

Condensed Interim Consolidated Financial Statements
(Unaudited)

Aeterna Zentaris Inc.

As at September 30, 2018 and for the three-month and nine-month periods ended September 30, 2018 and 2017
(presented in thousands of US dollars)

Aeterna Zentaris Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

As at September 30, 2018 and for the three-month and nine-month period ended September 30, 2018 and 2017

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Aeterna Zentaris Inc.
Condensed Interim Consolidated Statements of Financial Position

(in thousands of US dollars)

<i>(Unaudited)</i>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	16,800	7,780
Trade and other receivables (note 5)	574	221
Inventory	1,608	643
Prepaid expenses and other current assets	571	737
Total current assets	19,553	9,381
Restricted cash equivalents	422	381
Property, plant and equipment	71	101
Identifiable intangible assets	86	90
Other non-current assets	—	150
Deferred tax asset	—	3,479
Goodwill	8,330	8,613
Total assets	28,462	22,195
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 6)	2,280	2,814
Current portion of provision for restructuring costs and onerous contracts (note 7)	753	2,469
Income taxes payable	2,339	—
Current portion of deferred revenues	—	486
Total current liabilities	5,372	5,769
Deferred revenues	—	55
Warrant liability (note 8)	2,145	3,897
Employee future benefits (note 9)	13,040	14,229
Long-term portion of provision for restructuring costs and onerous contracts (note 7)	495	1,028
Total liabilities	21,052	24,978
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (note 10)	222,335	222,335
Other capital	89,288	88,772
Deficit	(304,237)	(314,161)
Accumulated other comprehensive income	24	271
Total shareholders' equity (deficiency)	7,410	(2,783)
Total liabilities and shareholders' equity (deficiency)	28,462	22,195
Commitments and contingencies (note 17)		
Subsequent events (note 18)		

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

Aeterna Zentaris Inc.
Condensed Interim Consolidated Statements of Financial Position

(in thousands of US dollars)

Approved by the Board of Directors

/s/ Carolyn Egbert

Carolyn Egbert
Chair of the Board

/s/ Gérard Limoges

Gérard Limoges
Director

Aeterna Zentaris Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the nine months ended September 30, 2018 and 2017

(in thousands of US dollars, except share data)

<i>(Unaudited)</i>	Common shares (number of) ¹	Share capital	Other capital	Deficit	Accumulated other comprehensive income (loss)	Total
		\$	\$	\$	\$	\$
Balance - January 1, 2018	16,440,760	222,335	88,772	(314,161)	271	(2,783)
Net income	—	—	—	9,313	—	9,313
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	(247)	(247)
Actuarial gain on defined benefit plan (note 9)	—	—	—	611	—	611
Comprehensive income (loss)	—	—	—	9,924	(247)	9,677
Share-based compensation costs	—	—	516	—	—	516
Balance - September 30, 2018	16,440,760	222,335	89,288	(304,237)	24	7,410

<i>(Unaudited)</i>	Common shares (number of) ¹	Share capital	Other capital	Deficit	Accumulated other comprehensive income (loss)	Total
		\$	\$	\$	\$	\$
Balance - January 1, 2017	12,917,995	213,980	88,590	(298,059)	1,701	6,212
Net loss	—	—	—	(16,312)	—	(16,312)
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	(1,192)	(1,192)
Actuarial gain on defined benefit plan (note 9)	—	—	—	635	—	635
Comprehensive loss	—	—	—	(15,677)	(1,192)	(16,869)
Share issuances pursuant to the exercise of warrants (note 10)	301,343	977	—	—	—	977
Share issuances in connection with "At-the-Market" drawdowns (note 10)	3,221,422	7,378	—	—	—	7,378
Share-based compensation costs	—	—	347	—	—	347
Balance - September 30, 2017	16,440,760	222,335	88,937	(313,736)	509	(1,955)

¹ Issued and paid in full.

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

Aeterna Zentaris Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2018 and 2017

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

<i>(Unaudited)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenues				
Sales commission and other	—	122	111	406
Product sales (note 4)	663	—	721	—
Licensing revenue (note 4)	—	119	24,657	339
Total revenues	663	241	25,489	745
Cost of goods sold	494	—	691	—
Gross income	169	241	24,798	745
Operating expenses				
Research and development costs	358	4,124	2,165	10,178
General and administrative expenses	2,439	1,665	7,229	5,420
Selling expenses	383	1,652	2,521	4,643
Total operating expenses	3,180	7,441	11,915	20,241
(Loss) income from operations	(3,011)	(7,200)	12,883	(19,496)
(Loss) gain due to changes in foreign currency exchange rates	(133)	169	592	430
Change in fair value of warrant liability	58	(2,617)	1,752	2,700
Other finance income	30	17	174	54
Net finance (loss) income	(45)	(2,431)	2,518	3,184
(Loss) income before income taxes	(3,056)	(9,631)	15,401	(16,312)
Income tax recovery (expense)	547	—	(6,088)	—
Net (loss) income	(2,509)	(9,631)	9,313	(16,312)
Other comprehensive (loss) income:				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustments	3	(400)	(247)	(1,192)
Items that will not be reclassified to profit or loss:				
Actuarial gain on defined benefit plans	406	—	611	635
Comprehensive (loss) income	(2,100)	(10,031)	9,677	(16,869)
Net (loss) income per share [basic]	(0.15)	(0.61)	0.57	(1.13)
Net (loss) income per share [diluted]	(0.15)	(0.61)	0.56	(1.13)
Weighted average number of shares outstanding (note 16):				
Basic	16,440,760	15,803,080	16,440,760	14,457,421
Diluted	16,440,760	15,803,080	16,655,576	14,457,421

