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Aeterna Zentaris Inc.  
Form 6-K  
May 01, 2006

FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of April 2006

AETERNA ZENTARIS INC.

-----  
1405, boul. du Parc-Technologique  
Quebec, Quebec  
Canada, G1P 4P5  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover of Form 20-F or Form 40-F.

Form 20-F                      Form 40-F    X  
-----                                      -----

Indicate by check mark whether the registrant by furnishing 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

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

If "Yes" is marked, indicate below the file number assigned to the registrant in  
connection with Rule 12g3-2(b): 82- \_\_\_\_\_

DOCUMENTS INDEX

DOCUMENTS DESCRIPTION

- 1.            Business Acquisition Report dated February 21, 2006 - On  
December 8, 2005, the Corporation announced the acquisition by  
its subsidiary, Atrium Biotechnologies Inc., of HVL Parent  
Incorporated and subsidiary, a company located in Pittsburgh, PA  
and engaged in the manufacturing and marketing of health and  
nutrition products to the healthcare practitioners' channel.  
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FORM 51-102F4

## BUSINESS ACQUISITION REPORT

AETERNA ZENTARIS INC.

### ITEM 1 -- IDENTITY OF THE REPORTING ISSUER

#### 1.1 -- NAME AND ADDRESS OF REPORTING ISSUER

AETerna Zentaris Inc. (the "Corporation")  
1405 boulevard du Parc-Technologique  
Quebec, QC G1P 4P5

#### 1.2 -- EXECUTIVE OFFICER

Further information regarding the matters described in this business acquisition report may be obtained from Mario Paradis, Senior Finance Director and Corporate Secretary of the Corporation. Mr. Paradis, who is knowledgeable about the acquisition described herein, may be contacted at tel. (418) 652-8525.

### ITEM 2 -- DETAILS OF ACQUISITION

#### 2.1 -- NATURE OF BUSINESS ACQUIRED

On December 8, 2005, the Corporation announced the acquisition by its subsidiary, Atrium Biotechnologies Inc. ("Atrium"), of HVL Parent Incorporated and subsidiary, a company located in Pittsburgh, PA and engaged in the manufacturing and marketing of health and nutrition products to the healthcare practitioners' channel ("HVL/Douglas"). Founded in 1955, HVL/Douglas directly markets some 960 products to approximately 10,000 healthcare practitioners, such as physicians, chiropractors and osteopaths. HVL/Douglas also sells supplements via distributors that work with health professionals. HVL/Douglas, which has approximately 250 employees, markets its products under its main brand Douglas Laboratories and also under various well-known brand names, including Advanced Medical Nutrition Incorporated (AMNI), Health Yourself and Intelligent Health. In addition to manufacturing and marketing its own exclusive brand name supplements, which make up the majority of its business, HVL/Douglas also designs and manufactures products for others in the industry. Products are sold mainly in North America and also in Europe and Asia. It has two plants in Pittsburgh regrouping production facilities, warehouse facilities, laboratories and its head office and it has also a place of business in Holland.

#### 2.2 -- DATE OF ACQUISITION

December 8, 2005.

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### 2.3 -- CONSIDERATION

The price of the acquisition was US\$86,922,000. A part of this purchase price (US\$8,632,000) was paid by the issuance of Atrium's subordinate voting shares at a price of CAN\$10.95 per share; thus, 917,532 shares of the Atrium's capital stock were issued to some of the sellers. These shares cannot be sold or transferred as per the following conditions. One third of the shares will be allowed to be sold or transferred on the next three anniversaries of the closing of the transaction. In addition, Atrium reimbursed the existing debt of the HVL group of companies for an amount of US\$8,904,000 in principal.

The cash portion of the purchase price as well as the reimbursement by Atrium of HVL's existing debt were funded by Atrium using cash on hand and financed through a credit facility provided and arranged by National Bank of Canada, Royal Bank of Canada and HSBC Bank Canada.

### 2.4 -- EFFECT ON FINANCIAL POSITION

N/A.

### 2.5 -- PRIOR VALUATIONS

N/A.

### 2.6 -- PARTIES TO THE TRANSACTION

The Corporation's subsidiary, Atrium, was the acquirer of HVL/Douglas. No other informed person, associate or affiliate of the Corporation was involved in the acquisition of HVL/Douglas.

### 2.7 -- DATE OF REPORT

February 21, 2006.

### ITEM 3 -- FINANCIAL STATEMENTS

The financial statements required by Part 8 of National Instrument 51-102 are attached hereto.

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HVL PARENT INCORPORATED AND SUBSIDIARY  
Consolidated Financial Statements  
September 30, 2005 and 2004  
(With Independent Auditors' Report Thereon)

[KPMG LETTERHEAD]

### INDEPENDENT AUDITORS' REPORT

The Board of Directors  
HVL Parent Incorporated and Subsidiary:

We have audited the accompanying consolidated balance sheets of HVL Parent Incorporated and subsidiary (the Company) as of September 30, 2005 and 2004 and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's

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management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HVL Parent Incorporated and subsidiary as of September 30, 2005 and 2004 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

[KPGM SIGNATURE]

December 16, 2005

[KPMG LETTERHEAD]

### HVL PARENT INCORPORATED AND SUBSIDIARY Consolidated Balance Sheets September 30, 2005 and 2004

ASSETS	2005	2004
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 2,924,907	2,445,2
Accounts receivable, net of allowance for uncollectible accounts of \$290,236 and \$356,189, respectively	9,809,019	11,150,4
Inventories, net (note 2)	11,011,361	8,531,7
Deferred income taxes (note 8)	429,000	249,8
Notes receivable	50,787	11,2
Other current assets	370,925	349,4
	-----	-----
Total current assets	24,595,999	22,737,9
	-----	-----
Property, plant, and equipment (note 3)	10,546,443	9,663,5
Less accumulated depreciation	7,125,597	6,214,9
	-----	-----
	3,420,846	3,448,5
	-----	-----
Goodwill, net of accumulated amortization of \$4,281,732	10,034,586	10,034,5
Debt issuance costs, net of accumulated amortization of \$879,911 and \$674,603, respectively	273,744	479,0
	-----	-----
Total assets	\$38,325,175	36,700,1

