

Aeterna Zentaris Inc.  
Form 20-F  
March 28, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

- .. **Registration Statement Pursuant to Section 12(b) or 12(g) of The Securities Exchange Act of 1934**  
**OR**
- x **Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011**  
**OR**
- .. **Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
**OR**
- .. **Shell Company Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
**Commission file number 0-30752**

**AETERNA ZENTARIS INC.**

(Exact Name of Registrant as Specified in its Charter)

**Not Applicable**

(Translation of Registrant's Name into English)

**Canada**

(Jurisdiction of Incorporation)

**1405 du Parc-Technologique Blvd.**

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Quebec City, Quebec

Canada, G1P 4P5

(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and Address of Company Contact Person)

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 Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **NONE**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the ACT: **NONE**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as at the close of the period covered by the annual report: 104,762,096 common shares as at December 31, 2011.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP  International Financial Reporting Standards as issued by the International Accounting  Other

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Standards Board

If  other  has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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### **Basis of Presentation**

#### **General**

Except where the context otherwise requires, all references in this annual report on Form 20-F ( Form 20-F ) to the Company , Aeterna Zentaris Inc. , we , us , our or similar words or phrases are to Aeterna Zentaris Inc. and its subsidiaries, taken together. In this annual report, references to \$ and US\$ are to United States dollars, references to CAN\$ are to Canadian dollars and references to EUR are to euros. Unless otherwise indicated, the statistical and financial data contained in this annual report are presented as at December 31, 2011.

This annual report on Form 20-F also contains certain information regarding products or product candidates that may potentially compete with our products and product candidates, and such information has been primarily derived from information made publicly available by the companies developing such potentially competing products and product candidates and has not been independently verified by Aeterna Zentaris Inc.

### **Forward-Looking Statements**

This annual report contains forward-looking statements made pursuant to the safe harbor provisions of the U.S. Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which could cause the Company s actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, among others, the availability of funds and resources to pursue our research and development ( R&D ) projects, the successful and timely completion of clinical studies, the ability of the Company to take advantage of business opportunities in the pharmaceutical industry, uncertainties related to the regulatory process and general changes in economic conditions. Investors should consult the Company s quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Investors are cautioned not to rely on these forward-looking statements. The Company does not undertake to update these forward-looking statements and disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forwards-looking statements contained herein to reflect future results, events or developments except if required to do so by a governmental authority or applicable law.

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

**A. *Directors and senior management***

Not applicable.

**B. *Advisors***

Not applicable.

**C. *Auditors***

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

**A. *Offer statistics***

Not applicable.

**B. *Method and expected timetable***

Not applicable.

**Item 3. Key Information**

**A. *Selected financial data***

The consolidated statement of comprehensive loss data set forth in this Item 3.A with respect to the years ended December 31, 2011 and 2010, and the consolidated statement of financial position data as at December 31, 2011 and 2010, have been derived from the audited consolidated financial statements listed in Item 18, which have been prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board ( IASB ). The consolidated statement of operations data set forth in this Item 3.A with respect to the years ended December 31, 2009, 2008 and 2007, and the consolidated balance sheet data as at December 31, 2009, 2008 and 2007, have been derived from our previous consolidated financial statements not included herein, which were prepared in accordance with Canadian GAAP, except as otherwise described therein. The selected financial data should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this annual report, and Item 5. Operating and Financial Review and Prospects of this annual report.

**Table of Contents****Consolidated Statements of Comprehensive Loss***(in thousands of US dollars, except share and per share data)**Derived from financial statements prepared in accordance with IFRS*

	<b>Years ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>		
Sales and royalties	31,306	24,857
License fees and other	4,747	2,846
	<b>36,053</b>	<b>27,703</b>
<b>Operating expenses</b>		
Cost of sales	27,560	18,700
Research and development costs, net of refundable tax credits and grants	24,517	21,257
Selling, general and administrative expenses	16,170	12,552
	<b>68,247</b>	<b>52,509</b>
<b>Loss from operations</b>	<b>(32,194)</b>	<b>(24,806)</b>
Finance income	6,239	1,800
Finance costs	(8)	(5,445)
<b>Net finance income (costs)</b>	<b>6,231</b>	<b>(3,645)</b>
Loss before income taxes	<b>(25,963)</b>	<b>(28,451)</b>
Income tax expense	<b>(1,104)</b>	<b>-</b>
<b>Net loss</b>	<b>(27,067)</b>	<b>(28,451)</b>
<b>Other comprehensive (loss) income:</b>		
Foreign currency translation adjustments	(789)	1,001
Actuarial gain (loss) on defined benefit plans	(1,335)	191
<b>Comprehensive loss</b>	<b>(29,191)</b>	<b>(27,259)</b>
<b>Net loss per share</b>		
Basic and diluted	<b>(0.29)</b>	<b>(0.38)</b>
<b>Weighted average number of shares outstanding</b>		
Basic and diluted	<b>94,507,988</b>	<b>75,659,410</b>



**Table of Contents****Consolidated Statements of Operations Data***(in thousands of US dollars, except share and per share data)**Derived from financial statements prepared in accordance with Canadian GAAP*

	<b>Years Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	63,237	38,478	42,068
<b>Operating expenses</b>			
Cost of sales, excluding depreciation and amortization	16,501	19,278	12,930
Research and development costs	44,217	57,448	39,248
Research and development tax credits and grants	(403)	(343)	(2,060)
Selling, general and administrative expenses	16,040	17,325	20,403
Depreciation and amortization			
Property, plant and equipment	3,285	1,515	1,562
Intangible assets	7,555	5,639	4,004
Impairment of long-lived assets held for sale			735
	87,195	100,862	76,822
<b>Loss from operations</b>	(23,958)	(62,384)	(34,754)
<b>Other income (expenses)</b>			
Interest income	349	868	1,904
Interest expense	(5)	(118)	(85)
Foreign exchange gain (loss)	(1,110)	3,071	(1,035)
Loss on disposal of long-lived assets held for sale		(35)	
Loss on disposal of equipment		(44)	(28)
	(766)	3,742	756
<b>Loss before income taxes from continuing operations</b>	(24,724)	(58,642)	(33,998)
<b>Income tax (expense) recovery</b>		(1,175)	1,961
<b>Net loss from continuing operations</b>	(24,724)	(59,817)	(32,037)
<b>Net loss from discontinued operations</b>			(259)
<b>Net loss for the year</b>	(24,724)	(59,817)	(32,296)
<b>Net loss per share from continuing operations</b>			
Basic and diluted	(0.43)	(1.12)	(0.61)

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<b>Net loss per share</b>			
Basic and diluted	(0.43)	(1.12)	(0.61)
<b>Weighted average number of shares</b>			
Basic and diluted	56,864,484	53,187,470	53,182,803

**Table of Contents****Consolidated Statements of Operations Data***(in thousands of US dollars, except share and per share data)**Derived from reconciliation to US GAAP*

	<b>Years ended December 31,</b>		
	<b>2009*</b>	<b>2008*</b>	<b>2007*</b>
	\$	\$	\$
<b>Net loss for the year</b>	(16,794)	(56,070)	(37,428)
<b>Of which:</b>			
<b>Net loss from continuing operations</b>	(16,794)	(56,070)	(36,415)
<b>Net loss from discontinued operations</b>			(1,013)
<b>Net loss per share from continuing operations</b>			
Basic and diluted	(0.30)	(1.05)	(0.68)
<b>Net loss per share from discontinued operations</b>			
Basic and diluted			(0.02)
<b>Net loss per share</b>			
Basic and diluted	(0.30)	(1.05)	(0.70)
<b>Weighted average number of shares</b>			
Basic and diluted	56,864,484	53,187,470	53,182,803

**Consolidated Statement of Financial Position Data***(in thousands of US dollars)**Derived from financial statements prepared in accordance with IFRS for 2011 and 2010, and Canadian GAAP for 2009, 2008 and 2007*

	<b>As at December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009*</b>	<b>2008*</b>	<b>2007*</b>
	\$	\$	\$	\$	\$
Cash and cash equivalents	46,881	31,998	38,100	49,226	10,272
Short-term investments		1,934		493	31,115
Working capital	42,254	29,444	29,745	39,554	37,325
Restricted cash	806	827	878		
Total assets	75,369	61,448	86,262	108,342	123,363
Warrant liability short-term	42	955	*	*	*
Warrant liability long-term	9,162	13,412	*	*	*
Long-term payable	29	90	143	172	
Share capital	101,884	60,900	41,203	30,566	30,566
Shareholders' (deficiency) equity	(4,546)	(17,575)	9,226	21,475	88,591

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\*We adopted IFRS in 2011 with a transition date of January 1, 2010. The selected financial information for the years ended December 31, 2009, 2008 and 2007 is derived from financial statements that were presented in accordance with Canadian GAAP and has not been restated in accordance with IFRS. Consequently, the selected financial information for the years ended December 31, 2009, 2008 and 2007 may not be comparable with the corresponding selected financial information for the years ended December 31, 2011 and 2010. Please refer to Critical Accounting Policies, Estimates and Judgments for the policy differences between Canadian GAAP and IFRS.

**Table of Contents****Consolidated Statement of Financial Position Data***(in thousands of US dollars)**Derived from financial statements prepared in accordance with IFRS for 2011 and 2010, and US GAAP for 2009, 2008 and 2007*

	<b>As at December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009*</b>	<b>2008*</b>	<b>2007*</b>
	\$	\$	\$	\$	\$
Cash and cash equivalents	46,881	31,998	38,100	49,226	10,272
Short-term investments		1,934		493	31,115
Working capital	42,254	29,444	29,745	39,554	37,325
Restricted cash	806	827	878		
Total assets	75,369	61,448	84,116	100,001	109,182
Warrant liability, short-term	42	955	*	*	*
Warrant liability, long-term	9,162	13,412	1,351	*	*
Long-term payable	29	90	143	172	
Share capital	101,884	60,900	33,226	22,589	22,589
Shareholders (deficiency) equity	(4,546)	(17,575)	5,729	13,134	74,410

\* We adopted IFRS in 2011 with a transition date of January 1, 2010. The selected financial information for the years ended December 31, 2009, 2008 and 2007 is derived from financial statements that were presented in accordance with Canadian GAAP and has not been restated in accordance with IFRS. Consequently, the selected financial information for the years ended December 31, 2009, 2008 and 2007 may not be comparable with the corresponding selected financial information for the years ended December 31, 2011 and 2010. Please refer to *Critical Accounting Policies, Estimates and Judgments* for the policy differences between Canadian GAAP and IFRS.

**B. Capitalization and indebtedness**

Not applicable.

**C. Reasons for the offer and use of proceeds**

Not applicable.

**D. Risk factors****Risks Relating to Us and Our Business***Investments in biopharmaceutical companies are generally considered to be speculative.*

The prospects for companies operating in the biopharmaceutical industry may generally be considered to be uncertain, given the very nature of the industry and, accordingly, investments in biopharmaceutical companies should be considered to be speculative.

*We have a history of operating losses and we may never achieve or maintain operating profitability.*

Our product candidates remain at the development stage, and we have incurred substantial expenses in our efforts to develop products. Consequently, we have incurred recurrent operating losses and, as disclosed in our audited consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, we had an accumulated deficit of \$189.0 million as at December 31, 2011. Our operating losses have adversely impacted, and will continue to adversely impact, our working capital, total assets and

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shareholders' deficiency. We do not expect to reach operating profitability in the immediate future, and our expenses are likely to increase as we continue to expand our R&D and clinical study programs and our sales and marketing activities and seek regulatory approval for our product candidates. Even if we succeed in developing new commercial products, we expect to incur additional operating losses for at least the next several years. If we ultimately do not generate sufficient revenue from commercialized products and achieve or maintain operating profitability, an investment in our securities could result in a significant or total loss.