Aeterna Zentaris Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2018 and 2017

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

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

Aeterna Zentaris Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2018 and 2017

(in thousands of US dollars)

<i>(Unaudited)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash flows from operating activities				
Net (loss) income for the period	(2,509)	(9,631)	9,313	(16,312)
Items not affecting cash and cash equivalents:				
Change in fair value of warrant liability (note 8)	(57)	2,617	(1,752)	(2,700)
Provision for restructuring costs (note 7)	(120)	3,115	(339)	3,115
Depreciation and amortization	12	(11)	47	55
Deferred income taxes	—	—	3,479	—
Share-based compensation costs	1	(467)	516	347
Employee future benefits (note 9)	12	96	(221)	270
Amortization of deferred revenues	—	(119)	(541)	(339)
Foreign exchange loss (gain) on items denominated in foreign currencies	140	(182)	(583)	(464)
Loss (gain) on disposal of property, plant and equipment	—	(20)	9	(20)
Other non-cash items	2	(14)	26	(25)
Changes in operating assets and liabilities (note 12)	84	(918)	(450)	(2,313)
Net cash (used in) provided by operating activities	(2,435)	(5,534)	9,504	(18,386)
Cash flows from financing activities				
Proceeds from issuances of common shares, net of cash transaction costs of nil in 2018 and \$140 and \$297 in 2017 (note 9)	—	3,276	—	7,788
Proceeds from warrants exercised	—	242	—	242
Net cash provided by financing activities	—	3,518	—	8,030
Cash flows from investing activities				
Purchase of property, plant and equipment	—	—	—	(4)
Proceeds from disposal of property, plant and equipment	—	21	11	21
Change in restricted cash equivalents	(50)	100	(50)	150
Net cash provided by investing activities	(50)	121	(39)	167
Effect of exchange rate changes on cash and cash equivalents				
	(661)	137	(445)	363
Net change in cash and cash equivalents	(3,146)	(1,758)	9,020	(9,826)
Cash and cash equivalents – Beginning of period	19,946	13,931	7,780	21,999
Cash and cash equivalents – End of period	16,800	12,173	16,800	12,173

Aeterna Zentaris Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2018 and 2017

(in thousands of US dollars)

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Aeterna Zentaris Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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

1 Summary of business and basis of preparation

Summary of business

Aeterna Zentaris Inc. ("Aeterna Zentaris" or the "Company") is a specialty biopharmaceutical company engaged in developing and commercializing novel pharmaceutical therapies. On December 20, 2017, the United States Food and Drug Administration ("FDA") granted marketing approval for Macrilen™ (macimorelin) to be used in the diagnosis of patients with adult growth hormone deficiency ("AGHD"). On January 16, 2018, the Company through Aeterna Zentaris GmbH entered into a license and assignment agreement with Strongbridge Ireland Limited ("Strongbridge") to carry out development, manufacturing, registration and commercialization of Macrilen™ (macimorelin) in the United States and Canada (the "Strongbridge License Agreement").

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2017.

The accounting policies in these condensed interim consolidated financial statements are consistent with those presented in the Company's annual consolidated financial statements, except for the adoption, of IFRS 9, *Financial Instruments* ("IFRS 9"), and IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), effective January 1, 2018. See note 3 for the impact of the adoption of IFRS 9 and IFRS 15.

The other standards did not have any significant impact on the Company's accounting policies and did not result in retrospective adjustments upon adoption.

These unaudited condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 6, 2018

These unaudited condensed interim consolidated financial statements were prepared on a going concern basis.

2 Critical accounting estimates and judgments

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Judgments, estimates and assumptions are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's condensed interim consolidated financial statements are prepared.

Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the condensed interim consolidated financial statements are presented fairly and in accordance with IFRS. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates and assumptions, as well as critical judgments used in applying accounting policies in the preparation of the Company's condensed interim consolidated financial statements, were the same as those found in note 3 to the Company's annual consolidated financial statements except for significant judgments under IFRS 15 relating to revenue recognition and under IFRS 11 relating to joint arrangements, as follows.

Accounting for the Strongbridge License Agreement

Aeterna Zentaris Inc.

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IFRS 15 requires the Company to use a 5-step approach to evaluating, the timing and amount of revenue to be recognized with contracts with customers. In order to determine the amount and timing of recognition of revenue with respect to payments received from Strongbridge the Company had identified several distinct performance obligations it has under the Strongbridge License Agreement, which includes: (i) the sale of a "right to use" license of Macrilen™ (macimorelin) for diagnosing growth hormone deficiency in adults and any other future adult indication in the United States and Canada (the "Adult Indication"); (ii) the sale of a "right to use" license for a pediatric indication of Macrilen™ (macimorelin) in the United States and Canada which is contingent upon FDA approval (the "Pediatric Indication"); and (iii) interim supply arrangement provided by the Company for the sale of ingredients or finished product in the manufacturing of Macrilen™ (macimorelin) (the "Interim Supply Arrangement") (see note 4 - Licensing arrangement).