(Continued)

HVL PARENT INCORPORATED AND SUBSIDIARY  
Consolidated Balance Sheets  
September 30, 2005 and 2004

LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004
	-----	-----
Current liabilities		
Current portion of long-term debt (notes 4 and 13)	\$ 515,587	2,864,9
Accounts payable	2,651,203	5,421,1
Accrued liabilities	1,556,316	1,164,4
Income taxes payable	281,263	420,2
	-----	-----
Total current liabilities	5,004,369	9,870,7
Deferred income taxes (note 8)	547,000	644,0
Long-term debt, excluding current portion (note 4)	9,776,707	10,659,2
	-----	-----
Total long-term liabilities	10,323,707	11,303,2
	-----	-----
Total liabilities	15,328,076	21,174,0
Stockholders' equity (note 5):		
Common stock -- par value \$0.01 per share; 9,600,000 shares authorized, 5,000,000 shares issued and outstanding	50,000	50,0
Common stock Class A nonvoting -- par value \$0.01 per share; 883,240 shares authorized, 146,000 shares issued and outstanding	1,460	1,4
Convertible participating preferred stock Series A -- par value \$0.01 per share; 344,744 shares authorized, issued and outstanding	3	
Convertible participating preferred stock Series B -- par value \$0.01 per share; 38,456 shares authorized, issued and outstanding	1	
Redeemable preferred stock Series A -- par value \$0.01 per share; 287,287 shares authorized, no shares issued	--	
Redeemable preferred stock Series B -- par value \$0.01 per share; 32,047 shares authorized, no shares issued	--	
Redeemable preferred stock Series C -- par value \$0.01 per share; 30,000 shares authorized, no shares issued	--	
Additional paid-in capital	11,862,355	11,862,3
Notes receivable for shares sold (note 12)	(132,592)	(132,5
Accumulated other comprehensive income (loss)	(93,033)	(33,1
Retained earnings	11,308,905	3,777,9
	-----	-----
Total stockholders' equity	22,997,099	15,526,0
	-----	-----
Total liabilities and stockholders' equity	\$38,325,175	36,700,1
	-----	-----

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See accompanying notes to consolidated financial statements.

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HVL PARENT INCORPORATED AND SUBSIDIARY  
 Consolidated Statements of Operations and Comprehensive Income  
 Years ended September 30, 2005 and 2004

	2005	2004
	-----	-----
Net sales	\$69,252,572	67,723,6
Costs of goods sold	43,844,955	42,643,0
	-----	-----
Gross profit	25,407,617	25,080,6
	-----	-----
Selling, general, and administrative expenses	13,308,753	14,314,4
Depreciation expense -- administrative	156,060	132,6
	-----	-----
	13,464,813	14,447,1
	-----	-----
Income from operations	11,942,804	10,633,4
	-----	-----
Other expense (income):		
Interest income	(75,650)	(11,7
Interest expense (including amortization of debt issuance costs of \$205,308 in 2005 and \$259,641 in 2004	1,052,830	857,2
Other (note 4)	(405,649)	(332,0
	-----	-----
Total other expense	571,531	513,4
	-----	-----
Income before taxes	11,371,273	10,120,0
	-----	-----
Income tax expense (note 8):		
Federal	3,341,941	3,111,3
State	417,444	252,1
Foreign	80,925	114,2
	-----	-----
Total income tax expense	3,840,310	3,477,7
	-----	-----
Net income	7,530,963	6,642,3
Other comprehensive income:		
Foreign currency translation adjustments	(59,907)	(178,5
	-----	-----
Comprehensive income	\$ 7,471,056	6,463,7
	-----	-----

See accompanying notes to consolidated financial statements.

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### Consolidated Statements of Stockholders' Equity Years ended September 30, 2005 and 2004

	COMMON STOCK	COMMON STOCK CLASS A NONVOTING	CONVERTIBLE PREFERRED STOCK SERIES A	CONVERTIBLE PREFERRED STOCK SERIES B	ADDITIO PAID-I CAPITA
	-----	-----	-----	-----	-----
Balance as of September 30, 2003	\$50,000	1,460	3	1	11,862,
Foreign currency translation	--	--	--	--	
Net income	--	--	--	--	
	-----	-----	-----	-----	-----
Balance as of September 30, 2004	50,000	1,460	3	1	11,862,
Foreign currency translation	--	--	--	--	
Net income	--	--	--	--	
	-----	-----	-----	-----	-----
Balance as of September 30, 2005	\$50,000	1,460	3	1	11,862,
	-----	-----	-----	-----	-----

	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	-----	-----
Balance as of September 30, 2003	(2,864,367)	9,062,301
Foreign currency translation	--	(178,567)
Net income	6,642,309	6,642,309
	-----	-----
Balance as of September 30, 2004	3,777,942	15,526,043
Foreign currency translation	--	(59,907)
Net income	7,530,963	7,530,963
	-----	-----
Balance as of September 30, 2005	11,308,905	22,997,099
	-----	-----

See accompanying notes to consolidated financial statements.

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### HVL PARENT INCORPORATED AND SUBSIDIARY Consolidated Statements of Cash Flows Years ended September 30, 2005 and 2004

	2005	2004
	-----	-----
Cash flows from operating activities:		

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Net income	\$ 7,530,963	6,642,3
Adjustments to reconcile net income to net cash provided by operating activities:		
Inventory obsolescence reserve	210,771	
Depreciation and amortization	1,211,650	1,036,5
Loss on disposal of fixed assets	6,913	
Foreign currency loss	(59,907)	(178,5
Deferred income taxes	(276,200)	49,2
Changes in assets and liabilities:		
Accounts receivable	1,341,413	(2,801,4
Inventories	(2,690,349)	(842,0
Notes receivable	(39,510)	(3,0
Other current assets	(21,510)	260,2
Accounts payable	(2,769,938)	174,5
Accrued liabilities	391,864	(70,8
Income taxes payable	(138,937)	(107,7
Net cash provided by operating activities	4,697,223	4,159,2
Cash flows from investing activities:		
Capital expenditures	(967,298)	(403,4
Net cash used in investing activities	(967,298)	(403,4
Cash flows from financing activities:		
Repayment under Term Loan A	(2,800,000)	(3,157,8
Repayment under Term Loan B	(60,000)	(60,0
Net repayments under line-of-credit agreement	(375,000)	(645,8
Repayments of mortgage payable	(15,273)	(4,8
Net cash used in financing activities	(3,250,273)	(3,868,6
Net increase (decrease) in cash and cash equivalents	479,652	(112,8
Cash and cash equivalents at beginning of year	2,445,255	2,558,1
Cash and cash equivalents at end of year	\$ 2,924,907	2,445,2
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 864,833	614,2
Income taxes	\$ 4,193,650	3,505,4

See accompanying notes to consolidated financial statements.