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*Our clinical trials may not yield results which will enable us to obtain regulatory approval for our products, and a setback in any of our clinical trials would likely cause a drop in the price of our securities.*

We will only receive regulatory approval for a product candidate if we can demonstrate in carefully designed and conducted clinical trials that the product candidate is both safe and effective. We do not know whether our pending or any future clinical trials will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or will result in marketable products. Unfavorable data from those studies could result in the withdrawal of marketing approval for approved products or an extension of the review period for developmental products. For example, our partner Keryx is conducting phase 3 trials of perifosine for the treatment of colorectal cancer and multiple myeloma. The enrollment of the trial in colorectal cancer has been completed and results of this trial are expected in the near future. If the results of this clinical trial are unfavorable, it would likely adversely affect our and our partners' perifosine development programs. In addition, unfavorable results in this trial could adversely affect our stock price. Clinical trials are inherently lengthy, complex, expensive and uncertain processes and have a high risk of failure. It typically takes many years to complete testing, and failure can occur at any stage of testing. Results attained in preclinical testing and early clinical studies, or trials, may not be indicative of results that are obtained in later studies.

None of our product candidates has to date received regulatory approval for its intended commercial sale. We cannot market a pharmaceutical product in any jurisdiction until it has completed rigorous preclinical testing and clinical trials and passed such jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and efficacy of our product candidates before we can submit regulatory applications. Preclinical testing and clinical development are long, expensive and uncertain processes. Preparing, submitting and advancing applications for regulatory approval is complex, expensive and time-consuming and entails significant uncertainty. Data obtained from preclinical and clinical tests can be interpreted in different ways, which could delay, limit or prevent regulatory approval. It may take us many years to complete the testing of our product candidates and failure can occur at any stage of this process. In addition, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval in the United States, in Canada and abroad and, accordingly, we may encounter unforeseen problems and delays in the approval process. Though we may engage a contract research organization (a CRO) with experience in conducting regulatory trials, errors in the conduct, monitoring and/or auditing could invalidate the results from a regulatory perspective. Even if a product candidate is approved by the United States Food and Drug Administration (the FDA), the Canadian Therapeutic Products Directorate or any other regulatory authority, we may not obtain approval for an indication whose market is large enough to recoup our investment in that product candidate. In addition, there can be no assurance that we will ever obtain all or any required regulatory approvals for any of our product candidates.

We are currently developing our product candidates based on R&D activities, preclinical testing and clinical trials 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 successfully and on a 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.

Interim results of preclinical or clinical studies do not necessarily predict their final results, and acceptable results in early studies might not be obtained in later studies. Safety signals detected during clinical studies and preclinical animal studies may require us to do additional studies, which could delay the development of the drug or lead to a decision to discontinue development of the drug. Product candidates in the later stages of clinical development may fail to show the desired safety and efficacy traits despite positive results in initial clinical testing. Results from earlier studies may not be indicative of results from future clinical trials and the risk remains that a pivotal program may generate efficacy data that will be insufficient for the approval of the drug, or may raise safety concerns that may prevent approval of the drug. Interpretation of the prior preclinical and clinical safety and efficacy data of our product candidates may be flawed and there can be no assurance that safety and/or efficacy concerns from the prior data were overlooked or misinterpreted, which in subsequent, larger studies appear and prevent approval of such product candidates.

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Furthermore, we may suffer significant setbacks in advanced clinical trials, even after promising results in earlier studies. Based on results at any stage of clinical trials, we may decide to repeat or redesign a trial or discontinue development of one or more of our product candidates. Further, actual results may vary once the final and quality-controlled verification of data and analyses has been completed. If we fail to adequately demonstrate the safety and efficacy of our products under development, we will not be able to obtain the required regulatory approvals to commercialize our product candidates.

Clinical trials are subject to continuing oversight by governmental regulatory authorities and institutional review boards and:

must meet the requirements of these authorities;

must meet requirements for informed consent; and

must meet requirements for good clinical practices.

We may not be able to comply with these requirements in respect of one or more of our product candidates.

In addition, we rely on third parties, including CROs and outside consultants, to assist us in managing and monitoring clinical trials. Our reliance on these third parties may result in delays in completing, or in failing to complete, these trials if one or more third parties fails to perform with the speed and level of competence we expect.

A failure in the development of any one of our programs or product candidates could have a negative impact on the development of the others. Setbacks in any phase of the clinical development of our product candidates would have an adverse financial impact (including with respect to any agreements and partnerships that may exist between us and other entities), could jeopardize regulatory approval and would likely cause a drop in the price of our securities.

***If we are unable to successfully complete our clinical trial programs, or if such clinical trials take longer to complete than we project, our ability to execute our current business strategy will be adversely affected.***

Whether or not and how quickly we complete clinical trials is dependent in part upon the rate at which we are able to engage clinical trial sites and, thereafter, the rate of enrollment of patients, and the rate at which we collect, clean, lock and analyze the clinical trial database. Patient enrollment is a function of many factors, including the design of the protocol, the size of the patient population, the proximity of patients to and availability of clinical sites, the eligibility criteria for the study, the perceived risks and benefits of the drug under study and of the control drug, if any, the efforts to facilitate timely enrollment in clinical trials, the patient referral practices of physicians, the existence of competitive clinical trials, and whether existing or new drugs are approved for the indication we are studying. Certain clinical trials are designed to continue until a pre-determined number of events have occurred to the patients enrolled. Such trials are subject to delays stemming from patient withdrawal and from lower than expected event rates and may also incur increased costs if enrollment is increased in order to achieve the desired number of events. If we experience delays in identifying and contracting with sites and/or in patient enrollment in our clinical trial programs, we may incur additional costs and delays in our development programs, and may not be able to complete our clinical trials on a cost-effective or timely basis. In addition, conducting multi-national studies adds another level of complexity and risk as we are subject to events affecting countries outside North America. Moreover, negative or inconclusive results from the clinical trials we conduct or adverse medical events could cause us to have to repeat or terminate the clinical trials. Accordingly, we may not be able to complete the clinical trials within an acceptable time frame, if at all. If we or any third party have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay or terminate ongoing clinical trials.



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Additionally, we have never filed a New Drug Application ( NDA ), or similar application for approval in the United States or in any country for our current product candidates, which may result in a delay in, or the rejection of, our filing of an NDA or similar application. During the drug development process, regulatory agencies will typically ask questions of drug sponsors. While we endeavor to answer all such questions in a timely fashion, or in the NDA filing, some questions may not be answered by the time we file our NDA. Unless the FDA waives the requirement to answer any such unanswered questions, submission of an NDA may be delayed or rejected.

***We are and will continue to be subject to stringent ongoing government regulation for our products and, even if we obtain regulatory approvals, for our product candidates.***

The manufacture, marketing and sale of our products and product candidates are and will continue to be subject to strict and ongoing regulation, even if regulatory authorities approve our product candidates. Compliance with such regulation will be expensive and consume substantial financial and management resources. For example, an approval for a product may be conditioned on our agreement to conduct costly post-marketing follow-up studies to monitor the safety or efficacy of the products. In addition, as a clinical experience with a drug expands after approval because the drug is used by a greater number and more diverse group of patients than during clinical trials, side effects or other problems may be observed after approval that were not observed or anticipated during pre-approval clinical trials. In such a case, a regulatory authority could restrict the indications for which the product may be sold or revoke the product's regulatory approval.

We and our contract manufacturers are and will continue to be required to comply with applicable current Good Manufacturing Practice ( cGMP ) regulations for the manufacture of our products. These regulations include requirements relating to quality assurance, as well as the corresponding maintenance of rigorous records and documentation. Manufacturing facilities must be approved before we can use them in the commercial manufacturing of our products and are subject to subsequent periodic inspection by regulatory authorities. In addition, material changes in the methods of manufacturing or changes in the suppliers of raw materials are subject to further regulatory review and approval.

If we, or any future marketing collaborators or contract manufacturers, fail to comply with applicable regulatory requirements, we may be subject to sanctions including fines, product recalls or seizures and related publicity requirements, injunctions, total or partial suspension of production, civil penalties, suspension or withdrawals of previously granted regulatory approvals, warning or untitled letters, refusal to approve pending applications for marketing approval of new products or of supplements to approved applications, import or export bans or restrictions, and criminal prosecution and penalties. Any of these penalties could delay or prevent the promotion, marketing or sale of our products and product candidates.

***If our products do not gain market acceptance, we may be unable to generate significant revenues.***

Even if our products are approved for commercialization, they may not be successful in the marketplace. Market acceptance of any of our products will depend on a number of factors including, but not limited to:

demonstration of clinical efficacy and safety;

the prevalence and severity of any adverse side effects;

limitations or warnings contained in the product's approved labeling;

availability of alternative treatments for the indications we target;

the advantages and disadvantages of our products relative to current or alternative treatments;

the availability of acceptable pricing and adequate third-party reimbursement; and

the effectiveness of marketing and distribution methods for the products.

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If our products do not gain market acceptance among physicians, patients, healthcare payers and others in the medical community, which may not accept or utilize our products, our ability to generate significant revenues from our products would be limited and our financial conditions will be materially adversely affected. In addition, if we 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 is subject to numerous factors, many of which are beyond our control. Our products, if successfully developed, may compete with a number of drugs and therapies currently manufactured and marketed by major pharmaceutical and other biotechnology companies. Our products may also compete with new products currently under development by others or with products which may be less expensive than our products. We cannot assure you 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 and would likely cause a drop in the price of our securities.

*We will likely require significant additional financing, and we may not have access to sufficient capital.*

We will likely require additional capital to pursue planned clinical trials, regulatory approvals, as well as further R&D and marketing efforts for our product candidates and potential products. Except as otherwise described in this annual report, we do not anticipate generating significant revenues from operations in the near future and we currently have no committed sources of capital.

We may attempt to raise additional funds through public or private financings, collaborations with other pharmaceutical companies or financing from other sources. Additional funding may not be available on terms which are acceptable to us. If adequate funding is not available to us on reasonable terms, we may need to delay, reduce or eliminate one or more of our product development programs or obtain funds on terms less favorable than we would otherwise accept. To the extent that additional capital is raised through the sale of equity securities or securities convertible into or exchangeable for equity securities, the issuance of those securities would result in dilution to our shareholders. Moreover, the incurrence of indebtedness could result in a substantial portion of our future operating cash flow, if any, being dedicated to the payment of principal and interest on such indebtedness and could impose restrictions on our operations. This could render us more vulnerable to competitive pressures and economic downturns.

We anticipate that our existing working capital, including the proceeds from any sale and anticipated revenues, will be sufficient to fund our development programs, clinical trials and other operating expenses for more than 12 months following year-end. However, our future capital requirements are substantial and may increase beyond our current expectations depending on many factors including:

the duration and results of our clinical trials for our various product candidates going forward;

unexpected delays or developments in seeking regulatory approvals;

the time and cost involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;

other unexpected developments encountered in implementing our business development and commercialization strategies;

the outcome of litigation, if any; and

further arrangements, if any, with collaborators.

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In addition, global economic and market conditions as well as future developments in the credit and capital markets may make it even more difficult for us to raise additional financing in the future.

***A substantial portion of our future revenues may be dependent upon our agreements with Keryx Biopharmaceuticals, Inc. and Yakult Honsha Co. Ltd***

We currently expect that a substantial portion of our future revenues may be dependent upon our strategic partnerships with Keryx Biopharmaceuticals, Inc. ( Keryx ) for North America and Yakult Honsha Co. Ltd. ( Yakult ) for Japan. Under these strategic partnerships, Keryx and Yakult have significant development and commercialization responsibilities with respect to the development and sale of perifosine in their respective territories. If Keryx or Yakult were to terminate their agreements with us, fail to meet their obligations or otherwise decrease their level of efforts, allocation of resources or other commitments under their respective agreements, our future revenues and/or prospects could be negatively impacted and the development and commercialization of perifosine would be interrupted. In addition, if either Keryx or Yakult does not achieve some or any of their respective development, regulatory and commercial milestones or if they do not achieve certain net sales thresholds as set forth in the agreements, we will not fully realize the expected economic benefits of such agreements. Further, the achievement of certain of the milestones under these strategic partnership agreements will depend on factors that are outside of our control and most are not expected to be achieved for several years, if at all. Any failure to successfully maintain our strategic partnership agreements could materially and adversely affect our ability to generate revenues.