The research and development arrangement between the Company and Strongbridge for the development of the Pediatric Indication has not been separately identified as a performance obligation under IFRS 15. Under the terms of the agreement, Strongbridge will pay 70% of such development and the Company will pay the remaining 30%. If the Pediatric Indication is approved by the FDA, Strongbridge will be entitled to benefit from a right to use license for pediatric indication in the United States and Canada, and the Company will be entitled to the rights over this indication for the rest of the world. The Company has concluded that Strongbridge is a collaborator under this part of the arrangement and not a customer, and the arrangement should be accounted for under IFRS 11.

3 Summary of significant accounting policies

A) Impact of adoption significant new IFRS standards in 2018

The following new IFRS standards have been adopted by the Company from January 1, 2018

IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* ("IFRS 9") replaces the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 on January 1, 2018 resulted in changes in accounting policies, however there were no adjustments to the amounts recognized in these interim consolidated financial statements. The Company has applied the changes in accounting policies retrospectively; however in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The Company's financial assets are mainly comprised of cash and cash equivalents, trade and other receivables, and restricted cash equivalents, which are classified and accounted for under IFRS 9 at amortized cost. Financial liabilities are mainly comprised of payables and accrued liabilities, which are accounted for at amortized cost, and warrant liabilities, which is a derivative that is accounted for at fair value through profit and loss (FVTPL).

The impairment of financial assets, including trade and other receivables, is now assessed using the simplified method of the expected credit loss model: previously, the incurred loss model was used. Applying the expected credit loss model has not had a significant impact on the value of the financial assets.

The Company applied the modified retrospective method upon adoption of IFRS 9 on January 1, 2018. This method requires the recognition of the cumulative effect of initially applying IFRS 9 to retained earnings and not to restate prior years. The application of this new standard has no impact on deficit.

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). This new standard was applied using a modified retrospective approach. The adoption of IFRS 15 did not have a significant impact on the timing or measurement of the Company's revenue and no adjustment to the opening balance of deficit as at January 1, 2018 has been recorded as result of adopting IFRS 15.

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The impacts of adoption of the new standard are summarized below:

The Company's revenue consists of licensing fees representing non-refundable payments received at the time of executing the license agreement are recognized as revenue upon execution of the license agreements when the Company has no significant future performance obligation and collectability of the fees is probable. Under IFRS 15, the Company determines whether the Company's promise to grant a license provides its customer with either a right to access the Company's intellectual property ("IP") or a right to use the Company's IP. Revenue from a license that provides a customer the right to use the Company's IP is recognized at a point in time when the transfers to the licensee is completed and the license period begins. Revenue from a license that provides access to the Company's IP over a license term is considered to be a performance obligation satisfied over time and, therefore, revenue is recognized over the term of the license arrangement.

Revenue consists also of royalty income from the out-licensing of IP, which is recognized as earned and from manufacturing and other services, where revenue is recognized when control transfers to the third party and the Company's performance obligations are satisfied. The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized from these manufacturing and other services arrangements, nor did it change accounting for these royalty arrangements, as the standard's royalty exception is applied for IP licenses.

Furthermore, the Company receives milestone payments related to the out-licensing of IP. IFRS 15 did not significantly change the timing or amount of revenue recognized under these arrangements.

The Company applied the modified retrospective method upon adoption of IFRS 15 on January 1, 2018. This method requires the recognition of the cumulative effect of initially applying IFRS 15 to retained earnings and not to restate prior years. The application of this new standard effective January 1, 2018 had no impact on opening retained earnings.

The Company's updated accounting policies, effective January 1, 2018, upon adoption of IFRS 9 and IFRS 15 are as follows:

Financial instruments

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of income (loss) in the period in which they arise.

Financial liabilities at FVTPL: Warrant liabilities are classified as financial liabilities that are required to be measured at FVTPL. These financial liabilities are initially recognized at fair value, and transaction costs directly attributable to issuing the warrants are expensed in the statement of income (loss). Financial liabilities that are required to be measured at FVTPL have all fair value movements, excluding those related to changes in the credit risk of the liability which are recorded in other comprehensive income (loss), recognized in the statement of income (loss).

Financial assets at fair value through other comprehensive income (FVTOCI): Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss) in the period in which they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

Aeterna Zentaris Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

The following table shows the classification of the Company's financial assets/liabilities under IFRS 9:

Financial asset/liability	IFRS 9 Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Warrant liability (derivative)	FVTPL
Payable and accrued liabilities	Amortized cost

Licensing revenues

License fees representing non-refundable payments received at the time of executing the license agreements. The Company's promise to grant a license provides its customer with either a right to access the Company's IP or a right to use the Company's IP. Revenue from a license that provides a customer the right to use the Company's IP is recognized at a point in time when the transfers to the licensee is completed and the license period begins. Revenue from a license that provides access to the Company's IP over a license term is considered to be a performance obligation satisfied over time and, therefore, revenue is recognized over time the term of the license arrangement.

Royalty and milestone revenue

Royalty income earned through a license is recognized when the underlying sales have occurred. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria are met, and the risk of reversal of revenue recognition is remote. Other revenue also includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales, and is recognized when control transfers to the third party and our performance obligations are satisfied.