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### (a) DESCRIPTION OF BUSINESS

HVL Parent Incorporated and subsidiary (the Company) is a manufacturer and distributor of quality nutritional supplements with customers worldwide. The Company's business activity is primarily with alternative health care providers and distributors.

### (b) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements, presented in United States dollars, include the consolidated accounts of HVL Parent Incorporated (HVL) and its wholly owned subsidiary HVL, Incorporated (Inc.); Inc.'s nonincorporated trading divisions: Douglas Laboratories, Professional Series, and Doctor's Care and its wholly owned subsidiaries: Hi-Vidomin Laboratories, Inc of Delaware, HVL - FSC, Inc., Douglas Laboratories Europe, B.V., and Advanced Medical Nutrition, Inc., (AMNI). All intercompany balances and transactions have been eliminated. The consolidated group is herein referred to as "the Company".

### (c) REVENUE RECOGNITION

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

### (d) CASH AND CASH EQUIVALENTS

The Company considers money market accounts with original maturities of less than three months as cash equivalents.

### (e) INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market.

### (f) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at cost less accumulated depreciation. For financial statement purposes, the Company provides for depreciation using the straight-line method, based on the estimated useful lives of the related assets as follows:

	YEARS
	-----
Building and improvements	5 - 40
Equipment and machinery	3 - 15
Automobiles	5

Maintenance and repairs, which are not considered to extend the useful lives of the assets, are charged to operations as incurred. Expenditures for additions and improvements are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in other income (expense) for the year.

HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

(g) GOODWILL

Goodwill represents the excess of the purchase price paid over the fair value of the net assets of businesses acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which was adopted on October 1, 2002 (the beginning of HVL's fiscal year 2003), goodwill and purchased intangibles with indefinite useful lives are no longer amortized but are reviewed periodically (at least annually) for impairment. Accordingly, HVL ceased to amortize approximately \$10 million of net goodwill during fiscal 2003.

(h) DEBT ISSUE COSTS

The Company incurred legal, consulting, and bank fees related to the issuance of debt (note 4). These debt issue costs are amortized over the remaining life of the respective loans. Amortization expense was \$205,308 and \$259,641 during 2005 and 2004, respectively.

(i) FOREIGN CURRENCY TRANSLATION

Foreign exchange gains and losses as a result of translating a foreign entity's balance sheet from its functional currency into U.S. dollars are included as other comprehensive income in the consolidated statements of operations and comprehensive income. Accumulated other comprehensive income (loss) is reported in the consolidated statements of stockholders' equity. The functional currency for all of the Company's foreign operations is the Euro.

(j) INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES (Statement 109). Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) CREDIT AND PRODUCT CONCENTRATION RISK

Sales of \$11,702,181 or 17% of the Company's 2005 total net sales, were accounted for by one customer and one product. Accounts receivable relating to this customer were \$1,150,550 as of September 30, 2005.

Sales of \$16,851,932 or 25% of the Company's 2004 total net sales were accounted for by one customer and one product. Accounts receivable relating to this customer were \$2,151,258 as of September 30, 2004.

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(1) IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying

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HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of an asset exceeds the fair value of the asset.

(m) STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans under APB 25. For stock options granted, the option price was not less than the fair market value of shares on the grant date, therefore, no compensation cost has been recognized. Had compensation cost been determined under the provisions of SFAS No. 123, the Company's net income would have been the following on a pro forma basis:

Net income, as reported	\$7,530,963	6,642,309
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax	(26,455)	(63,446)
	-----	-----
Pro forma net income	\$7,504,508	6,578,863
	-----	-----

(n) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(o) RECLASSIFICATION

Certain amounts in the 2004 financial statements have been reclassified to conform with the current year's presentation.

HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

## (2) INVENTORIES

Inventories as of September 30, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Raw materials	\$ 2,790,111	2,800,327
Work-in-process	706,334	515,970
Finished goods	7,725,687	5,215,486
	-----	-----
	11,222,132	8,531,783
Less: Reserve for obsolescence	210,771	-
	-----	-----
	\$11,011,361	8,531,783
	-----	-----
	-----	-----

## (3) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are comprised of the following:

	2005	2004
	-----	-----
Land	\$ 67,173	67,173
Building and improvements	936,377	937,112
Equipment and machinery	9,542,893	8,659,234
	-----	-----
	10,546,443	9,663,519
Less accumulated depreciation	7,125,597	6,214,995
	-----	-----
Net property, plant, and equipment	\$ 3,420,846	3,448,524
	-----	-----
	-----	-----

Depreciation expense was \$1,006,342 and \$776,948 during 2005 and 2004, respectively.

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September 30, 2005 and 2004

(4) LONG-TERM DEBT

Long-term debt consists of the following as of September 30, 2005 and 2004:

	2005	2004
Term Loan A - provides for borrowings of \$14,000,000, principal payments of \$700,000 quarterly at either a rate of LIBOR plus 4% (6.10% as of September 30, 2005) or prime rate plus 3% (9.75% as of September 30, 2005), due through January 1, 2007, collateralized by substantially all the assets of the Company.	\$ 455,587	3,255,587
Term Loan B - provides for borrowings of \$6,000,000, principal payments of \$15,000 quarterly at either a rate of LIBOR plus 4.5% (6.60% as of September 30, 2005) or prime rate plus 3.5% (10.25% as of September 30, 2005) and a balloon payment of \$5,715,000 due January 1, 2007, collateralized by substantially all the assets of the Company.	5,790,000	5,850,000
Revolving line of credit - provides for borrowings up to \$10,000,000, interest only payments quarterly at either a rate of LIBOR plus 4% (6.10% as of September 30, 2005), or prime rate plus 3% (9.75% as of September 30, 2005), no principal payments required until maturity on January 30, 2007, collateralized by substantially all the assets of the Company.	3,979,149	4,354,149
Mortgage payable - bank - payable in quarterly installments including interest at 9% through September 2014, collateralized by building and land.	49,279	64,552
Note payable - vehicle - payable in monthly installments at 0% interest, due through August 2007.	18,279	-
	10,292,294	13,524,288
Less current maturities	515,587	2,864,990
	\$ 9,776,707	10,659,298