***If we are unsuccessful in increasing our revenues and/or raising additional funding, we may possibly cease to continue operating as we currently do.***

Although our audited consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010 have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, our ability to continue as a going concern is dependent on the successful execution of our business plan, which will require an increase in revenue and/or additional funding to be provided by potential investors as well as non-traditional sources of financing. Although we stated in our audited consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010 that management believed that the Company had, as at December 31, 2011, sufficient financial resources to fund planned expenditures and other working capital needs for at least, but not limited to, the 12-month period following such date, there can be no assurance that management's assumptions will not change in our future financial statements.

Since our inception, we have incurred losses, accumulated deficits and negative cash flows from operations. We expect that this will continue throughout 2012.

Additional funding may be in the form of debt or equity or a hybrid instrument depending on the needs of the investor. In light of present and future global economic and credit market conditions, we may not be able to raise additional cash resources through these traditional sources of financing. Although we are also pursuing non-traditional sources of financing with third parties, the global credit markets may adversely affect the ability of potential third parties to pursue such transactions with us. Accordingly, as a result of the foregoing, we continue to review traditional sources of financing, such as private and public debt or various equity financing alternatives, as well as other alternatives to enhance shareholder value including, but not limited to, non-traditional sources of financing, such as alliances with strategic partners, the sale of assets or licensing of our technology or intellectual property, a combination of operating and related initiatives or a substantial reorganization of our business. If we do not raise additional capital, we do not expect our operations to generate sufficient cash flow to fund our obligations as they come due.

There can be no assurance that we will achieve profitability or positive cash flows or be able to obtain additional funding or that, if obtained, they will be sufficient, or whether any other initiatives will be successful, such that we may continue as a going concern. There could be material uncertainties related to certain adverse conditions and events that could cast significant doubt on our ability to remain a going concern.

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### ***We may not achieve our projected development goals in the time-frames we announce and expect.***

We set goals and make public statements regarding the timing of the accomplishment of objectives material to our success, such as the commencement, enrollment and completion of clinical trials, anticipated regulatory submission and approval dates and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialize our products. There can be no assurance that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to adhere to our current schedule for the launch of any of our products. If we fail to achieve one or more of these milestones as planned, the price of our securities would likely decline.

### ***If we fail to obtain acceptable prices or adequate reimbursement for our products, our ability to generate revenues will be diminished.***

The ability for us and/or our partners to successfully commercialize our products will depend significantly on our ability to obtain acceptable prices and the availability of reimbursement to the patient from third-party payers, such as governmental and private insurance plans. These third-party payers frequently require companies to provide predetermined discounts from list prices, and they are increasingly challenging the prices charged for pharmaceuticals and other medical products. Our products may not be considered cost-effective, and reimbursement to the patient may not be available or sufficient to allow us or our partners to sell our products on a competitive basis. It may not be possible to negotiate favorable reimbursement rates for our products.

In addition, the continuing efforts of third-party payers to contain or reduce the costs of healthcare through various means may limit our commercial opportunity and reduce any associated revenue and profits. We expect proposals to implement similar government control to continue. In addition, increasing emphasis on managed care will continue to put pressure on the pricing of pharmaceutical and biopharmaceutical products. Cost control initiatives could decrease the price that we or any current or potential collaborators could receive for any of our products and could adversely affect our profitability. In addition, in the United States, in Canada and in many other countries, pricing and/or profitability of some or all prescription pharmaceuticals and biopharmaceuticals are subject to government control.

If we fail to obtain acceptable prices or an adequate level of reimbursement for our products, the sales of our products would be adversely affected or there may be no commercially viable market for our products.

### ***Competition in our targeted markets is intense, and development by other companies could render our products or technologies non-competitive.***

The biomedical field is highly competitive. New products developed by other companies in the industry could render our products or technologies non-competitive. Competitors are developing and testing products and technologies that would compete with the products that we are developing. Some of these products may be more effective or have an entirely different approach or means of accomplishing the desired effect than our products. We expect competition from biopharmaceutical and pharmaceutical companies and academic research institutions to increase over time. Many of our competitors and potential competitors have substantially greater product development capabilities and financial, scientific, marketing and human resources than we do. Our competitors may succeed in developing products earlier and in obtaining regulatory approvals and patent protection for such products more rapidly than we can or at a lower price.

### ***We may not obtain adequate protection for our products through our intellectual property.***

We rely heavily on our proprietary information in developing and manufacturing our product candidates. Our success depends, in large part, on our ability to protect our competitive position through patents, trade secrets, trademarks and other intellectual property rights. The patent positions of pharmaceutical and biopharmaceutical firms, including Aeterna Zentaris, are uncertain and involve complex questions of law and fact for which

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important legal issues remain unresolved. Applications for patents and trademarks in Canada, the United States and in other foreign territories have been filed and are being actively pursued by us. Pending patent applications may not result in the issuance of patents and we may not be able to obtain additional issued patents relating to our technology or products. Even if issued, patents to us or our licensors may be challenged, narrowed, invalidated, held to be unenforceable or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection. The patents issued or to be issued to us may not provide us with any competitive advantage or protect us against competitors with similar technology. In addition, it is possible that third parties with products that are very similar to ours will circumvent our patents by means of alternate designs or processes. We may have to rely on method of use and new formulation protection for our compounds in development, and any resulting products, which may not confer the same protection as claims to compounds per se.

In addition, our patents may be challenged by third parties in patent litigation, which is becoming widespread in the biopharmaceutical industry. There may be prior art of which we are not aware that may affect the validity or enforceability of a patent claim. There may also be prior art of which we are aware, but which we do not believe affects the validity or enforceability of a claim, which may, nonetheless, ultimately be found to affect the validity or enforceability of a claim. No assurance can be given that our patents would, if challenged, be held by a court to be valid or enforceable or that a competitor's technology or product would be found by a court to infringe our patents. Our granted patents could also be challenged and revoked in opposition or nullity proceedings in certain countries outside the United States. In addition, we may be required to disclaim part of the term of certain patents.

Patent applications relating to or affecting our business have been filed by a number of pharmaceutical and biopharmaceutical companies and academic institutions. A number of the technologies in these applications or patents may conflict with our technologies, patents or patent applications, and any such conflict could reduce the scope of patent protection which we could otherwise obtain. Because patent applications in the United States and many other jurisdictions are typically not published until eighteen months after their first effective filing date, or in some cases not at all, and because publications of discoveries in the scientific literature often lag behind actual discoveries, neither we nor our licensors can be certain that we or they were the first to make the inventions claimed in our or their issued patents or pending patent applications, or that we or they were the first to file for protection of the inventions set forth in these patent applications. If a third party has also filed a patent application in the United States covering our product candidates or a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the United States Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial and it is possible that our efforts could be unsuccessful, resulting in a loss of our U.S. patent position.

In addition to patents, we rely on trade secrets and proprietary know-how to protect our intellectual property. If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected. We seek to protect our unpatented proprietary information in part by requiring our employees, consultants, outside scientific collaborators and sponsored researchers and other advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of our proprietary information. In addition, it is possible that third parties could independently develop proprietary information and techniques substantially similar to ours or otherwise gain access to our trade secrets. If we are unable to protect the confidentiality of our proprietary information and know-how, competitors may be able to use this information to develop products that compete with our products and technologies, which could adversely impact our business.

We currently have the right to use certain technology under license agreements with third parties. Our failure to comply with the requirements of material license agreements could result in the termination of such agreements, which could cause us to terminate the related development program and cause a complete loss of our investment in that program.

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As a result of the foregoing factors, we may not be able to rely on our intellectual property to protect our products in the marketplace.

### ***We may infringe the intellectual property rights of others.***

Our commercial success depends significantly on our ability to operate without infringing the patents and other intellectual property rights of third parties. There could be issued patents of which we are not aware that our products or methods may be found to infringe, or patents of which we are aware and believe we do not infringe but which we may ultimately be found to infringe. Moreover, patent applications and their underlying discoveries are in some cases maintained in secrecy until patents are issued. Because patents can take many years to issue, there may be currently pending applications of which we are unaware that may later result in issued patents that our products or methods are found to infringe. Moreover, there may be published pending applications that do not currently include a claim covering our products or methods but which nonetheless provide support for a later drafted claim that, if issued, our products or methods could be found to infringe.

If we infringe or are alleged to infringe intellectual property rights of third parties, it will adversely affect our business. Our research, development and commercialization activities, as well as any product candidates or products resulting from these activities, may infringe or be accused of infringing one or more claims of an issued patent or may fall within the scope of one or more claims in a published patent application that may subsequently issue and to which we do not hold a license or other rights. Third parties may own or control these patents or patent applications in the United States and abroad. These third parties could bring claims against us or our collaborators that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us or our collaborators, we or they could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit.

The biopharmaceutical industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. In the event of infringement or violation of another party's patent or other intellectual property rights, we may not be able to enter into licensing arrangements or make other arrangements at a reasonable cost. Any inability to secure licenses or alternative technology could result in delays in the introduction of our products or lead to prohibition of the manufacture or sale of products by us or our partners and collaborators.

### ***Patent litigation is costly and time consuming and may subject us to liabilities.***

Our involvement in any patent litigation, interference, opposition or other administrative proceedings will likely cause us to incur substantial expenses, and the efforts of our technical and management personnel will be significantly diverted. In addition, an adverse determination in litigation could subject us to significant liabilities.

### ***We may not obtain trademark registrations.***

We have filed applications for trademark registrations in connection with our product candidates in various jurisdictions, including the United States. We intend to file further applications for other possible trademarks for our product candidates. No assurance can be given that any of our trademark applications will be registered in the United States or elsewhere, or that the use of any registered or unregistered trademarks will confer a competitive advantage in the marketplace. Furthermore, even if we are successful in our trademark registrations, the FDA and regulatory authorities in other countries have their own process for drug nomenclature and their own views concerning appropriate proprietary names. The FDA and other regulatory authorities also have the power, even after granting market approval, to request a company to reconsider the name for a product because of evidence of confusion in the marketplace. No assurance can be given that the FDA or any other regulatory authority will approve of any of our trademarks or will not request reconsideration of one of our trademarks at some time in the future. The loss, abandonment, or cancellation of any of our trademarks or trademark applications could negatively affect the success of the product candidates to which they relate.

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*Our revenues and expenses may fluctuate significantly, and any failure to meet financial expectations may disappoint securities analysts or investors and result in a decline in the price of our securities.*

We have a history of operating losses. Our revenues and expenses have fluctuated in the past and are likely to do so in the future. These fluctuations could cause our share price to decline. Some of the factors that could cause our revenues and expenses to fluctuate include but are not limited to:

the inability to complete product development in a timely manner that results in a failure or delay in receiving the required regulatory approvals to commercialize our product candidates;

the timing of regulatory submissions and approvals;

the timing and willingness of any current or future collaborators to invest the resources necessary to commercialize our product candidates;

the revenue available from royalties derived from our strategic partners;

licensing fees revenues;

tax credits and grants (R&D);

the outcome of litigation, if any;

changes in foreign currency fluctuations;

the timing of achievement and the receipt of milestone payments from current or future collaborators; and

failure to enter into new or the expiration or termination of current agreements with collaborators.