B) Accounting standards adopted without impact

In December 2016, IFRIC 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22"), was issued. IFRIC 22 addresses how to determine the date of the transaction when applying IAS 21, The Effects of Changes in Foreign Exchange Rates, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made. The Company adopted this interpretation during the quarter ended March 31, 2018. The adoption of this interpretation did not have a significant impact on the Company's condensed interim consolidated financial statements.

C) Accounting standards not yet adopted

In January 2016, IFRS 16 *Leases* ("IFRS 16") was issued by the IASB. It replaces IAS 17 *Leases* for reporting periods beginning on or after January 1, 2019. It can be applied before that date by entities that also apply IFRS 15. IFRS 16 sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The Company will adopt this standard in January 2019. The adoption of this standard is not expected to have significant impact on the Company's consolidated financial statements.

4 Licensing arrangement

Strongbridge License Agreement

Aeterna Zentaris Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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

On January 16, 2018, the Company through Aeterna Zentaris GmbH entered into a license and assignment agreement with Strongbridge to carry out development, manufacturing, registration and commercialization of Macrilen™ (macimorelin) in the United States and Canada, which provides for (i) the "right to use" license relating to the Adult Indication; (ii) the "right to use" license relating to the Pediatric Indication; and (iii) the Interim Supply Arrangement; and (iv) Strongbridge has agreed to fund 70% of the costs of a worldwide pediatric development program (the "PIP") to be run by the Company with customary oversight from a joint steering committee.

(i) Adult Indication

Under the terms of the license agreement, and for as long as Macrilen™ (macimorelin) is patent-protected, the Company will be entitled to a 15% royalty on annual net sales up to \$75.0 million and an 18% royalty on annual net sales above \$75.0 million. Following the end of patent protection in United States or Canada for Macrilen™ (macimorelin), the Company will be entitled to a 5% royalty on net sales in that country. In addition, the Company will also receive one-time payments ranging from \$4.0 million to \$100.0 million upon the achievement of commercial milestones going from \$25.0 million annual net sales up to \$500.0 million annual net sales.

In January 2018, the Company received an upfront cash payment of \$24.0 million from Strongbridge which has been recognized as licensing revenue under IFRS 15.

On July 23, 2018, Strongbridge launched product sales of Macrilen™ (macimorelin) in the United States. To-date, the Company has not received royalty payments from Strongbridge.

(ii) Pediatric Indication

Upon approval by the FDA of a pediatric indication for Macrilen™ (macimorelin), the Company will receive a one-time milestone payment of \$5.0 million.

During the third quarter of 2018, the Company invoiced Strongbridge \$206 as its share of the costs incurred by the Company under the PIP and, to-date the Company had received \$4. The amount is presented in the condensed interim consolidated statement of financial position as trade and other receivables. The Company considers the funding arrangement under the PIP to be a collaboration arrangement under IFRS 11 and has accounted for the invoicing as a reduction of costs incurred during the period.

(iii) Interim Supply Arrangement

The Company has agreed under the contract to supply ingredients for the manufacture of Macrilen™ (macimorelin) during an interim period at a price that is set 'at cost', without any profit margin. The Company believes the stand-alone selling price of the manufacturing ingredients to be their cost, as that approximates the amount at which Strongbridge would be able to procure those same goods with other suppliers.

During the third quarter of 2018, the Company invoiced and received from Strongbridge \$663 under the Interim Supply Arrangement. These items are presented in the condensed interim consolidated statements of comprehensive income (loss) as product sales and cost of goods sold.

5 Trade and other receivables

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

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	\$	\$
Trade accounts receivable	300	20
Value added tax	262	186
Other	12	15
	<u>574</u>	<u>221</u>

6 Payables and accrued liabilities

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	\$	\$
Trade accounts payable	1,573	1,222
Accrued research and development costs	14	127
Salaries, employment taxes and benefits	204	390
Other accrued liabilities	489	1,075
	<u>2,280</u>	<u>2,814</u>

7 Current portion of provision for restructuring costs and onerous contracts

In the second quarter of 2017, Aeterna Zentaris GmbH, and its Works Council approved a restructuring program (the "2017 German Restructuring"), which was rolled out as a consequence of the negative Phase 3 clinical trial results of Zoptrex™ and the related impact on our product pipeline. This was also part of the continued strategy to transition into a commercially operating specialty biopharmaceutical organization focused on the development and commercialization of Macrilen™ (macimorelin), including through out-licensing arrangements and pursuing in-licensing opportunities.

In the fourth quarter of 2017, the 2017 German Restructuring was initiated with staff departures expected to be completed over a period of approximately 18 months. Total initial restructuring costs includes severance accruals and other directly related costs and an onerous lease provision for a total of \$3,115,000.

The 2018 changes in the Company's provision for restructuring costs and onerous contracts can be summarized as follows:

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	Cetrotide ^(R) onerous contracts *	2017 German Restructuring: onerous lease	2017 German Restructuring: severance	Total
	\$	\$	\$	\$
Balance – January 1, 2018	483	1,209	1,805	3,497
Utilization of provision	37	(341)	(1,467)	(1,771)
Unused provision reversed due to changes in assumptions	(160)	(21)	(192)	(213)
Impact of foreign exchange rate changes	(15)	(31)	(59)	(105)
Balance – September 30, 2018	345	816	87	1,248
Less current portion	(124)	(542)	(87)	(753)
Non-current portion	221	274	—	495

* - Recorded following the transfer of the Cetrotide^(R) Business (discontinued operations) in a prior year.