The credit agreements for both the line-of-credit facility and the term loans contain restrictive covenants which, among other things, require the Company to maintain certain leverage and debt service ratios as well as certain levels of earnings and cash flows. The credit agreements have cross-collateral and cross-default provisions. The term loan agreement requires excess cash flows, as defined in the agreement, to be paid against the Term Loan A. The Company plans to finance such additional payment of \$81,032 due for fiscal 2005 by borrowing against the revolving line of

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credit. The Company was in compliance with all covenants as of September 30, 2005 and 2004. Accrued interest outstanding totaled \$31,369 and \$48,679 as of September 30, 2005 and 2004, respectively.

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HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

The future maturities on long-term debt based on the credit agreements are as follows as of September 30, 2005:

2006	\$10,238,265
2007	14,130
2008	4,990
2009	34,909
2010 and thereafter	-
	-----
	\$10,292,294
	-----
	-----

(5) STOCKHOLDERS' EQUITY

During 2002, 2000, and 1998, the Board authorized the grant of stock options for 152,000, 332,500, and 424,000 shares, respectively, of Class A nonvoting common stock in accordance with the Company's Stock Option and Grant Plan. Of the 1998 stock options issued, 120,000 were for restricted shares (as defined below). All options were issued with an exercise price equal to fair market value at the date of grant, based on an appraisal. All options vest at a rate of 25% per year (although options on restricted shares may be exercised early subject to various restrictions) with immediate vesting upon the occurrence of certain defined transactions and expire ten years from the date of grant.

Subsequent to issuance, the options were exercised for the 120,000 of restricted shares, bringing the total number of issued restricted shares of Class A nonvoting common stock to 240,000. These restricted total shares were issued to Company officers and members of management. Various restrictions exist as to the transferability of the shares. In addition, upon termination of the management member's employment with the Company, any nonvested shares must be sold back to the Company. During 1999, 94,000 shares were repurchased by the Company. These shares were cancelled as part of the merger and reorganization during 2002. The restricted shares vest at the rate of 25% per year with 100% immediate vesting upon the occurrence of certain defined transactions.

	NUMBER OF OPTIONS	EXERCISE PRICE
	-----	-----
Outstanding September 30, 2003	532,000	\$1.00 - 3.15

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Granted	-	-
Exercised	-	-
Forfeited	-	-
	-----	-----
Outstanding September 30, 2004	532,000	1.00 - 3.15
Granted	-	-
Exercised	-	-
Forfeited	-	-
	-----	-----
Outstanding September 30, 2005	532,000	\$1.00 - 3.15
	-----	-----
	-----	-----

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HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

As of September 30, 2005, 494,000 of the outstanding options were vested and exercisable. All options granted in 1998 have a remaining contractual life of 2.75 years as of September 30, 2005. All options granted in 2000 have a remaining contractual life of 4.6 years as of September 30, 2005. All options granted in 2002 have a remaining contractual life of 6.8 years as of September 30, 2005.

The liquidation preference for the Series A and Series B convertible participating preferred stock is \$9,208,000 and \$792,000, respectively. Dividends are not cumulative, and the stock has voting rights. The stock has various conversion features into shares of common stock, Class A nonvoting common stock, and redeemable preferred stock, if 66-2/3% of the voting power of outstanding convertible participating preferred stock votes to have a conversion take place. The stock also has automatic conversion features in certain circumstances. The stock is redeemable by the Company on or after August 22, 2002, if 66-2/3% of the voting power of outstanding convertible participating preferred stock votes to have a conversion. The stock was redeemable prior to August 22, 2002, if certain "extraordinary transactions" (as defined) took place.

The Series A and Series B redeemable preferred stock, if issued, would provide for 5% cumulative dividends.

The Class C redeemable preferred stock provided for a cumulative dividend of \$10 per share per annum commencing as of December 31, 1999, and the stock had no voting rights. The stock was redeemable by the Company on or after July 31, 2004 if a majority of the outstanding Class C redeemable preferred stock elected to have a redemption. The stock was redeemable prior to July 31, 2004, if certain "extraordinary transactions" (as defined) take place. During 2003, the bank issued an original, fully-executed consent with respect to the redemption of Class C redeemable preferred stock in the amount of \$3,000,000. During 2003, the Class C redeemable preferred stock was redeemed in the amount of \$3,000,000.

See subsequent events note 13.

(6) DEFINED CONTRIBUTION PLAN

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The Company sponsors a defined contribution 401(k) and profit sharing plan covering substantially all of its employees who have met certain eligibility requirements. Employees are allowed to contribute up to 15% of their compensation for the plan year to the 401(k) plan. The Company's matching contributions to the 401(k) plan as well as the contributions to the profit sharing plan are at the discretion of the board of directors and are allocated at 50% of the first 10% of the contributions made by each employee. Matching contributions to the 401(k) plan were \$143,298 and \$133,136 in 2005 and 2004, respectively.

### (7) LITIGATION AND CLAIMS

The Company is party to various ongoing, pending, and threatened litigation along with other contingencies arising out of the normal course of business. Certain of these claims are against a major customer for product liability to which the Company has been named as a co-defendant. The ultimate disposition of these claims cannot be determined at this time. Management believes that these claims, when resolved, will not have any material adverse effect on the consolidated financial position or results of operations of the Company.