Due to fluctuations in our revenues and expenses, we believe that period-to-period comparisons of our results of operations are not necessarily indicative of our future performance. It is possible that in some future quarter or quarters, our revenues and expenses will be above or below the expectations of securities analysts or investors. In this case, the price of our securities could fluctuate significantly or decline.

***We will not be able to successfully commercialize our product candidates if we are unable to make adequate arrangements with third parties for such purposes.***

We currently have a lean sales and marketing staff. In order to commercialize our product candidates successfully, we need to make arrangements with third parties to perform some or all of these services in certain territories.

We contract with third parties for the sales and marketing of our products. Our revenues will depend upon the efforts of these third parties, whose efforts may not be successful. If we fail to establish successful marketing and sales capabilities or to make arrangements with third parties for such purposes, our business, financial condition and results of operations will be materially adversely affected.



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If we had to resort to developing a sales force internally, the cost of establishing and maintaining a sales force would be substantial and may exceed its cost effectiveness. In addition, in marketing our products, we would likely compete with many companies that currently have extensive and well-funded marketing and sales operations. Despite our marketing and sales efforts, we may be unable to compete successfully against these companies.

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We are currently dependent on strategic partners and may enter into future collaborations for the research, development and commercialization of our product candidates. Our arrangements with these strategic partners may not provide us with the benefits we expect and may expose us to a number of risks.

We are dependent on, and rely upon, strategic partners to perform various functions related to our business, including, but not limited to, the research, development and commercialization of some of our product candidates. Our reliance on these relationships poses a number of risks.

We may not realize the contemplated benefits of such agreements nor can we be certain that any of these parties will fulfill their obligations in a manner which maximizes our revenue. These arrangements may also require us to transfer certain material rights or issue our equity, voting or other securities to corporate partners, licensees and others. Any license or sublicense of our commercial rights may reduce our product revenue.

These agreements also create certain risks. The occurrence of any of the following or other events may delay product development or impair commercialization of our products:

not all of our strategic partners are contractually prohibited from developing or commercializing, either alone or with others, products and services that are similar to or competitive with our product candidates and, with respect to our strategic partnership agreements that do contain such contractual prohibitions or restrictions, prohibitions or restrictions do not always apply to our partners' affiliates and they may elect to pursue the development of any additional product candidates and pursue technologies or products either on their own or in collaboration with other parties, including our competitors, whose technologies or products may be competitive with ours;

our strategic partners may under-fund or fail to commit sufficient resources to marketing, distribution or other development of our products;

we may not be able to renew such agreements;

our strategic partners may not properly maintain or defend certain intellectual property rights that may be important to the commercialization of our products;

our strategic partners may encounter conflicts of interest, changes in business strategy or other issues which could adversely affect their willingness or ability to fulfill their obligations to us (for example, pharmaceutical companies historically have re-evaluated their priorities following mergers and consolidations, which have been common in recent years in this industry);

delays in, or failures to achieve, scale-up to commercial quantities, or changes to current raw material suppliers or product manufacturers (whether the change is attributable to us or the supplier or manufacturer) could delay clinical studies, regulatory submissions and commercialization of our product candidates; and

disputes may arise between us and our strategic partners that could result in the delay or termination of the development or commercialization of our product candidates, resulting in litigation or arbitration that could be time-consuming and expensive, or causing our strategic partners to act in their own self-interest and not in our interest or those of our shareholders or other stakeholders.

In addition, our strategic partners can terminate our agreements with them for a number of reasons based on the terms of the individual agreements that we have entered into with them. If one or more of these agreements were to be terminated, we would be required to devote additional resources to developing and commercializing our product candidates, seek a new partner or abandon this product candidate which would likely cause a drop in the price of our securities.

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We have entered into important strategic partnership agreements relating to certain of our product candidates for various indications. Detailed information on our research and collaboration agreements is available in our various reports and disclosure documents filed with the Canadian securities regulatory authorities and filed with or furnished to the United States Securities and Exchange Commission ( SEC ), including the documents incorporated by reference into this Annual Report on Form 20-F. See, for example, Note 5 to our audited consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010 included in this Annual Report on Form 20-F.

We have also entered into a variety of collaborative licensing agreements with various universities and institutes under which 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.

In particular, we have entered into an agreement with the Tulane Educational Fund ( Tulane ), which provides for the payment by us of single-digit royalties on future worldwide net sales of cetrotirelix, including Cetrotide®. Tulane is also entitled to receive a low double-digit participation payment on any lump-sum, periodic or other cash payments received by us from sub-licensees.

***We rely on third parties to conduct, supervise and monitor our clinical trials, and those third parties may not perform satisfactorily.***

We rely on third parties such as CROs, medical institutions and clinical investigators to enroll qualified patients and conduct, supervise and monitor our clinical trials. Our reliance on these third parties for clinical development activities reduces our control over these activities. Our reliance on these third parties, however, does not relieve us of our regulatory responsibilities, including ensuring that our clinical trials are conducted in accordance with Good Clinical Practice guidelines and the investigational plan and protocols contained in an Investigational New Drug ( IND ) application, or comparable foreign regulatory submission. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. In addition, they may not complete activities on schedule, or may not conduct our preclinical studies or clinical trials in accordance with regulatory requirements or our trial design. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, our efforts to obtain regulatory approvals for, and commercialize, our product candidates may be delayed or prevented.

***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, our contract manufacturers or our partners, 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.

***The failure to perform satisfactorily by third parties upon which we rely to manufacture and supply products may lead to supply shortfalls.***

We rely on third parties to manufacture and supply marketed products. We also have certain supply obligations to our licensing partners who are responsible for marketing such products. To be successful, our products have to be manufactured in commercial quantities in compliance with quality controls and regulatory requirements. Even though it is our objective to minimize such risk by introducing alternative suppliers to ensure a constant supply at all times, we cannot guarantee that we will not experience supply shortfalls and, in such event, we may not be able to perform our obligations under contracts with our partners.

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***We are subject to intense competition for our skilled personnel, and the loss of key personnel or the inability to attract additional personnel could impair our ability to conduct our operations.***

We are highly dependent on our management and our clinical, regulatory and scientific staff, the loss of whose services might adversely impact our ability to achieve our objectives. Recruiting and retaining qualified management and clinical, scientific and regulatory personnel is critical to our success. Competition for skilled personnel is intense, and our ability to attract and retain qualified personnel may be affected by such competition.

***Our strategic partners' manufacturing capabilities may not be adequate to effectively commercialize our product candidates.***

Our manufacturing experience to date with respect to our product candidates consists of producing drug substance for clinical studies. To be successful, these product candidates have to be manufactured in commercial quantities in compliance with regulatory requirements and at acceptable costs. Our strategic partners' current manufacturing facilities have the capacity to produce projected product requirements for the foreseeable future, but we will need to increase capacity if sales continue to grow. Our strategic partners may not be able to expand capacity or to produce additional product requirements on favorable terms. Moreover, delays associated with securing additional manufacturing capacity may reduce our revenues and adversely affect our business and financial position. There can be no assurance that we will be able to meet increased demand over time.

***We are subject to the risk of product liability claims, for which we may not have or be able to obtain adequate insurance coverage.***

The sale and use of our products, in particular our biopharmaceutical products, involve the risk of product liability claims and associated adverse publicity. Our risks relate to human participants in our clinical trials, who may suffer unintended consequences, as well as products on the market whereby claims might be made directly by patients, healthcare providers or pharmaceutical companies or others selling, buying or using our products. We manage our liability risks by means of insurance. We maintain liability insurance covering our liability for our preclinical and clinical studies and for our pharmaceutical products already marketed. However, we may not have or be able to obtain or maintain sufficient and affordable insurance coverage, including coverage for potentially very significant legal expenses, and without sufficient coverage any claim brought against us could have a materially adverse effect on our business, financial condition or results of operations.

***Our business involves the use of hazardous materials and, as such, we are subject to environmental and occupational safety laws regulating the use of such materials. If we violate these laws, we could incur significant fines or liabilities or suffer other adverse consequences.***

Our discovery and development processes involve the controlled use of hazardous and radioactive materials. We are subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident or a failure to comply with environmental or occupational safety laws, we could be held liable for any damages that result, and any such liability could exceed our resources. We may not be adequately insured against this type of liability. We may be required to incur significant costs to comply with environmental laws and regulations in the future, and our operations, business or assets may be materially adversely affected by current or future environmental laws or regulations.

***Legislative actions, new accounting pronouncements and higher insurance costs are likely to impact our future financial position or results of operations.***

Changes in financial accounting standards or implementation of accounting standards may cause adverse, unexpected revenue or expense fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with greater frequency and are expected to occur in the future, and we may make or be required to make changes in our accounting policies in the

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future. Compliance with changing regulations of corporate governance and public disclosure, notably with respect to internal controls over financial reporting, may result in additional expenses. Changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for companies such as ours, and insurance costs are increasing as a result of this uncertainty.

*We are subject to additional reporting requirements under applicable Canadian securities laws and the Sarbanes-Oxley Act in the United States. We can provide no assurance that we will at all times in the future be able to report that our internal controls over financial reporting are effective.*

As a public company, we are required to comply with Section 404 of the Sarbanes-Oxley Act ( Section 404 ) and National Instrument 52-109 *Certification of Disclosure in Issuers Annual and Interim Filings*, and we are required to obtain an annual attestation from our independent auditors regarding our internal control over financial reporting. In any given year, we cannot be certain as to the time of completion of our internal control evaluation, testing and remediation actions or of their impact on our operations. Upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations. As a public company, we are required to report, among other things, control deficiencies that constitute material weaknesses or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual consolidated financial statements will not be prevented or detected on a timely basis. If we fail to comply with the requirements of Section 404, Canadian requirements or report a material weakness, we might be subject to regulatory sanction and investors may lose confidence in our consolidated financial statements, which may be inaccurate if we fail to remedy such material weakness.

*It is possible that we may be a passive foreign investment company, which could result in adverse tax consequences to U.S. investors.*

Adverse U.S. federal income tax rules apply to U.S. Holders (as defined in Item 10.E Taxation Material U.S. Federal Income Tax Considerations in this Annual Report on Form 20-F) that directly or indirectly hold common shares or warrants of a passive foreign investment company ( PFIC ). We will be classified as a PFIC for U.S. federal income tax purposes for a taxable year if (i) at least 75 percent of our gross income is passive income or (ii) at least 50 percent of the average value of our assets, including goodwill (based on annual quarterly average), is attributable to assets which produce passive income or are held for the production of passive income.

We believe that we were not a PFIC for the 2011 taxable year. However, the fair market value of our assets may be determined in large part by the market price of our common shares, which is likely to fluctuate, and the composition of our income and assets will be affected by how, and how quickly, we spend any cash that is raised in any financing transaction. Thus no assurance can be provided that we will not be classified as a PFIC for the 2012 taxable year and for any future taxable year.

PFIC characterization could result in adverse U.S. federal income tax consequences to U.S. Holders. In particular, absent certain elections, a U.S. Holder would be subject to U.S. federal income tax at ordinary income tax rates, plus a possible interest charge, in respect of a gain derived from a disposition of our common shares, as well as certain distributions by us. If we are treated as a PFIC for any taxable year, a U.S. Holder may be able to make an election to mark to market common shares each taxable year and recognize ordinary income pursuant to such election based upon increases in the value of the common shares. However, a mark-to-market election is not available in respect of a warrant.

Under recently enacted U.S. tax legislation and subject to future guidance, if the Company is a PFIC, U.S. Holders will be required to file an annual information return with the Internal Revenue Service ( IRS ) (on IRS Form 8621, which PFIC shareholders will be required to file with their income tax or information returns) relating to their ownership of our common shares. Pursuant to Notice 2011-55, the IRS has suspended this new

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filing requirement for U.S. Holders that are not otherwise required to file the current version of the IRS Form 8621 until the IRS releases a subsequent revision of IRS Form 8621, modified to reflect the recently enacted U.S. tax legislation. Guidance has not yet been issued regarding the information required to be included on such form. This new filing requirement is in addition to any pre-existing reporting requirements that apply to a U.S. Holder's interest in a PFIC (which the recently enacted tax legislation and IRS Notice 2011-55 do not affect).

