®, the first LHRH antagonist to be marketed in Japan for this indication, has been on the market since 1999. Again, this demonstrates our capacity to bring therapies to market for conditions affecting millions of people.

OZARELIX

Clinical trial results over the past year for our second LHRH antagonist lead compound, ozarelix, have been similarly exciting and could have a very significant commercial outcome.

In October, with our partner Spectrum Pharmaceuticals, we disclosed highly statistically significant Phase 2 results evidencing the alleviation of BPH clinical symptoms. Ozarelix also showed an excellent safety profile with no serious side effects. Following these positive results, we expanded the program to a Phase 2b trial. With both cetrorelix and ozarelix in late-stage clinical trials, we are now leading the LHRH antagonist class in the development of treatments for BPH

In August, we announced positive Phase 2 results for this fourth generation LHRH antagonist in hormonedependent, inoperable prostate cancer. The trial was conducted in Europe again in collaboration with Spectrum. The results confirmed the mechanism of action of our LHRH antagonist approach, showed that ozarelix provides a unique and rapid onset of action, and demonstrated that ozarelix holds promise for the treatment of other hormonal-dependent cancers. We then expanded the program in prostate cancer to a Phase 2b trial to further verify and optimize our findings, and expect results from this trial in 2007.

Further validation of the potential of ozarelix in cancer came with a licensing and collaboration agreement with Nippon Kayaku, our Japanese partner. We granted Nippon Kayaku the exclusive rights to develop and commercialize ozarelix for oncology indications in Japan.

PERIFOSINE

Our third promising compound, perifosine, has shown positive Phase 1 and Phase 2 data for the treatment of patients suffering from different forms of cancer. Along with our partner Keryx Biopharmaceuticals, we are pursuing multiple Phase 2 trials in cancer with perifosine as a single agent or in combination with other treatments for which results will be disclosed throughout the year. Additional Phase 2 trials in cancer are planned over the next twelve months. Furthermore, we expect to complete enrollment of patients for our own Phase 2 trial with perifosine in non-small cell lung cancer in combination with radiotherapy in the upcoming months. The year ahead could contain some very exciting announcements from these trials as perifosine`s unique mechanism of action allows for a number of anti-cancer treatment opportunities in monotherapy as well as in combination therapy.

TARGETING EARLIER-STAGE COMPOUNDS WITH HIGH POTENTIAL

Our drug development strategy is also aimed at establishing a risk-adverse profile by targeting earlierstage programs with high potential. In line with this strategy, we reported top line positive Phase 1 results with our LHRH specific cytotoxic conjugate, AN-152, for ovarian, breast and endometrial cancers. These results obtained with this novel approach lend further credibility to our very promising oncology platform while also enabling our Company to step into the era of personalized medicine. Indeed, by targeting patients suffering from ovarian and endometrial cancers with confirmed presence of LHRH receptors, we are increasing the probabilities of bringing AN-152 specifically to the tumor, therefore increasing our chances of success for our Phase 2 program which we expect to launch later this year in these indications. We also initiated a Phase 1 trial for solid tumors with ZEN-012, a new small molecule. We believe this oral compound has the potential to be a novel, promising multi-targeted intermittent cancer therapy and look forward to further developments in the clinic this year.

MOVING FORWARD AS A LATE-STAGE COMPANY

With two product candidates slated to be in Phase 3 for the year ahead, Æterna Zentaris begins a new era as a late-stage pure play biopharmaceutical company. With $60 million in cash and no significant long-term debt, a prudent risk management approach, as well as a new focused drug development strategy, we are now in an even better position to execute our highly focused business plan as the future of Æterna Zentaris could prove quite exciting.

Permit us to take this opportunity to recognize all members of the Æterna Zentaris team for their dedication to achieving the Company’s objectives, and to thank our shareholders for their support and continuing confidence. We look forward to continue to deliver clinical results and report important commercial developments to you in the year ahead.

Gilles Gagnon, MSc, MBA
President & CEO

Eric Dupont, PhD
Executive Chairman of the Board

Aggressively advance cetrorelix in BPH

- Flagship product candidate with significant near-term potential
- Retain all rights in BPH and fully support development through to NDA filing in 2009

Focus on further development of ozarelix and perifosine with current partners to ensure continued development success

A NEW FOCUSED DRUG DEVELOPMENT STRATEGY

Establish risk-adverse profile targeting earlier-stage compounds with high potential for aggressive development

Build solid endocrinology and oncology franchises

EMERGE AS A FULLY-INTEGRATED, GLOBAL SPECIALIST-DRIVEN BIOPHARMACEUTICAL COMPANY WITH A STRATEGIC FOCUS ON ENDOCRINE THERAPY AND ONCOLOGY

ADVANCING THE PIPELINE

A robust pipeline from drug discovery to marketed products

PRECLINICAL PROGRAMS

LHRH peptidomimetics

Erucyl-PC

Ghrelin antagonists

Erk/PI3K inhibitors

DRUG DISCOVERY

120,000 compounds

DRUG PIPELINE

(cetrorelix) CETROTIDE®
In vitro fertilization (worldwide except Japan)

(cetrorelix) CETROTIDE®
In vitro fertilization (Japan)

IMPAVIDO®
Leishmaniasis (black fever)

CETRORELIX
Benign prostatic hyperplasia
BPH

CETRORELIX
endometriosis*
* pivotal program encompassing several trials

OZARELIX
BPH

OZARELIX
Prostate cancer

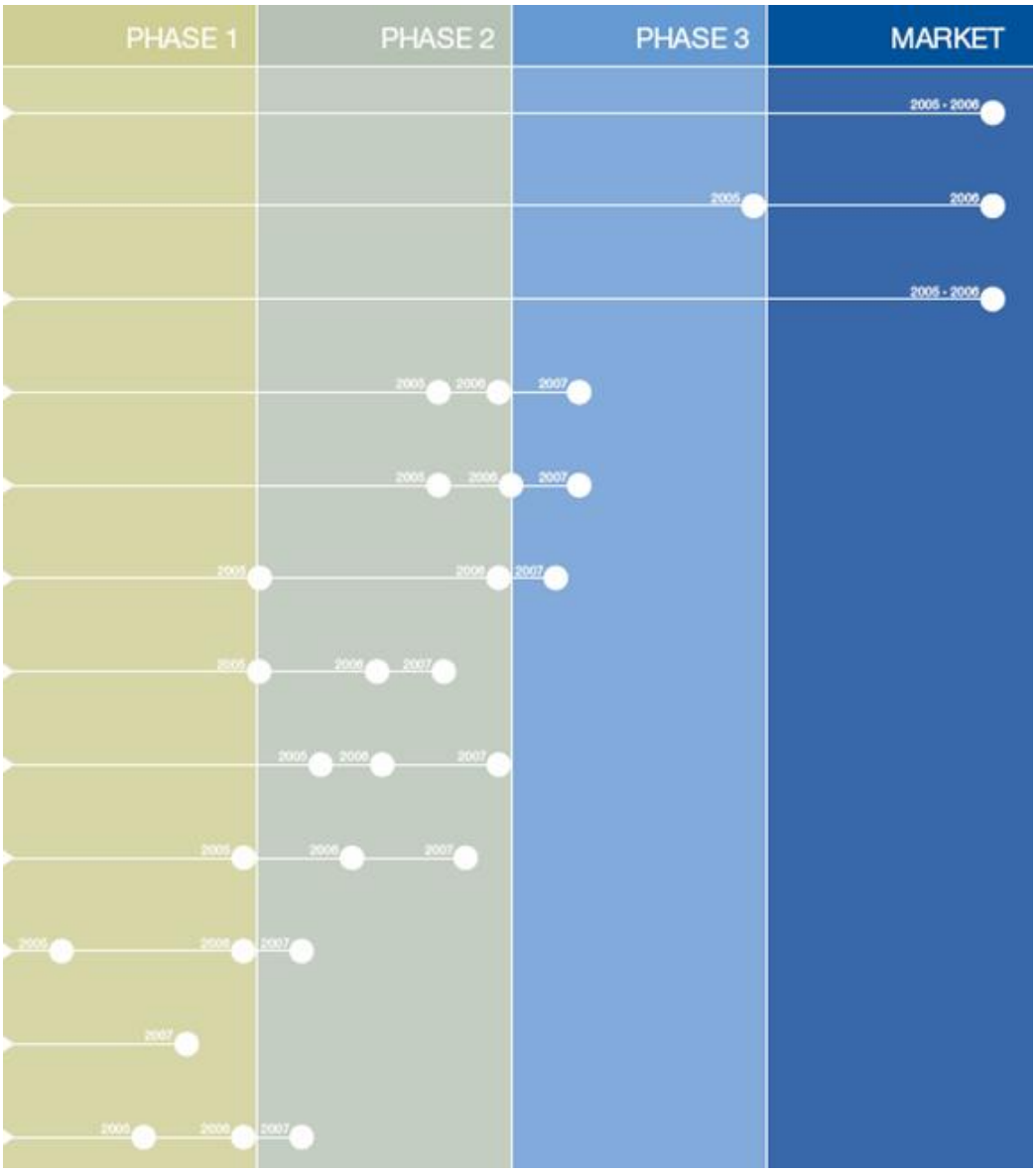
PERIFOSINE
Combined with chemotherapy and biological agents for multiple cancers

PERIFOSINE
Combined with radiotherapy for non-small cell lung cancer

AN-152
Breast and endometrial cancer

ZEN-012
multiple cancers

EP-1572
growth disorders



Robust Pipeline with Significant Market Opportunities

Focused and Aggressive Development Strategy with Late-Stage Compounds

KEY INVESTMENT CONSIDERATIONS

Solid Financial Position

Near-Term Catalysts Highlight Potential for Value Creation

Strong Pharma Team with Experience in Launching 20+ Compounds

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BUILDING SOLID ENDOCRINOLOGY AND ONCOLOGY FRANCHISES
THREE VALUE-DRIVING LEAD COMPOUNDS IN LARGE MARKET OPPORTUNITIES

CETRORELIX

Cetrorelix is part of Æterna Zentaris' luteinizing hormone-releasing hormone (LHRH) antagonist therapeutic approach. This peptide-based active substance was developed by the Company in cooperation with Nobel Prize winner Professor Andrew Schally of Tulane University in New Orleans (now at U.S. Veterans Administration and University of Miami).

INDICATIONS	***IN VITRO* FERTILIZATION (IVF)**	**BENIGN PROSTATIC HYPERPLASIA (BPH)**	**ENDOMETRIOSIS**
STATUS	· Marketed worldwide under brandname Cetrotide®	· Phase 3 program	· Pivotal program

PARTNERSHIPS	· Merck Serono — Worldwide (ex-Japan) $13 million free cash-flow per year · Shionogi — Japan	· Shionogi - Japan	· Solvay — Worldwide (ex-Japan) Shionogi — Japan
MARKET	· Average cost of an IVF treatment cycle is $12,400 · Affects 10% to 15% of couples in the U.S. · About 5 million couples in the U.S.	· Market size of over $4 billion · Affects more than 50% of men 60 years and over · Approximately 56 million cases in the U.S., Europe and Japan	· Market size of $1 billion · Under-diagnosed · Affects 10% to 20% of women of reproductive age · About 26 million cases in the U.S., Europe and Japan
	Source: Barton H. Hamilton and Brian McManus September 04	Source: Decision Resources September 05	Source: Datamonitor July 04
DIFFERENTIATION	· Leading the LHRH antagonist class in the development of treatments for BPH · Dose-dependent hormonal suppression · Extensive safety database — more than 270,000 patients treated · Low side-effect profile		

OZARELIX

Ozarelix is a fourth generation luteinizing hormone-releasing hormone (LHRH) antagonist administered as a depot formulation for the treatment of benign and malignant hormone-dependent diseases.

INDICATIONS	**BENIGN PROSTATIC HYPERPLASIA (BPH)**	**PROSTATE CANCER**
STATUS	· Phase 2b	· Phase 2b
PARTNERSHIPS	· Spectrum — North America, India	· Spectrum — North America, India Nippon Kayaku — Japan
MARKET	· Market size of over $4 billion · Affects more than 50% of men 60 years and over · Approximately 56 million cases in the U.S., Europe and Japan	· Market size of $3.1 billion · Approximately 395,000 new cases in the U.S., Europe and Japan
	Source: Decision Resources September 05	Source: Decision Resources June 06
DIFFERENTIATION	· Fourth generation LHRH antagonist · Dose-dependent hormonal suppression · Low side-effect profile · Treats benign to malignant indications	

PERIFOSINE

Perifosine is a novel, first-in-class, oral anti-cancer agent that modulates several key signal transduction pathways, including Akt, MAPK, and Jnk that have been shown to be critical for the survival of cancer cells. Perifosine is currently being studied as a single agent and in combination with several forms of anti-cancer treatments for various types of cancer.

INDICATIONS	**MULTIPLE CANCERS**	
STATUS	· 10+ ongoing Phase 1 and Phase 2 trials	
PARTNERSHIPS	· Keryx — U.S., Canada, Mexico	
MARKET	Examples of different cancer types · Non-small cell lung cancer · Market size of $2.4 billion · Most common and deadly form of cancer · About 25% of all cancer deaths in women / 30% in men · About 417,000 new cases in 2004 in the U.S., Europe and Japan	· Multiple Myeloma (a form of blood cancer) · Market size of $1 billion in the U.S. and U.K. · Approximately 53,000 new cases in the U.S., Europe and Japan
	Source: Datamonitor June 06	Source: Globocan 02
DIFFERENTIATION	· Novel, first-in-class oral anti-cancer agent · Exciting and promising targeted molecular approach	

· Validated oncology pathway(s)

$4 BILLION MARKET

LARGE MARKET OPPORTUNITIES

BENIGN PROSTATIC HYPERPLASIA (BPH)

BPH is characterized by an abnormal benign growth of the prostatic tissues caused by testosterone. Symptoms linked to BPH include pain while urinating and frequent urges to urinate during the night and sometimes, kidney problems. In some cases, if left untreated, BPH may develop into prostate cancer. Contrary to most of the present treatments for BPH, cetrorelix is not associated with side-effects such as erectile dysfunction, loss of libido and chemical castration. According to Decision Resources, cetrorelix is currently the most advanced LHRH antagonist in development for the treatment of BPH.

$2.4 BILLION MARKET

NON-SMALL CELL LUNG CANCER

Lung cancer is the leading cause of cancer deaths in both men and women worldwide. Non-small cell lung cancer is its most common form and yet can be very difficult to treat. Typically, by the time patients report symptoms, the disease has often spread to other parts of the body. Perifosine, our leading oral, anti-cancer compound with its novel mechanism of action, has shown direct and specific action on tumor cells which have proven to be resistant to current anti-cancer agents. Furthermore, studies have demonstrated that perifosine may be well suited for use as a single agent or in combination with other treatments.

GOALS FOR 2007

Late-stage programs

CETRORELIX

- Initiate 2nd trial of Phase 3 program in BPH
- Initiate safety trial of Phase 3 program in BPH
- Announce full recruitment of first Phase 3 trial in BPH
- Disclose Japanese Phase 2 results in BPH

OZARELIX

- Disclose detailed European Phase 2 results in BPH
- Disclose top line U.S. Phase 2b results in BPH
- Disclose top line Phase 2b results in prostate cancer

PERIFOSINE

- Complete patient enrollment for Phase 2 trial in non-small cell lung cancer
- Disclose more Phase 1 and Phase 2 results in multiple cancers
- Initiate additional Phase 2 trials in multiple cancers

EARLIER-STAGE PROGRAMS

AN-152

- Disclose detailed Phase 1 results for breast and ovarian cancer
- Initiate Phase 2 program in ovarian and endometrial cancer

ZEN-012

- Initiate Phase 1 trial in solid tumors and lymphoma
- Announce top line results of Phase 1 trial in solid tumors and lymphoma

PRECLINICAL

- Disclose results for multiple programs
    - LHRH peptidomimetics
    - Erk/PI3K inhibitors
    - Erucyl-PC
    - Ghrelin antagonists
- Announce filing of an IND for a Phase 1 program

POISED FOR GROWTH

ÆTERNA ZENTARIS HAS ALL THE KEY FUNDAMENTALS TO EMERGE AS A FULLY-INTEGRATED, GLOBAL SPECIALIST-DRIVEN BIOPHARMACEUTICAL COMPANY WITH A STRATEGIC FOCUS ON ENDOCRINE THERAPY AND ONCOLOGY

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Ticker symbols
AEZ — The Toronto Stock Exchange (TSX)
AEZS — NASDAQ National Market

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Annual Meeting
May 2, 2007, 10:30 a.m.
Le Centre Sheraton Hotel
1201 René-Lévesque Blvd. West
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and Chief Operating Officer
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California, USA
Corporate Director

(1) Member of the Audit Committee
(2) Member of the Corporate Governance, Nominating and Human Resources Committee

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Printed in Canada

Æterna Zentaris

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

The following analysis provides a review of the Company's results of operations, financial condition and cash flows for the three-month and full-year ended December 31, 2006. In this MD&A, the "Company", "we", "us", and "our" mean Æterna Zentaris Inc. and its subsidiaries. This discussion should be read in conjunction with the information contained in Æterna Zentaris Inc.'s annual consolidated financial statements and related notes for the years ended December 31, 2006, 2005 and 2004. Our consolidated financial statements are reported in US dollars and have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. Significant differences in measurement from generally accepted accounting principles in the United States, or U.S. GAAP, are set out in note 24 of our consolidated financial statements. *All amounts are in US dollars unless otherwise indicated.*

Company Overview

Æterna Zentaris Inc. (TSX: AEZ, NASDAQ: AEZS) is a growing, global biopharmaceutical company focused on endocrine therapy and oncology with proven expertise in drug discovery, development and commercialization.

Our strategy is to aggressively advance our robust product development pipeline with a focus on our lead product candidates, cetrorelix, ozarelix and perifosine, as well as our promising, targeted earlier-stage programs with high potential.

With this strategy, our expertise and depth, our strategic alliances and financial resources, it is our goal to emerge as a fully-integrated specialist-driven global biopharmaceutical company with a strategic focus on endocrine therapy and oncology.

As of January 2, 2007, the Company became a pure play biopharmaceutical having completed the spin-off of Atrium Biotechnologies Inc., **("Atrium")**, our former subsidiary.

Sale of an Interest in Atrium Biotechnologies Inc. and Subsequent to Year-End Special Distribution to Æterna Zentaris Shareholders of the Remaining Interest

During 2006, as part of a thorough strategic planning process, we decided to spin-off Atrium in two phases. First, we sold a partial interest in Atrium (3.5 million shares) by

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way of a secondary offering, and second, we distributed our remaining interest in Atrium (11 million shares) to our Shareholders.

On September 19, 2006, Æterna Zentaris initiated the secondary offering to sell 3,485,000 subordinate voting shares of Atrium at a price of CAN$ 15.80 per share. This secondary offering closed on October 18, 2006 and generated net proceeds of $45 million to Æterna Zentaris. The gain on disposal of Atrium shares was $29 million. Our remaining interest at that date was 11,052,996 subordinate voting shares of Atrium, representing approximately 36.1% of their issued and outstanding shares. Therefore, we no longer had a controlling interest in Atrium. As of December 31, 2006, Atrium is presented in our financial statements as a long-term investment and recorded using the equity method. All recorded historical operations and cash flows prior to October 18, 2006 qualify as Discontinued Operations and are, therefore, presented as such in our financial statements.

