2016 ANNUAL REPORT

Bellus HEALTH

Certain statements contained in this document, other than statements of fact that are independently verifiable at the date hereof, may constitute "forward-looking statements" within the meaning of Canadian securities legislation and regulations. Such statements, based as they are on the current expectations of management, inherently involve numerous important risks, uncertainties and assumptions, known and unknown, many of which are beyond BELLUS Health Inc.'s control. Such risks factors include but are not limited to: the ability to expand and develop its project pipeline, the ability to obtain financing, the impact of general economic conditions, general conditions in the pharmaceutical industry, changes in the regulatory environment in the jurisdictions in which the Company does business, stock market volatility, fluctuations in costs, changes to the competitive environment due to consolidation, achievement of forecasted burn rate, potential payments/outcomes in relation to indemnity agreements and contingent value rights, achievement of forecasted pre-clinical and clinical trial milestones and that actual results may vary once the final and quality-controlled verification of data and analyses has been completed. In addition, the length of BELLUS Health Inc.'s drug candidates development process, their market size and commercial value, as well as the sharing of proceeds between the Company and its potential partners from potential future revenues, if any, are dependent upon a number of factors. Consequently, actual future results and events may differ materially from the anticipated results and events expressed in the forward-looking statements. The Company believes that expectations represented by forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The reader should not place undue reliance, if any, on any forward-looking statements included in this report. These forward-looking statements speak only as of the date made, and BELLUS Health Inc. is under no obligation and disavows any intention to update publicly or revise such statements as a result of any new information, future events, circumstances or otherwise, unless required by applicable legislation or regulation. Please see BELLUS Health Inc.'s public filings with the Canadian securities regulatory authorities, including the Annual Information Form, for further risk factors that might affect BELLUS Health Inc. and its business.

Dear Shareholders,

It's remarkable the difference one year can make. I'd like to tell you how we felt upon learning of the negative KIACTA™ Phase 3 AA amyloidosis results in mid 2016, how we decided to rebuild from this bitter disappointment and why we are more excited than ever about the future - particularly because of our new project, BLU-5937.

Shocked and disappointed. From our partners at Auven Therapeutics to our Board of Directors to all of our employees, it was a major blow to learn that the Phase 3 AA amyloidosis study had not reached its primary endpoint. We had all felt the study had a very good chance of being successful and had planned all the next steps, including the regulatory process and lining up potential commercial partners. None of those plans were to be set in motion.

We nevertheless had contingency plans in the event of a negative study outcome, including continuing or selling the business. The arguments in favor of the former were strong:

- Leverage the team and its expertise: the team had coalesced well and its ability to identify and develop promising drug candidates to value inflection points had not changed;
- Core business plan was still relevant: ecosystem continued to provide strong value to companies that are able to develop drug candidates through proof of concept studies; and
- Residual projects and rights in Sarcoidosis, Fragile X and Alzheimer's disease were undervalued in our market capitalization: we knew there was value in some of our partnered programs that would take time to materialize.

After much consideration and discussion with the Board of Directors as well as our shareholders, we decided to continue and rebuild the Company, on one important condition: identify a new project to serve as BELLUS' core focus.

On February 28th, 2017, we announced this new core project, a drug candidate for chronic cough called BLU-5937. It met the stringent criteria the Board of Directors had set for undertaking a new program:

- Exceptional science: work done by the teams at Astra Zeneca (chemistry, optimization and characterization) and at the NEOMED Institute (chronic cough proof of concept);
- Unmet need: there have been no new drugs approved for chronic cough for more than 40 years and current drugs have limited benefit and/or problematic side effect profiles;
- Mitigated risk: the P2X3 receptor that BLU-5937 targets has been clinically validated in chronic cough;
- Right-sized transaction: the transaction terms are reasonable and we are confident in our ability to properly execute the development plan; and
- Significant potential upside: we believe that demonstrating BLU-5937's safety and efficacy in clinical trials will generate significant commercial drug company interest.

We are excited as we begin development of BLU-5937, a potentially best-in-class drug addressing a high unmet need, and look forward to providing updates on our progress.

We would like to, once again, thank our shareholders for their continued support. We understand that 2016 did not bring the results that many of us were expecting. As a management team, we're motivated to make up for that loss and we believe we'll be able to do that with our new plan.