8 Warrant liability

The change in the Company's warrant liability can be summarized as follows:

	Nine months ended September 30, 2018
	\$
Balance – January 1, 2018	3,897
Expiry of share purchase warrants	—
Change in fair value of warrant liability	(1,752)
Balance – September 30, 2018	2,145

The following warrants were issued and outstanding at September 30, 2018:

	Warrants	Exercise Price	Expiry date
	#	\$	
March 2015 registered direct offering - Series A	115,844	1.07	March 10, 2020
December 2015 registered direct offering	2,331,000	7.10	December 13, 2020
November 2016 registered direct offering	945,000	4.70	May 1, 2020
	3,391,844		

On July 30, 2018, 25,996 share purchase warrants, each with an exercise price of \$185.00, expired.

A summary of the activity related to the Company's share purchase warrants that are classified as a liability is provided below.

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	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of period	3,417,840	7.59	3,779,245	9.66
Exercised	—	—	(331,730) *	1.07
Expired	(25,996)	185.00	(29,675)	345.00
Balance – End of period	<u>3,391,844</u>	<u>6.23</u>	<u>3,417,840</u>	<u>7.59</u>

* A portion of the Series A warrants was exercised using the cashless feature. Therefore, the total number of equivalent shares issued was 301,343.

The table presented below shows the inputs and assumptions applied to the Black-Scholes option pricing model in order to determine the fair value of all warrants outstanding as at September 30, 2018. The Black-Scholes option pricing model uses "Level 2" inputs, as defined by IFRS 13, *Fair value measurement* ("IFRS 13") and as discussed in note 14 - Financial instruments and financial risk management.

	Number of equivalent shares	Market value per share price (\$)	Weighted average exercise price (\$)	Risk-free annual interest rate (a)	Expected volatility (b)	Expected life (years) (c)	Expected dividend yield (d)
March 2015 Series A Warrants (e)	115,844	1.74	1.07	2.25%	115.38%	1.94	0.00%
December 2015 Warrants	2,331,000	1.74	7.10	2.34%	138.34%	2.71	0.00%
November 2016 Warrants (f)	945,000	1.74	4.70	2.27%	113.55%	2.09	0.00%

- (a) Based on United States Treasury Government Bond interest rates with a term that is consistent with the expected life of the warrants.
- (b) Based on the historical volatility of the Company's stock price over the most recent period consistent with the expected life of the warrants, as well as on future expectations.
- (c) Based upon time to expiry from the reporting period date.
- (d) The Company has not paid dividends and it does not intend to pay dividends in the foreseeable future.
- (e) For the March 2015 Series A Warrants, the inputs and assumptions applied to the Black-Scholes option pricing model have been further adjusted to take into consideration the value attributed to certain anti-dilution provisions. Specifically, the weighted average exercise price is subject to adjustment (see note 10 - Share capital).
- (f) For the November 2016 Warrants, the Company reduced the fair value of these warrants to take into consideration the fair value of the \$10.00 call option, which was also calculated using the Black-Scholes pricing model.

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9 Employee future benefits

The Company sponsors a pension plan in Germany (The Aeterna Zentaris GmbH Pension Plan). The change in the Company's accrued benefit obligations is summarized as follows:

	Nine months ended September 30, 2018			Year ended December 31, 2017
	Pension benefit plans	Other benefit plans	Total	Total
	\$	\$	\$	\$
Balances – Beginning of the period	14,145	84	14,229	13,414
Current service cost	51	5	56	121
Interest cost	164	1	165	240
Actuarial gain arising from changes in financial assumptions	(611)	—	(611)	(809)
Benefits paid	(332)	(1)	(333)	(551)
Impact of foreign exchange rate changes	(463)	(3)	(466)	1,814
Balances – End of the period	12,954	86	13,040	14,229
Amounts recognized:				
In net loss	(215)	(6)	(221)	(246)
In other comprehensive loss	1,074	3	1,077	(1,120)

The calculation of the pension benefit obligation is sensitive to the discount rate assumption. Since January 1, 2018, management determined that the discount rate assumption should be adjusted from 1.7% to 2.0% as a result of changes in the European economic environment.

10 Share capital

The Company has an unlimited number of authorized common shares (being voting and participating shares) with no par value, as well as an unlimited number of preferred, first and second ranking shares, issuable in series, with rights and privileges specific to each class, with no par value.

Common shares issued in connection with "At-the-Market" ("ATM") drawdowns

April 2017 ATM Program

On April 27, 2017, the Company entered into a new ATM Sales Agreement (the "New ATM Sales Agreement") and filed with the Securities and Exchange Commission (the "SEC") a prospectus supplement (the "April 2017 ATM Prospectus Supplement" or "April 2017 ATM Program") related to sales and distributions of up to a maximum of 2,240,000 common shares through ATM issuances on the NASDAQ, up to an aggregate amount of \$6.9 million under the New ATM Sales Agreement. The 2017 Shelf Registration Statement allows the Company to offer up to \$50.0 million of common shares and is effective for a three-year period.