On December 15, 2006, Æterna Zentaris shareholders approved the reduction of the stated capital of the Company to give effect to the special distribution of our remaining interest in Atrium to all our shareholders. This special distribution was completed on January 2, 2007. For each common share held as of the Record Date of December 29, 2006, Æterna Zentaris shareholders received 0.2079 subordinate voting shares of Atrium. In the first quarter of 2007, as a result of this special distribution, our long-term investment in Atrium will be removed from the balance sheet, the fair value of the distributed interest will reduce our share capital and the difference between the fair value and the book value of this interest, taking into account the related income taxes and cumulative translation adjustment, will be presented as Other Capital.

Consolidated Results of Operations

For the years ended December 31, 2006, 2005 and 2004, the previously consolidated revenues and expenses of Atrium, representing the former Active Ingredients & Specialty Chemicals Segment as well as the Health & Nutrition Segment, have been reclassified as discontinued operations.

The following table sets forth certain Canadian GAAP consolidated financial data in thousands of US dollars, except per share data.

	Years ended December 31,		
	2006	**2005**	**2004**
	$	**$**	**$**
Consolidated revenues			
Sales and royalties	**27,716**	23,643	19,479
License fees	**13,652**	23,530	23,493
Other	**24**	31	—
	41,392	47,204	42,972

Operating expenses			
Cost of sales	**11,747**	8,596	7,992
Selling, general and administrative	**17,235**	15,281	13,137
Research and development (R&D) costs	**28,652**	27,075	23,431
R&D tax credits and grants	**(1,564)**	(536)	(845)
Depreciation and amortization	**9,429**	6,371	6,136
	65,499	56,787	49,851
Loss from operations	**(24,107)**	(9,583)	(6,879)
Other revenues (expenses)	**703**	(5,867)	(3,424)
Share in the results of an affiliated company	**1,575**	—	—
Income tax recovery (expense)	**29,129**	(493)	(273)
Net earnings (loss) from continuing operations	**7,300**	(15,943)	(10,576)
Net earnings from discontinued operations	**26,090**	26,514	6,151
Net earnings (loss) for the year	**33,390**	10,571	(4,425)
Net earnings (loss) per share from continuing operations			
Basic and Diluted	**0.14**	(0.35)	(0.23)
Net earnings (loss) per share			
Basic	**0.64**	0.23	(0.10)
Diluted	**0.62**	0.23	(0.10)

Consolidated Revenues

Consolidated revenues are derived from sales and royalties and license fees. Sales are derived from Impavido® (miltefosine), the manufacturing of Cetrotide® (cetrorelix), reagents and active pharmaceutical ingredients. Royalties are derived from Cetrotide® (cetrorelix) actually sold by Merck Serono (formerly Serono) in reproductive health assistance for *in vitro* fertilization. Furthermore, license fees are derived from non-periodic milestone payments, R&D contract fees and amortization of upfront payments received to date from our licensing partners.

Sales and royalties increased to $27.7 million in 2006 compared to $23.6 million and $19.5 million for the same periods in 2005 and 2004 respectively. The year-over-year increase in sales and royalties is related to the new sales of Cetrotide® following the September 2006 launch in Japan, the reagents sales generated by Echelon, acquired in January 2005, and increased sales of Impavido®, our anti-infective product.

License fees revenues decreased to $13.7 million in 2006 compared to $23.5 million for the same periods in 2005 and 2004. The decrease in 2006 is mainly attributable to a reduction in license revenues from our collaboration with Solvay Pharmaceuticals, partly offset by milestone payments received from our Japanese partners with respect to the approval of Cetrotide® in Japan, and from our partner Spectrum related to the further development of ozarelix into Phase 2 for benign prostatic hyperplasia (BPH) and prostate cancer.

Consolidated Operating Expenses

Consolidated cost of sales increased to $11.7 million in 2006 compared to $8.6 million and $8 million for the same periods in 2005 and 2004, respectively. The year-over-year increase in the cost of sales is directly related to additional generated sales.

Consolidated selling, general and administrative (SG&A) expenses increased to $17.2 million in 2006 compared to $15.3 million for the same period in 2005. The increase in SG&A expenses is primarily due to non-recurring corporate expenses of nearly $1.3 million related to the review of different strategies as part of a thorough strategic planning process. For the year ended December 31, 2004, consolidated SG&A were $13.1 million. The increase in SG&A between 2004 and 2005 is mainly attributable to the acquisition of Echelon in January 2005, as well as to the increase in non-cash expenses related to employee-defined benefit pension plan obligation.

Consolidated R&D costs were $28.7 million in 2006 compared to $27.1 million and $23.4 million for the same periods in 2005 and 2004 respectively. Additional R&D expenses of $1.6 million spent in 2006 were for cetrorelix in BPH, as well as for further advancement of targeted, earlier-stage development programs. R&D expense increase between 2004 and 2005 was mainly attributable to the acquisition of Echelon in January

2005, as well as non-cash expenses related to an employee-defined benefit pension plan.

We recorded **R&D tax credits and grants (R&D)** in 2006 of $1.6 million compared to $0.5 million and $0.8 million for the same periods in 2005 and 2004, respectively. The amount recorded in 2006 mainly represents a non-recurring investment tax credit that will be used to reduce income taxes that would, otherwise, be payable on the gain on disposal of Atrium shares in October 2006.

Consolidated depreciation and amortization (D&A) increased to $9.4 million during 2006, compared to $6.4 million and $6.1 million for the same periods in 2005 and 2004, respectively. The $3 million increase in D&A in 2006 is primarily due to an impairment loss of $2.9 million taken on manufacturing equipment, patents and trademarks related to the termination of non-core pharmaceutical development projects, including Neovastat (Æ-941) and RC-3095.

Consolidated loss from operations increased to $24.1 million for the year ended December 31, 2006 compared to $9.6 million and $6.9 million for the same periods in 2005 and 2004, respectively. The 2006 increase in loss from operations is attributable to a combination of lower license revenues, an increase in non-recurring corporate expenses, additional R&D expenses related to the initiation of our Phase 3 program with cetrorelix in BPH, and additional D&A expenses with respect to an impairment loss on non-core pharmaceutical development projects. This 2006 increase in loss from operations was partly offset by increased sales and royalties, as well as R&D investment tax credits.

Consolidated other revenues for the year ended December 31, 2006 were $0.7 million. We recorded other expenses mainly related to convertible term loans amounting to $5.9 million and $3.4 million for the same periods in 2005 and 2004, respectively. The variation between 2005 and 2006 is mainly attributable to the conversion into common shares in February 2006 of the convertible term loans.

Share in the results of an affiliated company recorded in 2006 for $1.6 million is related to the investment in Atrium recorded at equity method for the period from October 18 to December 31, 2006.

Consolidated income tax recovery of $29.1 million was recorded for the year ended December 31, 2006. We recorded an income tax expense of $0.5 million and $0.3 million for the same periods in 2005 and 2004, respectively. Income tax recovery was recorded in 2006 due to a significant adjustment on valuation allowance, as we believe that we expect to utilize some of our income tax assets against future taxable gain that will be realized in connection with the sale of Atrium shares and the special distribution of our remaining interest in that company.

Net earnings from continuing operations of $7.3 million were recorded for the year ended December 31, 2006 compared to a net loss from continuing operations of $15.9 million in 2005. This increase in net earnings is directly attributable to the recording of an income tax recovery for an amount of $29.1 million related to the expected utilization of some of our income tax assets against future taxable gain that will be realized in connection with the sale of Atrium shares and the special distribution or our remaining interest in that company, partly offset by increased loss from operations.

Discontinued operations include the following items:

	Years ended December 31,		
(in thousands of US dollars)	**2006**	**2005**	**2004**
	$	**$**	**$**
Revenues	**239,535**	200,863	136,240
Earnings before the following items	**28,360**	21,414	17,146
Gain on disposal of Atrium shares	**29,248**	—	—
Income tax expense	**(19,923)**	(6,838)	(6,093)
Gain (loss) on dilution of investments	**(628)**	19,002	(74)
Earnings before non-controlling interest	**37,057**	33,578	10,979
Non-controlling interest	**(10,967)**	(7,064)	(4,828)
Net earnings from discontinued operations	**26,090**	26,514	6,151
Net earnings per share from discontinued operations			
Basic	**0.50**	0.57	0.13
Diluted	**0.48**	0.57	0.13

The year-over-year increase in **revenues from discontinued operations** is mainly attributable to successful acquisitions by Atrium of Pure Encapsulations in 2004, as well as MultiChem and Douglas Laboratories in 2005, combined with year-over-year organic growth.

The **gain on disposal of Atrium shares from discontinued operations** is the result of the sale of 3,485,000 subordinate voting shares of Atrium on October 18, 2006, as part of a secondary offering.

Income tax expense from discontinued operations is related to the gain on disposal of Atrium's shares for an amount of $7 million, future tax liabilities on the investment in an affiliated company (Atrium) for an amount of $5.7 million and Atrium's operations for an amount of $7.2 million.

Consolidated net earnings for the year ended December 31, 2006 were $33.4 million or $0.64 per basic share and $0.62 per diluted share, compared to $10.6 million or $0.23 per basic share and diluted share for the same period in 2005. The increase of the net earnings for the 12-month period ended December 31, 2006, is directly attributable to the recording of an income tax recovery for an amount of $29.1 million, lower interest expense for an amount of $5.7 million, due to the conversion of the term loans during the first quarter of the year, as well as increased revenues representing $1.6 million from the share in the results of an affiliated company partly offset by increased loss from operations.

The weighted average number of shares outstanding used to calculate the basic net earnings per share for the year ended December 31, 2006 was 52.1 million shares compared to 46.1 million shares for the same period in 2005. For the diluted net earnings per share, the weighted average number of shares outstanding used for this calculation was 52.5 million shares in 2006 compared to 46.1 million shares in 2005. This increase reflects the issuance of common shares following the conversion of the convertible term loans, the acquisition of a patent and Echelon as well as the exercise of stock options.

Total Consolidated Assets and Long-Term Liabilities

CONSOLIDATED BALANCE SHEET DATA

(in thousands of US dollars)	As at December 31, 2006 $	As at December 31, 2005 $
Total assets	**223,491**	419,785
Long-term liabilities	**28,302**	246,080

Total consolidated assets, which were $419.8 million on December 31, 2005, amounted to $223.5 million as of December 31, 2006. This decrease is mainly attributable to the exclusion of Atrium from the consolidation since October 18, 2006. The Company's remaining interest in Atrium as of December 31, 2006, is presented as a long-term investment and recorded at the equity method. Long-term liabilities decreased from $246.1 million in 2005 to $28.3 million in 2006 for the same reasons.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with Canadian GAAP. Access to a summary of differences between Canadian and US GAAP is referenced in Note 24 of our annual 2006 financial statements. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting years. Significant estimates include the allowance for doubtful accounts, provisions for obsolete inventory, future income tax assets and liabilities, the useful lives of property, plant and equipment and intangible assets, the valuation of intangible assets and goodwill, the fair value of options granted and employee future benefits and certain accrued liabilities. We base our estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following summarizes our critical accounting policies and other policies that require the most significant judgment and estimates in the preparation of our consolidated financial statements.

Foreign Currency Translation

Reporting Currency and Self-Sustaining Subsidiaries

The Company uses the US dollar as its reporting currency. Assets and liabilities of subsidiaries whose functional currency is other than the US dollar are translated using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate in effect during the year. Gains and losses are included in the cumulative translation adjustment account in shareholders' equity.

Foreign Currency Transactions and Integrated Foreign Subsidiaries

The financial statements of integrated foreign operations and transactions denominated in currencies other than the functional currency are re-measured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are re-measured at the exchange rate in effect on the date of the balance sheet. Non-monetary assets and liabilities are re-measured at historical rates, unless such assets and liabilities are carried at market, in which case, they are translated at the exchange rate in effect on the date of the balance sheet. Revenues and expenses are re-measured at the monthly average exchange rate. Gains and losses resulting from such re-measurement are reflected in the statements of operations.

Revenue Recognition and Deferred revenues

The Company is currently in a phase in which our product and product candidates are being further developed or marketed jointly with strategic partners. The existing licensing agreements usually include 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. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value.

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements when the Company has no significant future performance obligations and when collectibility of the fees is assured. Upfront payments received at the beginning of licensing agreements are not recorded as revenue when received but are amortized based on the progress to the related research and development work. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectibility is assured, and when there are no significant future performance obligations in connection with the milestones. In those instances where the Company has collected upfront or milestone payments but has ongoing future obligations related to the development of the drug product, revenue recognition is deferred and amortized over the period of its future obligations.

Royalty revenue is recorded when the amount of the royalty fee is determinable and collection is reasonably assured.

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, when there are no future performance obligations, when the purchase price is fixed and determinable, and collection is reasonably assured.

Allowance for Doubtful Accounts

We estimate collectibility of accounts receivable on an ongoing basis by reviewing balances outstanding over a certain period of time. We determine our allowance for doubtful accounts receivable based on our historical accounts receivable collection experience and on the information that we have about the status of our accounts receivable balances. If the financial conditions of our customers deteriorate, resulting in an impairment of their ability to make required payments, additional allowance may be required, which could adversely affect our future results.

Provisions for Excess and Obsolete Inventories

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 and work-in-progress 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 and work-in-progress. We determine our reserves for excess and obsolete inventories based on the quantities we have on hand versus expected need for these inventories, so as to support future sales of our products. It is possible that additional inventory reserves may occur if future sales are less than our forecasts or if there is a significant shift in product mix compared to our forecasts, which could adversely affect our future results.

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. To date, no costs have been deferred.

Impairment of Long-Lived Assets and Goodwill

Property, plant and equipment and intangible assets with finite lives are reviewed when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset 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, which fair value being determined based upon discounted cash flows or appraised values, depending of the nature of assets.

Finally, 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.

As at December 31, 2006, following the decision to terminate the pharmaceutical development of certain of our products, we decided to take an impairment on related manufacturing equipment as well as on certain patents and trademarks in order to bring them to their fair value. Consequently, an amount of $2.9 million was recorded as additional depreciation and amortization.

Accounting for Income Tax Expense

We operate in multiple jurisdictions, and our earnings 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 it will be more likely not 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. Our valuation allowance was significantly adjusted on December 31, 2006, mainly because we will be able to utilize some of our income tax assets against the future taxable gain that will be realized in connection with the sale of Atrium shares in 2006 and the special distribution of our remaining interest in Atrium.

The valuation allowance is 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 Costs

Since January 1, 2003, we account for all forms of employee stock-based compensation using the fair value-based method. This method requires that we make estimates about the risk-free interest rate, the expected volatility of our shares and the expected life of the awards.

New Accounting Standards

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855 “Financial Instruments — Recognition and Measurement”, Section 3865 “Hedges”, section 1530 “Comprehensive Income” and Section 3251 “Equity”.

Sections 3855, 3865 and 1530 will be adopted by the Company on January 1, 2007. Adoption of these standards will not have any material impact on the Company’s consolidated balance sheet as described in note 4 of our annual consolidated financial statements.

Liquidity, Cash Flows and Capital Resources

Our operations and capital expenditures are mainly financed through cash flows from operating activities, the use of our liquidity, as well as the issuance of debt and common shares.

Our cash and short-term investments position reached more than $61 million as of December 31, 2006, compared to $34.9 million as of December 31, 2005. We believe that these liquidities will be adequate to meet operating cash requirements for the foreseeable future. However, possible additional operating losses and/or possible investments in the acquisition of complementary businesses or products may require additional financing.

The variation of our liquidity by activities is explained below, not considering any cash flows used or provided by discontinued operation activities.

Operating Activities

Cash flows used by our continuing operating activities were $15.7 million for the year ended December 31, 2006 compared to $3.4 million during the same period in 2005. Cash flows used by our continuing operating activities were $0.8 million for the year ended December 31, 2004 The additional cash flows used between 2005 and 2006 are primarily attributable to lower license revenues, increased non-recurring corporate expenses and additional spending in R&D related to the initiation of a Phase 3 program in BPH for cetrorelix, as well as to further advancement of targeted, earlier-stage development programs. Additional cash flows generated by continuing activities in 2004, as compared to 2005, are attributable to non-periodic upfront and milestone payments received in 2004 from collaboration agreements. We expect cash flows used by our operating activities to increase in 2007, as we will pursue our Phase 3 clinical program with cetrorelix in BPH and will further advance targeted, earlier-stage development programs.

Financing Activities

For the year ended December 31, 2006, cash flows used in continuing financing activities were $0.8 million compared to $0.7 million during the same period of 2005. These funds were mostly used for debt reimbursement. For the year ended December 31, 2004, cash flows generated by flnancing activities were from the issuance of shares following the exercise of stock options, net of cash used for debt reimbursement.

Investing Activities

Cash flows used in continuing investing activities (excluding the change in short-term investments) amounted to $0.5 million for the year ended December 31, 2006. Cash flows were mainly used for the purchase of property, plant and equipment, partly offset by cash flows generated from the sale of a long-term investment. During 2005 and 2004, cash flows used in continuing investing activities (excluding the change in short-term investments) amounted to $1.9 million and $1.6 million respectively and were used for the purchase of property, plant and equipment, as well as for intangible assets.

Contractual Obligations

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

(in thousands of US dollars)	Payments due by period				
Unaudited	Total	2007	2008-2010	2011-2012	2013 and beyond
	$	$	$	$	$
Long-term debt	1,423	719	704	—	—
Operating leases	12,383	2,280	5,215	2,587	2,301
Commercial commitments	8,925	5,478	3,447	—	—
Total contractual cash obligations	22,731	8,477	9,366	2,587	2,301

Outstanding Share Data

As of March 2, 2007, there were 53,179,470 common shares issued and outstanding and there were 3,880,092 stock options outstanding.

Quarterly Summary Financial Information
(in thousands of US dollars, except per share data)

	Quarters ended

Unaudited	December 31, 2006 $	September 30, 2006 $	June 30, 2006 $	March 31, 2006 $
Revenues	12,631	10,630	9,383	8,748
Loss from operations	(6,794)	(5,756)	(5,451)	(6,106)
Net earnings (loss) from continuing operations	22,300	(4,669)	(4,430)	(5,901)
Net earnings (loss)	39,101	(1,569)	(1,562)	(2,580)
Net earnings (loss) per share from continuing operations				
Basic and Diluted	0.42	(0.09)	(0.08)	(0.12)
Net earnings (loss) per share				
Basic and Diluted	0.74	(0.03)	(0.03)	(0.05)

	Quarters ended			
	December 31, 2005 $	September 30, 2005 $	June 30, 2005 $	March 31, 2005 $
Revenues	14,273	9,023	10,161	13,747
Earnings (loss) from operations	(1,988)	(4,358)	(3,374)	137
Net loss from continuing operations	(3,519)	(5,416)	(5,108)	(1,900)
Net earnings (loss)	936	(3,759)	13,276	118
Net loss per share from continuing operations				
Basic and Diluted	(0.08)	(0.12)	(0.11)	(0.04)
Net earnings (loss) per share				
Basic and Diluted	0.02	(0.08)	0.29	—

Note: Per share data is calculated independently for each of the quarters presented. Therefore, the sum of this quarterly information does not equal the corresponding annual information.

Fourth Quarter Results

Consolidated revenues for the fourth quarter 2006 were $12.6 million, a decrease of $1.7 million compared to total revenues of $14.3 million for the same period in 2005. This decrease is primarily due to a decrease in license revenues from our collaboration with Solvay Pharmaceuticals, partly offset by additional sales related to the recent launch of Cetrotide® in Japan.