Sincerely,

Roberto Bellini
President and Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a review of BELLUS Health Inc.'s (and its subsidiaries, including BHI Limited Partnership, together referred to as BELLUS Health or the Company) operations and financial performance for the years ended December 31, 2016 and 2015. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information relating to the Company, including its Annual Report and Annual Information Form, as well as other public filings, is available on SEDAR at www.sedar.com. This document contains forward-looking statements, which are qualified by reference to, and should be read together with the "Forward-Looking Statements" cautionary notice, which can be found at the end of this MD&A.

The consolidated financial statements and MD&A have been reviewed by the Company's Audit Committee and approved by the Board of Directors. This MD&A was prepared by management with information available as at February 28, 2017.

All currency figures reported in the consolidated financial statements and in this document, are in Canadian dollars, unless otherwise specified.

CORPORATE PROFILE

BELLUS Health is a biopharmaceutical development company advancing novel therapeutics for conditions with high unmet medical need. Its pipeline of projects includes BLU-5937 for chronic cough, KIACTA™ for sarcoidosis and Shigamab™ for the Hemolytic Uremic Syndrome caused by Shiga toxin-producing *E. coli* (sHUS). BELLUS Health also has economic interests in several other partnered drug development projects. The Company's shares trade on the Toronto Stock Exchange (TSX) under the symbol BLU.

BUSINESS OVERVIEW

On February 28, 2017, BELLUS Health announced that it had expanded its project pipeline with the acquisition from the NEOMED Institute (NEOMED) of an exclusive worldwide license to develop and commercialize BLU-5937, a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough. During 2016, BELLUS Health continued to pursue the development of its pipeline, completing the Phase 3 study of KIACTA™ in AA amyloidosis and progressing the development of Shigamab™ for sHUS as well as the KIACTA™ program in sarcoidosis.

In addition to receiving positive regulatory feedback from the U.S. Food and Drug Administration (FDA) regarding the design of a Phase 2 study of Shigamab™ in sHUS, the Company generated positive results in a preclinical study assessing the candidate's ability to stop the progression of sHUS. BELLUS' partner, Auven Therapeutics continued to advance the KIACTA™ program for the treatment of sarcoidosis, a rare and sometimes lethal lung disease, and is currently evaluating the conduct of a Phase 2/3 study in that indication. In June 2016, BELLUS announced that KIACTA™ failed to meet its primary efficacy endpoint in the Phase 3 study for the treatment of AA Amyloidosis, and subsequently Auven Therapeutics, terminated the program. BELLUS Health's portfolio of partnered drug development projects continued to progress as well: AMO Pharma continued to prepare for a Phase 2 study of AMO-01 for the treatment of Fragile X Syndrome and Alzheon completed two Phase 1b studies of ALZ-801 for the treatment of Alzheimer's Disease in APOE4 homozygous patients. AMO Pharma expects to initiate its Phase 2 trial of AMO-01 in the first half of 2017, while Alzheon continues to prepare for its pivotal Phase 2/3 trial of ALZ-801.

The Company concluded the year with a liquidity position of $6.8 million. During 2016, the Company completed the simplification of its capital structure, which began in 2012, with the settlement in common shares of convertible notes previously amended as part of the 2012 Plan of Arrangement, and Pharmascience's interest in its partnership with BELLUS. As at February 28, 2017, the Company has 61,063,824 common shares outstanding and 65,851,824 common shares on a fully diluted basis, including 4,788,000 stock options granted under the stock option plan. Within the next days, the Company will issue 5,802,177 additional common shares in relation to the BLU-5937 license acquisition from NEOMED.

2016 and early 2017 Highlights

- Announced on February 28, 2017 the acquisition of an exclusive worldwide license to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough;
- Announced that its partner, Auven Therapeutics, continues to evaluate the conduct of a Phase 2/3 study for KIACTA™ in pulmonary sarcoidosis;
- Received positive regulatory feedback from the FDA regarding the design of a potential Phase 2 study for Shigamab™ in sHUS;
- Provided a progress update on its legacy portfolio of partnered drug candidates, including AMO-01 for the treatment of Fragile X Syndrome and ALZ-801 for the treatment of Alzheimer's Disease in APOE4 homozygous patients;
- Announced that the KIACTA™ program for AA amyloidosis was terminated by its partner Auven Therapeutics in December 2016;
- Completed simplification of its capital structure by issuing 13.7 million common shares to settle two convertible securities; the only remaining dilutive securities are those related to the Company's stock option plan; and
- Received in February 2017 $573,000 as additional purchase price consideration in relation to a 2009 Thallion Pharmaceuticals transaction; the amount will be paid in full to the CVR holders on March 10, 2017;
- Concluded the year with cash, cash equivalents and short-term investments totaling $6.8 million, which the Company believes is sufficient to finance its operations for more than 12 months.