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(Continued)

HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

### (8) INCOME TAXES

Income before taxes for the years ended September 30, 2005 and 2004 includes domestic and foreign income as follows:

	2005	2004
Domestic	\$10,836,679	9,783,945
Foreign	534,594	336,130
	\$11,371,273	10,120,075

Income tax expense attributable to pretax income for the years ended September 30, 2005 and 2004 includes current and deferred taxes as follows:

	2005	2004
Current:		
Federal	\$ 3,484,969	3,064,587
State	550,616	249,695
Foreign	80,925	114,284



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Total current	4,116,510	3,428,566
	-----	-----
Deferred:		
Federal	(143,028)	46,740
State	(133,172)	2,460
	-----	-----
Total deferred expense	(276,200)	49,200
	-----	-----
Total income tax expense	\$ 3,840,310	3,477,766
	-----	-----

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of September 30, 2005 and 2004 are presented below:

	2005	2004
	-----	-----
Deferred tax assets:		
Allowance for doubtful accounts	\$ 83,000	53,800
Accrued expenses	157,000	107,000
Inventory	189,000	89,000
	-----	-----
Total gross deferred tax assets	429,000	249,800
	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	547,000	640,000
Other	--	4,000
	-----	-----
Total gross deferred tax liabilities	547,000	644,000
	-----	-----
Net deferred tax assets/(liability)	\$ (118,000)	(394,200)
	-----	-----

HVL PARENT INCORPORATED AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
September 30, 2005 and 2004

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

It is the Company's intention to continue to reinvest the undistributed earnings of its foreign subsidiaries; and, as such, no provision has been made for U.S. taxes on \$2,545,000 of cumulative undistributed earnings of these foreign subsidiaries. Determination of the potential deferred tax

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liability is not practicable as foreign tax credits are expected to be available to offset any U.S. tax if and when these earnings are distributed.

The provision for income taxes allocated to pretax income differs from tax calculated by applying the U.S. statutory federal income tax rate to pretax income due principally to state income taxes, net of the federal income tax benefit, foreign income taxed at rates other than the federal income tax rate, nondeductible expenses, extraterritorial income exclusion, and research and development tax credits.

There was no tax expense or benefit allocated to the components of comprehensive income.

### (9) LEASING ARRANGEMENTS

The Company leases various facilities, equipment, and vehicles through noncancelable operating leases. Approximate future minimum lease obligations under the noncancelable operating leases are as follows:

Year ending September 30:	
2006	\$1,160,926
2007	1,010,729
2008	635,790
2009	9,422
2010 and thereafter	-
	-----
	\$2,816,867
	-----
	-----

The total rent and lease expense charged to operations was approximately \$1,284,824 and \$1,521,412 in 2005 and 2004, respectively.

### (10) RESEARCH AND DEVELOPMENT

In the course of normal operations, the Company routinely incurs various costs that are related to the development and testing of new products. The total research and development expense charged to operations was approximately \$1,540,083 and \$1,482,953 in 2005 and 2004, respectively.

### (11) RELATED PARTY TRANSACTIONS

The Company conducts its manufacturing operations at facilities leased from one of the Company's major stockholders. The lease, accounted for as an operating lease, provides for an approximate annual base rent of \$764,000. The lease expires on May 31, 2008.

### (12) NOTES RECEIVABLE FOR SHARES SOLD

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Certain employees exercised their options to purchase Class A nonvoting common stock in exchange for an interest-bearing note (5.9%) secured by the shares. The principal balance and any unpaid interest shall be due and payable on the earlier of July 6, 2008 or when the related shares are redeemed. The outstanding principal balances of these notes amounted to \$132,592 as of September 30, 2005 and 2004 and are classified as a reduction of stockholders' equity.

### (13) SUBSEQUENT EVENTS

In August 2005, the Company signed a non-binding letter of intent to sell all of the outstanding stock of the Company to Atrium Biotechnologies, Inc. (Atrium). As a result of this transaction, the outstanding debt of the Company will be paid in full, the shareholders of the Company will receive consideration in cash and shares of Atrium common stock, and the Company will become a wholly-owned subsidiary of Atrium.

Subsequent to the balance sheet date, on December 8, 2005, all of the outstanding shares of common stock, common stock Class A nonvoting, and Series A and Series B convertible participating preferred stock were acquired by Atrium Biotechnologies, Inc. (Atrium). Atrium paid approximately \$94,000,000 for the Company, of which approximately \$9,000,000 was used to pay the balances outstanding on the revolving line of credit, term loan A, and term loan B (see note 4), and to pay for legal expenses related to the sale. Approximately \$7,000,000 of the proceeds was placed in escrow pending resolution of various open items. Upon settlement of such open items, the remaining escrow amounts will be distributed to the stockholders of the Company. The remaining \$78,000,000 was distributed to the stockholders of the Company based on their pro rata ownership after satisfaction of the liquidation preference related to the Series A and Series B convertible participating preferred stock (see note 5). The distribution to the stockholders of the Company consists of approximately \$69,000,000 in cash and approximately \$9,000,000 in shares of Atrium for certain of the stockholders.

The balances outstanding on the revolving line of credit, term loan A, and term loan B were paid in full subsequent to the balance sheet date.

As a result of this transaction, the Company became a wholly owned subsidiary of Atrium effective December 8, 2005.

### (14) RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). For the year ended September 30, 2005 and 2004, these principles do not differ materially from Canadian generally accepted accounting principles (Canadian GAAP) except:

The Series A and Series B convertible participating preferred stock is convertible, at the option of the holder, into redeemable preferred stock.

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Therefore, pursuant to Canadian GAAP, the Series A and Series B convertible participating preferred stock is classified as a current liability. For US GAAP purposes, the Series A and Series B convertible participating preferred stock is classified as equity. In accordance with Canadian GAAP, the balance sheet would reflect an increase in current liabilities of \$10,000,000 and an equivalent decrease in additional paid-in capital in stockholders' equity. The consolidated statement of operations and comprehensive income and consolidated statement of cash flows for the years ended September 30, 2005 and 2004 would not differ under Canadian GAAP.

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Unaudited pro forma consolidated financial statements of

AETERNA ZENTARIS INC.

See compilation report

As at September 30, 2005 and for the nine-month period then ended and for the year ended December 31, 2004

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### COMPILATION REPORT

TO THE DIRECTORS

AETERNA ZENTARIS INC.