For a more detailed discussion of the potential tax impact of us being a PFIC, see Item 10.E Taxation Material U.S. Federal Income Tax Considerations in this Annual Report on Form 20-F.

### ***We may incur losses associated with foreign currency fluctuations.***

Our operations are in many instances conducted in currencies other than the euro, our functional currency. Fluctuations in the value of currencies could cause us to incur currency exchange losses. We do not currently employ a hedging strategy against exchange rate risk. We cannot assert with any assurance that we will not suffer losses as a result of unfavorable fluctuations in the exchange rates between the United States dollar, the euro, the Canadian dollar and other currencies. For more information, see Item 11. Quantitative and Qualitative Disclosures About Market Risk in this Annual Report on Form 20-F.

### ***We may not be able to successfully integrate acquired businesses.***

Future acquisitions may not be successfully integrated. 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.

## **Risks Related to our Securities**

***Our share price is volatile, which may result from factors outside of our control. If our common shares were to be delisted from the NASDAQ Global Market ( NASDAQ ) or the Toronto Stock Exchange (the TSX ), investors may have difficulty in disposing of our common shares held by them.***

Our common shares are currently listed and traded only on NASDAQ and TSX. Our valuation and share price since the beginning of trading after our initial listings, first in Canada and then in the United States, have had no meaningful relationship to current or historical financial results, asset values, book value or many other criteria based on conventional measures of the value of shares.

During the year ended December 31, 2011, the closing price of our common shares ranged from \$1.43 to \$2.58 on NASDAQ and from C\$1.41 to C\$2.51 per share on TSX. Our share price may be affected by developments directly affecting our business and by developments out of our control or unrelated to us. The stock market generally, and the biopharmaceutical sector in particular, are vulnerable to abrupt changes in investor sentiment. Prices of shares and trading volumes of companies in the biopharmaceutical industry can swing dramatically in ways unrelated to, or that bear a disproportionate relationship to, operating performance. Our share price and trading volume may fluctuate based on a number of factors including, but not limited to:

clinical and regulatory developments regarding our product candidates;

delays in our anticipated development or commercialization timelines;

developments regarding current or future third-party collaborators;

other announcements by us regarding technological, product development or other matters;

arrivals or departures of key personnel;



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governmental or regulatory action affecting our product candidates and our competitors' products in the United States, Canada and other countries;

developments or disputes concerning patent or proprietary rights;

actual or anticipated fluctuations in our revenues or expenses;

general market conditions and fluctuations for the emerging growth and biopharmaceutical market sectors; and

economic conditions in the United States, Canada or abroad.

Our listing on both NASDAQ and TSX may increase price volatility due to various factors, including different ability to buy or sell our common shares, different market conditions in different capital markets and different trading volumes. In addition, low trading volume may increase the price volatility of our common shares. A thin trading market could cause the price of our common shares to fluctuate significantly more than the stock market as a whole.

A period of large price decline in the market price of our common shares could increase the risk that securities class action litigation could be initiated against us. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which would adversely affect our business. Any adverse determination in litigation could also subject us to significant liabilities.

We must meet continuing listing requirements to maintain the listing of our common shares on NASDAQ and TSX. For continued listing, NASDAQ requires, among other things, that listed securities maintain a minimum closing bid price of not less than \$1.00 per share.

If we are unsuccessful in maintaining NASDAQ's minimum bid price or other requirements in the future and are unable to subsequently regain compliance within the applicable grace period, our common shares will be subject to delisting. Should we receive a delisting notification, we may appeal to the Listing Qualifications Panel or apply to transfer the listing of our common shares to the NASDAQ Capital Market if we satisfy at such time all of the initial listing standards of the NASDAQ Capital Market, other than compliance with the minimum closing bid price requirement. If the application to the NASDAQ Capital Market were approved, then we would have an additional 180-day grace period in order to regain compliance with the minimum bid price requirement while listed on the NASDAQ Capital Market. There can be no assurance that we will meet the requirements for continued listing or whether an application to the NASDAQ Capital Market would be approved or that any appeal would be granted by the Listing Qualifications Panel.

***We do not intend to pay dividends in the near future.***

To date, we have not declared or paid any dividends on our common shares. We currently intend to retain our future earnings, if any, to finance further research and the expansion of our business. As a result, the return on an investment in our securities will, for the foreseeable future, depend upon any future appreciation in value. There is no guarantee that our securities will appreciate in value or even maintain the price at which shareholders have purchased their securities.



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### **Item 4. Information on the Company**

#### **A. History and development of the Company**

Aeterna Zentaris Inc. is a late-stage drug development company specialized in oncology and endocrine therapy.

We were incorporated on September 12, 1990 under the *Canada Business Corporations Act* (the *CBCA*) and continue to be governed by the *CBCA*. Our registered office is located at 1405 du Parc-Technologique Blvd., Quebec City, Quebec, Canada G1P 4P5, our telephone number is (418) 652-8525 and our website is [www.aezsinc.com](http://www.aezsinc.com). None of the documents or information found on our website shall be deemed to be included in or incorporated by reference into this annual report.

On December 30, 2002, we acquired Zentaris AG, 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 acquired a very experienced pharmaceutical team along with a network of strategic pharmaceutical partners. The total consideration paid for the acquisition of Zentaris was \$51.9 million, net of cash and cash equivalents acquired of \$2.3 million, of which an amount of \$26.7 million was paid in cash and the remaining amount of \$25.2 million as a balance of purchase price.

In May 2004, we changed our name to Aeterna Zentaris Inc. and on May 11, 2007, Zentaris GmbH was renamed Aeterna Zentaris GmbH ( *AEZS GmbH* ). *AEZS GmbH* is our principal operating subsidiary.

On April 6, 2005, our former subsidiary Atrium Biotechnologies Inc. (now Atrium Innovations Inc.) ( *Atrium* ), completed its initial public offering in Canada and began trading on the TSX under the ticker symbol *ATB* .

Throughout 2006, as part of a thorough, strategic planning process, our management and Board of Directors (the *Board* ) made the decision to spin off Atrium in two phases. On September 19, 2006, we initiated the first phase, a secondary offering in which we sold 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 Aeterna 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 at October 18, 2006.

The second phase was to distribute our remaining interest in Atrium to our shareholders concurrently with a reduction of the stated capital of our common shares.

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

In May 2007, we opened an office in the United States, located at 20 Independence Boulevard, Warren, New Jersey 07059-2731. The Company moved this office to a new location in December 2011 at 25 Mountainview Blvd., Suite 203, Basking Ridge, NJ 07920.

We currently have three wholly-owned direct and indirect subsidiaries, Aeterna Zentaris GmbH ( *AEZS Germany* ), based in Frankfurt, Germany, Zentaris IVF GmbH, a direct wholly-owned subsidiary of *AEZS Germany* based in Frankfurt, Germany, and Aeterna Zentaris, Inc., based in Basking Ridge, New Jersey in the United States.

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From the formation of Atrium as our subsidiary in 1999 until the distribution of our remaining interest in Atrium on January 2, 2007, Atrium did not declare or pay any dividends to its shareholders. Since the disposition of our entire interest in Atrium, we have not had access to the liquidity or cash flows generated by Atrium.

Our current drug development strategy focuses mainly on our late-stage compounds perifosine and AEZS-108 (zoptarelin doxorubicin) in oncology, AEZS-130 (macimorelin) in endocrinology, as well as on strategic and targeted earlier-stage compounds, as depicted in the chart reproduced under the heading, *Our Product Pipeline*.

Our common shares are listed for trading on the TSX under the trading symbol *AEZ* and on NASDAQ under the trading symbol *AEZS*.

The Company's agent for service of process and SEC matters in the United States is its wholly-owned subsidiary, Aeterna Zentaris, Inc., located at 25 Mountainview Blvd., Suite 203, Basking Ridge, NJ 07920.

There have been no public takeover offers by third parties with respect to the Company or by the Company in respect of other companies' shares during the last or current fiscal year.

***B. Business overview***

We are a late-stage drug development company specialized in oncology and endocrine therapy.

Our pipeline encompasses compounds at all stages of development, from drug discovery through to marketed products. The highest development priorities in oncology are the completion of Phase 3 trials with perifosine in colorectal cancer (CRC) and in multiple myeloma (MM), as well as the further advancement of AEZS-108, for which we have successfully completed a Phase 2 trial in advanced endometrial and advanced ovarian cancer. We are planning for the initiation of a pivotal program with AEZS-108 in endometrial cancer and also a Phase 2 trial in triple-negative breast cancer. AEZS-108 is also in development in other cancer indications, including castration- and taxane-resistant prostate cancer, as well as refractory bladder cancer.

Our pipeline also encompasses other earlier-stage programs in oncology. AEZS-112, an oral anticancer agent which involves three mechanisms of action (tubulin, topoisomerase II and angiogenesis inhibition) has completed a Phase 1 trial in advanced solid tumors and lymphoma. Additionally, several novel targeted potential anti-cancer candidates such as AEZS-120, a live recombinant oral tumor vaccine candidate, as well as our phosphoinositide 3-kinase (PI3K)/Erk inhibitors AEZS-129, AEZS-131, AEZS-132 and their respective follow-up compounds are currently in preclinical development.

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Our lead program in endocrinology, a Phase 3 trial under a Special Protocol Assessment ( SPA ) obtained from the FDA with AEZS-130 as an oral diagnostic test for adult growth hormone deficiency ( AGHD ), has been completed with positive results. We are planning to file an NDA for the registration of AEZS-130 in the United States, subject to a successful pre-NDA meeting with the FDA. Furthermore, AEZS-130 is in a Phase 2A trial for the treatment of cancer cachexia.

### Recent Developments

For a complete description of our recent corporate and pipeline developments, refer to Item 5. Operating and Financial Review and Prospects Highlights .

### **Our Business Strategy**

Our primary business strategy is to advance, with the collaboration of our strategic partners, our product development pipeline with a focus on our flagship product candidates in oncology and endocrinology. In addition, we also continue to advance certain other clinical and preclinical programs as described below, some of which are conducted through grants from various governmental agencies. Our vision is to become a fully-integrated specialty biopharmaceutical company.

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**Our product pipeline**

**Pipeline table**

**Status of our drug pipeline as at March 27, 2012**

<b>Discovery</b>	<b>Preclinical</b>	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Commercial</b>
~120,000	AEZS-120	AEZS-112	Perifosine	Perifosine	Cetrotide®
compound	Prostate cancer	(oncology)	Multiple cancers	Refractory	( <i>in vitro</i> fertilization)
library	vaccine			advanced	
	(oncology)		AEZS-108	colorectal cancer	
			Endometrial cancer	Multiple myeloma	
	AEZS-129, 131, 132		Triple-negative		
	and 136;		breast cancer	AEZS-130	
	Erk & PI3K		Ovarian cancer	Diagnostic in adult	
	inhibitors (oncology)		Castration-and	growth hormone	
			taxane-resistant -	deficiency (endocrinology)	
	AEZS-137		prostate cancer		
	(Disorazol Z)		Refractory bladder		
	(oncology)		cancer		
	AEZS-125 (LHRH-		Ozarelix		
	Disorazol Z)		Prostate cancer		
	(oncology)				
			AEZS-130		
			Therapeutic in		
			cancer cachexia		
<b>Partners</b>			Perifosine:	Perifosine:	Cetrotide®:
			<b>Keryx</b>	<b>Keryx</b>	<b>Merck Serono</b>

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North America	North America	World except
<b>Handok</b>	<b>Handok</b>	Japan
Korea	Korea	<b>Nippon</b>
<b>Yakult</b>	<b>Yakult</b>	<b>Kayaku /</b>
Japan	Japan	<b>Shionogi</b>
<b>Hikma</b>	<b>Hikma</b>	Japan
Middle East/ North Africa	Middle East/ North Africa	

Ozarelix:

**Spectrum**

World (ex-Japan for  
oncology indications,  
ex-Korea and ex-other  
Asian countries for  
BPH indication)

**Handok**

Korea and other Asian  
countries for BPH  
indication

**Nippon Kayaku**

Japan for oncology  
indications

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### ***Oncology***

Our highest priorities in oncology are with perifosine, to complete the two Phase 3 trials in CRC and in MM, and to continue our Phase 2 program in multiple cancers, as well as the further advancement of AEZS-108, for which we successfully completed Phase 2 trials in advanced endometrial and advanced ovarian cancer.