Pipeline of Projects

The current status of the Company's projects is as follows:

Disease indication	Drug candidate	Stage of development
Chronic cough	BLU-5937	Pre-clinical
Sarcoidosis	KIACTA™	Clinical Phase 2/3
sHUS	Shigamab™	Clinical Phase 2
Fragile X syndrome	AMO-01	Clinical Phase 2
Alzheimer's disease	ALZ-801	Clinical Phase 2/3

BLU-5937 for Chronic Cough

On February 28, 2017, BELLUS Health announced that it had obtained from NEOMED an exclusive worldwide license to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough. BLU-5937 is a promising best-in-class drug candidate that has the potential to help millions of chronic cough patients who do not respond to current therapies.

Under the terms of the agreement, BELLUS Health will pay NEOMED an upfront fee of $3.2 million, consisting of $1.7 million in cash and $1.5 million with 5,802,177 BELLUS Health common shares. NEOMED will be entitled to receive a royalty on net sales-based revenues. In lieu of milestone payments, a certain portion of all other revenues received by BELLUS Health from BLU-5937 will be shared with NEOMED according to a pre-established schedule whereby the shared revenue portion decreases as the program progresses in development.

The P2X3 antagonist program was initiated by AstraZeneca scientists in Montreal, and assigned to NEOMED in October 2012. BLU-5937 was selected as a drug candidate to advance towards the clinic based on development efforts and extensive pre-clinical work in chronic cough done at NEOMED.

Chronic cough is a cough that lasts more than eight weeks and is associated with significant adverse social, psychosocial and physical effects on quality of life. It is estimated that, in the United States alone, more than 2.7 million patients suffer from chronic cough that is not controlled by currently available medications.

KIACTA™ for Sarcoidosis

BELLUS Health's partner, Auven Therapeutics, is currently evaluating the potential use of KIACTA™ for the treatment of patients suffering from active pulmonary sarcoidosis. Auven Therapeutics has developed a clinical Phase 2/3 study protocol to evaluate the safety and efficacy of KIACTA™ in pulmonary sarcoidosis. In vitro study test results in sarcoidosis indicate that KIACTA™ may reduce SAA-induced inflammatory cytokine expression. The sarcoidosis program is currently under review by Auven Therapeutics and a decision is expected to be made in the coming months.

In May 2014, Auven Therapeutics entered into a license agreement with Icahn School of Medicine at Mount Sinai Hospital in New York, under which Auven Therapeutics obtained the exclusive rights to develop KIACTA™ as a treatment for chronic pulmonary sarcoidosis.

BELLUS Health is partnered with global private equity firm Auven Therapeutics for the development of KIACTA™, which acquired the KIACTA™ rights from the Company in 2010. All costs in relation to the development of KIACTA™ in sarcoidosis would be borne by Auven Therapeutics and proceeds from potential future revenue of KIACTA™ for sarcoidosis would be shared between Auven Therapeutics and BELLUS Health.

Sarcoidosis is a rare condition that causes patches of red and swollen tissue - called granulomas - that can develop in multiple organs in the body, but mostly in the lungs and skin. There is no cure for chronic pulmonary sarcoidosis, and treatment options are limited and can have serious adverse effects.

Shigamab™ for sHUS

In November 2016, BELLUS Health received positive regulatory feedback from the FDA in relation to the clinical Phase 2 study protocol for the assessment of the efficacy and safety of Shigamab™ in the treatment of children suffering from sHUS. BELLUS Health is currently planning the next steps for the initiation of this clinical Phase 2 study and is seeking to secure a strategic partner for the further development of Shigamab™.

During 2016, BELLUS Health completed an additional pre-clinical study in a sHUS baboon model, which recapitulates a pathophysiology similar to that in sHUS patients. The objective of this study was to assess the effect of Shigamab™ on the progression of sHUS. In this study, Shigamab™ was shown to rescue the animals against a lethal dose of toxin when administered up to 48 hours post-intoxication. Shigamab™ was also found to inhibit the kidney injury caused by Shiga toxin type 2 and protect the animals against the extra-renal complications associated with the Shiga toxin type 2 intoxication. These results are consistent with the protective effects of Shigamab™ previously seen in the mice that received lethal doses of Shiga toxin *E. coli* or lethal doses of Shiga toxin type 2.