Between May 30, 2017 and December 31, 2017, the Company issued a total of 1,805,758 common shares under the April 2017 ATM Program at an average issuance price of \$1.71 per share for aggregate gross proceeds of \$3,761,000 less cash transaction costs of \$115,000 and previously deferred financing costs of \$285,000. Because of these issuances, the exercise price of the Series A warrants issued in March 2015 was adjusted to \$1.07 pursuant to the anti-dilution provisions contained in such warrants. On April 24, 2018, the Company terminated the New ATM Sales Agreement, effective May 4, 2018, with no further sales of common shares in 2018.

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Shareholder rights plan

The Company has a shareholder rights plan (the "Rights Plan") that provides the Board of Directors and the Company's shareholders with additional time to assess any unsolicited take-over bid for the Company and, where appropriate, to pursue other alternatives for maximizing shareholder value. Under the Rights Plan, one right has been issued for each currently issued common share, and one right will be issued with each additional common share that may be issued from time to time. The Rights Plan was approved, ratified and confirmed by the Company's shareholders at its annual meeting of shareholders held on May 10, 2016.

Stock options

The following tables summarize the activity under the Stock Option Plan.

	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number	Weighted average exercise price (US\$)	Number	Weighted average exercise price (US\$)
US dollar-denominated options				
Balance – Beginning of the period	712,415	4.66	966,539	7.23
Granted	265,000	1.71	390,000	2.05
Forfeited or expired	(134,599)	4.75	(643,271)	6.02
Expired	—	—	(853)	704.88
Balance – End of period	842,816	3.72	712,415	4.66

	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number	Weighted average exercise price (CAN\$)	Number	Weighted average exercise price (CAN\$)
Canadian dollar-denominated options				
Balance – Beginning of the period	1,503	605.84	1,858	820.27
Forfeited or expired	(104)	668.65	—	—
Expired	—	—	(355)	1,728.15
Balance – End of the period	1,399	601.17	1,503	605.84

Deferred share units ("DSU")

The Company's shareholders approved the adoption of the 2018 long-term incentive plan which allows the Board of Directors to issue up to 11.4% of the total number of issued and outstanding common shares at any given time at an exercise price to be determined by the Board of Directors at the time of the grant, subject to a ceiling.

On May 8, 2018, the Company granted 23,000 DSU to each director under the 2018 long-term incentive plan for a total of 161,000 DSU. Each DSU provides the right to receive one common share of the Company when the holder ceases to be a director. Each DSU vests on the date of grant. The fair value of each DSU is represented by the market value of the common share of the Company on the date of the grant. The Company recorded an expense of \$233 during the second quarter of 2018 in relation to those grants.

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11 Compensation of key management and other employee benefit expenses

Compensation awarded to key management and other employee benefit expenses are summarized below.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Key management personnel: *				
Salaries and short-term employee benefits	816	436	2,045	1,549
Share-based compensation costs	450	(495)	489	263
Post-employment benefits	33	14	56	47
Termination benefits	(16)	145	205	145
	<u>1,283</u>	<u>100</u>	<u>2,795</u>	<u>2,004</u>
Other employees:				
Salaries and short-term employee benefits	631	826	1,174	2,777
Share-based compensation costs	2	28	27	84
Post-employment benefits	3	113	28	333
Termination benefits	19	1,891	19	1,891
	<u>655</u>	<u>2,858</u>	<u>1,248</u>	<u>5,085</u>
	<u>1,938</u>	<u>2,958</u>	<u>4,043</u>	<u>7,089</u>

* Key management includes the Company's directors and members of the executive management team.

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12 Supplemental disclosure of cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Changes in operating assets and liabilities:				
Trade and other receivables	114	(35)	(155)	93
Inventory	(149)	—	(965)	—
Prepaid expenses and other current assets	311	247	160	(127)
Other non-current assets	—	26	150	(262)
Payables and accrued liabilities	158	(1,002)	(706)	(1,419)
Provision for restructuring costs	45	—	(1,307)	(33)
Income taxes payable	(565)	—	2,339	—
Employee future benefits	423	(140)	567	(381)
Provisions and other non-current liabilities	(253)	(14)	(533)	(184)
	<u>84</u>	<u>(918)</u>	<u>(450)</u>	<u>(2,313)</u>

13 Capital risk management

The Company's objective in managing capital, consisting of shareholders' equity, with cash and cash equivalents and restricted cash equivalents being its primary components, is to ensure sufficient liquidity to fund commercialization efforts for the world-wide sale of macimorelin and to monetize the value of our non-strategic assets.

Over the past several years, the Company has raised capital via public equity offerings and issuances under various ATM sales programs and licensing agreements. In 2018, the Company's primary source of liquidity has been the \$24.0 million milestone payment received from Strongbridge in January 2018. The capital structure of the Company consists of capital share and warrant issuances; it totaled \$224.5 million as at September 30, 2018 (December 31, 2017 - \$226.2 million).

The capital management objective of the Company remains the same as that in previous periods, and it is not subject to any capital requirements imposed by any regulators or by any other external source.

14 Financial instruments and financial risk management

Financial assets (liabilities) as at September 30, 2018 and December 31, 2017 are presented below.