Consolidated R&D expenses remained steady from $8.2 million in the fourth quarter of 2005 to $8.3 million in the fourth quarter of 2006.

Consolidated net earnings for the fourth quarter 2006 were $39.1 million or $0.74 per basic and diluted share, compared to $0.9 million or $0.02 per basic and diluted share for the fourth quarter 2005. This increase in consolidated net earnings is mainly related to the gain on disposal of Atrium shares, net of income tax expense, for an amount of $22.2 million, to the recording of an income tax recovery of $26.2 million, as well as to the recording of a non-recurring R&D investment tax credit. This 2006 fourth quarter increase in consolidated net earnings was partly offset by lower license revenues, additional D&A expenses with respect to an impairment loss on non-core pharmaceutical development projects and by the recording of future income tax liabilities on the investment in an affiliated company.

Outlook for 2007

We expect Cetrotide® (cetrorelix) to continue to generate a significant part of our royalties.

We expect to benefit from the support of our existing partners and remain focused on and committed to aggressively advancing our pipeline.

We expect R&D expenses to continue to increase in 2007 primarily due to the continuation of our Phase 3 clinical development program with cetrorelix in BPH, the continued clinical advancement of ozarelix and perifosine, as well as the emphasis on clinical development of targeted earlier-stage product candidates.

We believe that we benefit from a solid financial position to continue to execute our strategic business plan as a late-stage, pure play biopharmaceutical company and emerge as a fully-integrated specialist-driven biopharmaceutical company with a focus on endocrine therapy and oncology.

Financial and Other Instruments

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. For the year ended December 31, 2006, there were no significant operations using forward-exchange contracts and no significant forward-exchange contract is outstanding as of today.

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 investments to be minimal.

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 ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible.

Interest Rate Risk

We are exposed to market risk relating to changes in interest rates with regard to our short-term investments.

Related Party Transactions and Off-Balance Sheet Arrangements

The Company was part of a tax loss consolidation strategy with its former subsidiary Atrium. In respect to that arrangement that terminated in October 2006 when the Company ceased to be the controlling shareholder of Atrium, we had received a tax ruling delivered by Canada Revenue Agency. All transactions are eliminated during the consolidation process and income tax savings resulting from the interest expense deduction is presented as discontinued operations.

All other significant related party transactions described in Note 21 of our Annual Consolidated Financial Statements are related to the lease of office and manufacturing space to Atrium and the purchase of a patent from a senior officer of the Company. All transactions are measured at the exchange amount which is the amount of consideration established and agreed upon by the related parties.

As of December 31, 2006, we did not have interests in any variable interest entities.

Risk Factors and Uncertainties

Risks Associated with Operations:

- Many of our 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 products may not gain market acceptance among physicians, patients, healthcare payers and the medical community which may not accept or utilize our products. If they do not achieve significant market acceptance, our business and financial conditions will be materially adversely affected. In addition, we may fail to further penetrate our core markets and existing geographic markets or successfully expand our business into new markets; the growth in sales of our products, along with our operating results, could be negatively impacted. Our ability to further penetrate our core markets and existing geographic markets in which we compete or to successfully expand our business into additional countries in Europe, Asia or elsewhere, to the extent we believe that we have identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are beyond our control. We cannot assure that our efforts to increase market penetration in our core markets and existing geographic markets will be successful. Our failure to do so could have an adverse effect on our operating results;

- 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;

- In carrying out our operations, we are dependent on a stable and consistent supply of ingredients and raw materials. There can be no assurance that we will be able, in the future, to continue to purchase products from our current suppliers or any other supplier on terms similar to current terms or at all. An interruption in the availability of certain raw materials or ingredients, or significant increases in the prices paid by us for them, could have a material adverse effect on our business, financial condition, liquidity and operating results.

Cash Flows 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.

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. However, with companies operating in foreign countries, we are more exposed to foreign currency risk.

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 centers. 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 businesses. There is no assurance that the Company will make certain acquisitions or that it will succeed in integrating the newly-acquired technologies or businesses 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 Æterna Zentaris, 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.

Continuous Disclosure and disclosure controls

The Company is a reporting issuer under the securities legislation of all of the provinces of Canada and is registered in the United States and it is, therefore, required to file continuous disclosure documents such as interim and annual financial statements, a Proxy Circular, an Annual Information Form, material change reports and press releases with such securities regulatory authorities. Copies of these documents may be obtained free of charge on request from the office of the Secretary of the Company or through the Internet at the following addresses: www.aeternazentaris.com, www.sedar.com and www.sec.gov/edgar.shtml.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in all material respects as of December 31, 2006.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the year ended December 31, 2006 that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During 2006, in the course of its evaluation, Management had identified certain deficiencies in its internal control over financial reporting which the Company does not believe, either individually or in the aggregate, resulted in a material weakness to its internal control over financial reporting.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target and will.

The forward-looking statements involve risks and uncertainties. Results or performances may 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 US Food and Drug Administration and the Therapeutic Products Directorate of Health Canada, or any other organization responsible for enforcing regulations in the pharmaceutical industry.

Given these uncertainties and risk factors, readers are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

On behalf of management,

Æterna Zentaris

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 2, 2007

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

and

MANAGEMENT INFORMATION CIRCULAR

March 9, 2007

Æterna Zentaris

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Æterna Zentaris Inc. (the "Corporation" or "Æterna Zentaris") will be held at Le Centre Sheraton Montreal Hotel, 1201 René-Lévesque Boulevard West, Salon Drummond, Montreal, Quebec, on Wednesday, May 2, 2007, at 10:30 a.m. (Montreal time) for the following purposes:

1. to receive the audited consolidated financial statements of the Corporation for the financial year ended December 31, 2006, together with the auditors' report thereon;

2. to elect directors;

3. to appoint auditors and authorize the directors to determine their compensation;

4. to consider and, if deemed advisable, adopting a resolution approving the making of certain amendments to the Corporation's Stock Option Plan;

5. to consider and, if deemed advisable, adopting a resolution, approving, ratifying and confirming the amendment to and restatement of the Corporation's shareholder rights plan adopted by the Corporation's Board of Directors on March 2, 2007; and

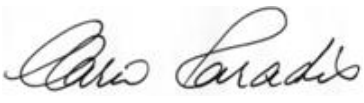
6. to transact such other business as may properly come before the meeting.

The record date for the determination of shareholders of Æterna Zentaris entitled to receive notice of and to vote at the meeting is March 9, 2007.

As shareholders of Æterna Zentaris, it is very important that you read this material carefully and vote your shares, either by proxy or in person at the meeting.

The following pages tell you more about how to exercise your right to vote your shares and provide additional information relating to the matters to be dealt with at the meeting.

By order of the Board of Directors,



Mario Paradis, CA
Corporate Secretary

Quebec City, Quebec, March 9, 2007

Shareholders unable to attend the meeting are requested to complete and sign the enclosed form of proxy and return it in the stamped envelope provided. To be valid, proxies must reach the office of Computershare Trust Company of Canada, Share Ownership Management, 1500 University Street, 7th Floor, Montreal, Quebec, H3A 3S8, no later than at the close of business on the last business day preceding the date of the meeting or any adjournment thereof.

Æterna Zentaris Inc., 1405 du Parc-Technologique Boulevard, Quebec City, Quebec, G1P 4P5

MANAGEMENT INFORMATION CIRCULAR

1. INTRODUCTION

This management information circular (the "Circular") is being furnished in connection with the solicitation of proxies by and on behalf of the management of Æterna Zentaris Inc. (the "Corporation" or "Æterna Zentaris") for use at the annual meeting of shareholders of the Corporation (the "Meeting") and any adjournment(s) or postponement(s) thereof. No person has been authorized to give any information or make any representation in connection with any matters to be considered at the Meeting other than those contained in this Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.

In addition to solicitation by mail, employees or agents of the Corporation may solicit proxies by telephone or by other means. The cost of any such solicitation will be borne entirely by the Corporation. The Corporation may also reimburse brokers and other persons holding the Corporation's common shares (the "Common Shares") in their names, or in the names of nominees, for their costs incurred in sending proxy materials to beneficial or non-registered owners and obtaining their proxies or voting instructions.

Information contained in this Circular is given as of March 9, 2007 unless otherwise specifically stated. All dollar amounts in the Circular are denominated in Canadian dollars, unless otherwise indicated.

2. INFORMATION CONCERNING VOTING AT THE MEETING

Your Vote is Important

As a shareholder of the Corporation, it is very important that you read the following information on how to vote your Common Shares, either by proxy or in person at the Meeting. These securityholder materials are being sent to both registered and non-registered shareholders of the Corporation. If you are a non-registered shareholder, and the Corporation or its agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding Common Shares on your behalf. By choosing to send these materials directly to registered shareholders and certain non-registered shareholders, the Corporation or its agent (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your proxy as specified in this Circular and in the form of proxy.

Voting

You can attend the Meeting or you can appoint someone else to vote for you as your proxyholder. A shareholder entitled to vote at the Meeting may, by means of a proxy, appoint a proxyholder or one or more alternate proxyholders, who are not required to be shareholders, to attend and act at the Meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. Voting by proxy means that you are giving the person named on your form of proxy the authority to vote your Common Shares for you at the Meeting or any adjournment thereof.

You can choose from among three different ways to vote your Common Shares by proxy:

1. by telephone;
2. on the Internet; or
3. by mail.

The persons who are named on the form of proxy are directors or officers of the Corporation and will vote your shares for you. **You have the right to appoint someone else to be your proxyholder**. If you appoint someone else, he or she must attend the Meeting to vote your Common Shares.

How to Vote – Registered Shareholders

You are a registered shareholder if your name appears on your share certificate. If you are not sure whether you are a registered shareholder, please contact Computershare Trust Company of Canada ("Computershare") by telephone toll-free at 1-800-564-6253 or by e-mail at service@computershare.com.

By Proxy

By Telephone

Voting by proxy using the telephone is only available to shareholders located in Canada and the United States. Call toll-free in Canada 1-866-732-VOTE (8683) and 1-312-588-4290 toll-free in the United States from a touchtone telephone and follow the instructions provided. Your voting instructions are then conveyed by using touchtone selections over the telephone.

You will need your 6-digit Control Number. You will find this number on your form of proxy or in the e-mail addressed to you if you have chosen to receive this Circular electronically.

If you choose the telephone, you cannot appoint any person other than the directors or officers named on your form of proxy as your proxyholder.

The cut-off time for voting by telephone is 5:00 p.m. (Eastern daylight time) on Monday, April 30, 2007.

On the Internet

Go to the website www.computershare.com/proxy and follow the instructions on the screen. Your voting instructions are then conveyed electronically over the Internet.

You will need your 6-digit Control Number. You will find this number on your form of proxy or in the e-mail addressed to you if you have chosen to receive this Circular electronically.

If you return your proxy via the Internet, you can appoint a person other than the persons named in the form of proxy as your proxyholder. This person does not have to be a shareholder. Indicate the name of the person you are appointing in the space provided on the form of proxy. Complete your voting instructions, and date and submit the form. Make sure that the person you appoint is aware that he or she has been appointed and attends the meeting.

The cut-off time for voting over the Internet is 5:00 p.m. (Eastern daylight time) on Monday, April 30, 2007.

By Mail

Complete your form of proxy and return it in the envelope provided to you or by delivery to one of Computershare's principal offices in Calgary, Halifax, Montréal, Toronto, Vancouver or Winnipeg **for receipt before 5:00 p.m. (Eastern daylight time) on April 30, 2007 or with the Secretary of the Meeting prior to commencement of the Meeting on the day of the Meeting or on the day of any adjournment thereof.** A list of addresses for the principal offices of Computershare is set forth on page 29 of this Circular.

If you return your proxy by mail, you can appoint a person other than the directors or officers named in the form of proxy as your proxyholder. This person does not have to be a shareholder. Fill in the name of the person you are appointing in the blank space provided on the form of proxy. Complete your voting instruction on the form of proxy, and date and sign the form. Make sure that the person you appoint is aware that he or she has been appointed and attends the Meeting.

Please see the section titled "Completing the Form of Proxy" for more information.

In Person at the Meeting

You do not need to complete or return your form of proxy.

You will receive an admission ticket at the Meeting upon registration at the registration desk.

How to Vote – Non-Registered Shareholders

The information set forth in this section should be reviewed carefully by the non-registered shareholders of the Corporation. Shareholders who do not hold their shares in their own name should note that only proxies deposited by shareholders who appear on the records maintained by the Corporation's registrar and transfer agent as registered holders of shares will be recognized and acted upon at the Meeting.

Non-registered shareholders may vote shares that are held by their nominees in one of two manners. Applicable securities laws and regulations, including National Instrument 54-101 — *Communication with Beneficial Owners of Securities of a Reporting Issuer*, require nominees of non-registered shareholders to seek their voting instructions in advance of the Meeting. Non-registered shareholders will receive (or will have received) from their nominees either a request for voting instructions or a proxy form for the number of shares held by them. The nominees' voting instructions or proxy forms will contain instructions relating to signature and return of the document and these instructions should be carefully read and followed by non-registered shareholders to ensure that their shares are accordingly voted at the Meeting.

Non-registered shareholders who would like their shares to be voted for them must therefore follow the voting instructions provided by their nominees.

Non-registered shareholders who wish to vote their shares in person at the Meeting must insert their own name in the space provided on the request for voting instructions or proxy form, as the case may be, in order to appoint themselves as proxyholder and follow the signature and return instructions provided by their nominees. Non-registered shareholders who appoint themselves as proxyholders should present themselves at the Meeting to a representative of Computershare. Non-registered shareholders should not otherwise complete the form sent to them by their nominees as their votes will be taken and counted at the Meeting.

All references to "shareholders" in this Circular are to registered shareholders unless specifically stated otherwise.

You are a non-registered shareholder if your bank, trust company, securities broker or dealer or other financial institution or intermediary ("your nominee") holds your Common Shares for you. If you are not sure whether you are a non-registered shareholder, please contact Computershare by telephone toll-free at 1-800-564-6253 or by e-mail at service@computershare.com.

By Proxy

Your nominee is required to ask for your voting instructions before the Meeting. Please contact your nominee if you did not receive a request for voting instructions in this package.

In most cases, non-registered shareholders will receive a voting instruction form which allows you to provide your voting instructions on the Internet, by telephone or by mail. You will need your Control

Number found on your voting instruction form, if you choose to vote on the Internet or by telephone. Alternatively, non-registered shareholders may complete the voting instruction form and return it by mail, as directed in the voting instruction form.

In Person at the Meeting

You can vote your Common Shares in person at the Meeting if you have instructed your nominee to appoint you as proxyholder.

To do this, write your name in the space provided on the voting instruction form and otherwise follow the instructions of your nominee.

Completing the Form of Proxy

You can choose to vote "FOR" or "AGAINST" Resolutions 2007-1 (Stock Option Plan amendment) and 2007-2 (Amended and Restated Shareholder Rights Plan) and "FOR" or "WITHHOLD" with respect to the election of directors and the appointment of auditors. If you are a non-registered shareholder voting your Common Shares, please follow the instructions provided in the voting instruction form that you should have received together with this Circular.

When you sign the form of proxy without appointing an alternate proxyholder, you authorize Éric Dupont, Gilles Gagnon and Mario Paradis, respectively the Executive Chairman of the Board, the President and Chief Executive Officer and the Corporate Secretary of the Corporation, to vote your Common Shares for you at the Meeting in accordance with your instructions.

Management is not aware of any other matters that will be presented for action at the Meeting. If, however, other matters properly come before the Meeting, the persons designated in the enclosed form of proxy will vote in accordance with their judgment, pursuant to the discretionary authority conferred by the proxy with respect to such matters.

You have the right to appoint someone other than the management proxy nominees to be your proxyholder. If you are appointing someone else to vote your Common Shares for you at the Meeting, fill in the name of the person voting for you in the blank space provided on the form of proxy.

If you do not specify how you want your Common Shares voted, your proxyholder will vote your shares in favour of each item scheduled to come before the Meeting, including all amendments or variations thereto, and as he or she sees fit on any other matter that may properly come before the Meeting.

A proxyholder has the same rights as the shareholder by whom it was appointed to speak at the Meeting in respect of any matter, to vote by way of ballot at the Meeting and, except where a proxyholder has conflicting instructions from more than one shareholder, to vote at the Meeting in respect of any matter by way of any show of hands.

If you are an individual shareholder, you or your authorized attorney must sign the form of proxy. If you are a corporation or other legal entity, an authorized officer or attorney must sign the form of proxy.

Changing your Vote

In addition to revocation in any other manner permitted by law, a shareholder giving a proxy and submitting it by mail may revoke it by an instrument in writing executed by the shareholder or the shareholder's attorney authorized in writing and deposited either at the Montréal office of the Corporation's transfer agent, Computershare, located at 7th Floor, 1500 University Street, Montréal, Quebec, H3A 3S8, or at the Corporation's registered office, located at 1405 du Parc-Technologique Boulevard, Quebec City, Quebec, G1P 4P5, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chair of the Meeting on the day of the Meeting, or any adjournment thereof. If the voting instructions were conveyed by telephone or over the

Internet, conveying new voting instructions by any of these two means or by mail within the applicable cut-off times will revoke the prior instructions.

Voting Requirements

Resolutions 2007-1 (Stock Option Plan amendment) and 2007-2 (Amended and Restated Shareholder Rights Plan) reproduced at Schedule A to the Circular must be approved by more than fifty percent (50%) of votes cast at the Meeting by proxy or in person. Computershare will act as scrutineer at the Meeting and will count and tabulate the votes.

3. VOTING SHARES, QUORUM AND PRINCIPAL SHAREHOLDERS

Voting Shares and Quorum

As of March 9, 2007, there were 53,179,470 Common Shares issued and outstanding. Shareholders of record on March 9, 2007 are entitled to receive notice of and vote at the Meeting. The list of shareholders entitled to vote at the Meeting will be available for inspection on and after March 19, 2007 during usual business hours at the Montréal office of the Corporation's transfer agent, Computershare, located at 7th Floor, 1500 University Street, Montréal, Quebec, H3A 3S8, as well as at the Meeting.

A quorum is present at the Meeting if the holders of not less than 20% of the Common Shares are present in person or represented by proxy, irrespective of the number of shareholders actually in attendance at the Meeting. If a quorum is present at the opening of the Meeting, the shareholders present or represented by proxy may proceed with the business of the Meeting notwithstanding that a quorum is not present throughout the Meeting. If a quorum is not present within thirty (30) minutes of the opening of the Meeting, the shareholders present or represented by proxy may adjourn the Meeting to a fixed time and place but may not transact any other business.

Principal Shareholders

As of March 9, 2007, to the knowledge of the officers and directors of the Corporation, the only entities that beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the votes attached to the Common Shares are indicated in the table below:

Name of shareholder	Common Shares (#)	Total Percentage of Voting Rights (%)
Solidarity Fund (QFL)	9,752,069	18.34
SGF Santé Inc.	8,810,878	16.57

4. PRESENTATION OF THE FINANCIAL STATEMENTS

The Annual Report including the audited consolidated financial statements of the Corporation for the financial year ended December 31, 2006 and the auditors' report thereon will be submitted at the Meeting.