During 2014, in-vivo studies were performed in collaboration with the Uniformed Services University of the United States Department of Defense. In an in-vivo mouse model, Shigamab™ inhibited the kidney injury caused by Shiga toxin type 2, as measured by renal biomarkers and renal histopathology.

Shigamab™ has been granted Orphan Drug designation or its equivalent in the United States and Europe, which provide for market exclusivity for a period of seven and ten years, respectively, once the drug is approved, as well as a reduction in application and review fees.

Shigamab™ is a monoclonal antibody therapy being developed for the treatment of sHUS, a rare disease which principally affects the kidneys and often leads to patients requiring acute dialysis. In certain cases, sHUS can cause chronic kidney disease and death, primarily in children. Shigamab™ was acquired through the acquisition of Thallion Pharmaceuticals Inc. (Thallion) in 2013.

AMO-01 for Fragile X Syndrome

In 2014, BELLUS Health entered into a development and license agreement with AMO Pharma Limited (AMO Pharma) for the worldwide rights to AMO-01 (formerly TLN-4601) for the treatment of neurologic and psychiatric disorders in return for revenue sharing and royalties on sales. TLN-4601 was acquired by BELLUS Health as part of the Thallion acquisition in 2013.

AMO Pharma is a private company focused on the treatment of central nervous system and neuromuscular diseases. AMO Pharma is expected to initiate a Phase 2 study on patients with Fragile X Syndrome in the first half of 2017.

Fragile X Syndrome is the most common inherited cause of autism and intellectual disabilities, affecting approximately 1 in 4,000 males and 1 in 8,000 females. Symptoms range in severity and can include

intellectual disabilities, attention deficit and hyperactivity, anxiety and seizures. There are currently no approved drugs indicated for the treatment of Fragile X Syndrome.

ALZ-801 for APOE4 Homozygous Alzheimer's Disease

ALZ-801 for the treatment of Alzheimer's disease (AD), initially developed by BELLUS Health, was licensed to Alzheon Inc. (Alzheon) in 2013 in return for revenue sharing and royalties on sales.

ALZ-801 is a prodrug of tramiprosate, a beta-amyloid targeting small molecule shown to improve cognition and function in AD patients who are carriers of apolipoprotein E4 (APOE4) AD genotype, and to reduce soluble beta-amyloid in the cerebral spinal fluid of AD patients.

Recent third-party positive clinical results for the treatment of early AD using anti-beta-amyloid antibodies lend further support to the concept of amyloid beta clearance as a promising approach for the treatment of AD.

Alzheon, a private company focused on AD and other neurodegenerative disorders, has completed two Phase 1b clinical studies with ALZ-801 and is currently in preparation for a pivotal Phase 2/3 program focusing on treatment of mild AD patients who are homozygous for APOE4, the most important genetic risk factor for late-onset AD.

Specialty Pharma Equity Stake

The Company has a 5.72% equity interest in FB Health S.p.A (FB Health), an Italy-based specialty pharma focused on neurology and psychiatry. FB Health is a growing and profitable company which distributes over ten nutraceutical and pharmaceutical products in Italy with annual sales in excess of 8 million euros. The investment in FB Health is presented at fair value in BELLUS Health's financial statements and amounted to $639,000 as of December 31, 2016.

KIACTA™ for AA Amyloidosis

On June 20, 2016, the Company announced top-line results from the Phase 3 study of KIACTA™ for the treatment of AA amyloidosis, an orphan indication resulting in renal dysfunction that often leads to dialysis and death. In the study, KIACTA™ did not meet the primary efficacy endpoint in slowing renal function decline. As a result of the negative outcome of the Phase 3 clinical trial, Auven Therapeutics, BELLUS Health's partner who acquired the rights to KIACTA™ from the Company in 2010, decided in December 2016 to terminate the KIACTA™ program for the treatment of AA amyloidosis.

AL Amyloidosis Research Project

During the second quarter of 2016, the Company took the decision to terminate its research-stage project for AL amyloidosis.