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September 30, 2018	Financial assets at amortized cost	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Total
	\$	\$	\$	\$
Cash and cash equivalents *	16,800	—	—	16,800
Trade and other receivables	574	—	—	574
Restricted cash equivalents	422	—	—	422
Payables and accrued liabilities	—	—	(2,280)	(2,280)
Current portion of provision for restructuring costs and onerous contracts	—	—	(753)	(753)
Warrant liability	—	(2,145)	—	(2,145)
Long-term portion of provision for restructuring costs and onerous contracts	—	—	(495)	(495)
	<u>17,796</u>	<u>(2,145)</u>	<u>(3,528)</u>	<u>12,123</u>
December 31, 2017	Financial assets at amortized cost	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Total
	\$	\$	\$	\$
Cash and cash equivalents *	7,780	—	—	7,780
Trade and other receivables	221	—	—	221
Restricted cash equivalents	381	—	—	381
Payables and accrued liabilities	—	—	(2,814)	(2,814)
Provision for restructuring costs	—	—	(2,469)	(2,469)
Warrant liability	—	(3,897)	—	(3,897)
Long-term portion of provision for restructuring costs and onerous contracts	—	—	(1,028)	(1,028)
	<u>8,382</u>	<u>(3,897)</u>	<u>(6,311)</u>	<u>(1,826)</u>

* As of September 30, 2018 and December 31, 2017, cash and cash equivalents consisted only of balances with banks.

Fair value

IFRS 13, establishes a hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The input levels discussed in IFRS 13 are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for an asset or liability that are not based on observable market data (unobservable inputs).

As discussed above in note 7 - Warrant liability, the Black-Scholes valuation methodology uses "Level 2" inputs in calculating fair value.

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The carrying values of the Company's cash and cash equivalents, trade and other receivables, restricted cash equivalents, payables and accrued liabilities and current portion of provision for restructuring costs and onerous contracts approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market.

Financial risk factors

The following provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk and market risk (share price risk) and how the Company manages those risks.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk currently relates to the financial assets at amortized cost in the table above. The Company holds its available cash in amounts that are readily convertible to known amounts of cash and deposits its cash balances with financial institutions that have an investment grade rating of at least "P-2" or equivalent. This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information to ensure that it invests its cash in creditworthy and reputable financial institutions.

As at September 30, 2018, trade accounts receivable of \$478 is comprised of three counterparties (December 31, 2017 - \$20 comprised with three counterparties).

Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all of its customers and reviews the expected credit loss as appropriate.

The maximum exposure to credit risk approximates the amount recognized in the Company's consolidated statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As indicated in note 13 - Capital risk management, the Company manages this risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions occurring outside of the ordinary course of business. The Company has adopted an investment policy in respect of the safety and preservation of its capital to ensure the Company's liquidity needs are met. The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

On December 20, 2017, the FDA granted marketing approval for Macrilen™ (macimorelin) to be used in the diagnosis of patients with AGHD. On January 16, 2018, the Company, through Aeterna Zentaris GmbH entered into the Strongbridge License Agreement. The \$24.0 million initial payment received as part of the Strongbridge License Agreement has contribute to fulfilling the Company's future obligations (see note 4 - Licensing arrangement).

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(c) Market risk

Share price risk

The change in fair value of the Company's warrant liability, which is measured at FVTPL, results from the periodic "mark-to-market" revaluation, via the application of option pricing models, of currently outstanding share purchase warrants. These valuation models are impacted, among other inputs, by the market price of the Company's common shares. As a result, the change in fair value of the warrant liability, which is reported in the consolidated statements of comprehensive loss, has been and may continue in future periods to be materially affected most notably by changes in the Company's common share closing price, which on the NASDAQ ranged from \$1.19 to \$2.62 during the nine-months ended September 30, 2018.

If variations in the market price of our common shares of -30% and +30% were to occur, the impact on the Company's net loss related to the warrant liability held at September 30, 2018 would be as follows:

	<u>Carrying amount</u>	<u>-30%</u>	<u>+30%</u>
	\$	\$	\$
Warrant liability	2,145	1,483	(517)
Total impact on net loss – decrease / (increase)		<u>1,483</u>	<u>(517)</u>

(d) Foreign exchange risk

Entities using the Euro as their functional currency

The Company is exposed to foreign exchange risk due to its investments in foreign operations whose functional currency is the Euro.

As at September 30, 2018, if the US dollar had strengthened by 10% against the Euro, with all variables held constant, net income (loss) for the nine-month period would have been lower by \$1.4 million (2017 - \$1.1 million).

15 Segment information

The Company operates in a single operating segment, being the biopharmaceutical segment.

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16 Net (loss) income per share

The following table sets forth pertinent data relating to the computation of basic and diluted net loss per share attributable to common shareholders:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net (loss) income	(2,509)	(9,631)	9,313	(16,312)
Basic weighted average number of shares outstanding	16,440,760	15,803,080	16,440,760	14,457,421
Net (loss) income per share [basic]	(0.15)	(0.61)	0.57	(1.13)
Dilutive effect of share purchase warrants	—	—	49,816	—
Dilutive effect of stock options	—	—	165,000	—
Diluted weighted average number of shares outstanding	16,440,760	15,803,080	16,655,576	14,457,421
Net (loss) income per share [diluted]	(0.15)	(0.61)	0.56	(1.13)

Net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the relevant period. Diluted weighted average number of shares reflects the dilutive effect of equity instruments, such as any "in the money" stock options and share purchase warrants. In periods with reported net losses, all stock options and share purchase warrants are deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal, and thus "in the money" stock options and share purchase warrants have not been included in the computation of net loss per share because to do so would be anti-dilutive.