5. ELECTION OF DIRECTORS

The Corporation's Articles provide that the Board of Directors (the "Board") of the Corporation shall be composed of a minimum of five and a maximum of fifteen directors. Directors are elected annually by the shareholders of the Corporation, but the directors may from time to time appoint one or more directors, provided that the total number of directors so appointed does not exceed one third of the number of directors elected at the last annual meeting of shareholders. Management of the Corporation proposes the eleven persons named in the table appearing on page 7 of the Circular (and in the form of proxy or voting instruction form enclosed together with this Circular) as candidates for election as directors. Each elected director will remain in office until termination of the next annual meeting of the shareholders or until his or her successor is elected or appointed, unless his or her post is vacated earlier. Each of the candidates proposed by Management of the Corporation is currently a director of the Corporation.

Under the terms of a shareholders' agreement signed on November 12, 1999 between Solidarity Fund (QFL) and the Corporation, Solidarity Fund (QFL) was granted the right to designate one member of the Board of the Corporation, provided that Solidarity Fund (QFL) holds at the relevant time at least 499,999 Common Shares. Likewise, under the terms of contractual agreements among the Corporation, SGF Santé Inc. and Dr. Éric Dupont concerning, among other matters, the election of directors, provided that SGF Santé Inc. holds at least 5% of the Corporation's issued and outstanding voting shares, (a) the Corporation will propose for election as a director of the Corporation, at each annual meeting of the shareholders (i) one candidate designated by SGF Santé Inc., provided that the candidate receives a favourable recommendation from the Corporate Governance, Nominating and Human Resources Committee, and (ii) one candidate jointly designated by SGF Santé Inc. and Dr. Éric Dupont, (b) the Corporation will solicit proxies from its shareholders for the election of such candidates as directors of the Corporation, and (c) Dr. Éric Dupont will exercise the voting rights attached to his Common Shares, on any resolution relating to the election of directors to be submitted to the beneficial holders of any participating shares of the Corporation, in favour of the election of the candidates so designated. In this respect and in accordance with the agreements mentioned above, Mr. Pierre Laurin and Mr. José P. Dorais are the candidates currently designated by Solidarity Fund (QFL) and SGF Santé Inc., respectively, and are named in the table appearing on page 7.

Unless instructions are given to abstain from voting with regard to the election of directors, the persons whose names appear on the enclosed form of proxy will vote in favour of the election of the eleven nominees whose names are set out in the table appearing on page 7 of the Circular. Management of the Corporation does not foresee that any of the nominees listed below will be unable or, for any reason, unwilling to perform his or her duties as a director. In the event that the foregoing occurs for any reason, prior to the election, the persons indicated on the enclosed form of proxy reserve the right to vote for another candidate of their choice unless otherwise instructed by the shareholder in the form of proxy to abstain from voting on the election of directors.

Name and Place of Residence	Principal Occupation	Director since	Number of Common Shares Held
Marcel Aubut Quebec, Canada	Managing Partner Heenan Blaikie Aubut (law firm)	1996	57,500
Stormy Byorum, MBA(1) New York, USA	Senior Managing Director Stephens Cori Capital Advisors (strategic and financial advisory services company)	2001	12,000
José P. Dorais Quebec, Canada	Partner Miller Thomson Pouliot LLP (law firm)	2006	—
Éric Dupont, PhD(2) Quebec, Canada	Executive Chairman of the Board Æterna Zentaris Inc.	1991	3,767,413
Jürgen Engel Frankfurt, Germany	Executive Vice President, Global R&D and Chief Operating Officer Æterna Zentaris Inc. Chairman and Managing Director Zentaris GmbH (a subsidiary of the Corporation)	2003	31,279

Jürgen Ernst, MBA(2) Brussels, Belgium	Vice Chairman of the Board Æterna Zentaris Inc. Corporate Director Former General Manager Pharmaceutical Sector of Solvay S.A. (international chemical and pharmaceutical group)	2005	8,850
Gilles Gagnon, MBA Quebec, Canada	President and Chief Executive Officer Æterna Zentaris Inc.	2002	70,617
Pierre Laurin, PhD(2) Quebec, Canada	Executive in Residence HEC Montreal (management faculty of university)	1998	11,200
Gérard Limoges, FCA(1) Quebec, Canada	Corporate Director Former Deputy Chairman of Ernst & Young LLP Canada	2004	5,000
Pierre MacDonald(1)(2) Quebec, Canada	Chairman of the Board Eurocopter Canada Ltd. (helicopter manufacturer)	2000	11,500
Gerald J. Martin California, USA	Corporate Director Former Vice President, Corporate Licensing and Technology Alliances at Abbott Laboratories Inc.	2006	—

(1) Member of the Audit Committee.

(2) Member of the Corporate Governance, Nominating and Human Resources Committee.

Mr. Marcel Aubut served as a director of Albums DF Ltée from September 5, 1997 to September 16, 2003. This company became bankrupt on December 6, 2003.

Mr. Pierre Laurin was, from May 1999 to May 2003, a director of Microcell Telecommunications Inc. ("Microcell"). Microcell entered into a Plan of Reorganization and of Compromise and Arrangement with its creditors and shareholders effective May 1, 2003 pursuant to the *Companies' Creditors Arrangement Act* (Canada). Mr. Laurin was a member of the Special Committee of the Board of Directors of Microcell created in connection with the foregoing restructuring.

Mr. Pierre MacDonald served as a director of Slater Steel Inc. ("SSI"), a manufacturer of specialty steel products, from February 1998 to August 2004. SSI and its subsidiaries filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) and under Chapter 11 of the US Bankruptcy Code on June 2, 2003, and they have since conducted an orderly wind-down.

The Corporation does not have any direct information concerning shares beneficially owned by the above-mentioned persons or concerning Common Shares of the Corporation over which such persons exercise control or direction. This information was provided to the Corporation by the directors and nominees individually.

6. STATEMENT OF EXECUTIVE COMPENSATION

A. Compensation of Outside Directors

The following describes the compensation paid to the members of the Corporation's Board and committees up until December 31, 2006. Each outside director received an annual base remuneration of $15,000. In January 2007, the Corporation also granted to each of its outside directors options to purchase 5,000 Common Shares which will vest over a period of three years. The outside directors also received an attendance fee of $1,500 for each Board meeting attended and a daily compensation of $1,500 for special work designated by the Board of Directors, if any. Attendance fees are reduced to $750 per meeting for a director participating in a Board meeting by telephone, teleconference or any other telecommunications device. The Vice Chairman of the Board and the Chairs of the Audit Committee and the Corporate Governance, Nominating and Human Resources Committee receive additional annual retainers of $15,000, $20,000 and $15,000, respectively. In addition, an attendance fee of $1,000 is paid to each outside director attending committee meetings, such fee being reduced to $500 for participation by telephone, teleconference or by any other telecommunication device.

In order to offer competitive compensation and recognize the growing complexity of their activities, the Board of Directors, upon the recommendation of the Corporate Governance, Nominating and Human Resources Committee, has decided to modify the compensation of the Corporation's outside directors effective January 1, 2007 as follows:

- the annual base remuneration has been increased to $25,000;
- the attendance fee for attending Board and committee meetings has been increased to $2,000;
- the attendance fee for attending Board and committee meetings by telephone, teleconference or any other telecommunications device has been increased to $1,000 per meeting; and
- committee members will receive an additional annual base remuneration of $5,000 for the Audit Committee and $2,500 for the Corporate Governance, Nominating and Human Resources Committee.

All other conditions remain in place.

During the financial year ended December 31, 2006, the Corporation paid an aggregate amount of $322,191 (US$284,094) to all of its outside directors for services rendered. Outside directors are paid in their home country's currency and are reimbursed for travel and other out-of-pocket expenses incurred while attending Board or committee meetings.

The number of Board and committee meetings held during the year ended December 31, 2006 and the attendance records of Board and committee members are presented in Schedule B to this Circular, "Statement of Corporate Governance Practices".

B. Compensation of Executive Officers

The following table sets forth detailed information on the compensation of the President and Chief Executive Officer, the Vice President and Chief Financial Officer and the Corporation's three other most highly compensated executive officers (including the Executive Chairman of the Board) (collectively, the "Named Executive Officers"), for services rendered in all capacities during the financial years ended December 31, 2006, 2005 and 2004.

SUMMARY COMPENSATION TABLE

		Annual Compensation (all amounts are in Canadian dollars)			Long-term Compensation			
					Awards		Payouts	
Name and principal occupation	Year	Salary ($)	Bonus ($)	Other Annual Compensation(1) ($)	Securities under Options Granted(2) (#)	Shares or Units Subject to Resale Restrictions ($)	LTIP Payouts ($)	All Other Benefits ($)
Gilles Gagnon	2006	300,000	100,000	—	—	—	—	—
President and Chief	2005	300,000	112,500	—	75,000	—	—	—
Executive Officer	2004	250,000	150,000	—	110,000	—	—	—
Dennis Turpin	2006	175,000	100,000	—	—	—	—	—
Vice President and	2005	175,000	75,000	—	50,000	—	—	—
Chief Financial Officer	2004	160,000	100,000	—	90,000	—	—	—
Jürgen Engel(3)	2006	320,333	106,778	—	—	—	—	—
Executive Vice President,	2005	339,705	84,926	—	50,000	—	—	—
Global R&D and Chief	2004	339,549	121,268	—	100,000	—	—	—
Operating Officer								
Manfred Peukert(3)	2006	205,013	79,727	—	—	—	—	—
Vice President Medical	2005	217,411	81,491	—	30,000	—	—	—
Affairs	2004	232,499	29,104	—	50,000	—	—	—
Éric Dupont	2006	250,000	—	—	—	—	—	—
Executive Chairman of	2005	250,000	—	—	60,000	—	—	—
the Board	2004	252,083	—	—	90,000	—	—	—

(1) Perquisites and other personal benefits that do not exceed the lesser of $50,000 or 10% of annual salary and bonuses are not included in this column.

(2) Usually stock options are granted to Named Executive Officers in December of each year. In 2006, the grant of stock options to the Corporation's Named Executive Officers (an aggregate amount of 200,000) was postponed until January 2007 due to the payment of the special distribution of Subordinate Voting Shares of the capital of Atrium Biotechnologies Inc. ("Atrium") to the Corporation's shareholders on January 2, 2007.

(3) Amounts actually paid to such Named Executive Officers in Euros and converted to Canadian dollars at an average exchange rate of CDN$1.00 to €0.7024 in 2005, €0.6623 in 2005 and €0.6185 in 2004.

During the financial year ended December 31, 2006, the Corporation paid an aggregate amount of $2,427,574 (US$2,140,529) and granted an aggregate number of 30,000 stock options to all of its executive officers (excluding outside directors).

C. Stock Option Plan Information

The Corporation has established a stock option plan for its directors, executive officers, employees and persons providing continuous services to the Corporation (the "Stock Option Plan") in order to attract and retain such persons, who will be motivated to work towards ensuring the Corporation's success. The Board has full and complete authority to interpret the Stock Option Plan, to establish applicable rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the Stock Option Plan, provided that such interpretations, rules, regulations and determinations are consistent with the rules of all stock exchanges and quotation systems on which the securities of the Corporation are then traded and with all relevant securities legislation. Individuals eligible to participate under the Stock Option Plan will be determined by the Board of Directors or the Corporate Governance, Nominating and Human Resources Committee, as the case may be.

Options granted under the Stock Option Plan may be exercised at any time within a maximum period of ten years following the date of their grant. The Board of Directors or the Corporate Governance, Nominating and Human Resources Committee, as the case may be, designates, at its discretion, the individuals to whom stock options are granted under the Stock Option Plan and determines the number of Common Shares covered by each of such options, the grant date, the exercise price of each option, the expiry date, the vesting schedule and any other matter relating thereto, in each case in accordance with the applicable rules and regulations of the securities regulatory authorities. The price at which the Common Shares may be purchased may not be lower than the greater of the closing prices of the Common Shares on the Toronto Stock Exchange (the "TSX") and the NASDAQ Global Market (the "NASDAQ") on the last trading day preceding the date of grant of the option. Options granted under the Stock Option Plan generally vest in equal tranches over a three-year period (one-third each year, starting on the first anniversary of the grant date) or as otherwise determined by the Board of Directors or the Corporate Governance, Nominating and Human Resources Committee.

Unless the Board of Directors or the Corporate Governance, Nominating and Human Resources Committee decides otherwise, optionholders cease to be entitled to exercise their options under the Stock Option Plan: (i) immediately, in the event an optionholder who is an officer or employee of the Corporation resigns or voluntarily leaves his or her employment with the Corporation or one of its subsidiaries or the employment with the Corporation or one of its subsidiaries is terminated with cause and, in the case of an optionee who is a non-employee director or member of the Scientific Board of the Corporation or one of its subsidiaries, the date on which such optionee ceases to be a member of the relevant Board; (ii) six months following the date on which employment with the Corporation or any of its subsidiaries is terminated as a result of the death of an optionholder who is an officer or employee of the Corporation and, in the case of an optionee who is a non-employee director or member of the Scientific Board of the Corporation or one of its subsidiaries, six months following the date on which such optionee ceases to be a member of the relevant Board; (iii) 30 days following the date on which an optionholder's employment with the Corporation or any of its subsidiaries is terminated for a reason other than those mentioned in (i) or (ii) above including, without limitation, upon the disability, long-term illness, retirement or early retirement of the optionholder; and (iv) where the optionholder is a service supplier, 30 days following the date on which such optionholder ceases to act as such, for any cause or reason.

Optionholders may not assign their options (nor any interest therein) other than by will or in accordance with the applicable laws of estates and succession.

In the event that, at any time, an offer to purchase is made to holders of all Common Shares, notice of such offer shall be given by the Corporation to each optionee and all unexercised options will become exercisable immediately at their respective exercise prices, but only to the extent necessary to enable optionees to tender their Common Shares in response to such offer.

The maximum number of Common Shares that may be issued under the Stock Option Plan is currently 4,253,277, which currently represents approximately 8% of all issued and outstanding Common Shares. Under the Stock Option Plan, no single optionholder may currently hold options to purchase more than 5% of the Corporation's issued and outstanding Common Shares.

On March 2, 2007, the Board of Directors approved, subject to receiving the approvals of the TSX and the Corporation's shareholders, the making of certain amendments to the Stock Option Plan, including: 1) extending the exercise period for options that would otherwise expire during a trading prohibition period or within seven (7) business days immediately after a trading prohibition period imposed by the Corporation, to a date which is seven (7) business days after the last day of such trading prohibition period; 2) amending the Stock Option Plan's amending provision following the changes made by the TSX regarding the requirements that apply to security-based compensation arrangements; and 3) changing the maximum number of Common Shares issuable under the Stock Option Plan from a fixed number to a fixed percentage of the issued and outstanding Common Shares. The TSX has conditionally approved these amendments to the Stock Option Plan and shareholders will be asked at the Meeting to adopt Resolution 2007-1 approving such amendments. See Item 11 of the Circular, "Amendments to the Stock Option Plan". The Board of Directors also approved, on March 2, 2007, certain amendments to the Stock Option Plan of a "housekeeping" or clerical nature, and amendments to comply with TSX policies which provide that the number of securities issuable to insiders, at any time, under all security-based compensation arrangements cannot exceed 10% of the issued and outstanding Common Shares and that the number of securities issued to insiders, within any one-year period, under all security-based compensation arrangements, cannot exceed 10% of the issued and outstanding Common Shares (the "10% Insider Limit"). These amendments have been approved by the TSX but are not subject to shareholder approval.

Options granted during the most recently completed financial year

There were no options granted to the Named Executive Officers during the financial year ended December 31, 2006. The aggregate number of Common Shares covered by options granted to the Corporation's officers and employees other than the Named Executives Officers during such period was 45,000 at prices varying from $6.09 to $7.06 per Common Share, establishing at 3,490,092 the total number of Common Shares covered by options granted and outstanding pursuant to the Stock Option Plan as at December 31, 2006, which represents 6.6% of the total number of issued and outstanding Common Shares.

Options exercised during the most recently completed financial year and financial year-end option values

The following table summarizes for each of the Named Executive Officers the number of Common Shares acquired on options exercised, if any, during the financial year ended December 31, 2006, the aggregate value realized upon exercise, the total number of Common Shares covered by unexercised options, if any, held at December 31, 2006, and the value of such unexercised options as at the same date. During the financial year ended December 31, 2006, an aggregate of 22,000 options were exercised at prices varying from $3.76 and $5.70 by all optionholders under the Stock Option Plan.

Name	Common Shares Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at FY-end 2006 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at FY-end 2006 (1) ($) Exercisable/ Unexercisable

Gilles Gagnon, CEO	—	—	328,334 / 86,666	481,750 / 59,500
Dennis Turpin, CFO	—	—	306,666 / 63,334	320,833 / 39,667
Jürgen Engel	—	—	203,333 / 66,667	336,033 / 39,667
Manfred Peukert	—	—	78,334 / 36,666	105,850 / 23,800
Éric Dupont	—	—	360,000 / 70,000	403,300 / 47,600

(1) The value of an unexercised in-the-money option at financial year-end is the difference between the exercise price of the option and the closing price of a Common Share on the TSX on December 31, 2006, which was $4.72. On February 2, 2007, the TSX definitively approved an equitable adjustment to all unexercised options outstanding pursuant to the Stock Option Plan in order to reflect the one-time special distribution in kind of all of the Corporation's 11,052,996 Subordinate Voting Shares of the capital of Atrium distributed to the Corporation's shareholders on a *pro rata* basis. This special distribution was completed on January 2, 2007, although the "ex-distribution" date in respect thereof was December 27, 2006. The adjustment was a reduction in the exercise price of all outstanding stock options of $2.02 per Common Share.

These values have not been and may never be realized. The options have not been and may never be exercised; and actual gains, if any, upon exercise will depend upon the value of the Common Shares on the date of the exercise. There can be no assurance that these values will ever be realized. Values of unexercised options are based on exercise prices varying from $1.74 to $3.94 at the specific grant dates, as applicable and as equitably adjusted in connection with the Corporation's special distribution of Subordinate Voting Shares of the capital of Atrium.

D. Pension Plan

Two of the Corporation's Named Executive Officers, namely Prof. Dr. Jürgen Engel and Dr. Manfred Peukert, participate in a non-contributory defined benefit pension plan. Benefits payable under this plan correspond to 40% of the executive officer's average salary of the last twelve (12) months during the first five working years after initial participation in this plan and increase by 0.4% for each additional year of employment.

The normal retirement age is 65 years, but early retirement in accordance with Germany's social pension insurance is possible without reduction of the benefit. The following table shows total annual pension benefits payable pursuant to this plan. Upon the death of a participant, the surviving spouse and/or children of the participant will be entitled to a benefit equal to 60% of the benefits to which such participant was entitled. All benefits payable under this plan are in addition to German governmental social security benefits. Only basic salary is taken into consideration in calculating pension benefits.

Pension Plan Table

	Years of Service				
Average Remuneration ($)*	**15**	**20**	**25**	**30**	**35**
200,000	$ 88,000	$ 92,000	$ 96,000	$ 100,000	$ 104,000
300,000	$ 132,000	$ 138,000	$ 144,000	$ 150,000	$ 156,000
400,000	$ 176,000	$ 184,000	$ 192,000	$ 200,000	$ 208,000
500,000	$ 220,000	$ 230,000	$ 240,000	$ 250,000	$ 260,000

* Remuneration refers to annual basic salary.