#### ***Perifosine***

Perifosine is a novel, oral anticancer treatment that inhibits Akt activation in the PI3K pathway. Perifosine, in combination with chemotherapeutic agents, is currently in Phase 3 studies for the treatment of metastatic colorectal cancer ( mCRC ), MM and in Phase 2 studies for the treatment of other cancers. We believe perifosine is the most advanced anticancer compound of its class in late-stage development. Perifosine as monotherapy is also being explored in chronic lymphocytic leukemia ( CLL ). The FDA has granted perifosine orphan-drug designation in MM and in neuroblastoma and Fast Track designations in both MM and refractory advanced CRC. Additionally, an agreement was reached with the FDA to conduct the Phase 3 trials in both of these indications under a SPA. Perifosine has also been granted Orphan Medicinal Product designation from the European Medicine Agency ( EMA ) in MM, and has received positive Scientific Advice from the EMA for both the MM and advanced CRC programs, with ongoing Phase 3 trials for these indications expected to be sufficient for registration in Europe. Perifosine rights have been licensed to Keryx for North America, to Yakult for Japan, to Handok Pharmaceuticals Co. Ltd. ( Handok ) for Korea and to Hikma Pharmaceuticals PLC ( Hikma ) for the Middle East and North Africa ( MENA ) region.

#### ***AEZS-108***

AEZS-108 represents a new targeting concept in oncology leading to personalized medicine using a cytotoxic peptide conjugate which is a hybrid molecule composed of a synthetic peptide carrier and doxorubicin. The design of AEZS-108 allows for the specific binding and selective uptake of the cytotoxic conjugate by luteinizing hormone-releasing hormone ( LHRH ) receptor-positive tumors. Phase 2 trials in advanced endometrial cancer and advanced ovarian cancer have been successfully completed. AEZS-108 is also in development in other cancer indications, including refractory bladder and castration-and taxane-resistant prostate cancer. A pivotal trial in endometrial cancer and also a Phase 2 trial in triple-negative breast cancer are expected to be initiated in 2012. We have obtained orphan-drug status for AEZS-108 in advanced ovarian cancer from the FDA and from the Committee for Orphan Medicinal Products ( COMP ) of the EMA. An IND in the United States is in place for the treatment of prostate, bladder and triple-negative breast cancer. We own the worldwide rights to AEZS-108 and also have a collaboration agreement with Ventana Medical Systems, Inc. ( Ventana ), a member of the Roche Group, to develop a companion diagnostic for the immunohistochemical determination of LHRH-receptor expression, for AEZS-108.

### ***Endocrinology***

In endocrinology, aside from Cetrotide®, we completed a Phase 3 trial with AEZS-130, which would be the first oral diagnostic test for AGHD.

#### ***AEZS-130***

AEZS-130, a ghrelin agonist, is an orally available novel synthetic small molecule that stimulates the secretion of growth hormone. We completed a Phase 3 trial under a SPA obtained from the FDA and after conclusion of a successful pre-NDA meeting with the FDA, we plan to file a NDA in the United States. AEZS-130 has been granted orphan-drug designation by the FDA. In addition to the diagnostic indication, we believe that AEZS-130 has potential application for the treatment of cachexia, a condition frequently associated with severe chronic diseases such as cancer, chronic obstructive pulmonary disease and Acquired Immune Deficiency Syndrome ( AIDS ). Furthermore, the FDA agreed to allow for the initiation of a physician sponsored IND Phase 2A trial in cancer induced cachexia. The study is currently conducted under a cooperative research and development agreement ( CRADA ) with the Michael E. DeBakey Veterans Affairs Medical Center which will be funding the study.

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### ***Clinical and Preclinical Programs***

Additionally, we are advancing AEZS-112 in Phase 1, an oral anticancer agent which involves three mechanisms of action, (tubulin, topoisomerase II and angiogenesis inhibition), as well as several preclinical programs with targeted potential development candidates. Among the agents that we expect to reach the clinical development stage in the coming years are: AEZS-120 (oral prostate cancer vaccine), AEZS-129, AEZS-131 and AEZS-132 or their respective follow-up compounds (Erk and PI3K inhibitors).

We also continue to perform targeted drug discovery activities from which we are able to derive preclinical candidates. This drug discovery includes high throughput screening systems and a library of more than 120,000 compounds.

We are currently in a stage in which some of our products and product candidates are being further developed or marketed jointly with strategic partners or with fundings from governmental organizations.

## **1.0 ONCOLOGY**

### **1.1 SIGNAL TRANSDUCTION INHIBITORS**

#### **1.1.1 Perifosine**

Perifosine is a novel, oral anticancer treatment that inhibits Akt activation in the PI3K pathway.

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

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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.

In preclinical and clinical Phase 1 trials (solid tumors), this orally administered agent has been found to have good tolerability.

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 examined perifosine as a single agent or in combination in several tumor types. Encouraging results lead to further development in specific indications.

Perifosine, in combination with chemotherapeutic agents, is currently in Phase 3 studies for the treatment of CRC and MM, and in Phase 2 studies for the treatment of other cancers, and we believe is the most advanced anticancer compound of its class in late-stage development.

Perifosine as monotherapy is also being explored in CLL. The FDA has granted perifosine orphan-drug designation in MM and in neuroblastoma and Fast Track designations in both refractory advanced CRC and MM. Additionally, an agreement was reached with the FDA to conduct the Phase 3 trials in both of these indications under a SPA. Perifosine has also been granted Orphan Medicinal Product designation from the EMA in MM, and has received positive Scientific Advice from the EMA for both the advanced CRC and MM programs, with ongoing Phase 3 trials for these indications expected to be sufficient for registration in Europe. Perifosine rights have been licensed to Keryx for North America, to Handok for Korea, to Yakult for Japan and Hikma for the MENA region.

On July 12, 2011, the European Patent Office ( EPO ) granted a patent for the use of alkylphosphocholines, more specifically perifosine, in the preparation of a medicament for the treatment of benign and malignant tumours, prior to and/or during the treatment with approved antitumor antimetabolites such as 5-fluorouracil ( 5-FU ) and capecitabine. Filed on July 29, 2003, the patent (EP #1 545 553) entitled, *Use of Alkyl Phosphocholines in Combination with Anti-Tumours Medicaments*, became effective as of July 13, 2011, following its announcement in the European Patent Bulletin, and will expire on July 28, 2023.

### 1.1.1.1 Perifosine CRC

#### *Phase 2 trial perifosine + capecitabine*

On October 5, 2011, we announced that a manuscript, entitled *Randomized Placebo-Controlled Phase 2 Trials of Perifosine Plus Capecitabine as Second- or Third-Line Therapy in Patients with Metastatic Colorectal Cancer*, had been published in the October 3, 2011 online edition of the *Journal of Clinical Oncology* ( JCO ).

This randomized, double-blind, placebo-controlled study was conducted at 11 centers across the United States. Patients with 2<sup>nd</sup> or 3<sup>rd</sup> line mCRC were randomized to receive capecitabine (Xeloda<sup>®</sup>), an approved drug for mCRC, at a dose of 825 mg/m<sup>2</sup> BID (total daily dose of 1,650 mg/m<sup>2</sup>) on days 1 - 14 every 21 days, plus either perifosine or placebo at 50 daily. Treatment was continued until progression. The study enrolled a total of 38 patients, 34 of which were third-line or greater. Of the 38 patients enrolled, 35 were evaluable for response (20 patients on the perifosine + capecitabine arm and 15 patients on the placebo + capecitabine arm). Of the three patients on the placebo + capecitabine arm not evaluable for response, 2 patients were not evaluable due to toxicity (days 14, 46) and 1 patient was not evaluable due to a new malignancy on day 6. All patients in the perifosine + capecitabine arm were evaluable for response.



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The patients in the study were heavily pretreated, with the arms well-balanced in terms of prior treatment regimens. The median number of prior treatment regimens for all 38 patients was two (range 1-5), with prior treatment regimens as follows: 89% of the patients received FOLFIRI (irinotecan + 5-FU + leucovorin); 74% FOLFOX (oxaliplatin + 5-FU + leucovorin); 66% were previously treated with both FOLFIRI and FOLFOX; 79% received Avastin®; and 50% Erbitux®. Prior treatment with single agent capecitabine was excluded.

The primary endpoints of this study were to measure 1) time to progression ( TTP ), 2) overall response rate ( ORR ), defined as the percentage of patients achieving a complete response ( CR ) or partial response ( PR ) by Response Evaluation Criteria in Solid Tumors ( RECIST ), and 3) clinical benefit rate ( CBR ) defined as the percentage of patients on treatment for greater than three months with at least stable disease ( SD ). Safety of perifosine + capecitabine vs. placebo + capecitabine in this patient population was evaluated as a secondary endpoint.

Best response and median TTP of perifosine + capecitabine vs. placebo + capecitabine were as follows:

Group	N*	CR N (%)	PR N (%)	ORR N (%)	SD > 12 N (%)	CBR N (%)	Median TTP
Perifosine + capecitabine	20	1(5%)	3(15%)	4(20%)	11 weeks (55%)	15(75%)	27.5 weeks (95% CI**, 12.1 to 48.1)
Placebo + capecitabine	15	0	1 (7%)	1(7%)	5 weeks (33%)	6(40%)	10.1 weeks (95% CI, 6.6 to 13.0)

\* N = Number of patients

\*\* CI = Confidence interval

Perifosine + capecitabine more than doubled TTP vs. placebo + capecitabine with a statistically significant p-value <.001. In addition, perifosine + capecitabine more than doubled the ORR and almost doubled the CBR vs. placebo + capecitabine.

Although not a primary endpoint in the study, overall survival ( OS ) was analyzed with results as follows:

Group	Median OS
Perifosine + capecitabine	17.7 months (95% CI, 8.5 to 24.6)
Placebo + capecitabine	7.6 months (95% CI, 5.0 to 16.3)

Of notable interest were data showing a highly statistically significant benefit in median OS (more than doubling) and TTP for the subset of patients who were refractory to a 5-FU chemotherapy-based treatment regimen. 5-FU is a core component of the standard of care FOLFIRI and FOLFOX regimens, and capecitabine is a 5-FU pro-drug. These results are shown below:

Of notable interest were data showing a highly statistically significant benefit in median OS (more than doubling) and TTP for the subset of patients who were refractory to a 5-FU chemotherapy-based treatment regimen. 5-FU is a core component of the standard of care FOLFIRI and FOLFOX regimens, and capecitabine is a 5-FU pro-drug. These results are shown below:

Group	5-FU Ref* N (%)	> SD (min 12 weeks) N (%) p=0.066	Median TTP p<.001	Median OS p=0.0088
Perifosine + capecitabine	14(70%)	1 PR /8 SD (64%)	17.6 weeks (95% CI, 12 to 36)	15.1 months (95% CI, 7.2 to 22.3)

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Capecitabine 11(73%) 0 PR /3 SD (27%) 9.0 weeks (95% CI, 6.6 to 11.0) 6.5 months (95% CI, 4.8 to 10.9)  
\* Ref= refractory

All 38 patients were evaluable for safety. The perifosine + capecitabine combination was well-tolerated with Grade 3 and Grade 4 adverse events of > 10% incidence for perifosine + capecitabine arm versus capecitabine arm as follows: anemia (15% vs. 0%), fatigue (0% vs. 11%), abdominal pain (5% vs. 11%) and hand-foot syndrome (30% vs. 0%). Of note, incidence of Grade 1 and Grade 2 hand-foot syndrome was similar in both the perifosine + capecitabine and capecitabine arms (25% vs. 22%, respectively). Hand-foot syndrome is a reported

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adverse event with capecitabine monotherapy. Patients who remained on treatment longer in the Phase 2 study had a greater chance to develop hand-foot syndrome as illustrated by a median time to onset of Grade 3 and Grade 4 hand-foot syndrome in the perifosine + capecitabine arm of 19 weeks.