We have read the accompanying unaudited consolidated pro forma balance sheet of AETERNA ZENTARIS INC. (the "Company") as at September 30, 2005 and the unaudited consolidated pro forma statement of earnings for the nine-month period ended September 30, 2005 and the year ended December 31, 2004, and have performed the following procedures:

1. Concerning the unaudited consolidated pro forma balance sheet as at September 30, 2005:
  - o Compared and recalculated the figures in the column captioned "AETerna Zentaris" to the unaudited consolidated balance sheet of the Company as at September 30, 2005, translated from Canadian dollars into US dollars using the appropriate CAN to US dollars exchange rate as at September 30, 2005 and found them to be in agreement;
  - o Compared the figures in the column captioned "Douglas" to the audited consolidated balance sheet of HVL Parent Incorporated and subsidiary ("Douglas") as at September 30, 2005, taking into account the US to Canadian GAAP difference described in the notes thereto, and found them to be in agreement.
2. Concerning the unaudited consolidated pro forma statement of earnings for the nine-month period ended September 30, 2005:
  - o Compared and recalculated the figures in the column captioned "AETerna Zentaris" to the unaudited consolidated statement of earnings of the Company for the nine-month period ended September 30, 2005, translated from Canadian into US dollars using the appropriate CAN to US dollars average exchange rate for that period and found them to be in agreement;

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- o Compared the figures in the column captioned "Douglas - Year ended September 30, 2005" to the audited statement of earnings of Douglas for the year ended September 30, 2005, and found them to be in agreement;
  - o Compared the figures in the column captioned "Douglas - Three-month period ended December 31, 2004" to the unaudited internal statement of earnings of Douglas, for the three-month period ended December 31, 2004, and found them to be in agreement.
3. Concerning the unaudited consolidated pro forma statement of earnings for the year ended December 31, 2004:
- o Compared and recalculated the figures in the column captioned "AEterna Zentaris" to the audited consolidated statement of earnings of the Company for the year ended December 31, 2004, translated from CAN into US dollars using the appropriate CAN to US dollars average exchange rate for that year and found them to be in agreement;
  - o Compared the figures in the column captioned "Douglas" to the audited statement of earnings of Douglas, for the year ended September 30, 2004, and found them to be in agreement;

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4. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
- (a) the basis for determination of the pro forma adjustments; and
  - (b) whether the consolidated pro forma financial statements comply as to form in all material respects with Canadian generally accepted accounting principles.

The officials:

- (a) described to us the basis for determination of the pro forma adjustments; and
  - (b) stated that the consolidated pro forma financial statements comply as to form in all material respects with Canadian generally accepted accounting principles.
5. Read the notes to the consolidated pro forma financial statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
6. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "AEterna Zentaris" and "Douglas", and found the amounts in the column captioned "AEterna Zentaris Pro forma" to be arithmetically correct.

The consolidated pro forma financial statements are based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to

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the consolidated pro forma financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such financial statements.

[PRICEWATERHOUSECOOPERS SIGNATURE]

CHARTERED ACCOUNTANTS  
Quebec, Quebec, Canada  
February 21, 2006

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AETERNA ZENTARIS INC.  
CONSOLIDATED PRO FORMA BALANCE SHEET  
(Unaudited - See Compilation Report as at September 30, 2005)  
(expressed in thousands of US dollars)

	AETERNA ZENTARIS \$ (NOTE 1) -----	DOUGLAS \$ (NOTE 1) -----	PRO FORMA ADJUSTMENTS \$ (NOTE 2) -----
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	17,871	2,925	-
Short-term investments	30,017	-	-
Accounts receivable	48,875	9,860	-
Inventory	22,246	11,011	-
Prepaid expenses	2,300	371	-
Future income tax assets	2,629	429	-
	-----	-----	-----
	123,938	24,596	-
 <b>PROPERTY, PLANT AND EQUIPMENT</b>	 16,415	 3,421	 -
 <b>DEFERRED CHARGES</b>	 5,715	 273	 (273) 719
 <b>INTANGIBLE ASSETS</b>	 63,372	 -	 47,800
GOODWILL	77,574	10,035	32,650
FUTURE INCOME TAX ASSETS	11,908	-	-
	-----	-----	-----
	298,922	38,325	80,896
	-----	-----	-----
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	42,674	4,207	719
Income taxes	5,000	281	-
Redeemable preferred stock	-	10,000	(10,000)
Convertible term loans	24,987	-	-
Current portion of long-term debt	2,896	516	(516)
	-----	-----	-----
	75,557	15,004	(9,797)

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DEFERRED REVENUES	14,070	-	
LONG-TERM DEBT	18,937	9,777	(9,709)
			88,515
EMPLOYEE FUTURE BENEFITS	5,873	-	-
FUTURE INCOME TAX LIABILITIES	19,020	547	16,252
NON-CONTROLLING INTEREST	56,481	-	6,192
	189,938	25,328	91,453
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	165,699	51	(51)
OTHER CAPITAL	11,573	-	
PAID IN CAPITAL	-	1,730	(1,730)
RETAINED EARNINGS (DEFICIT)	(57,602)	11,309	(11,309)
			2,440
CUMULATIVE TRANSLATION ADJUSTMENT	(10,686)	(93)	93
	108,984	12,997	(10,557)
	298,922	38,325	80,896

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

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AETERNA ZENTARIS INC.  
CONSOLIDATED PRO FORMA STATEMENT OF EARNINGS  
(Unaudited- See Compilation Report  
for the nine-month period ended September 30, 2005)  
(expressed in thousands of US dollars, except per share data)

	AETERNA ZENTARIS NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 \$ (NOTE 1)	DOUGLAS YEAR ENDED SEPTEMBER 30, 2005 \$ (NOTE 1)	DOUGL 3 MONT 3 MONT PERIOD END DECEMBER 3 20 (NOTE
REVENUES	174,917	69,253	(14,4
OPERATING EXPENSES			
Cost of sales	109,818	43,845	(9,0
Selling general and administrative	29,790	13,309	(3,2
Research and development costs	19,161	-	