Years of credited service as at December 31, 2006 for the Corporation's two Named Executive Officers who participate in this plan are as indicated below:

Jürgen Engel:	30 years and 4 months
Manfred Peukert:	30 years and 4 months

E. Employment and Change of Control Agreements

The Corporation and/or its subsidiaries have entered into employment agreements (the "Employment Agreements") with each of the Named Executive Officers. The Employment Agreements provide that the Corporation will pay the executives a base salary, an annual bonus and stock options which will be reviewed annually in accordance with the Corporation's policies. The Employment Agreements have an indefinite term, except for Prof. Dr. Engel, whose employment agreement is for a term of five years expiring in June 2008.

In addition, the Corporation has entered into change of control agreements (the "Change of Control Agreements") with two of the Named Executive Officers. Under such agreements, if a change of control (as defined in the Change of Control Agreements) occurs and the Corporation terminates the employment of the executive without cause, or if the executive terminates his employment for good reason, then the executive will be entitled to receive a lump sum payment, less statutory deductions, of the equivalent of twenty-four (24) months in the case of Mr. Gagnon and eighteen (18) months in the case of Mr. Turpin of i) their annual base salary, ii) the maximum amount of their bonus, and iii) the benefits, calculated on a yearly basis, including car allowances, but excluding operating costs and excluding any stock options which were held by such executive at the time of termination of employment.

F. Report on Executive Compensation

Composition of the Corporate Governance, Nominating and Human Resources Committee

On December 31, 2006, the Corporate Governance, Nominating and Human Resources Committee (for the purposes of this section 6.F of the Circular, the "Committee") was composed of four directors, namely Dr. Éric Dupont, Mr. Jürgen Ernst, Mr. Pierre Laurin and Mr. Pierre MacDonald (Chairman).

Mandate of the Committee

The mandate of the Committee (attached as Schedule E to this Circular) is to (i) assist the Board in developing the Corporation's approach to corporate governance issues, (ii) propose new Board nominees, and (iii) assess the effectiveness of the Board and its committees, their respective chairs and individual directors. This committee also assists the Board in discharging its responsibilities relating to executive and other human resources hiring, assessment, compensation and succession planning matters.

Executive Compensation Policy

An executive compensation policy has been established to acknowledge and reward the contributions of the executive officers to the Corporation's success and to ensure competitive compensation, in order that the Corporation may benefit from the expertise required to pursue its objectives.

In accordance with this policy, the compensation of the Corporation's executive officers is based on three principal elements: (i) basic salary; (ii) performance bonuses; and (iii) the award of stock options. Each component is established with comparable companies in the North American biopharmaceutical industry with which the Corporation competes for talent. In addition, the policy is intended to align the executives' interests with those of the Corporation's shareholders and rewards superior performance. Incentive-based compensation is granted on the basis of criteria approved by the Committee.

Basic Salary

Basic salary is established according to the criteria set forth above and is intended to align with the median of those paid in the comparator group. They are reviewed annually by the Committee.

Short-term Incentive Compensation

The short-term incentive plan sets out the allocation of incentive awards based on the financial results, the achievement of the Corporation's product development and strategic objectives, and the Corporation's return on investment. These objectives are set at the beginning of each financial year as part of the revision of corporate strategies.

In the case of executive officers, a program is designed to maximize corporate and individual performance by establishing specific operational and financial goals and to provide financial incentives to executive officers based on their level of achievement of these goals. The granting of cash incentives require Committee and Board approval and are based upon an assessment of each individual's performance, as well as the performance of the Corporation.

Long-term Compensation of Executive Officers

The long-term component of the compensation of the Corporation's executive officers is based mainly on the Stock Option Plan, which permits the granting of a number of options that varies in accordance with the contribution of the officers and their responsibilities. To encourage retention and focus management on developing and successfully implementing the continuing growth strategy of the Corporation, stock options generally vest over a period of three years. Usually stock options are granted to executive officers in December of each year. In 2006, the grant of stock options to the Corporation's executive officers was postponed until January 2007 due to the payment of the special distribution of Atrium's Subordinate Voting Shares to the Corporation's shareholders on January 2, 2007.

Control and Revision of the Compensation Plan

The Committee must ensure that the compensation of the Corporation's executive officers is consistent with the overall compensation policy of the Corporation. The relative situation of the Corporation with regard to compensation is determined annually by means of studies, with respect to a reference market, composed of comparable businesses. Internal equity analyses are also conducted in order to make the required adjustments.

Compensation of the President and Chief Executive Officer

The compensation of the President and Chief Executive Officer is along the lines of the Corporation's policy on management compensation. The President and Chief Executive Officer's employment agreement also contains a non-competition clause but does not provide for any specific terms or modalities of remuneration.

In 2006, the President and Chief Executive Officer received a bonus pursuant to the Corporation's short-term incentive plan. The annual bonus paid to the Chief Executive Officer in 2006 reflected his performance in the context of Corporation's objectives, which were reviewed by the Committee for the Chief Executive Officer and the senior executive management of the Corporation for the 2006 fiscal year. The annual bonus paid in 2006 reflected the advancement of the Corporation's product pipeline as well as its performance in relation to strategic objectives, business development, the Corporation's return on investment and budgetary objectives established by the Committee for the Chief Executive Officer and the senior executive management team for the 2006 fiscal year.

Conclusion

In accordance with the Corporation's executive compensation policy, a significant portion of the compensation of its executive officers is tied to the performance of the Corporation, the responsibilities inherent in their duties and, in particular, the performance of the Corporation's publicly traded Common Shares and their long-term appreciation. The Committee reviews the compensation programs of the

executive officers annually in order to ensure their competitiveness and compliance with the objectives, values and strategies of the Corporation.

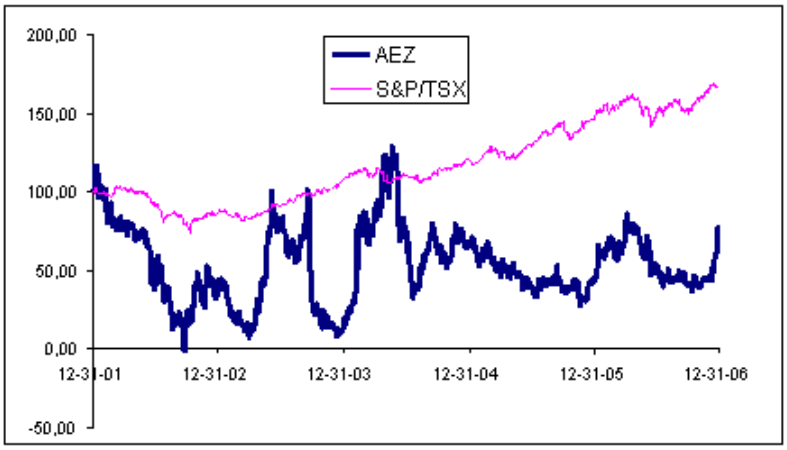
If the circumstances so require, the Committee may recommend employment conditions that are different from the policies in effect as well as the execution of non-standard employment contracts by the Corporation.

By the Corporate Governance, Nominating and Human Resources Committee:

Pierre MacDonald, Chairman
Éric Dupont
Jürgen Ernst
Pierre Laurin

7. PERFORMANCE GRAPH

On December 31, 2006, the closing price of a Common Share on the TSX was $4.72. The following graph shows the cumulative return of a $100 investment in the Common Shares made on December 31, 2001 on the TSX, compared with the total return of the S&P/TSX Composite Index for each financial year shown on this graph.



On May 28, 2004, the Corporation's former Subordinate Voting Shares were changed, on a one-for-one basis, into an equal number of new Common Shares. On January 2, 2007, the Corporation effected a one-time special distribution in kind of all of its 11,052,996 Subordinate Voting Shares of the capital of Atrium on a *pro rata* basis to its shareholders. The "ex-distribution" date for the special distribution was December 27, 2006.

8. SECURITY-BASED COMPENSATION ARRANGEMENTS

A. Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth, as at December 31, 2006, the information with respect to all of the Corporation's compensation plans pursuant to which equity securities of the Corporation are authorized for issuance:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights (1) ($)	(c) Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by securityholders	3,490,092	4.00	773,185
Equity compensation plans not approved by securityholders	—	—	—
Total:	3,490,092	4.00	773,185

(1): On February 2, 2007, the TSX definitively approved an equitable adjustment to all unexercised options outstanding pursuant to the Stock Option Plan in order to reflect the one-time special distribution in kind of all of the Corporation's 11,052,996 Subordinate Voting Shares of the capital of Atrium distributed to the Corporation's shareholders on a *pro rata* basis. This special distribution was completed on January 2, 2007, although the "ex-distribution" date in respect thereof was December 27, 2006. The adjustment was a reduction in the exercise price of all outstanding stock options of $2.02 per Common Share.

On January 4, 2007, the Board of Directors approved the granting of an aggregate of 410,000 options to the Corporation's directors, executive officers and certain key employees, details of which will be provided in the Corporation's management information circular that will be prepared in connection with the 2008 annual meeting of shareholders.

B. Principal Terms of the Corporation's Security-Based Compensation Arrangements and Other Required Disclosure

Effective January 1, 2005, companies listed on the TSX are required to disclose, on an annual basis, in their information (or management proxy) circulars or other annual disclosure documents distributed to all security holders, the terms of their security-based compensation arrangements and any amendments adopted to such arrangements during the most recently completed financial year. Under the rules of the TSX Company Manual, security-based compensation arrangements include, for example, stock option plans, stock purchase plans where the listed issuer provides financial assistance or where the listed issuer matches the whole or a portion of the securities being purchased, and any other compensation or incentive mechanism involving the issuance or potential issuance of securities of the listed issuer. In general, arrangements or plans that do not involve the issuance from treasury or potential issuance from treasury of securities of the listed issuer are not security-based compensation arrangements for the purposes of the TSX Company Manual rules. The Corporation currently has in place only one such security-based compensation arrangement, namely its Stock Option Plan, the principal terms of which are described at Section 6.C of this Circular under the heading "STATEMENT OF EXECUTIVE COMPENSATION — Stock Option Plan Information".

The table below indicates, the number of Common Shares (i) which were authorized for issuance as of February 26, 2004, (ii) issuable under outstanding stock options as at March 9, 2007, (iii) issued pursuant to the exercise of stock options under the Stock Option Plan since February 26, 2004 and (iv) remaining available for issuance under the Stock Option Plan as at March 9, 2007:

Common Shares under Stock Option Plan:	Number of Common Shares	As a Percentage of all Currently Issued and Outstanding Common Shares
Total Authorized for Issuance as of February 26, 2004:	4,543,744	8.54 %
·issuable under outstanding stock options (including stock options granted by the Corporation after January 1, 2007)	3,880,092	7.30 %
·issued pursuant to the exercise of stock options since February 26, 2004	290,467	0.55 %
·remaining available for issuance	373,185	0.70 %

9. STATEMENT OF CORPORATE GOVERNANCE PRACTICES

In 2005, the Canadian Securities Administrators (the "CSA") adopted Multilateral Instrument 58-101 - *Disclosure of Corporate Governance Practices* (the "CSA Disclosure Instrument") and National Policy 58-201 - *Corporate Governance Guidelines* (the "CSA Governance Policy"). The CSA Governance Policy provides guidance on governance practices for Canadian issuers. The CSA Disclosure Instrument requires issuers to make certain specified disclosure regarding their governance practices. The Board considers good corporate governance to be important to the effective operations of the Corporation. The Corporate Governance, Nominating and Human Resources Committee makes recommendations regarding the compliance of the Corporation's practices with the CSA Governance Policy and oversees

disclosure obligations related thereto. The Committee proposes changes to the Corporation's corporate governance practices and, where applicable, amends such governance practices from time to time.

Pursuant to the requirements of the CSA Disclosure Instrument, the Corporation sets out in Schedule B to this Circular the disclosure required by the CSA Disclosure Instrument (which are set out in Form 58-101F1 of the Instrument) and provides a response to each item, which together describe how the Corporation has integrated these "best practices" of corporate governance.

10. APPOINTMENT OF AUDITORS AND AUDIT COMMITTEE DISCLOSURE

A. Appointment of Auditors

The Board proposes that PricewaterhouseCoopers LLP, Chartered Accountants, be appointed as auditors of the Corporation and that the directors of the Corporation be authorized to determine their compensation upon the recommendation of the Audit Committee. PricewaterhouseCoopers LLP have acted as auditors of the Corporation since the financial year ended December 31, 1993.

Unless instructed to abstain from voting with regard to the appointment of auditors, the persons whose names appear on the enclosed form of proxy will vote in favour of the appointment of PricewaterhouseCoopers LLP and authorizing the directors of the Corporation to determine their compensation.

B. Audit Committee Disclosure

Multilateral Instrument 52-110 — *Audit Committees* ("MI 52-110") requires issuers to disclose in their annual information forms certain information with respect to the existence, charter, composition, and education and experience of the members of their Audit Committees, as well as all fees paid to external auditors. The Corporation is including such required disclosure with respect to its Audit Committee in both this Circular and its Annual Information Form. The Audit Committee Charter is attached as Schedule D to this Circular and is also accessible on the Corporation's Web site at *www.aeternazentaris.com*.

Composition of the Audit Committee

Ms. Stormy Byorum, Mr. Gérard Limoges, FCA, who is the Chair of the Committee, and Mr. Pierre MacDonald are the members of the Corporation's Audit Committee, each of whom is independent and financially literate within the meaning of MI 52-110.

Education and Relevant Experience

The education and relevant experience of each of the members of the Audit Committee are described below.

Stormy Byorum — Ms. Byorum is currently Senior Managing Director of Stephens Cori Capital Advisors, a strategic and financial advisory services company. Before 1996, Ms. Byorum held various positions at Citicorp. Ms. Byorum holds a Master's of Business Administration (MBA) degree from the University of Pennsylvania.

Gérard Limoges, FCA — Mr. Limoges served as the Deputy Chairman of Ernst & Young LLP Canada until his retirement in September 1999. After a career of 37 years with Ernst & Young, Mr. Limoges has been devoting his time as a director of a number of companies. Mr. Limoges began his career with Ernst & Young in Montreal in 1962. After graduating from the Management School of *Université de Montréal (HEC Montréal)* in 1966, he became a chartered accountant and partner of Ernst & Young in 1971.

Pierre MacDonald — Mr. MacDonald was Vice President of James Bay Energy Corporation where he was responsible for administration, finance, internal audit and information systems. He subsequently was the Senior Vice President for Eastern Canada for Bank of Montreal, a position which involved the review and evaluation of the financial statements and creditworthiness of borrowers in a wide variety of industries. He

then became Vice Chairman of the Treasury Board of the Government of Quebec. Mr. MacDonald served as the Chairman of the Audit Committee of Teleglobe Inc. for six years. He recently completed a term of six years as Chairman of the Risk Management Committee and member of the Audit Committee of the Export Development Corporation. Mr. MacDonald received Bachelor of Arts, Bachelor of Commerce and Masters of Commerce degrees from Laval University in Quebec.

Pre-Approval Policies and Procedures

Form 52-110F1 requires the Corporation to disclose whether its Audit Committee has adopted specific policies and procedures for the engagement of non-audit services and to prepare a summary of these policies and procedures. The mandate of the Audit Committee (attached as Schedule D to this Circular) provides that it is such committee's responsibility to approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and, when required, the framework for pre-approval of such services. The Audit Committee delegates to its Chairman the pre-approval of such non-audit fees.

External Auditor Service Fees

In addition to performing the audit of the Corporation's consolidated financial statements and its subsidiaries, PricewaterhouseCoopers LLP provided other services to the Corporation and its subsidiaries and billed the Corporation and its subsidiaries the following fees for each of the Corporation's two most recently completed financial years. Fees for the financial year ended December 31, 2006 exclude all such fees billed by PricewaterhouseCoopers LLP to the Corporation's former subsidiary, Atrium, since, on October 18, 2006, the Corporation initiated the divesture of its interest in Atrium upon closing of a secondary offering and completed the spin-off by distributing its remaining investment in Atrium to all shareholders on January 2, 2007.

Fees	Financial Year Ended December 31, 2006	Financial Year Ended December 31, 2005
Audit Fees(1)	252,084	576,757
Audit-Related Fees(2)	149,873	10,220
Tax Fees(3)	29,084	181,029
All Other Fees(4)	56,753	193,554(5)
Total Fees:	**487,794**	**961,560**

(1) Refers to the aggregate fees billed by the Corporation's external auditor for audit services.

(2) Refers to the aggregate fees billed for assurance and related services by the Corporation's external auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under (1) above, including professional services rendered by the Corporation's external auditor for accounting consultations on proposed transactions, and consultations related to accounting and reporting standards.

(3) Refers to the aggregate fees billed for professional services rendered by the Corporation's external auditor for tax compliance, tax advice and tax planning.

(4) Refers to the aggregate fees billed for products and services provided by the Corporation's external auditor, other than the services reported under (1), (2) and (3) above.

(5) These fees were primarily incurred in connection with the preparation of a prospectus filed by the Corporation's subsidiary, Atrium, as part of its initial public offering in April 2005.

11. AMENDMENTS TO THE STOCK OPTION PLAN

At the Meeting, shareholders will be asked to consider and, if deemed advisable, to adopt Resolution 2007-1, a copy of which is reproduced at Schedule A to this Circular, ratifying and approving certain amendments to the Stock Option Plan, which the Corporation's directors unanimously approved on March 2, 2007, subject to obtaining shareholder and regulatory approval.

In 1995, shareholder and regulatory approval was obtained to implement the Stock Option Plan, with subsequent amendments approved by shareholders and the TSX in 1997, 1999, 2000, 2001, 2002, 2003 and 2004, in each case in order to increase the maximum number of Common Shares issuable under the Stock Option Plan. The purpose of the Stock Option Plan is to provide compensation incentives to selected employees that encourage alignment with shareholders and enhance the Corporation's ability to attract, retain and motivate qualified personnel. Management is of the view that the Stock Option Plan contributes to the overall success of the Corporation.

On March 2, 2007, the Board of Directors approved, subject to receiving the approvals of the TSX and the shareholders of the Corporation: (i) changing the maximum number of Common Shares issuable under the Stock Option Plan from a fixed number to a fixed percentage of the issued and outstanding Common Shares of the Corporation; (ii) amending the Stock Option Plan's amending provision following changes made by the TSX regarding the requirements that apply to security-based compensation arrangements; and (iii) extending by seven (7) business days the exercise period for options that would otherwise expire during a trading prohibition period, as determined pursuant to the Corporation's information policy. In making the decision to amend the Stock Option Plan, the Corporate Governance, Nominating and Human Resources Committee and the Board of Directors considered a number of factors, including the number of options currently outstanding under the Plan, the Corporation's human resources requirements, competitive benchmarks and the anticipated need to grant options in the future. Based on a review of each of these factors, the directors have unanimously determined that the proposed changes are both reasonable and in the best interests of the Corporation.

Maximum Number of Common Shares Issuable

The Corporation proposes to change the maximum number of Common Shares issuable under the Stock Option Plan from a fixed number (currently 4,543,744 Common Shares) to a maximum of 10% of the total number of Common Shares issued and outstanding at any given time (the "New Maximum"). The proposed New Maximum will permit the Corporation to have, on an ongoing basis, a maximum of 10% of the issued and outstanding Common Shares available for issuance pursuant to the exercise of options under the Stock Option Plan. For greater certainty, in the event that options are exercised, cancelled or expire in accordance with their terms, an equivalent number of such options will be available to be granted (or "reloaded") under the Stock Option Plan. With the establishment of the New Maximum and based on the number of issued and outstanding Common Shares as of the date of this Circular, an additional 1,064,670 Common Shares will be listed and reserved for issuance under the Stock Option Plan. As at March 9, 2007, there were 3,880,092 options outstanding and unexercised and 373,185 options available for granting. Taking into account the additional Common Shares to be listed pursuant to the establishment of the New Maximum, there will be 1,437,855 Common Shares available for issuance pursuant to the exercise of options that have yet to be granted.