Selected Financial Information

(In thousands of dollars, except per share data)

	Years ended December 31		
	2016	2015	2014
Revenues	$ 1,893	$ 4,024	$ 2,376
Expenses:			
Research and development	1,515	1,293	1,792
Research tax credits	(149)	(285)	(97)
	1,366	1,008	1,695
General and administrative	2,624	3,122	3,150
Total operating expenses	3,990	4,130	4,845
Results from operating activities	(2,097)	(106)	(2,469)
Finance income	806	701	730
Finance costs	(922)	(217)	(278)
Net finance (costs) income	(116)	484	452
(Loss) Income before income taxes	(2,213)	378	(2,017)
Deferred tax expense (recovery)	15	(27)	(49)
Net (loss) income for the year	$ (2,228)	$ 405	$ (1,968)
Net (loss) income attributable to:			
Shareholders	$ (2,159)	$ 202	$ (1,931)
Non-controlling interest	(69)	203	(37)
	(2,228)	405	(1,968)
Loss per share – Basic and diluted	$ (0.04)	$ Nil	$ (0.04)

Financial Portion:

	At December 31, 2016	At December 31, 2015	At December 31, 2014
Total assets	$ 9,584	$ 15,013	$ 16,708
Total non-current financial liabilities	$ 104	$ 70	$ 1,177

RESULTS OF OPERATIONS

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

For the year ended December 31, 2016, *net loss attributable to shareholders* amounted to $2,159,000 ($0.04 per share), compared to a net income attributable to shareholders of $202,000 (nil per share) for the previous year. The increase in net loss is primarily attributable to lower revenues recognized for accounting purposes in 2016.

Revenues amounted to $1,893,000 for the year ended December 31, 2016, compared to $4,024,000 for the previous year. The decrease is primarily attributable to lower revenues recognized for accounting purposes in relation to the VIVIMIND™ license agreement with FB Health. As at December 31, 2015, as management assessed that uncertainty in relation to the collectability of future receivables decreased, all amounts to be received until 2017 under this agreement relating to licensing fees, sales-based royalty payments and certain costs reimbursement had been recognized as revenues by the Company. The decrease in revenues is also attributable to lower revenues recognized for accounting purposes from the service agreement entered into with Auven Therapeutics for the development of KIACTA™. Following the announcement of the results from the Phase 3 Confirmatory Study of KIACTA™ in June 2016, the Company's expected support and assistance to Auven Therapeutics after that date decreased.

Research and development expenses, net of research tax credits, amounted to $1,366,000 for the year ended December 31, 2016, compared to $1,008,000 for the previous year. The increase is primarily attributable to higher expenses incurred in relation to the development of Shigamab™. In addition, higher research tax credits were recognized in 2015 in relation to the realization of tax credits from prior years that met the criteria for recognition during that year, and the filing in 2015 of additional claims for prior years.

General and administrative expenses amounted to $2,624,000 for the year ended December 31, 2016, compared to $3,122,000 for the previous year. The decrease is primarily attributable to costs reduction measures implemented by the Company in 2016 after the announcement of the KIACTA™ Phase 3 results in June 2016, as well as income recorded in 2016 in relation to the Company's deferred share unit plans due to the decrease in the Company's stock price during that period.

Net finance costs amounted to $116,000 for the year ended December 31, 2016, compared to net finance income of $484,000 for the previous year. The increase in net finance costs is primarily attributable to foreign exchange loss that arose from the translation of the Company's net monetary assets denominated in US dollars, due to the depreciation of the US dollar vs the Canadian dollar during the period, compared to foreign exchange gains recognized in 2015.

As at December 31, 2016, total assets amounted to $9,584,000, compared to $15,013,000 as at December 31, 2015. The decrease is primarily due to funds used to finance the Company's operating activities as well as a reduction of unbilled amount receivable from Auven Therapeutics. Total non-current financial liabilities amounted to $104,000 and $70,000 as at December 31, 2016 and December 31, 2015, respectively.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

For the year ended December 31, 2015, net income attributable to shareholders amounted to $202,000 (nil per share), compared to a net loss of $1,931,000 ($0.04 per share) for the previous year. The increase in net income is primarily due to higher revenue and lower research and development expenses recognized in 2015.