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Research and development tax credits, grants and other revenues	(464)	-	
Depreciation and amortization			
Property, plant and equipment	1,695	156	
Intangible assets	3,972	-	
	-----	-----	-----
	163,972	57,310	(12,3
	-----	-----	-----
EARNINGS FROM OPERATIONS	10,945	11,943	(2,1
	-----	-----	-----
OTHER REVENUES (EXPENSES)			
Interest income	1,070	76	
Interest expense	(7,067)	(1,053)	2
Foreign exchange gain (loss)	(352)	405	(1
	-----	-----	-----
	(6,349)	(572)	1
	-----	-----	-----
EARNINGS BEFORE THE FOLLOWING ITEMS	4,596	11,371	(1,9
INCOME TAX EXPENSE			
Current	4,504	4,116	(7
Future	1,915	(276)	
	-----	-----	-----
	6,419	3,840	(6
	-----	-----	-----
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	(1,823)	7,531	(1,2
GAIN ON DILUTION OF INVESTMENTS	16,505	-	
NON-CONTROLLING INTEREST	(5,048)	-	
	-----	-----	-----
NET EARNINGS (LOSS) FOR THE PERIOD	9,634	7,531	(1,2
	-----	-----	-----
	-----	-----	-----
NET EARNINGS PER SHARE			
Basic	0.21		
	-----		
	-----		
Diluted	0.21		
	-----		
	-----		
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000'S)			
Basic	46,140		
	-----		
	-----		
Diluted	46,459		
	-----		
	-----		

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



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AETERNA ZENTARIS INC.  
 CONSOLIDATED PRO FORMA STATEMENT OF EARNINGS  
 (Unaudited - See Compilation Report  
 for the twelve-month period ended December 31, 2004)  
 (expressed in thousands of US dollars, except per share data)

	AETERNA ZENTARIS YEAR ENDED DECEMBER 31, 2004 \$ (NOTE 1)	DOUGLAS YEAR ENDED SEPTEMBER 30, 2004 \$ (NOTE 1)	AD
	-----	-----	-----
REVENUES	179,212	67,724	
OPERATING EXPENSES			
Cost of sales	103,368	42,643	
Selling, general and administrative	32,422	14,315	
Research and development costs	24,365	-	
Research and development tax credits, grants and other revenues	(1,034)	-	
Depreciation and amortization			
Property, plant and equipment	2,451	133	
Intangible assets	4,447	-	
	166,019	57,091	
EARNINGS FROM OPERATIONS	13,193	10,633	
OTHER REVENUES (EXPENSES)			
Interest income	1,044	12	
Interest expense	(6,276)	(857)	
Foreign exchange gain (loss)	(707)	332	
	(5,939)	(513)	
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	7,254	10,120	
INCOME TAX EXPENSE			
Current	10,526	3,429	
Future	(4,160)	49	
	6,366	3,478	
EARNINGS (LOSS) BEFORE THE FOLLOWING ITEMS	888	6,642	
LOSS ON DILUTION OF INVESTMENT	(485)	-	
NON-CONTROLLING INTEREST	(4,828)	-	

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NET EARNINGS (LOSS) FOR THE PERIOD	(4,425)	6,642
NET LOSS PER SHARE		
Basic and diluted	(0.10)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000'S)	45,569	

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

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AETERNA ZENTARIS INC.  
NOTES TO CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS  
(Unaudited - See Compilation Report)  
(expressed in thousands of US dollars)

1. BASIS OF PRESENTATION

The unaudited consolidated pro forma financial statements of AETerna Zentaris Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles to give effect to the transactions described below as if they had occurred on September 30, 2005 for the unaudited consolidated pro forma balance sheet and on January 1, 2005 or January 1, 2004 for the unaudited consolidated pro forma statement of earnings.

On December 8, 2005, the Company's subsidiary, Atrium Biotechnologies Inc. ("Atrium"), acquired all of the outstanding shares of HVL Parent Incorporated ("Douglas") whose main brand is Douglas Laboratories. This company markets health and nutrition products through healthcare practitioners mainly in the United States.

This acquisition was made for a total consideration of \$86,922,000 of which an amount of \$75,365,000, including all acquisition-related costs, was paid in cash and \$8,632,000 was paid by Atrium's subordinate voting shares issued to certain Douglas management shareholders at the price of CAN\$10.95 per share. The cash portion came from cash on hand and from the newly renegotiated revolving credit facility.

This acquisition has been accounted for using the purchase method whereby the purchase price was allocated between the assets acquired and liabilities assumed based on management's estimate of the fair value on the date of acquisition. The excess of the price over the net identifiable tangible assets acquired has been included in the identifiable and non-identifiable intangible assets according to management's best estimate. The purchased price allocation will be finalized upon the reception of an independent valuation report.

On November 8, 2005, Atrium amended its revolving credit facility, to increase the authorized amount from \$64,488,000 (CAN\$75,000,000) to \$107,481,000 (CAN\$125,000,000) and concluded in the same period an interest

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swap for an amount of \$43,003,000 (CAN\$50,000,000) converting a variable interest rate to a fixed interest rate.

The unaudited consolidated pro forma balance sheet as at September 30, 2005 has been prepared by combining the unaudited consolidated balance sheet of AETerna Zentaris as at September 30, 2005 translated from CAN to US dollars using the appropriate exchange rate stated below and the audited consolidated balance sheet of Douglas as at September 30, 2005 prepared in accordance with accounting principles accepted in the United States (U.S.GAAP) and taking into account the reconciliation to Canadian Generally Accepted Accounting Principles (CAN GAAP) disclosed in Note 14 thereto. The unaudited consolidated pro forma statement of earnings for the nine-month period ended September 30, 2005 has been prepared by combining the unaudited consolidated statement of earnings for the nine-month period ended September 30, 2005 of the Company, translated from CAN to US dollars using the appropriate exchange rate stated below, plus the Douglas audited consolidated statement of earnings for the year ended September 30, 2005 less the Douglas internal unaudited consolidated statement of earnings for the three-month period ended December 31, 2004. As indicated in note 14 to the audited financial statements of Douglas, no adjustments are necessary from U.S.GAAP to CAN GAAP in the statements of earnings for the periods presented in such financial statements. The unaudited consolidated pro forma statement of earnings for the year ended December 31, 2004 has been prepared by combining the audited consolidated statement of earnings of the Company for the same period, translated from CAN to US dollars using the appropriate exchange rate stated below and the audited statement of earnings of Douglas for the year ended September 30, 2004.

