

MESSAGE TO SHAREHOLDERS



David J. Mazzo, PhD
President and CEO

In the Spring of 2007, I accepted the honor to lead the team at **Æterna Zentaris** as President and Chief Executive Officer. I have since come to regard the opportunity as a remarkable privilege. Very few companies our size offer such a rich, balanced and self-sustaining pipeline of innovative treatments. Innovation is what drives us and will continue to be the foundation on which we build benefit for patients and for you our shareholders. Furthermore, we represent a vibrant harmony of Canadian, European, and American cultures, and by virtue of wide-ranging yet profoundly focused competencies, we have charted a unique business path.

Company Evolution

In 2007, with the completion of the spin-off of our subsidiary Atrium Innovations, we fully realized our evolution into a research and development based, pure-play biopharmaceutical company. With a pipeline concentrated on urological and gynaecological benign and malignant diseases, we moved forward on the strength of promising late-stage products, increasingly valuable prospects for earlier-stage compounds, and a quickening sense of purpose in regard to the Company's expectations. 2007 was a challenging year, a year marked by an important metamorphosis of both our corporate structure and business plan, readying us for the execution of the programs so key to our near-term success.

One of the key transformative steps we took in 2007 involved the engagement of three highly experienced executives to complement the skills that already exist at Æterna Zentaris.

Ellen McDonald, MBA, was appointed Senior Vice President, Business Operations and Chief Business Officer. Nicholas J. Pelliccione, PhD, accepted the post of Senior Vice President, Regulatory Affairs and Quality Assurance, while Paul Blake, MD, assumed the position of Senior Vice President and Chief Medical Officer.

With combined experience of over fifty years in the industry, and having been actively involved in the launch and marketing of some fifty pharmaceutical products, these three executives bring proven leadership credentials and compelling track records to Æterna Zentaris. Our Company now possesses enviable international expertise of the highest level in clinical research, regulatory affairs, business development, pharmaceutical discovery, development and commercialization – vital assets for successful pre-launch activities for our lead compound, cetorelix, as well as for the thrust of our entire pipeline.

A Year of “Firsts”

Our progress in 2007 involved a great deal of groundbreaking. For the first time, our team launched an international Phase 3 program for cetorelix in BPH in the U.S. The first of our three planned trials in the program was launched early in the year. In addition, we conducted a rigorous review of our business operations, along with a market analysis of our pipeline portfolio and assigned the appropriate value and prioritization to each project. The result has given our stakeholders, partners, and the investment community a sharper image of our objectives as well as a clear understanding of our near-term priorities.

Another first for our company was the opening of an operations office in Warren, New Jersey. Since most major pharmaceutical companies have headquarters in the area, Æterna Zentaris is now a resident of what is known as “Pharma Alley.” As part of our strategy aimed at gaining more exposure in the United States, this step served to highlight the magnitude of benefits to be derived from alliances, business opportunities and potential new partnerships with leading pharmaceutical companies in the U.S. Our operations office in New Jersey also underlines the advantages of proximity to the world's financial center. Wall Street will play an increasingly significant role in the future of Æterna Zentaris.

A year of firsts can exert widely varying effects upon an organization and its people. In our case, it has created a winning environment and a sense of a shared emergent destiny that, in due time, will prove fundamental to our success going forward.

Moving Other Drugs through the Pipeline

We also have several additional promising compounds moving through the pipeline to later-stage development and eventual registration. Each of them carries the potential to contribute substantially to the success of our Company. For example, AEZS-108, targeting ovarian and endometrial cancers, advanced into Phase 2 clinical trials in Europe. This innovative compound is our highest earlier-stage priority; we consider its market opportunity comparable to one of the premier chemotherapy agents, doxorubicin. Furthermore, we initiated a Phase 1 trial with AEZS-112, a treatment for solid tumors and lymphoma, delivering on our promise of taking at least one pre-clinical compound into the clinical stage every year.

In addition to our own “in-house” development programs mentioned above, other compounds are being developed through established alliances with other biopharmaceutical companies. These form part of our strategy to minimize risk as well as have the potential to generate revenue through upfront and future milestone payments.

Ozarelix, partnered with Spectrum Pharmaceuticals, is currently in Phase 2b trials targeting BPH and prostate cancer. Perifosine and AEZS-127, compounds to treat multiple cancers, are partnered with Keryx Biopharmaceuticals and are in Phase 2 and the pre-clinical stage, respectively. AEZS-130, targeting growth hormone deficiency disorders, is in Phase 1 and partnered with Ardana.

Priority: Cetorelix

The decision in 2007 to invest heavily in our lead compounds resulted most significantly in the launch of the Phase 3 clinical program for our flagship product candidate and lead value driver, cetorelix. Targeting benign prostatic hyperplasia, cetorelix is our number one priority in the short term as it has the potential to provide patients with a novel, more convenient treatment with less sexual side-effects as seen with current drugs on the market. With patient recruitment ongoing, we are working hard to complete enrollment in two efficacy and one safety trials, involving approximately 1,500 patients, by mid-2008 in both North America and Europe. We are on track to disclose our Phase 3 results in the second half of 2009, as stated last fall.

Cetorelix represents a huge market opportunity as BPH affects more than a third of men over 50. The market is currently \$1.4 billion in the U.S. alone and is expected to increase significantly over the next few decades with the aging baby-boomer population.

Moving Forward

Clearly, our drug development programs made important progress in the last year as we launched no less than four clinical trials and disclosed positive Phase 1 and Phase 2 results for four compounds. In 2008, we will further advance our products through the pipeline and we expect to have three products – cetorelix, ozarelix and perifosine – in Phase 3 trials.

On the financial side, we are mindful that the decline of our stock price in 2007 was obviously disappointing. Additionally, the structural changes that occurred at Æterna Zentaris in the early part of this year with the divestiture of Atrium Innovations and the resulting new business model for our Company, along with the arrival of a new management team, contributed to the uncertainty surrounding the Company and formed a basis for the explanation for this decline. Perhaps the most telling factor however, was that life sciences companies in general experienced a difficult year. Exacerbating the situation, investors markedly withdrew from small cap companies in the biopharmaceutical sector. As a result and at this point, I feel our Company is significantly undervalued and that our 2007 performance on the Exchanges did not reflect the successes we attained, nor our potential. We have on our side what all indications show to be unimpeachable science, and therefore a high probability of achieving optimal outcomes.

Accordingly, for the benefit of patients, our shareholders, and our employees, 2008 will be a year of perseverance and staying the course – a year when I am hopeful the external markets will finally begin to ascribe a value to our projects that truly reflects their intrinsic worth.

The foundation of our Company has always been the outstandingly skilled and dedicated people who have made Æterna Zentaris their home. I wish to thank them here for their contributions to our progress and immense potential.

We are daily mindful too of our reliance upon the shareholders of Æterna Zentaris, without whose trust none of our dreams could become reality. The timelines in biopharmaceutical research and development are long, the stakes high, the risks familiar. Our anticipated outcomes however, hold promise of generous and far-reaching reward. Thank you for your continued confidence. I ask you to remain patient as we weather the storm provided by the extremely turbulent and unpredictable recent markets. My promises to you as we embark on a new year are that we will deliver on our milestones, we will continue our excellence in science and we will continue to focus our efforts on getting to the finish line first with cetorelix in BPH. I look forward to reporting on our progress in the year ahead.



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