Revenues amounted to $4,024,000 for the year ended December 31, 2015, compared to $2,376,000 for the previous year. The increase is primarily attributable to higher revenue recognized for accounting purposes in 2015 in relation to the VIVIMIND™ license agreement with FB Health. Prior to December 31, 2015, and since the date of the transaction, management assessed that uncertainty existed in relation to the collectability of amounts to be received until 2017 under the VIVIMIND™ agreement due to the start-up nature of FB Health's business, and as such only recognized revenues to the extent received. However, as at December 31, 2015, management assessed that uncertainty decreased in relation to the collectability of these amounts as a significant portion of amounts due under the agreement had been received on scheduled payment dates, and due to FB Health's business and sales growth, which lowered the risk of the collectability of the remaining amounts. As such, the Company recognized as revenues amounts received in 2015, as well as remaining amounts to be received until 2017 relating to licensing fees, sales-based royalty payments and certain costs reimbursement. The increase is also attributable to higher revenue recognized for accounting purposes in 2015 in relation to the service agreement with Auven Therapeutics for KIACTA™. During the fourth quarter of 2014, BELLUS Health's expected support and assistance to Auven Therapeutics in connection with KIACTA™'s development program was increased, based on management's estimate, which increased the expected amount receivable by the Company over the life of the service agreement. This revenue is recognized over the estimated period of KIACTA™ development program conducted by Auven Therapeutics. Revenue adjustments in relation to a change in the expected amount to be received are recognized prospectively.

Research and development expenses, net of research tax credits, amounted to $1,008,000 for the year ended December 31, 2015, compared to $1,695,000 for the previous year. The decrease is primarily attributable to lower expenses incurred in relation to the development of Shigamab™. The decrease is also attributable to higher research tax credits recognized in 2015 in relation to the realization of tax credits from prior years that met the criteria for recognition during 2015, and the filing in 2015 of additional claims for prior years.

General and administrative expenses amounted to $3,122,000 for the year ended December 31, 2015, in line with $3,150,000 for the previous year.

Net finance income amounted to $484,000 for the year ended December 31, 2015, compared to $452,000 for the previous year. The increase is primarily attributable to an increase in the foreign exchange gain that arose from the translation of the Company's net monetary assets denominated in US dollars, due to the appreciation of the US dollar vs the Canadian dollar in 2015. The increase in 2015 is partially offset by income recorded in 2014 in relation to the increase in fair value of asset-backed commercial paper notes (ABCP Notes), which ABCP Notes were sold by the Company in November 2014.

As at December 31, 2015, total assets amounted to $15,013,000 compared to $16,708,000 as at December 31, 2014. The decrease is primarily due to funds used to finance the Company's operating activities. As at December 31, 2015, total non-current financial liabilities amounted to $70,000, compared to $1,177,000 as at December 31, 2014. The decrease is attributable to the reclassification of the contingent consideration related to the contingent right asset (CVR) to current liabilities.

Fourth Quarter (Unaudited)

For the fourth quarter ended December 31, 2016, net loss attributable to shareholders amounted to $496,000 ($0.01 per share), compared to a net income attributable to shareholders of $865,000 ($0.02 per share) for the corresponding quarter the previous year. The increase in net loss is primarily attributable to lower revenue recognized in the fourth quarter of 2016 in relation to the VIVIMIND™ license agreement with FB Health and the service agreement with Auven Therapeutics for KIACTA™. The increase is partially offset by lower general and administrative expenses incurred in the fourth quarter of 2016.

Revenues amounted to $359,000 for the quarter ended December 31, 2016, compared to $2,053,000 for the corresponding quarter the previous year. The decrease is primarily attributable to lower revenue recognized for accounting purposes in 2016 in relation to the VIVIMIND™ license agreement with FB Health. As at December 31, 2015, as management assessed that uncertainty in relation to the collectability of future receivables decreased, all amounts to be received until 2017 under this agreement relating to licensing fees, sales-based royalty payments and certain costs reimbursement had been recognized as revenues by the Company as at that date. The decrease in revenues is also attributable to lower revenues recognized for accounting purposes from the service agreement entered into with Auven Therapeutics for the development of KIACTA™. Following the announcement of the negative results from the Phase 3 Confirmatory Study of KIACTA™ for the treatment of AA Amyloidosis on June 20, 2016, the Company's expected support and assistance to Auven Therapeutics after that date decreased and has now ceased.