In a Staff Notice issued by the TSX in July 2006, the TSX required listed issuers that adopt stock option plans that do not have a fixed maximum number of securities issuable (which will be the case for the Corporation if the proposed amendments to the Stock Option Plan are approved by shareholders) to obtain shareholder approval for unallocated options under such plans three years after their institution and every three years thereafter. As a result, shareholders of the Corporation will be asked, not later than three years after the adoption of Resolution 2007-1 (assuming such resolution is adopted at the Meeting), to approve any unallocated options under the Stock Option Plan at such time.

Amendment Provision

The Stock Option Plan currently has a general amendment provision allowing the Board of Directors to suspend, terminate or to make amendments to the Stock Option Plan, subject to TSX and regulatory approval. In the past, such approval has been granted at the discretion of the TSX and the TSX determined as to whether the proposed amendment was or was not sufficiently material to require shareholder approval.

Recently, however, the TSX announced that by June 30, 2007, each listed issuer must formulate a detailed amendment provision in its stock option plan, failing which all future amendments (no matter how immaterial) would require shareholder approval. The purpose is to more clearly distinguish in the Stock Option Plan between the type of amendments that will require shareholder approval and those which can be made by the Board of Directors without shareholder approval. All amendments would continue to be subject to any required regulatory review or approval. The Corporation proposes to amend its Stock Option Plan amendment provision in accordance with this recent TSX rule change.

The Corporation proposes to add an amendment provision to the Stock Option Plan which sets out those circumstances where the Board of Directors may not, without the approval of the holders of the Common Shares, make amendments to the Stock Option Plan. Shareholder approval will be required for the following types of amendments to the Stock Option Plan: (i) any amendment to the provision prohibiting the grant of options beyond the 10% Insider Limit unless shareholder approval on a disinterested vote is obtained; ii) any amendment to the number of securities issuable under the Stock Option Plan; iii) any amendment which would permit any option granted under the Stock Option Plan to be transferable or assignable other than, by will or in accordance with the applicable laws of estates and succession; iv) the addition of a cashless exercise feature, payable in cash or securities, which does not provide for a full deduction of the number of underlying securities from the Stock Option Plan reserve; v) the addition of a deferred or restricted share unit or any other provision which results in employees receiving securities while no cash consideration is received by the Corporation; vi) with respect to an optionee who is an "insider" of the Corporation, any reduction in the exercise price of any option after the option has been granted or any cancellation of an option and the regrant of that option under different terms, except if such regrant occurs at least three (3) months after the related cancellation; vii) any extension to the term of an option beyond the original expiry date to an "insider" of the Corporation (subject to the proposed amendment discussed below under "Expiry Dates during Blackout Periods"); viii) any amendment to the method of determining the exercise price of an option granted pursuant to the Stock Option Plan; ix) the addition of any form of financial assistance or any amendment to a financial assistance provision which is more favourable to employees, and x) any amendment to the amendment provision of the Stock Option Plan.

Notwithstanding the foregoing proposed amendment, shareholder approval will not be required for any adjustments made to the number of issuable shares or the exercise price of outstanding options in accordance with the section of the Stock Option Plan which provides for appropriate adjustments in respect of certain events. Such events include subdivision or consolidation of shares, payment of dividends in stock (other than dividends in the ordinary course), payment of a special cash or non-cash dividend made on a *prorata* basis and approved by the Corporation's shareholder as required under applicable law, reclassification or conversion of shares, recapitalization, reorganization or other events which necessitate adjustments to the outstanding options in proportion with adjustments to all Common Shares.

The Board of Directors may, subject to the receipt of the required regulatory approvals, and at its sole discretion, make all other amendments to the Stock Option Plan that are not described above. Without limiting the generality of the foregoing, the Board of Directors will be able to, *inter alia*: i) make any

amendment of a “housekeeping” or clerical nature or to clarify the Stock Option Plan’s provisions; ii) make any amendment regarding any vesting period; iii) make any amendment to the provisions regarding the termination of an option as long as it does not entail an extension beyond the original expiry date with respect to any optionee who is an “insider” of the Corporation; iv) discontinue or terminate the Stock Option Plan; and v) with respect to any optionee who is a “non-insider” of the Corporation, make any amendments to the terms of an option to reduce the exercise price of such option after the option has been granted, or to cancel an option and regrant it under different terms.

Expiry Dates during Blackout Periods

A recent Staff Notice issued by the TSX recognizes that blackout periods imposed by issuers are an example of good corporate governance and that TSX limitations on extensions of option terms were not intended to penalize listed issuers, their insiders and employees who, under their companies’ trading policies and good corporate governance practices, are prohibited from exercising options during blackout periods. As a result, the TSX has provided that issuers may amend their stock option plans to provide a conditional extension to an expiration date that occurs during or immediately after a blackout period. Such extension would be permitted for a limited number of days after the end of the blackout period.

The Stock Option Plan currently provides that the expiry date of an option, which is set at the time of grant, shall not be later than the tenth anniversary of the date of the option grant. The Corporation proposes an amendment to provide that, if the expiry date occurs during a blackout period or within the seven (7) business days immediately after a blackout period imposed by the Corporation, the expiry date will be automatically extended to the date which is seven (7) business days after the last day of the blackout period. For the purposes of the foregoing, “blackout period” means the period during which trading in the Corporation securities is restricted in accordance with the policies of the Corporation and its affiliates.

Examples of such a blackout period would include the following: (i) where the option holder is subject to trading restrictions imposed by the Corporation under its trading “windows” policy, the period in which trading is restricted or is outside a permitted trading window, or such period of time where the option holder is in possession of undisclosed material information (as defined under applicable securities law) during a trading window; and (ii) such other restrictions on trading in securities of the Corporation as may be imposed by the Corporation from time to time.

This amendment will align the proper administration of the Stock Option Plan with the Corporation’s current trading policies and governance practices.

Shareholder Approval

These amendments to the Stock Option Plan were approved by the Board of Directors on March 2, 2007, subject to shareholder and regulatory approvals. The TSX has reviewed and approved these proposed additions to the Stock Option Plan. To be effective, the amendments to the Stock Option Plan must be approved by a resolution passed by a majority of the votes cast by shareholders at the Meeting.

Recommendation of the Board and Management

The Board and Æterna Zentaris’ management unanimously recommend that shareholders vote in favour of the amendments to the Stock Option Plan described above.

12. RECONFIRMATION OF THE SHAREHOLDER RIGHTS PLAN

At the Meeting, shareholders will be asked to consider, and if deemed advisable, to adopt Resolution 2007-2 approving, ratifying and confirming an Amended and Restated Shareholder Rights Plan Agreement adopted by the Board of Directors on March 2, 2007. On May 26, 2004, the shareholders of the Corporation confirmed the Shareholder Rights Plan Agreement adopted by the Board of Directors on March 29, 2004 (the “Original Rights Plan” and the Original Rights Plan as amended by the Amended and Restated Shareholder Rights Plan being hereinafter referred to as the “Rights Plan”). The Rights Plan has been effective since March 29, 2004 and will expire on the earlier of March 29, 2010 (subject to the reconfirmation by the shareholders at the Meeting) and the time at which the right to exercise rights shall terminate pursuant to the provisions of the Rights Plan pertaining to the redemption of rights and the waiver of the application of the Rights Plan, after which time it will automatically terminate.

The Rights Plan (including the amendments thereto and the restatement thereof) were not adopted by the Board of Directors in response to, or in anticipation of, any offer or take-over bid. The TSX has approved the Rights Plan (including the amendments thereto and the restatement thereof) subject to shareholder approval being obtained at the Meeting.

Resolution 2007-2, a copy of which is reproduced at Schedule A to this Circular, requires the approval of a majority of the votes cast in respect thereof by Independent Shareholders (as defined in the Rights Plan). “Independent Shareholders” is generally defined to mean all holders of Common Shares of the Corporation other than any Acquiring Person or Offeror (each as defined in the Rights Plan), their respective affiliates, associates, and persons acting jointly or in concert with such Acquiring Person or Offeror, as well as certain employee benefit plans. To the knowledge of management, as of the date hereof, all of the Corporation’s shareholders qualify as Independent Shareholders. If the resolution is not approved by shareholders at the Meeting, the Rights Plan and the Rights issued thereunder will terminate at the close of the Meeting.

Recommendation of the Board and Management

Æterna Zentaris’ Board of Directors and management unanimously recommend that shareholders vote in favour of the amendment to and restatement of the Rights Plan.

Objectives and Background of the Rights Plan

The fundamental objectives of the Rights Plan are to provide adequate time for the Corporation's Board of Directors and shareholders to assess an unsolicited take-over bid for the Corporation, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made, and to provide shareholders with an equal opportunity to participate in a take-over bid.

The Rights Plan encourages a potential acquiror who makes a take-over bid to proceed either by way of a "Permitted Bid", which requires a take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Corporation's Board of Directors. If a take-over bid fails to meet these minimum standards and the Rights Plan is not waived by the Board of Directors, the Rights Plan provides that holders of Common Shares, other than the acquiror, will be able to purchase additional Common Shares at a significant discount to market, thus exposing the person acquiring Common Shares to substantial dilution of its holdings.

Summary of the Rights Plan

The following is a summary of the principal terms of the Rights Plan, which summary is qualified in its entirety by reference to the terms thereof. The Rights Plan is available on SEDAR at www.sedar.com under the Corporation's SEDAR profile.

Operation of the Rights Plan

Pursuant to the terms of the Rights Plan, one right was issued in respect of each Common Share outstanding as at the close of business on March 29, 2004 (the "Record Time"). In addition, one right will be issued for each additional Common Share issued after the Record Time and prior to the earlier of the Expiration Time and the Separation Time (as defined below). The rights have an initial exercise price equal to the Market Price (as defined below) of the Common Shares as determined at the Separation Time, multiplied by five, subject to certain adjustments, and they are not exercisable until the Separation Time. Upon the occurrence of a Flip-in Event (as defined below), each right will entitle the holder thereof, other than an Acquiring Person (as defined below), to purchase from the Corporation one Common Share upon payment to the Corporation of 50% of the Market Price of the Common Shares on the TSX on the date of consummation or occurrence of such Flip-in Event, subject to certain anti-dilution adjustments.

Trading of Rights

Until the Separation Time, the rights trade with the Common Shares and are represented by the same share certificates as the Common Shares or an entry in the Corporation's securities register in respect of any outstanding Common Shares. From and after the Separation Time and prior to the Expiration Time, the rights are evidenced by rights certificates and trade separately from the Common Shares. The rights do not carry any of the rights attaching to the Common Shares such as voting or dividend rights.

Separation Time

The rights will separate from the Common Shares to which they are attached and become exercisable at the time (the "Separation Time") of the close of business on the eighth business day after the earliest to occur of:

1. the first date (the "Stock Acquisition Date") of a public announcement of facts indicating that a person has become an Acquiring Person (as defined below);

2. the date of the commencement of, or first public announcement of the intention of any person (other than the Corporation or any of its subsidiaries) to commence a take-over bid or a share exchange bid for more than 20% of the outstanding Common Shares of the Corporation other than a Permitted Bid or a Competing Permitted Bid (as defined below); and

3. the date upon which a Permitted Bid or a Competing Permitted Bid ceases to be a Permitted Bid or a Competing Permitted Bid, as the case may be.

The Separation Time can also be such later time as may from time to time be determined by the Board of Directors.

Flip-in Event

The acquisition by a person (an "Acquiring Person"), including others acting jointly or in concert with such person, of more than 20% of the outstanding Common Shares, other than by way of a Permitted Bid, a Competing Permitted Bid or in certain other limited circumstances described in the Rights Plan, is referred to as a "Flip-in Event".

Definition of Market Price

Market Price is generally defined in the Rights Plan, on any given day on which a determination must be made, as the average of the daily closing prices per Common Share on each of the 20 consecutive Trading Days (as defined below) through and including the Trading Day immediately preceding such date of determination; subject to certain exceptions. Trading Day is generally defined as the day on which the principal Canadian or United States securities exchange (as determined by the Board of Directors acting in good faith) on which the Common Shares are listed or admitted to trading is open for the transaction of business.

Exercise of Rights

Upon the Separation Time or the effective date of the Flip-in Event, whichever occurs first, each right (other than those held by the Acquiring Person) will entitle the holder thereof to purchase from the Corporation one Common Share upon payment to the Corporation of 50% of the Market Price of the Common Shares of the Corporation on the Stock Acquisition Date subject to certain anti-dilution adjustments.

Permitted Bid Requirements

The requirements of a Permitted Bid include the following:

1. the take-over bid must be made by means of a take-over bid circular;

2. the take-over bid must be made to all holders of Common Shares wherever resident, on identical terms and conditions, other than the bidder;

3. the take-over bid must not permit Common Shares tendered pursuant to the bid to be taken up or paid for (a) prior to the close of business on a date which is not less than 60 days following the date of the bid, and (b) then only if at such date more than 50% of the then outstanding Common Shares held by shareholders other than any other Acquiring Person, the bidder, the bidder's affiliates or associates, persons acting jointly or in concert with the bidder and any employee benefit plan, deferred profit-sharing plan, stock participation plan or trust for the benefit of employees of the Corporation or any of its subsidiaries, unless the beneficiaries of such plan or trust direct the manner in which the Common Shares are to be voted or direct whether the Common Shares are to be tendered to a take-over bid (the "Independent Shareholders"), have been deposited or tendered to the take-over bid and not withdrawn;

4. the take-over bid must allow Common Shares to be deposited, unless the take-over bid is withdrawn, at any time up to the close of business on the date that the Common Shares are to be first taken up and paid for;

5. the take-over bid must allow Common Shares to be withdrawn until taken up and paid for; and

6. if more than 50% of the then outstanding Common Shares held by Independent Shareholders are deposited or tendered to the take-over bid and not withdrawn, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits and tenders of Common Shares for not less than 10 days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid other than the requirements set out in clauses 3 and 6 above and must not permit Common Shares tendered or deposited pursuant to the bid to be taken up or paid for (a) prior to the close of business on a date which is not earlier than the latter of the last day on which the bid must be open for acceptance after the date of the bid under applicable Canadian provincial securities legislation and the earliest date on which Common Shares of the Corporation may be taken up and paid for under any earlier Permitted Bid or Competing Permitted Bid that is then in existence, and (b) then only if at such date more than 50% of the then outstanding Common Shares held by the Independent Shareholders have been deposited or tendered to the take-over bid and not withdrawn. In the event that the requirement set forth in (b) of this paragraph is satisfied, the competing bidder must make a public announcement of the fact and the take-over bid must remain open for deposits and tenders of Common Shares for not less than 10 days from the date of such public announcement.

Waiver and Redemption

The Board may, prior to the occurrence of a Flip-in Event, waive the dilutive effects of the Rights Plan in respect of, among other things, a particular Flip-in Event resulting from a take-over bid made by way of a take-over bid circular to all holders of Common Shares of the Corporation. In such an event, such waiver shall also be deemed to be a waiver in respect of any other Flip-in Event occurring under a take-over bid made by way of a take-over bid circular to all holders of Common Shares prior to the expiry of the first mentioned take-over bid.

The Board may, at any time prior to the Separation Time, elect to redeem all but not less than all of the outstanding rights at a price of $0.00001 each.

Amendment to the Rights Plan

The Rights Plan may be amended to correct any clerical or typographical error or to make such changes as are required to maintain the validity of the Rights Plan as a result of any change in any applicable legislation, regulations or rules thereunder, without the approval of the holders of the Common Shares or rights. Prior to the Separation Time, the Corporation may, with the prior consent of the holders of Common Shares, amend, vary or delete any of the provisions of the Rights Plan in order to effect any changes which the Board, acting in good faith, considers necessary or desirable. The Corporation may, with the prior consent of the holders of rights, at any time after the Separation Time and before the Expiration Time, amend, vary or delete any of the provisions of the Rights Plan.

The Rights Plan, including the amendments thereto and the restatement thereof, being submitted for approval, ratification and confirmation by the shareholders was approved by the Board of Directors on March 2, 2007 and was signed on March 5, 2007. The purpose of the amendments is to make improvements and clarifications to the wording of the Original Rights Plan, primarily so that the Rights Plan is in line with similar plans recently approved by shareholders of other publicly traded Canadians corporations. In addition, the price at which the Board of Directors may elect to redeem all but not less than all of the outstanding rights at any time prior to the Separation Time has been changed from $0.0001 to $0.00001 per right. Certain other minor amendments have been made to the Original Rights Plan to, among other things, reflect the fact such plan has been amended by the amended and restated Rights Plan. However, none of the foregoing amendments alters the substance of the Rights Plan. These amendments will become effective only at the time of reconfirmation and approval of the Rights Plan by the shareholders of the Corporation at the Meeting and are indicated in the blacklined version of the Rights Plan which is available from the Corporate Secretary of the Corporation upon request.

Fiduciary Duty of Board

The Rights Plan will not detract from or lessen the duty of the Board of Directors to act honestly and in good faith with a view to the best interests of the Corporation and its shareholders. The Board of Directors will continue to have the duty and power to take such actions and make such recommendations to the Corporation's shareholders as are considered appropriate.

Exemptions for Investment Advisors

Fund managers, investment advisors (for fully-managed accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds, and administrators of registered pension plans are exempt from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

Certain Canadian Federal Income Tax Considerations of the Rights Plan

The Corporation will not be required to include any amount in computing its income for the purposes of the Income Tax Act (Canada) (the "ITA") as a result of the issuance of the rights.

Under the ITA, the issuance of rights to a recipient could be considered a taxable benefit, the value of which is required to be included in computing the income of a Canadian resident recipient or is subject to withholding tax in the case of a recipient who is not resident in Canada. In any event, no amount in respect of the value of the rights is required to be included in computing income, or subject to withholding tax, if the rights do not have any value at the date of issue. The Corporation considers that the rights will have negligible value when issued, there being only a remote possibility that the rights will ever be exercised. A holder of rights could be required to include an amount in computing income or be subject to withholding tax under the ITA if the rights become exercisable or are exercised. A holder of rights may be subject to tax under the ITA in respect of the proceeds of disposition of such rights.

This statement is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular holder of Common Shares. Such shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their rights, taking into account their own particular circumstances and any applicable federal, provincial, territorial or foreign legislation.

Eligibility for Investment

Provided that the Corporation remains a "public corporation" for purposes of the ITA at all material times, the rights will be qualified investments under the ITA for registered retirement savings plans, registered education savings plans, registered retirement income funds and deferred profit-sharing plans. The issuance of rights will not affect the status of the Common Shares of the Corporation under the ITA for such purposes, nor will it affect the eligibility of such securities as investments for investors governed by certain Canadian federal and provincial legislation governing insurance companies, trust companies and pension plans.