Based on the data, in which the combination of perifosine + capecitabine demonstrated statistical significance with respect to median OS and median time to tumor progression, the investigators concluded that the perifosine + capecitabine combination showed promising clinical activity compared to single-agent capecitabine, and that the difference in clinical outcome seen with the addition of perifosine was impressive.

### *Phase 3 trial and regulatory milestones*

On February 3, 2010, we announced that our partner Keryx had reached an agreement with the FDA on a SPA for the Phase 3 Xeloda® + Perifosine Evaluation in Colorectal Cancer Treatment ( X-PECT ) trial for perifosine in patients with refractory mCRC.

On April 5, 2010, our partner Keryx was granted Fast Track designation by the FDA for the Phase 3 X-PECT registration trial.

On April 8, 2010, we announced that our partner Keryx initiated a randomized (1:1), double-blind Phase 3 X-PECT trial comparing the efficacy and safety of perifosine + capecitabine (Xeloda®) vs. placebo + capecitabine in approximately 430 patients with refractory mCRC. Patients must have failed available therapy including 5-FU, oxaliplatin (Eloxatin®), irinotecan, bevacizumab (Avastin®) and, if K-Ras wild-type, failed therapy with prior cetuximab (Erbix®) or panitumumab (Vectibix®). For oxaliplatin-based therapy, failure of therapy also includes patients who discontinued due to toxicity. The primary endpoint is OS, with secondary endpoints including ORR (CR + PR), progression-free survival ( PFS ) and safety. Approximately 70 U.S. sites are participating in the study and un-blinding of the study will be triggered by 360 events of death. Dr. Johanna Bendell, Director of GI Oncology Research for the Sarah Cannon Research Institute, Nashville, Tennessee, leads the Phase 3 investigational team. Patient recruitment for this study was completed in July 2011.

On June 29, 2010, we announced that we had received positive Scientific Advice from the EMA regarding the Phase 3 X-PECT trial for the development of perifosine in refractory advanced CRC. The Scientific Advice from the EMA indicates that the ongoing study, in conjunction with safety data generated from other clinical studies with perifosine, is considered sufficient to provide all data necessary to support a marketing authorization of perifosine in advanced CRC. We do not intend to initiate any additional studies with perifosine for this indication. Therefore, for the development of perifosine in both MM and CRC, we believe that the planned North American clinical program, sponsored by our partner Keryx, is now sufficient for approval in Europe and in many countries in the rest of the world, where we hold rights for our compound.

On July 27, 2011, we announced completion of patient recruitment for the ongoing Phase 3 trial with perifosine in refractory advanced CRC, involving over 465 patients from 65 sites in the United States. This Phase 3 X-PECT trial is a randomized (1:1), double-blind trial comparing the efficacy and safety of perifosine + capecitabine vs. placebo + capecitabine. The primary endpoint is OS, with secondary endpoints including ORR (CR + PR), PFS and safety. Approximately 360 events of death will trigger the unblinding of the study.

On August 31, 2011, an independent Data Safety Monitoring Board ( DSMB ) completed an interim safety and futility analysis of the Phase 3 X-PECT study of perifosine in patients with refractory advanced CRC and recommended that the study continue to completion, as planned.

On January 3, 2012, we announced that our Japanese partner, Yakult, had initiated a Phase 1/2 trial in Japan to assess the safety and efficacy of perifosine in combination with a chemotherapeutic agent, capecitabine, in patients with refractory advanced CRC. The primary endpoint of the Phase 1 portion of the trial is the safety profile of perifosine in combination with capecitabine. The primary endpoint of the Phase 2 portion is efficacy (Disease Control Rate). The initiation of this trial on December 27, 2011 triggered a milestone receivable of \$2.6 million (according to the agreement signed in March 2011 for perifosine in Japan).

**Table of Contents***Competitors for Perifosine in CRC*

## Products on the market:

Surgery is often the main treatment for early stage CRC. When CRC metastasizes (spreads to other parts of the body such as the liver), chemotherapy is commonly used. Treatment of patients with recurrent or advanced CRC depends on the location of the disease. Currently, there are seven approved drugs for patients with mCRC: 5-FU, capecitabine (Xeloda<sup>®</sup>), irinotecan (Camptosar<sup>®</sup>), oxaliplatin (Eloxatin<sup>®</sup>), bevacizumab (Avastin<sup>®</sup>), cetuximab (Erbix<sup>®</sup>), and panitumumab (Vectibix<sup>®</sup>). Depending on the stage of the cancer, two or more of these types of treatment may be combined at the same time, such as FOLFOX (5-FU; leucovorin; oxaliplatin) and FOLFIRI (5-FU; leucovorin; irinotecan), or used after one another. Bevacizumab, a vascular endothelial growth factor ( VEGF ) monoclonal antibody, is commonly administered with chemotherapy. Typically, patients who fail 5-FU, oxaliplatin, irinotecan, and bevacizumab-containing therapies, and who have wild-type KRAS status receive epidermal growth factor receptor ( EGFR ) monoclonal antibody therapy with either cetuximab or panitumumab. Once patients progress on these agents, there are no further standard treatment options.

Product / mode of action	Company	Sales
Avastin <sup>®</sup> (bevacizumab) / a humanized monoclonal antibody targeting vascular endothelial growth factor	Manufactured by Genentech/Roche	According to Decision Resources (Jan. 2012), a research and advisory firm focusing on pharmaceutical and healthcare issues ( Decision Resources (January 2012) ) the 2010 G7* sales were estimated to be \$2.3 billion
Oxaliplatin / platinum agent	Sanofi s Eloxatin/Eloxatine, Yakult Honsha s Elplat, generics	According to Decision Resources (January 2012), the 2010 G7* sales were estimated to be \$2.0 billion
Erbix <sup>®</sup> (cetuximab) / a chimeric monoclonal antibody that specifically blocks EGFR	Manufactured and distributed in North America: Bristol-Myers Squibb Co. and Eli Lilly and Co.	According to Decision Resources (January 2012), the 2010 G7* sales were estimated to be \$1.1 billion
Xeloda <sup>®</sup> (capecitabine) / oral fluoropyrimidine which generates fluorouracil preferentially in tumor tissues by enzymatic cascade	Distributed in the rest of the world by Merck KGaA. Manufactured by Roche	According to Decision Resources (January 2012), the 2010 G7* sales were estimated to be \$636 million
Vectibix <sup>®</sup> (panitumumab) / a recombinant, human IgG2 kappa monoclonal antibody that binds specifically to the human EGFR	Manufactured by Amgen	According to Decision Resources (January 2012), the 2010 G7* sales were estimated to be \$266.1 million

\* G7 = United States, France, Germany, Italy, Spain, UK and Japan.

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Products in Phase 3 development:

According to Decision Resources (January 2012), the most promising emerging therapies for CRC are the following: perifosine, regorafenib, aflibercept and ramucirumab.

Product / mode of action*	Company*	Development Status*
Regorafenib (BAY 73-4506) / oral multi-kinase inhibitor targeting angiogenic, stromal and oncogenic kinases	Bayer HealthCare Pharmaceuticals / Onyx Pharmaceuticals, Inc.	Phase 3 completed
Aflibercept (Zaltrap™) / intravenous angiogenesis inhibitor	Sanofi / Regeneron Pharmaceuticals	Regulatory applications for marketing approval submitted (FDA and EMA)
Ramucirumab (IMC-1121B) / intravenous fully human immunoglobulin G1 Mab targeted to VEGF-2	ImClone Systems (a subsidiary of Eli Lilly)	Phase 3

\* Source: Company's Website

Market Data - CRC

According to the American Cancer Society, CRC is the third most common cancer in both men and women in the United States. An estimated 103,170 cases of colon and 40,290 cases of rectal cancer are expected to occur in 2012 and nearly 51,690 people will die from the disease.

According to Decision Resources (January 2012), 368,000 patients will be diagnosed in Stage II-IV in the G7 market in 2014. In 2010, the total market for stage IV-second-line CRC treatments accounted for 25% of major-market sales (\$1.8 billion) and 5% (\$360 million) for the total market for the third-line CRC treatment.

**Treatable pool stage IV patient population\***

	3 <sup>rd</sup> line in 2014	2 <sup>nd</sup> line in 2014
USA	28,320	41,650
EU-5	48,070	74,480
Japan	19,750	35,270

\* According to Decision Resources (January 2012).

1.1.1.2 Perifosine - MM

*Phase 1/2 trial - Perifosine in combination with Revlimid® (lenalidomide) + dexamethasone*

In December 2008, our partner Keryx presented final results of the Phase 1 clinical trial in which patients with relapsed or refractory MM were administered a combination of perifosine + lenalidomide + dexamethasone. Four cohorts of 36 patients each were enrolled and perifosine dose was 50 or 100 mg (daily), lenalidomide dose was 15 or 25 mg for days 1 to 21 and dexamethasone dose was 20 mg (for days 1-4; 9-12; and 17-20 for 4 cycles, then 20 mg for days 1-4) in 28-day cycles. To limit dexamethasone-related toxicities, the protocol was amended to use weekly dexamethasone (40 mg), applying to cohorts 3, 4, and the maximal tolerated dose (MTD) cohort. Dose limiting toxicity (DLT) was defined as Grade 3 non-hematologic toxicity, Grade 4 neutropenia for 5 days and/or neutropenic fever, or platelets <25,000/mm<sup>3</sup> on >1 occasion

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despite transfusion. Response was assessed by modified EBMT criteria. To be enrolled, patients had to have received at least one but no more than four prior therapies. Patients refractory to lenalidomide/dexamethasone were excluded. 32 patients (17 men and 15 women,

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median age 61 years old, range 37-80) were enrolled; 6 patients in cohort 1 (perifosine 50 mg, lenalidomide 15 mg, dexamethasone 20 mg); 6 patients in cohort 2 (perifosine 50 mg, lenalidomide 25 mg, dexamethasone 20 mg); 8 patients in cohort 3 (perifosine 100 mg, lenalidomide 15 mg, dexamethasone 40 mg/week); 6 patients in cohort 4 (perifosine 100 mg, lenalidomide 25 mg, dexamethasone 40 mg/week) and 6 patients at MTD (Cohort 4). Median prior lines of treatment was 2 (range 1-4). Prior therapy included dexamethasone (94%), thalidomide (83%), bortezomib (47%), and stem cell transplant (47%). 37% of patients had progressed on prior thalidomide/dexamethasone. Two patients did not complete one full cycle (non-compliance and adverse event not related to study drugs both in cohort 3) and were not included in the safety and efficacy analysis. Of the 30 patients evaluable for safety, the most common (≥10%) Grade 1 / 2 events included nausea (13%); diarrhea (17%); weight loss (17%); upper respiratory infection (23%); fatigue (30%); thrombocytopenia (20%); neutropenia (20%); hypophosphatemia (23%); increased creatinine (23%); anemia (36%); hypercalcemia (47%). Grade 3 / 4 adverse events ≥5% included neutropenia (20%); hypophosphatemia (17%); thrombocytopenia (13%); anemia (10%), fatigue (7%). There was one reported DLT in cohort 3 (nausea). Lenalidomide was reduced in 8 patients, perifosine reduced in 8 patients and dexamethasone reduced in 6 patients.