General and administrative expenses amounted to $604,000 for the quarter ended December 31, 2016, compared to $917,000 for the corresponding quarter the previous year. The decrease is primarily attributable to costs reduction measures implemented by the Company after the announcement of the KIACTA™ Phase 3 negative results in June 2016.

Net finance costs amounted to $1,000 for the quarter ended December 31, 2016, compared to net finance income of $66,000 for the corresponding previous quarter. The decrease is attributable to an increase in fair value of the non-current contingent consideration payable.

Quarterly Results (Unaudited)
(*in thousands of dollars, except per share data)*

Quarter	Revenues	Net (loss) income attributable to shareholders	Basic and diluted (loss) earnings per share
Year ended December 31, 2016			
Fourth	$ 359	$ (496)	$ (0.01)
Third	358	(612)	(0.01)
Second	585	(327)	(0.01)
First	591	(724)	(0.01)
Year ended December 31, 2015			
Fourth	$ 2,053	$ 865	$ 0.02
Third	593	(191)	Nil
Second	592	(426)	(0.01)
First	786	(46)	Nil

The variation of the net (loss) income attributable to shareholders of a quarter compared to the corresponding quarter of the previous year are explained by the following elements.

The increase in net loss for the fourth quarter ended December 31, 2016 is primarily attributable to lower revenues recognized for accounting purposes in 2016 in relation to the VIVIMIND™ license agreement with FB Health and the service agreement with Auven Therapeutics for KIACTA™. The increase is partially offset by lower general and administrative expenses. The increase in net loss for the third quarter ended September 30, 2016 is primarily due to lower revenues recognized for accounting purposes in 2016 in relation to the service agreement with Auven Therapeutics for KIACTA™ as well as a decrease in the foreign exchange gain. The decrease in net loss for the second quarter ended June 30, 2016 is primarily due to lower general and administrative expenses recognized in 2016 partially offset by higher research and development expenses The increase in net loss for the first quarter ended March 31, 2016 is primarily attributable to lower revenues recognized for accounting purposes in 2016 in relation to the VIVIMIND™ license agreement with FB Health, higher general and administrative expenses as well as an increase in the foreign exchange loss.

Related Party Transactions

Dr. Francesco Bellini is the Chairman of the Board of Directors and provides ongoing advisory services to the Company under the terms of a consulting and services agreement between the Company and Picchio International Inc. (Picchio International), wholly-owned by Dr. Francesco Bellini and his spouse. Picchio International receives a monthly fee of $20,833, plus reimbursement of applicable expenses for services rendered under the agreement. The agreement has a one-year term renewable for successive one year terms. The Company recorded fees and expenses under the consulting and services agreement of $381,000 for the years ended December 31, 2016 and 2015.

In October 2013, BELLUS Health entered into an agreement to license the worldwide rights to VIVIMIND™ to FB Health, a company controlled by Dr. Francesco Bellini. BELLUS Health also entered into a worldwide license agreement with FB Health for BLU8499 and a family of analogs, along with an associated platform of chemotypes and clinical datasets, in exchange for a 5.5% equity stake in FB Health. In turn, FB Health sublicensed all its rights to Alzheon, a then related company, as part of an exclusive worldwide license, excluding Italy. In 2014, BELLUS Health invested an additional amount in FB Health, mainly in order to maintain the Company's pro rata ownership, as well as to acquire its pro rata share of a minority shareholder's ownership, bringing the Company's equity stake to 5.72%.

For the year ended December 31, 2016, the Company recorded revenues of $33,000 under the VIVIMIND™ license agreement ($1,648,000 in 2015), as well as revenues of $22,000 under the BLU8499 license agreement ($22,000 in 2015).

In February 2015, the BLU8499 license agreement with FB Health was amended to expand the field of use of the license. FB Health's license agreement with Alzheon was amended accordingly. In exchange, BELLUS Health received an equity stake in Alzheon having a minimal value.

On January 1, 2016, as scheduled, the Company issued 7,286,828 common shares from treasury to a significant influence shareholder, Victoria Square Ventures Inc., in settlement of converted notes previously amended as part of the 2012 Plan of Arrangement (the Amended Note).

FINANCIAL CONDITION

Liquidity and Capital Resources

As at December 31, 2016, the Company had available cash, cash equivalents and short-term investments totaling $6,834,000, compared to $9,702,000 as at December 31, 2015. For the year ended December 31, 2016, net decrease in cash, cash equivalents and short-term investments amounted to $2,868,000, compared to $2,605,000 for the previous year. The Company's working capital amounted to $7,112,000 as at December 31, 2016, compared to $8,558,000 as at December 31, 2015. The decrease in the cash position and working capital for the year ended December 31, 2016 is primarily attributable to funds used to finance the Company's operating activities.