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AETERNA ZENTARIS INC.  
NOTES TO CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS  
(Unaudited - See Compilation Report)  
(expressed in thousands of US dollars)

In December 2005, the Company decided to change its reporting currency from Canadian dollars to US dollars to provide more relevant information considering its predominant operations in the United States and its US dollar denominated debt. Accordingly, the unaudited consolidated balance sheet of the Company as at September 30, 2005, the unaudited consolidated statement of earnings for the nine-month period ended September 30, 2005 and the audited consolidated statement of earnings ended December 31, 2004 of the Company had been translated to US dollars using the current rate method using the exchange rates disclosed below. Under this method, assets and liabilities are translated into US dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate in effect during the period. Gains and losses are included in cumulative translation adjustments account in the shareholders' equity. The functional currencies of the Company and each of its subsidiaries remained unchanged.

Rate as at September 30, 2005	1.1627
Average rate for the nine-month period ended September 30, 2005	1.2240
Average rate for 2004	1.3015

The unaudited consolidated pro forma financial statements should be read in conjunction with the audited financial statements of the Company for the year

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ended December 31, 2004 with the audited financial statements of Douglas for the year ended September 30, 2005 and 2004 incorporated in the Business Acquisition Report.

The unaudited consolidated pro forma financial statements have been prepared for illustrative purposes only and are based on the assumptions set forth in the accompanying notes to such statements. These financial statements are not necessarily indicative of the operating results that would have been obtained or the financial position that would have prevailed had the applicable transactions actually taken place on the date indicated or of actual operating results or financial position of the stand-alone or combined entities. The pro forma adjustments are based on currently available information and management's estimates and assumptions. Actual adjustments will differ from the pro forma adjustments. Management believes that such adjustments provide reasonable basis for presenting all the significant effects of the transactions.

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AETERNA ZENTARIS INC.  
NOTES TO CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS  
(Unaudited - See Compilation Report)  
(expressed in thousand of US dollars)

2. PRO FORMA ASSUMPTIONS

ACQUISITION OF DOUGLAS

The preliminary purchase price allocation has been based on best estimates from Atrium's management. The final allocation will be made by an independent valuation firm and may differ from the figures used for the preparation of the unaudited consolidated pro forma financial statements. The assets acquired and liabilities assumed in the unaudited consolidated pro forma balance sheet are as follows:

The preliminary purchase price allocation of Douglas, on a pro forma basis, is summarized as follows:

	\$
	-----
Assets	
Current assets	24,596
Property, plant and equipment	3,421
Intangible assets	
Customer relationships	8,000
Trademarks	39,800
	-----
	75,817
	-----
Liabilities	
Current liabilities	5,004
Long-term liabilities	9,777
Future income tax liabilities	16,799
	-----
	31,580
	-----
Net identified assets acquired	44,237

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Goodwill	42,685
	-----
Purchase price	86,922
Less	
Cash and cash equivalent acquired	2,925
Atrium subordinate voting shares issued	8,632
	-----
Net cash used for the acquisition	75,365
	-----
	-----

- (a) To reflect intangible assets identified totalling \$47,800,000 for Customer relationships and Trademarks and related future income tax liabilities totalling \$16,252,000.
- (b) To reflect the net increase in Goodwill.
- (c) To reflect the preliminary amortization of Customer relationships amortized over a period of 5 to 15 years. An amortization expense totalling \$710,000 for the nine-month period ended September 30, 2005 and \$947,000 for the year ended December 31, 2004 is accounted for in the unaudited consolidating financial statements of earnings. Trademarks acquired are indefinite-lived intangible assets and are not amortized.
- (d) Shareholder's equity of Douglas is eliminated on a consolidated basis.
- (e) To reflect the non-controlling interest.

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AETERNA ZENTARIS INC.  
NOTES TO CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS  
(Unaudited - See Compilation Report)  
(expressed in US dollars)

### FINANCING OF THE ACQUISITION OF DOUGLAS

- (f) This acquisition was financed by Atrium's amended revolving credit facility. For the pro forma, the old debt of Douglas totalling \$10,225,000 (short term of \$516,000 and long-term of \$9,709,000) has been repaid and an increase of Atrium's amended revolving credit facility has been recorded for a total amount of \$88,515,000. An interest rate of 6.27 % has been used, which is the current rate of borrowing under this revolving credit facility as of December 31, 2005. This increase of long term debt, taking into account the reimbursement of the old Douglas debt by Atrium's amended credit facility produces a net interest expense increase of \$3,802,000 in the pro forma consolidated statement of earnings for the nine-month period ended September 30, 2005 and \$5,062,000 for the year ended December 31, 2004.
- (g) The interest expense adjustment takes into account the amortization related to financing fees. The old debt of Douglas related deferred financing costs totalling \$273,000 has not been considered in the purchased price allocation. For the new amended credit facility, the financing cost totals \$719,000 and is amortized over the new revolving

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credit facility period of 3 years. An amortization expense totalling \$180,000 for the nine-month period ended September 30, 2005 and \$240,000 for the year ended December 31, 2004 is accounted for in the pro forma consolidated statement of earnings as interest expense. The net increase of the deferred financing costs is therefore \$446,000 for the adjustment in the pro forma consolidated balance sheet as of September 30, 2005.

- (h) The income tax expense has been adjusted by of \$1,595,000 for the nine-month period ended September 30, 2005 and of \$2,125,000 for the year ended December 31, 2004 to reflect the increase of interest expense deductible for income tax purposes and the tax effect on amortization of intangible assets with finite lives.

RECLASSIFICATION OF DEPRECIATION

- (i) The depreciation included in the cost of goods of Douglas has been reclassified on the line Depreciation of the pro forma consolidated statements of earnings to reflect the same presentation used by the Company.

GAIN ON DILUTION

- (j) Pursuant to the issuance of Atrium's subordinate voting shares, a gain on dilution of investments was recognized in the balance sheet and due to the non-recurring nature, the gain on dilution was not reflected in the proforma statements of earnings.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AETERNA ZENTARIS INC.

DATE: APRIL 28, 2006  
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By: /S/ MARIO PARADIS  
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Mario Paradis  
Senior Finance Director and Corporate Secretary