13. INDEBTEDNESS OF DIRECTORS AND OFFICERS

Neither at any time during the financial year ended December 31, 2006 nor as at March 9, 2007 were any of the directors or officers indebted to the Corporation in respect of the purchase of securities of the Corporation or otherwise. On March 29, 2004, the Board of Directors of the Corporation adopted a resolution formally prohibiting (i) the making of any new loans to its directors and officers, and (ii) modifying the material terms of any such existing loans.

14. INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

The Corporation is not aware, other than as set out below, that any of its "informed persons" has had an interest in any material transaction carried out since the beginning of the Corporation's last completed financial year or in any proposed transaction which has materially affected or is likely to materially affect the Corporation or any of its subsidiaries. Applicable securities legislation defines an "informed person" as meaning any one of the following: (a) a director or executive officer of a reporting issuer; (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of a reporting issuer; (c) any person or company who beneficially owns, directly or indirectly, voting securities of a reporting issuer or who exercises control or direction over voting securities of a reporting issuer or a combination of both carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the reporting issuer other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) a reporting issuer that has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

In February 2006, Solidarity Fund (QFL) and SGF Santé Inc., each of whom holds more than 10% of the outstanding Common Shares of the Corporation, exercised its right to convert its portion of a convertible loan under a loan agreement originally entered into among the Corporation, Solidarity Fund (QFL) and SGF Santé Inc. in 2003, pursuant to which each of the foregoing shareholders loaned the Corporation a principal amount of $12,500,000. Upon conversion by Solidarity Fund (QFL) and SGF Santé Inc. of both all principal and interest due under the convertible loan agreement, the Corporation issued to each of them 3,477,544 Common Shares in accordance with the provisions of the agreement. Following the conversion and share issuance described above, there remains no amount of indebtedness outstanding under the loan agreement.

15. INSURANCE OF DIRECTORS AND OFFICERS

The Corporation purchases liability insurance for the benefit of its directors and officers, which protects them against certain liabilities incurred by them while acting in such capacity. In 2006, this insurance provided a maximum coverage of $25,000,000 per event and policy year. For the financial year ended December 31, 2006, the premium paid by the Corporation was $718,800. When the Corporation is authorized or required to indemnify insured persons,

a deductible of $250,000 applies, except for securities-based claims, for which the deductible is $500,000. It is anticipated that the amount of premium to be paid in respect of such insurance for the 2007 fiscal year will be approximately $565,000.

16. SHAREHOLDER PROPOSALS FOR NEXT ANNUAL MEETING OF SHAREHOLDERS

Shareholder proposals must be submitted no later than December 7, 2007 in order that the Corporation may include them in its management information circular that will be prepared and mailed in connection with the Corporation's annual meeting of shareholders in 2008.

17. ADDITIONAL INFORMATION

The Corporation will provide the following documents to any person or company upon request to the Corporate Secretary of the Corporation, at its head office at 1405 du Parc-Technologique Boulevard, Quebec City, Quebec, G1P 4P5:

(i) one copy of the audited annual financial statements of the Corporation for its most recently completed financial year together with the report of the auditors thereon, both contained in the Corporation's 2006 Annual Report, and one copy of any interim financial statements of the Corporation published subsequent to the financial statements for its most recent financial year; and

(ii) one copy of this Circular.

In addition, the Corporation's Annual Information Form will be available from the date of its filing with the securities commissions or similar securities regulatory authorities in Canada as well as any other document incorporated by reference in such Annual Information Form. The Corporation may require the payment of reasonable expenses if a request is received from a person who is not a holder of securities of the Corporation, unless the Corporation makes a distribution of its securities pursuant to a short-form prospectus, in which case such documents will be provided free of charge. Copies of the Corporation's public disclosure documents, including financial statements, information circulars and annual information forms, are also available at the following Web sites: www.aeternazentaris.com, www.sedar.com, and www.sec.gov. Financial information related to the Corporation is provided in its audited consolidated financial statements and Management's Discussion and Analysis thereon for the financial year ended December 31, 2006.

18. MAIL SERVICE INTERRUPTION

If there is a mail interruption prior to a shareholder mailing a completed proxy to Computershare, it is recommended that the shareholder deposit the completed proxy, in the envelope provided, at any of the following offices of Computershare:

Alberta
4820-52 Street S.E.
Calgary, Alberta
T2B 3R2

Nova Scotia
1969 Upper Water Street
Suite 2008, Purdy's Wharf, Tower II Halifax,
Nova Scotia
B3J 3R7

Quebec
7th Floor
1500 University Street
Montréal, Quebec
H3A 3S8

Ontario
11th Floor
100 University Avenue
Toronto, Ontario
M5J 2Y1

British Columbia
2nd Floor
510 Burrard Street
Vancouver, British Columbia
V6C 3B9

Manitoba
830, 201 Portage Avenue
Winnipeg, Manitoba
R3B 3K6

19. DIRECTORS' APPROVAL

The contents and the sending of this Circular were approved by the Board of Directors of the Corporation.

Dated at Quebec City, Quebec, March 9, 2007.

Mario Paradis, CA
Corporate Secretary

SCHEDULE A

RESOLUTION 2007-1

Resolved as Resolution 2007-1:

THAT the amendments to the Corporation's Stock Option Plan approved by the Board of Directors on March 2, 2007 (i) to change the maximum number of Common Shares issuable under the Stock Option Plan from a fixed number to a fixed percentage of the issued and outstanding Common Shares of the Corporation, (ii) to amend the Stock Option Plan's amending provision to describe amendments that will require shareholder approval, and (iii) to provide for

the limited extension of the expiry dates of options where such expiry date occurs within a blackout period or within the seven (7) business days immediately following a blackout period imposed by the Corporation, all as described in the Management Information Circular of the Corporation dated March 9, 2007, be and they are hereby approved; and

THAT any officer or director of the Corporation be, and each is hereby, authorized and directed to sign and deliver, for and on behalf of the Corporation, all such documents and do all such acts and things as may be considered necessary or desirable to give effect to this Resolution 2007-1.

RESOLUTION 2007-2

Resolved as Resolution 2007-2:

THAT the continuation of the Corporation's Shareholder Rights Plan and its amendment and restatement as provided for in the Amended and Restated Rights Plan Agreement dated as of March 5, 2007 be, and it is hereby, approved, ratified and confirmed; and

THAT any officer or director of the Corporation be, and each is hereby, authorized and directed to sign and deliver, for and on behalf of the Corporation, all such documents and do all such acts and things as may be considered necessary or desirable to give effect to this Resolution 2007-2.

SCHEDULE B

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

NEW DISCLOSURE RULES AND POLICIES (FORM 58-101F1)

1. BOARD OF DIRECTORS

A. Disclose the identity of directors who are independent.

Mr. Aubut, Ms. Byorum, Mr. Dorais, Mr. Ernst, Mr. Laurin, Mr. Limoges, Mr. MacDonald and Mr. Martin are independent.

B. Disclose the identity of directors who are not independent and describe the basis for that determination.

Dr. Dupont is Executive Chairman of the Board, Mr. Gagnon is the President and Chief Executive Officer of the Corporation and Prof. Dr. Engel is the Chief Operating Officer of the Corporation.

C. Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the Board of Directors (the "Board") does to facilitate its exercise of independent judgement in carrying out its responsibilities.

The Board is currently composed of a majority of independent directors, being eight (8) out of eleven (11) directors.

D. If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.

Name of director	Name of reporting issuer
Aubut, Marcel	Boralex Power Income Fund
Byorum, Stormy	Northwest Natural Gas
Laurin, Pierre	Atrium Biotechnologies Inc. Quebecor Inc.
Limoges, Gérard	Alexis Nihon Real Estate investment Trust Atrium Biotechnologies Inc. Engenuity Technologies Inc. Hart Stores Inc. Hartco Income Trust Noranda Income Fund
MacDonald, Pierre	AIM Trimark Canada Fund Inc. AIM Trimark Global Fund Inc.

E. Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If yes, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If not, describe what the Board does to facilitate open and candid discussion amongst its independent directors.

From time to time, the Chairman of the Board ensures that directors hold meetings at which senior management is not present.

F. Disclose whether or not the Chair of the Board is an independent director. If the Board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his role and responsibilities. If not,

describe what the Board does to provide leadership for its independent directors.

Dr. Éric Dupont, Executive Chairman of the Board, is not an independent director. However, the Board is of the view that all independent directors carry out their duties and leadership at all meetings. Moreover, Mr. Jürgen Ernst, an independent director, was appointed Vice Chairman of the Board in November 2005.

G. Disclose the attendance record of each director for all Board meetings held since the beginning of the most recently completed financial year.

Board members	Board meetings	Committee meetings
Aubut, Marcel	8/8	N/A
Byorum, Stormy	7/8	3/4
Dorais, José P.	6/6	N/A
Dupont, Éric	8/8	6/6
Engel, Jürgen	8/8	N/A
Ernst, Jürgen	8/8	6/6
Gagnon, Gilles	8/8	N/A
Laurin, Pierre	8/8	5/6
Limoges, Gérard	8/8	4/4
MacDonald, Pierre	8/8	10/10
Martin, Gerald J.	7/8	N/A

2. BOARD MANDATE

Disclose the text of the Board's written mandate. If the Board does not have a written mandate, describe how the Board delineates its role and responsibilities.

The Board of Directors adopted and approved a written mandate on February 28, 2006, a copy of which is attached as Schedule C to this Circular.

3. POSITION DESCRIPTIONS

A. Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee. If not, briefly describe how the Board delineates the role and responsibilities of each such position.

The Board has adopted and approved a written description for the chair and the chair of each Board committee. The mandate of the Chairman of the Board states that he/she is responsible for the administration, development and efficient operation of the Board. He/she shall make sure that

the Board adequately discharges its mandate and that the Board's responsibilities and boundaries with management are well understood by the directors. The mandates of each committee chair provide that each chair's responsibility is to efficiently manage his or her respective committee. The Committee chair must ensure that the committee adequately discharges its mandate. Committee chairs must report regularly to the Board on the business of their committee.

B. Disclose whether or not the Board and CEO have developed a written position description for the CEO. If not, briefly describe how the Board delineates the role and responsibilities of the CEO.

The Board and the CEO have developed a written position description for the CEO. The Board expects the CEO and the Corporation's senior management team to be responsible for the management of the Corporation's strategic and operational agenda and for the execution of the decisions of the Board.

4. ORIENTATION AND CONTINUING EDUCATION

A. Briefly describe what measures the Board takes to orient new directors regarding:

(i) the role of the Board, its committees and its directors, and

(ii) the nature and operation of the issuer's business.

The Board ensures that every new director possesses the capacities, expertise, availability and knowledge required to fill this position. In addition, the Chairman of the Board and the CEO meet new directors in order to give them information on the Corporation's operations. Each new director receives an information book that includes the mandate of the Board and all corporate documents related to operations, product pipeline and financial condition.

B. Briefly describe what measures, if any, the Board takes to provide continuing education for its directors. If the Board does not provide continuing education, describe how the Board ensures that its directors maintain the skill and knowledge to meet their obligations as directors.

Continuous information is provided to all directors in respect of their role and responsibilities. Moreover, all revised corporate documents are systematically sent to directors (product pipeline, fact sheet, corporate presentation, etc.). At every meeting of the Board of Directors, directors have an opportunity to hear presentations by executive officers on various topics regarding the Corporation's operations. In addition, one meeting per year is organized in Frankfurt, Germany in order to give Board members an opportunity to visit the Corporation's German facilities.

5. ETHICAL BUSINESS CONDUCT

A. Disclose whether or not the Board has adopted a written code for the directors, officers, and employees. If the Board has adopted a written code:

(i) Disclose how a person or company may obtain a copy of the code.

The Corporation has adopted and updated at various points a Code of Ethical Conduct (the "Code"). The Code is attached as Schedule F to this Circular and is also accessible on the Corporation's Web site at www.aeternazentaris.com.

(ii) Describe how the Board monitors compliance with its code or, if the Board does not monitor compliance, explain whether and how the Board satisfies itself regarding compliance with its code; and

A copy of the Code was sent to each director, officer and employee when it was adopted. In addition, each new employee also receives a copy of the Code when hired. The Corporation has selected an independent third-party supplier to provide a confidential and anonymous communication channel for reporting concerns about possible violations of the Code as well as financial and/or accounting irregularities or fraud.

(iii) Provide a cross-reference to any material change report filed since the beginning of the most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.

No material change report has been filed by the Corporation regarding departures from the Code.

B. Describe any steps the Board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.

There is no director or executive officer of the Corporation who has a material interest in any transaction to which the Corporation is a party, other than ordinary course employment agreements.

C. Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.

On the Web site of the Corporation, under the section "Investor Relations/Governance", the Corporation indicates its commitment to preserve its reputation for integrity and excellence, and conducting the businesses and activities of the Corporation honestly and ethically and in compliance with applicable laws, rules and regulations. A mechanism for confidential and anonymous disclosure has been put in place and is also available on the Web site of the Corporation.

6. NOMINATION OF DIRECTORS

A. Describe the process by which the Board identifies new candidates for Board nomination.

The selection of new candidates is made by the Corporate Governance, Nominating and Human Resources Committee. This committee establishes the criteria in respect of the complementarity and expertise that each candidate for election to the Board would bring to the Board. Next, the committee recommends to the Board new candidates for approval.

B. Disclose whether or not the Board has a nominating committee composed entirely of independent directors. If not, describe what steps the Board takes to encourage an objective nomination process.

The Corporate Governance, Nominating and Human Resources Committee is composed of a majority of unrelated directors. The Board is of the opinion that with three of four committee members being independent, the nomination process is objective.

C. If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

The Corporate Governance, Nominating and Human Resources Committee serves as the Corporation's nominating committee. The responsibilities, powers and operation of this committee are set forth in its mandate, which is attached as Schedule E to this Circular.

7. COMPENSATION

A. Describe the process by which the Board determines the compensation for the directors and officers.

The compensation of directors and officers is recommended by the Corporate Governance, Nominating and Human Resources Committee to the Board for approval. Compensation is reviewed annually by means of studies, with respect to a reference market and composed of comparable businesses.

B. Disclose whether or not the Board has a compensation committee composed entirely of independent directors. If not, describe what steps the Board takes to ensure an objective process for determining such compensation.

The Corporate Governance, Nominating and Human Resources Committee serves as the Board's compensation committee. The Corporate Governance, Nominating and Human Resources Committee is composed of a majority of unrelated directors. The Board is of the opinion that with three of four committee members being independent, the compensation process review is objective.

C. If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.

The Corporate Governance, Nominating and Human Resources Committee serves as the Board's compensation committee. The responsibilities, powers and operation of the Corporate Governance, Nominating and Human Resources Committee are described in the mandate, which is attached as Schedule E to this Circular.

D. If a compensation consultant or advisor has, at any time since the beginning of the most recently completed financial year, been retained to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained.

The Corporate Governance, Nominating and Human Resources Committee has not retained any consultant or advisor during the most recently completed financial year.

8. OTHER BOARD COMMITTEES

If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The Audit Committee and the Corporate Governance, Nominating and Human Resources Committee are the sole standing committees of the Board.

9. ASSESSMENTS

Disclose whether or not the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If not, describe how the Board satisfies itself that the Board, its committees and its individual directors are performing effectively.

The Corporate Governance, Nominating and Human Resources Committee is responsible for assessing the Board as a whole and each individual director. The Chairman of the Board, who is also a member of the Corporate Governance, Nominating and Human Resources Committee, meets with every Board member on an individual basis. Reports of the findings and recommendations, if any, are then presented to the Board of Directors and time is set aside at that meeting for a full and comprehensive discussion regarding Board and Committees effectiveness and any agreed upon improvements are implemented.

SCHEDULE C

MANDATE OF THE BOARD OF DIRECTORS

1. STEWARDSHIP RESPONSIBILITY

The Board of Directors (the "Board") of Æterna Zentaris Inc. (the "Corporation") assumes stewardship of the Corporation's overall administration and supervises the management of the Corporation's operations with the objective of increasing shareholder value.

Although management conducts the day-to-day operations of the Corporation, the Board has a duty of stewardship and regularly assesses and monitors management's performance.

In spite of the fact that directors may be elected by the shareholders to bring a special expertise or point of view to Board deliberations, they are not chosen to represent a particular constituency. All decisions of each Board member must be made in the best interests of the Corporation.

Directors are expected to attend all Board meetings and review all meeting materials in advance. They are expected to take an active part in Board decisions. From time to time, the Board may delegate certain tasks to its committees. However, such delegation does not relieve the Board of its overall responsibilities and, unless the mandate of a committee of the Board specifically confers upon such committee decision-making authority with respect to a particular matter, the Board retains ultimate decision-making authority with respect to all matters, as authorized to exercice pursuant to the law, relating to the administration and affairs of the Corporation.

2. COMPOSITION OF THE BOARD AND OPERATION

The Corporation's Articles provide that the Board shall be composed of a minimum of five (5) and a maximum of fifteen (15) directors. Directors are elected annually by the shareholders of the Corporation, but the directors may from time to time appoint one or more directors, provided that the total number of directors so appointed does not exceed one third (⅓) of the number of directors elected at the last annual meeting of shareholders. The mandate of each director terminates at the end of the annual shareholders' meeting following that at which he or she was elected.

The Board is to be constituted of a majority of individuals who qualify as independent directors. An independent director is one who is independent of management and has no material relationship with, or receives no financial benefit from, the Corporation, other than directors' fees and share ownership. As a general rule, the interests of an independent director should be aligned with those of shareholders.

The composition of the Board should provide a mix of skills, business expertise and experience in the Corporation's areas of activities.

The Board must nominate its Chairman from among the directors of the Corporation. In addition, if the Chairman is a director who also is a member of senior management of, or is otherwise related to, the Corporation, the Board could also nominate a lead director, if appropriate, from among the independent directors to take on appropriate duties. From time to time, following meetings of the Board, the directors shall hold meetings at which senior management is not present in order to ensure a free and open discussion between directors.

The quorum at any meeting of the Board is a majority of directors in office and meetings of the Board are held at least quarterly and as required. In addition, a special meeting of the Board is held, at least once a year, to review the Corporation's strategic plan.

The Chairman of the Board develops the agenda for each meeting of the Board in consultation with the Chief Executive Officer. The agenda and the appropriate materials are provided to directors of the Corporation on a timely basis prior to any meeting of the Board.

The Corporate Governance, Nominating and Human Resources Committee annually supervises the performance assessment of individual directors, the Board as a whole, the Board committees, and the Board and committee chairs.

3. RESPONSIBILITIES

The Board has the following responsibilities:

(a) Strategic Planning

(i) Approving the Corporation's long-term strategy, taking into account, among other things, business opportunities and risks of the business.

(ii) Approving and monitoring the implementation of the Corporation's annual business plan.

(iii) Advising management on strategic issues.

(b) Human Resources and Performance Assessment

(i) Choosing the Chief Executive Officer (the "CEO") and approving the appointment of other senior management executives.

(ii) Monitoring and assessing the performance of the CEO and other members of senior management and approving their compensation, taking into consideration Board expectations and fixed goals and objectives.

(iii) Monitoring management and Board succession planning process.

(iv) Monitoring the size and composition of the Board and its committees based on the competencies, skills, and personal qualities sought in Board members.

(v) Approving the list of Board nominees to be submitted for election by shareholders.

(c) Financial Matters and Internal Control

(i) Monitoring the integrity and quality of the Corporation's financial statements and the appropriateness of their disclosure.