17 Commitments and contingencies

The Company is committed to various operating leases for its premises. Expected future minimum lease payments, which also include future payments in connection with utility service agreements, and future minimum sublease receipts under non-cancellable operating leases (subleases), as well as future payments in connection with service and manufacturing agreements, as at September 30, 2018, are as follows:

	Minimum lease payments	Minimum sublease receipts	Service and manufacturing	Total
	\$	\$	\$	\$
Less than 1 year	388	(55)	2,158	2,491
1 - 3 years	591	—	—	591
4 - 5 years	58	—	—	58
More than 5 years	8	—	—	8
Total	1,045	(55)	2,158	3,148

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Contingencies

In the normal course of operations, the Company may become involved in various claims and legal proceedings related to, for example, contract terminations and employee-related and other matters. No accruals have been recorded as at the end of the periods presented in the accompanying condensed interim consolidated financial statements.

Securities class action litigation

The Company and certain of its current and former officers are defendants in a class-action lawsuit pending in the U.S. District Court for the District of New Jersey, brought on behalf of shareholders of the Company. The lawsuit alleges violations of the Securities Exchange Act of 1934 in connection with allegedly false and misleading statements made by the defendants between April 2, 2012 and November 6, 2014 (the "Class Period"), regarding the safety and efficacy of Macrilen™ (macimorelin) and the prospects for the approval of the Company's New Drug Application for the product by the FDA. The plaintiffs represent a class comprised of purchasers of the Company's common shares during the Class Period and seek damages, costs and expenses and such other relief as determined by the Court. The Company considers the claims that have been asserted in the lawsuit to be without merit and is vigorously defending against them. The Company cannot, however, predict at this time the outcome or potential losses, if any, with respect to this lawsuit.

Litigation pertaining to former officers of the Company

In late July 2017, the Company terminated for cause the employment agreement of Mr. David A. Dodd, the former President and Chief Executive Officer and it also terminated the employment of Mr. Philip A. Theodore, the former Senior Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary.

On August 3, 2017, the Company filed a lawsuit against both Messrs. Dodd and Theodore for damages suffered by the Company for breach of confidence and/or breach of fiduciary duty in an amount to be determined prior to trial. The Company is also seeking, among other things, an injunction to prevent both Messrs. Dodd and Theodore (i) from continuing to use the Company's confidential and proprietary information without authorization and (ii) from mounting a proxy contest premised upon the breaches of fiduciary and statutory duties and breaches of confidence alleged in the lawsuit.

On December 21, 2017, Messrs. Dodd and Theodore brought a counterclaim against the Company and its Chair, Carolyn Egbert, in the amount of CAN\$6.0 million alleging, among other things, that defamatory statements were made against Messrs. Dodd and Theodore. The Company and its Chair consider the counterclaim against them to be entirely without merit, and are vigorously defending against the counterclaim but cannot predict at this time the outcome or potential losses, if any, with respect to this lawsuit.

In August 2017, Mr. Dodd filed a lawsuit against the Company for damages of approximately \$1.7 million alleging breach of his employment contract and the immediate reinstatement and vesting of all of his outstanding stock options vest effective upon his termination date. This claim is being heard in the Federal Court in South Carolina, with the trial currently set for February 2019. While the Company believes it has meritorious defenses and intends to continue to defend this lawsuit vigorously, it cannot predict the outcome.

Cogas Litigation

Cogas Consulting, LLC ("Cogas") filed a lawsuit against the Company in state court in Fulton County, Georgia on February 2, 2018. The lawsuit was removed to federal court in Georgia. In the lawsuit, Cogas alleges that its employee (and sole shareholder) John Sharkey is entitled to a "success fee" commission on the Strongbridge License Agreement. Cogas is claiming damages in the form of a lost commission on the transaction. Cogas claims its commission is 5% on payments the Company receives within the first three years after January 14, 2018 including 5% of the \$24.0 million Strongbridge already paid the Company, plus 5% of any royalty Strongbridge pays the Company through January 17, 2021.

In March 2018, the Company initiated an arbitration process with the International Centre for Dispute Resolution related to the dispute with Cogas and subsequently moved to stay the lawsuit in federal court in Georgia pending the resolution of the arbitration proceedings. On August 27, 2018, the motion to stay was granted and the federal court case was administratively closed. On September 28, 2018, the Company amended its arbitration claim to include affirmative claims against both John Sharkey and Cogas and on November 5, 2018, the matter was amicably resolved with the Company agreeing to make a payment to Cogas in the amount of \$625. The parties now consider their contractual relationship as having been terminated.

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18 Subsequent events

On October 31, 2018, Strongbridge announced that it had entered into an agreement with Novo Nordisk to sell the United States and Canadian rights to Macrilen™ for an upfront payment of \$145 million plus tiered royalties on net sales. Strongbridge's current Macrilen™ field organization will continue to promote the product in the United States under an up to three-year agreement with Novo Nordisk. Strongbridge also confirmed that they achieved \$1.1 million in initial net product sales of Macrilen™ during the third quarter of 2018.

On the Cogas litigation matter relating to Cogas's claim for a 5% commission on the Strongbridge License Agreement, on November 5, 2018, the matter was amicably resolved with the Company agreeing to make a payment to Cogas in the amount of \$625. The parties now consider their contractual relationship as having been terminated.