Patients have tolerated the treatment regimen of perifosine + lenalidomide + dexamethasone well with manageable toxicity, and with encouraging clinical activity demonstrated by an ORR (> PR) of 50%.

Updated results of this Phase 1 study were presented in February 2009 at the 12<sup>th</sup> International Multiple Myeloma Meeting by our partner Keryx. Results indicated that perifosine in combination with lenalidomide (Revlimid<sup>®</sup>) + dexamethasone continues to be well tolerated, with a median PFS in responding patients of 10.9 months. Median OS still was not reached and was at 17 months at time of analysis.

On December 6, 2010 at the American Society of Hematology's (ASH<sup>®</sup>) 52<sup>nd</sup> annual meeting in Orlando, Florida, we announced final positive results for this Phase 1 trial. The final data showed a 73% objective response rate (minimal response or better) with a 50% PR or better, a median PFS of 10.8 months, and a median duration for OS of 30.6 months. The myeloma investigators concluded that perifosine in combination with lenalidomide (Revlimid<sup>®</sup>) + dexamethasone was well tolerated even at the highest doses used, and demonstrated encouraging clinical activity and survival.

Best Response (N = 30 pts)	N (%)	Duration on Tx (months) Median (range)	<sup>3</sup> PR	<sup>3</sup> MR
Near complete response (nCR)	4(13%)	32+, 32+, 28, 6	50%	73%
Very good partial response (VGPR)	3(10%)	35, 7, 4		
Partial response (PR)	8(27%)	Median 5.5 (4 - 29)		
Minimal response (MR)	7(23%)	Median 12 (2 - 34)		

Stable disease (SD) 6(20%) Median 3 (2 30)

Progressive disease (PD) 2(7%) 9, 4 weeks

*Phase 1/2 trial Perifosine in combination with Velcade® (bortezomib) + dexamethasone*

Keryx presented preliminary results of a Phase 1/2 multicenter trial of perifosine + bortezomib (Velcade®) in patients with relapsed or relapsed/refractory MM who were previously relapsed from or refractory to bortezomib ± dexamethasone in December 2008 during the meeting of the ASH and in February 2009 at the 12<sup>th</sup> International Multiple Myeloma Meeting. Final results were presented during the ASH meeting in December 2009. The Phase 1 stage of the study enrolled a total of 18 patients in 4 cohorts of 3 patients each with dosing of perifosine



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50 mg or 100 mg (daily) and bortezomib 1.0 or 1.3 mg/m<sup>2</sup> (on day 1, 4, 8, 11) in 21-day cycles. The selected dose for Phase 2 was perifosine 50 mg once daily + bortezomib 1.3 mg/m<sup>2</sup> (on day 1, 4, 8, 11) in 21-day cycles, with a planned enrollment of 64 patients. Dexamethasone 20 mg (on day of and after each bortezomib dose) could be added in patients with PD. For the Phase 1 portion, DLT was defined as any Grade 3 non-hematologic toxicity, Grade 4 neutropenia for 5 day and/or neutropenic fever, or platelets <10,000/mm<sup>3</sup> on more than one occasion despite transfusion. Response was assessed by modified EBMT and Uniform criteria.

On October 13, 2011, we announced that the manuscript, entitled *Perifosine Plus Bortezomib and Dexamethasone in patients with Relapsed/Refractory Multiple Myeloma Previously Treated with Bortezomib: Results of a Multicenter Phase 1/2 Trial*, had been published in the October 10, 2011 online edition of the *Journal of Clinical Oncology* (JCO), in which Phase 1/2 combination activity of perifosine in the treatment of advanced MM patients was reported.

Eighty-four patients were enrolled in a combined Phase 1/2 study (18 patients in the Phase 1 component and 66 patients in the Phase 2 component), including 74 (88%) with relapsed/refractory MM. Sixty-one patients (73%) were bortezomib refractory and 43 (51%) were refractory to bortezomib with dexamethasone. The median number of prior treatments was five (range, one to 13 treatments). Prior therapies received at any time point included bortezomib (100%), with patients receiving a median of two (range, one to four) prior bortezomib-based regimens; dexamethasone (98%); lenalidomide (Revlimid<sup>®</sup>) (76%); thalidomide (Thalomid<sup>®</sup>) (75%); and prior stem cell transplant (58%).

Of the 73 evaluable patients, 53 patients (73%) were previously refractory to bortezomib (defined as progression on or within 60 days of treatment to a bortezomib-based regimen). Twenty evaluable patients (27%) were relapsed to a prior bortezomib-based regimen. Best response for all 73 evaluable patients was as follows:

Evaluable Patients	CR /nCR*		PR		MR		ORR		SD**	
All Evaluable Patients (N = 73)	3	4%	13	18%	14	19%	30	41%	30	41%
Bortezomib relapsed (N = 20)	2	10%	7	35%	4	20%	13	65%	7	35%
Bortezomib refractory (N = 53)	1	2%	6	11%	10	19%	17	32%	23	43%

\* nCR = Near Complete Response is defined as meeting the criteria for CR (non-detectable monoclonal protein by serum and urine), except with detectable monoclonal protein by immunofixation.

\*\* SD = Stable Disease for a minimum of 3 months.

Approximately 60% (45 / 73) of patients demonstrated progression (or SD for 4 cycles) at some point in their treatment and received 20 mg dexamethasone, four times per week, in addition to perifosine + bortezomib. Responses occurred both with patients taking perifosine in combination with bortezomib and with patients receiving the combination + dexamethasone.

Best response for each group was as follows:

Best Response	CR /nCR		PR		MR		ORR		SD	
Perifosine + bortezomib (N = 73)	2	3%	10	14%	6	8%	18	25%	19	26%
Dexamethasone added (N = 45)	1	2%	6	13%	10	22%	17	38%	14	31%

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Reported for the first time was median PFS and OS data for all evaluable patients, as follows:

<b>Evaluable Patients</b>	<b>Median PFS*</b>	<b>Median OS**</b>
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All Evaluable Patients (N = 73)	6.4 months (95% CI, 5.3, 7.1)	25 months (95% CI, 16.3, 31.1)***
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\* Median PFS and median TTP were identical, as no patient deaths occurred prior to progression.

\*\* Kaplan Meier methodology was used to determine OS figures.

\*\*\* Results from the abstract *Perifosine Plus Bortezomid and Dexamethasone in Relapsed/Refractory Multiple Myeloma Patients Previously Treated with Bortezomib: Final Results of a Phase 1/2 Trial* (abstract # 815) were presented as an oral presentation at the ASH Annual Meeting and Exposition (Dec. 2011) in San Diego, California.

Of particular interest was the comparison of evaluable patients who were previously refractory and the patients who were relapsed to a bortezomib-based regimen. Median PFS and OS for bortezomib relapsed vs. refractory was as follows:

<b>Bortezomib Relapsed vs. Refractory</b>	<b>Median PFS*</b>	<b>Median OS**</b>
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Bortezomib relapsed (N = 20)	8.8 months (95% CI, 6.3, 11.2)	30.4 months (95% CI, 17.8, NR)***
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Bortezomib refractory (N = 53)	5.7 months (95% CI, 4.3, 6.4)	22.5 months (95% CI, 14.2, 31.1)***
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NR = Not Reached

\* Median PFS and median TTP were identical, as no patient deaths occurred prior to progression.

\*\* Kaplan Meier methodology was used to determine OS figures.

\*\*\* Results from the abstract *Perifosine Plus Bortezomid and Dexamethasone in Relapsed/Refractory Multiple Myeloma Patients Previously Treated with Bortezomib: Final Results of a Phase 1/2 Trial* (abstract # 815) were presented as an oral presentation at the ASH Annual Meeting and Exposition (Dec. 2011) in San Diego, California.

No unexpected adverse events have been observed. Therapy was generally well-tolerated, and toxicities, including gastrointestinal side-effects and fatigue, proved manageable. No treatment-related mortality was seen. The investigators concluded the data reported for both safety and efficacy in this patient population were encouraging for the continued study of perifosine.

#### *Phase 3 trial and regulatory milestones*

In August 2009, we announced that our partner Keryx reported that it had reached an agreement with the FDA regarding an SPA on the design of a Phase 3 trial for perifosine, in relapsed or relapsed/refractory MM patients previously treated with bortezomib (Velcade®). The SPA provided agreement that the Phase 3 study design adequately addresses objectives in support of a regulatory submission.

In September 2009, we announced that our partner Keryx had received orphan-drug designation for perifosine from the FDA for the treatment of MM. Orphan-drug designation is granted by the FDA Office of Orphan Drug Products to novel drugs or biologics that treat a rare disease or condition affecting fewer than 200,000 patients in the United States. The designation provides the drug developer with a seven-year period of U.S. marketing exclusivity if the drug is the first of its type approved for the specified indication or if it demonstrates superior safety, efficacy or a major contribution to patient care versus another drug of its type previously granted the designation for the same indication.

On December 2, 2009, we announced that the FDA had granted Fast Track designation for perifosine for the treatment of relapsed/refractory MM. The Fast Track program of the FDA is designed to facilitate the development and expedite the review of new drugs that are intended to

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treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. Fast Track designated drugs ordinarily qualify for priority review, thereby expediting the FDA review process.

On December 16, 2009, we announced that our partner Keryx initiated a Phase 3 trial for perifosine entitled, *A Phase 3 Randomized Study to Assess the Efficacy and Safety of Perifosine Added to the Combination of Bortezomib (Velcade®) and Dexamethasone in Multiple Myeloma Patients Previously Treated with Bortezomib*. The randomized (1:1), double-blind trial powered at 90%, will enroll approximately 400 patients with relapsed or

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relapsed/refractory MM (patients can be relapsed from and refractory to all non-bortezomib based therapies, however, patients can only be relapsed (progressed > 60 days after discontinuing therapy) from prior bortezomib-based therapies. Patients must have been previously treated with both bortezomib (Velcade®) and an immunomodulatory agent (Revlimid® or Thalidomid®) and previously treated with one to four prior lines of therapy. Enrolled patients are randomized to bortezomib (Velcade®) at 1.3 mg/m<sup>2</sup> days 1, 4, 8 and 11 every 21 days in combination with dexamethasone 20 mg on the day of and day after bortezomib (Velcade®) treatment, and either perifosine 50 mg daily or placebo. The primary endpoint is PFS and secondary endpoints include ORR, OS and safety. Approximately 265 events (defined as disease progression or death) will trigger the un-blinding of the data.

In March 2010, we announced that we had received a positive opinion for orphan medicinal product designation for perifosine from the COMP of the EMA, for the treatment of MM. Orphan medicinal product designation is granted by the European Commission, following a positive opinion from the COMP, to a medicinal product that is intended for the diagnosis, prevention or treatment of a life-threatening or a chronically debilitating condition affecting not more than five in 10,000 persons in the European Community when the application for designation is submitted.

Orphan medicinal product designation provides the sponsor with access to the Centralized Procedure for the application for marketing authorization, protocol assistance, up to a 100% reduction in fees related to a marketing authorization application, preauthorization inspection and post-authorization activities, and could provide ten years of market exclusivity in the EU, once approved for the treatment of MM.

On April 15, 2010, we received positive Scientific Advice ( PSA ) from the EMA for the Phase 3 registration trial with perifosine in MM, therefore indicating that the data from the ongoing trial are expected to be sufficient for product registration in Europe.

*Competitors for Perifosine in MM*

Products on the market

Major products available on the market for the treatment of MM are the following:

Product / mode of action*	Company*
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