(ii) Reviewing the general content and the Audit Committee's report on the financial aspects of the Corporation's Annual Information Form, Annual Report, Management Proxy Circular, Management's Discussion and Analysis, prospectuses and any other document required to be disclosed or filed by the Corporation before such documents are publicly disclosed or filed with the appropriate regulatory authorities.

(iii) Approving operating and capital budgets, the issuance of securities and, subject to the schedule of authority adopted by the Board, any transaction outside the ordinary course of business, including proposals on mergers, acquisitions or other major transactions, such as investments, divestitures, stock consolidations, reclassifications or recapitalizations.

(iv) Determining dividend policies and procedures.

(v) Taking all reasonable measures to ensure that appropriate systems are in place to identify business risks and opportunities and overseeing the implementation of processes to manage these risks and opportunities.

(vi) Monitoring the quality and integrity of the Corporation's accounting and financial reporting systems, disclosure controls and procedures, internal controls and management information systems, including by overseeing:

(a) the integrity and quality of the Corporation's financial statements and other financial information and the appropriateness and adequacy of their disclosure;

(b) the review of the Audit Committee on external auditors' independence and qualifications;

(c) the performance of the Corporation's internal audit function, if any, and of the Corporation's external auditors; and

(d) the Corporation's compliance with applicable legal and regulatory requirements (including those related to environment, safety and security).

(vii) Monitoring the Corporation's compliance with applicable legal and regulatory requirements.

(viii) Reviewing at least annually the Corporation's communications policy and monitoring the Corporation's communications with analysts, investors and the public.

(d) Corporate Governance Matters

(i) Taking all reasonable measures to satisfy itself as to the integrity of management and ensuring that management creates a culture of integrity throughout the Corporation.

(ii) Reviewing, on a regular basis, appropriate corporate governance structures and procedures, including the identification of decisions requiring approval of the Board and, where appropriate, measures for receiving stakeholder feedback, and the adequate public disclosure thereof.

(iii) Adopting and reviewing, on a regular basis, the Corporation's Code of Ethical Conduct applicable to the Corporation's directors, its CEO, its financial officers and its other officers and employees and monitoring compliance with such code.

(iv) Taking all reasonable measures to ensure the annual performance assessment of the Board, Board committees, Board and committee chairs and individual directors.

(v) Adopting orientation and continuing education programs for directors.

(e) Pension-Related Matters

(i) Monitoring the governance structure, funding, and investment policies for the Corporation's pension plan(s).

Adopted and approved by the Board of Directors on February 28, 2006.

SCHEDULE D

AUDIT COMMITTEE CHARTER

1. MISSION STATEMENT

The Audit Committee (the "Committee") will assist the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee will review the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and with the Code of Ethical Conduct. In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, and the external auditors. To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the company's business, operations, and risks.

The function of the Committee is oversight and while it has the responsibilities and powers set forth in this charter, it is neither the duty of the Committee to plan or to conduct audits or to determine that the company's financial statements are complete, accurate and in accordance with generally accepted accounting principles, nor to maintain internal controls and procedures.

2. POWERS

The Board authorizes the Audit Committee, within the scope of its responsibilities, to:

- Perform activities within the scope of its charter.
- Engage independent counsel and other advisers as it deems necessary to carry out its duties.

- Set and pay the compensation for any advisors it employs.
- Ensure the attendance of company officers at meetings as appropriate.
- Have unrestricted access to members of management, employees and relevant information.
- Communicate directly with the internal and external auditors.

3. COMPOSITION

- The Audit Committee shall be formed of three members, each of which shall be a director not holding a management function.
- Each member shall provide a useful contribution to the Committee.
- All members shall be independent of management.
- All members must be financially literate.

- The chairperson of the Audit Committee shall be appointed by the Board from time to time.
- The term of the mandate of each member shall be one year.
- The quorum requirement for any meeting shall be two members.
- The secretary of the Audit Committee shall be the secretary of the company or any other individual appointed by the Board.

4. MEETINGS

- If deemed necessary, the Audit Committee may invite other individuals (such as the Executive Vice President and COO or the Vice President and CFO).
- External auditors shall be invited, if needed, to make presentations to the Audit Committee.
- The Committee shall meet at least four times a year. Special meetings may be held if needed. If deemed necessary, external auditors may invite members to attend any meeting.
- The Audit Committee will meet with the external auditors at least once a year without management presence.
- The minutes of each meeting shall be recorded.

5. ROLE AND RESPONSIBILITIES

A. Financial Information

i) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

ii) Ask management and external auditors about significant risks and exposures and the plans to minimize such risks.

iii) Review the unaudited interim financial statements, the audited annual financial statements in addition to any documents which accompany such financial statements, such as the report of the external auditors, prior to filing or disclosure. Determine whether they are complete and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles and recommend their approval to the Board of Directors.

iv) Review and recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including Management's Discussion and Analysis of financial condition, all sections of the Annual Report and press releases concerning annual and interim financial results, and consider whether the information is adequate and consistent with members' knowledge about the company and its operations.

v) Review the compliance of the President and Chief Executive Officer and of the Chief Financial Officer certification on the company's controls and procedures disclosure of information and the attestation by management of the financial reports.

vi) Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures.

vii) Focus on judgmental areas such as those involving valuation of assets and liabilities including, for example, the accounting for and disclosure of: obsolete or slow-moving inventory; loan losses; warranty, product, and environmental liability; litigation reserves and other commitments and contingencies.

viii) Meet with management and the external auditors to review the financial statements and the results of the audit.

ix) Consider management's handling of proposed audit adjustments identified by the external auditors.

x) Ensure that the external auditors communicate certain required matters to the Committee.

xi) Be briefed on how management develops and summarizes quarterly financial information, the extent to which the external auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis.

xii) Meet with management and, if a pre-issuance review was completed, with the external auditors, either by telephone or in person, to review the interim financial statements and the results of the review.

xiii) To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:

- Actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
- Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices;
- Generally accepted accounting principles have been consistently applied;
- There are any actual or proposed changes in accounting or financial reporting practices;
- There are any significant or unusual events or transactions;
- The company's financial and operating controls are functioning effectively;
- The company has complied with the terms and conditions of loan agreements or security indentures; and
- The interim financial statements contain adequate and appropriate disclosures.

xiv) Ensure that the external auditors communicate certain required matters to the Committee.

B. External Audit

i) Review the professional qualification of the auditors (including background and experience of partner and auditing personnel).

ii) Consider the independence of the external auditor and any potential conflicts of interest.

iii) Review on an annual basis the performance of the external auditors and make recommendations to the Board for their compensation, their appointment, retention and termination of their appointment.

iv) Oversee the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.

v) Make sure to receive periodic reports from the external auditors.

vi) Review the external auditors' scope and plan of the annual audit, as well as the approach for the current year in light of the company's present circumstances and changes in regulatory and other requirements.

vii) Annually, or more frequently as may be required, consult with the external auditors, without the presence of management, as to internal controls, the fullness and accuracy of the financial statements, any significant difficulties encountered during the course of the audit or access to required information, the quality of financial personnel, the level of co-operation received from management any unresolved material differences of opinion or disputes.

viii) Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.

ix) Discuss with the external auditor the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.

x) Approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and, when required, the framework for pre-approval of such services.

xi) Ensure the company has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.

C. Internal Control

i) Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensuring that all individuals possess an understanding of their roles and responsibilities.

ii) Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.

iii) Satisfy itself as to the adequacy of company's review procedures regarding disclosure of other financial information.

iv) Gain an understanding of the current areas of financial risk and how these are being handled by the management.

v) Focus on the extent to which management reviews computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.

vi) Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

vii) Ensure that the external auditors keep the Audit Committee informed about fraud, illegal acts, deficiencies in internal control, and any other matter deemed appropriate.

viii) Establish procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (2) for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

D. Corporate governance

i) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.

ii) Periodically obtain updates from management, general counsel, and tax director regarding compliance.

iii) Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

iv) Review the findings of any examinations by regulatory agencies.

v) Ensure that a Code of Ethical Conduct is formalized in writing and that all employees are aware of it.

vi) Review periodically the content of the Code of Ethical Conduct and make sure employees are informed of amendments.

vii) Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the Code of Ethical Conduct and the guidelines for acceptable business practices.

viii) Review the program for monitoring compliance with the Code of Ethical Conduct.

ix) Periodically obtain updates from management and general counsel regarding compliance.

E. Other Responsibilities

i) Meet with the external auditors and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.

ii) Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.

iii) Review, with the company's counsel, any legal matters that could have a significant impact on the company's financial statements.

iv) Review the policies and procedures in effect for considering officers' expenses and perquisites.

v) If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.

vi) Perform other oversight functions as requested by the full Board.

vii) Regularly update the Board of Directors about Committee activities and make appropriate recommendations.

viii) Ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business.

ix) Prepare any reports required by law or listing rules or requested by the Board, for example a report on the Audit Committee's activities and duties to be included in the section on corporate governance in the Annual Report.

x) Prepare and review with the Board, in the manner the Committee deems appropriate, an annual performance evaluation of the Committee and its members, comparing its performance with the requirements of this charter.

xi) Review and update the Committee charter annually.

xii) Discuss any changes required to be made to this charter with the Board and ensure the charter and any such changes are approved by the Board.

Revised and approved by the Board of Directors on February 28, 2006.

SCHEDULE E

MANDATE OF THE CORPORATE GOVERNANCE, NOMINATING AND HUMAN RESOURCES COMMITTEE

The Corporate Governance, Nominating and Human Resources Committee (the "Governance Committee") of Æterna Zentaris Inc. (the "Corporation") is a committee of the Board of Directors of the Corporation (the "Board") which assists the Board in developing the Corporation's approach to corporate governance issues, proposing new Board nominees, assessing the effectiveness of the Board and its committees, their respective chairs and individual directors. This committee also assists the Board in discharging its responsibilities relating to executive and other human resources hiring, assessment, compensation and succession planning.

1. COMPOSITION OF THE COMMITTEE AND OPERATION

The Governance Committee is composed of a minimum of three (3) members, a majority of whom qualify as independent directors, as determined by the Board. Members of the Governance Committee are appointed and destituted by the Board. The quorum at any meeting is a majority of its members and meetings are held at least twice a year and as required.

The Chair of the Governance Committee develops the agenda for each meeting of the Governance Committee in consultation with the Chairman of the Board. The agenda and the appropriate materials are provided to members on a timely basis prior to any meeting. The Chair of the Governance Committee reports regularly to the Board on the business of the Governance Committee.

The Governance Committee may, in appropriate circumstances, engage external advisors and set and pay their compensation, subject to advising the Chairman of the Board thereof.

The Governance Committee annually reviews its mandate and reports to the Board on its adequacy. In addition, it annually assesses both its own performance as well as that of its members.

2. RESPONSIBILITIES

The Governance Committee has the following responsibilities:

(a) Board of Directors

(i) Monitoring the size and composition of the Board to ensure effective decision-making.

(ii) Developing and reviewing the policies and procedures for selecting directors by regularly assessing the qualifications, personal qualities, business background and diversified experience needed by the Board and the Corporation's requirements.

(iii) Identifying candidates qualified to become Board members and recommending nominees for election at the next annual meeting of shareholders.

(iv) Assisting the Board in determining Board committee membership.

(v) Making recommendations to the Board with respect to directors' compensation.

(vi) Reviewing periodically the mandates of the Board and its committees.

(vii) Developing and monitoring appropriate processes for the periodical performance assessment of the Board, Board committees, Board and committee chairs and individual directors.

(b) Corporate Governance Matters

(i) Reviewing corporate governance guidelines applicable to the Corporation, recommending to the Board any change(s) that should be made thereto and monitoring the disclosure of the Corporation's corporate governance practices in accordance with applicable

rules, regulations and recommended practices.

(ii) Developing for approval by the Board, monitoring and overseeing the disclosure of appropriate corporate governance structures and procedures, including the identification of decisions requiring approval of the Board and, where appropriate, measures for receiving feedback from shareholders.

(iii) Developing for approval by the Board, monitoring and overseeing the disclosure of a Code of Ethical Conduct applicable to the Corporation's directors, its Chief Executive Officer (the "CEO"), its financial officers, and its other officers and employees.

(iv) Reviewing the annual statement of corporate governance practices for inclusion in the Corporation's Management Proxy or Information Circular or Annual Information Form, in accordance with applicable rules and regulations.

(v) Developing and reviewing orientation and continuing education programs for directors.

(vi) Reviewing the policies with respect to the use of privileged information and taking all reasonable measures to ensure that such policy, and the calendar for prohibition or "black-out" periods, is provided to each member of the Board and each officer of the Corporation and to ensure the appropriate communication thereof to all employees, officers and directors of the Corporation.

(c) Senior Management

(i) Taking all reasonable measures to ensure that appropriate processes are in place regarding succession planning for the position of CEO and other members of senior management.

(ii) Ensuring that the CEO has put into place, and monitoring, succession planning systems and policies for management, including processes to identify, develop and retain the talent of outstanding executives.

(iii) Assisting the CEO in the recruiting of senior management, the terms and conditions of their appointment, retirement and termination and make a recommendation to the Board.

(iv) Annually reviewing and recommending to the Board the goals and objectives that the CEO is expected to attain, assessing the CEO in light of these goals and objectives and recommending to the Board the CEO's compensation level and package.

(v) Reviewing the evaluation of the performance of the Corporation's senior officers and recommending to the Board their compensation.

(vi) Reviewing the report on executive compensation for inclusion in the Corporation's Management Proxy or Information Circular as well as all other executive compensation disclosure, in order to comply as best as possible with applicable rules and regulations.

(d) Other Human Resources Matters

(i) Taking all reasonable measures to ensure that appropriate human resources systems and procedures, such as hiring policies, competency profiles, training policies and compensation structures are in place so that the Corporation can attract, motivate and retain the quality of personnel required to meet its business objectives.

(ii) Maintaining an assessment and compensation philosophy that rewards the creation of shareholder value and reviewing such philosophy at least once a year and as required.

(iii) Making recommendations to the Board with respect to incentive compensation plans, including security-based compensation plans.

Nothing contained in this mandate is intended to expand applicable standards of conduct under statutory or regulatory requirements for the directors of the Corporation or the members of the Governance Committee.

Adopted and approved by the Board of Directors on February 28, 2006.

SCHEDULE F

CODE OF ETHICAL CONDUCT

Æterna Zentaris Inc. ("Æterna Zentaris") and all of the directors, officers and employees of Æterna Zentaris and its subsidiaries (collectively with Æterna Zentaris, 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 Æterna Zentaris 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, Æterna Zentaris' 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 the Head of Legal Affairs of Zentaris GmbH or the Corporate Secretary of Æterna Zentaris (the "Compliance Officer"). Similarly, if you should encounter a situation in which you are unsure what to do, you agree to tell the Head of Legal Affairs of Zentaris GmbH or the Compliance Officer and ask for help.

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.

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 Æterna Zentaris' securities are listed.

Public Disclosure - Confidentiality of Non-Public Information

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

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.

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

The Company recognizes that employees may be reluctant in reporting certain types of potential issues relating to violations of the Code of Ethical Conduct. It is for that reason, in addition to those enumerated above, that the Company has selected an independent third party supplier to provide a confidential and anonymous communication channel for reporting concerns about possible violations of the Code of Ethical Conduct as well as financial and/or accounting irregularities or fraud.

All inquiries will be transmitted to the Chair of the Audit Committee and handled promptly and discreetly. Anonymity and confidentiality will be maintained insofar as is possible. The Company employees will not be penalized, dismissed, demoted or suspended and no retaliatory action will be taken against them for reporting or inquiring in good faith about potential breaches of the Code of Ethical Conduct, or for seeking guidance on how to handle suspected breaches.

Details, on how to access this reporting service or how to contact the Compliance Officer or the Subsidiaries Legal Department, are available on Æterna Zentaris' Web site at www.aeternazentaris.com under section Investors/Governance.

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.

As far as legally possible, 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) demotion; or (iii) termination of the employment.

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 Æterna Zentaris must approve any waiver with respect to this Code of Ethical Conduct that involves a director or an executive officer of Æterna Zentaris. Waivers of any provision of this Code of Ethical Conduct for an officer or employee of the Company (other than a person who is a director or executive officer of Æterna Zentaris) may be made by the Compliance Officer.

Æterna Zentaris is required to publicly disclose any waivers granted to a director or executive officer of Æterna Zentaris, 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 Æterna Zentaris' securities are listed.

Amendments to this Code of Ethical Conduct

The Board of Directors of Æterna Zentaris 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.

Adopted and approved by the Board of Directors on March 29, 2004 and amended by the Board of Directors on November 3, 2004, December 13, 2005 and March 2, 2007.

Exhibit 99.6

PricewaterhouseCoopers
LLP/s.r.l./s.e.n.c.r.l.
Chartered Accountants
Place de la Cité, Tour Cominar
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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Annual Report on Form 40-F of Æterna Zentaris Inc. for the year ended December 31, 2006 of our auditors' report dated March 2, 2007 on the consolidated balance sheets of Æterna Zentaris Inc. as at December 31, 2006 and 2005 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, 2006.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 2, 2007

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l. and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Æterna Zentaris

CODE OF ETHICAL CONDUCT

Æterna Zentaris Inc. ("Æterna Zentaris") and all of the directors, officers and employees of Æterna Zentaris and its subsidiaries (collectively with Æterna Zentaris, 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 Æterna Zentaris 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, Æterna Zentaris' 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 the Head of Legal Affairs of Zentaris GmbH or the Corporate Secretary of Æterna Zentaris (the "Compliance Officer"). Similarly, if you should encounter a situation in which you are unsure what to do, you agree to tell the Head of Legal Affairs of Zentaris GmbH or the Compliance Officer and ask for help.

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.

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 Æterna Zentaris' securities are listed.

Public Disclosure - Confidentiality of Non-Public Information

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

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.

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

The Company recognizes that employees may be reluctant in reporting certain types of potential issues relating to violations of the Code of Ethical Conduct. It is for that reason, in addition to those enumerated above, that the Company has selected an independent third party supplier to provide a confidential and anonymous communication channel for reporting concerns about possible violations of the Code of Ethical Conduct as well as financial and/or accounting irregularities or fraud.

All inquiries will be transmitted to the Chair of the Audit Committee and handled promptly and discreetly. Anonymity and confidentiality will be maintained insofar as is possible. The Company employees will not be penalized, dismissed, demoted or suspended and no retaliatory action will be taken against them for

reporting or inquiring in good faith about potential breaches of the Code of Ethical Conduct, or for seeking guidance on how to handle suspected breaches.

Details, on how to access this reporting service or how to contact the Compliance Officer or the Subsidiaries Legal Department, are available on Æterna Zentaris' Web site at www.aeternazentaris.com under section Investors/Governance.

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.

As far as legally possible, 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) demotion; or (iii) termination of the employment.

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 Æterna Zentaris must approve any waiver with respect to this Code of Ethical Conduct that involves a director or an executive officer of Æterna Zentaris. Waivers of any provision of this Code of Ethical Conduct for an officer or employee of the Company (other than a person who is a director or executive officer of Æterna Zentaris) may be made by the Compliance Officer.

Æterna Zentaris is required to publicly disclose any waivers granted to a director or executive officer of Æterna Zentaris, 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 Æterna Zentaris' securities are listed.

Amendments to this Code of Ethical Conduct

The Board of Directors of Æterna Zentaris 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.

Adopted and approved by the Board of Directors on March 29, 2004 and amended by the Board of Directors on November 3, 2004, December 13, 2005 and March 2, 2007