The other significant changes in the Company's financial position as at December 31, 2016, compared to the financial position as at December 31, 2015, is the decrease in deferred revenue amounting to $1,838,000 due to the recognition of revenue through the amortization of the 2015 year-end balance, In addition, deferred revenues also decreased by $473,000 for the unbilled amount receivable in relation to the termination of the service agreement with Auven Therapeutics for KIACTA™ for the treatment of AA Amyloidosis, with a corresponding decrease in prepaid expenses and other assets. In addition, prepaid expenses and other assets decreased by $577,000 as a result of amounts billed in 2016. The decrease in trade and other receivables reflects the collection of an amount of $540,000 for VIVIMIND™.

Based on management's estimate and current level of operations, the Company believes that the current liquidity position is sufficient to finance its operations for more than 12 months. The Company does not have any debt nor does it have pre-arranged credit facilities or other sources of financing cash flows.

To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes, a sale of non-controlling interest in a controlled entity, a sale-leaseback transaction, research tax credits, collaboration and research contracts, asset sales, licensing and supply agreements, interest and other income. The Company has incurred significant operating losses and negative cash flows from operations since inception. As a result of measures implemented by the Company in the past years, the Company has significantly reduced its required cash outflows. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful expansion and development of its project pipeline, obtaining regulatory approval in various jurisdictions and successful sale or commercialization of the Company's products and technologies, which is dependent on a number of factors outside of the Company's control.

Refer to Financial Condition – Contractual Obligations and Financial Risk Management – Liquidity Risk sections for further details on liquidity and capital resources of the Company.

Financing and Investing Activities

During 2016, the Company sold short-term investments amounting to net $2,404,000 with initial maturities greater than three months and less than a year. During 2015, cash and cash equivalents amounting to net $3,249,000 were invested in short-term investments with initial maturities greater than three months and less than a year

At December 31, 2016, the Company is contingently liable for a letter of credit in the amount of $50,000. Cash is pledged under this letter of credit and is presented as restricted cash under non-current Other assets in the consolidated statement of financial position as at December 31, 2016.

Other

During 2016, the Company completed the simplification of its capital structure initiated in 2012 by issuing the following common shares.

On January 1, 2016, BELLUS Health issued 7,286,828 common shares from treasury in settlement of the Amended Note.

On June 2, 2016, BELLUS Health issued 6,350,638 common shares from treasury upon the exercise of Pharmascience Inc. (Pharmascience)'s right to exchange its 10.4% interest (Interest) in BHI Limited Partnership into common shares. Pharmascience first acquired the Interest in connection with the strategic partnership it entered into with BELLUS Health in May 2012.

As at February 28, 2017, the Company had 61,063,824 common shares outstanding and 65,851,824 common shares on a fully diluted basis, including 4,788,000 stock options granted under the stock option plan. Within the next days, the Company will issue 5,802,177 additional common shares in relation to the BLU-5937 license acquisition from NEOMED.

During the year ended December 31, 2016, 103,000 stock options were granted (150,000 in 2015), and no stock option was forfeited (60,000 in 2015).

Contractual Obligations

As at December 31, 2016, BELLUS Health's minimum future contractual obligations are principally for payments in relation to operating leases, consulting fees for Picchio International, trade and other payables as well as a contingent consideration payable from the acquisition of Thallion. Future contractual obligations by year of maturity are presented below.

Contractual obligations *(in thousands of dollars)*	Total	Less than 1 year	2–3 years	Greater than 3 years
Operating leases	$ 155	$ 143	$ 12	$ —
Consulting fees	250	250	—	—
Trade and other accrued liabilities	644	644	—	—
Contingent consideration (CVRs – On the contingent right asset) [(1)]	573	573	—	—
Contingent consideration (CVRs – On Shigamab™ future revenues) [(2)]	104	—	—	104
Contingent consideration (CVRs – On future revenues from assets developed by Caprion Proteomics Inc.) [(3)]	—	—	—	—

(1) The additional purchase price consideration received in February 2017 will be paid in full to the CVR holders on March 10, 2017.

(2) Assuming Shigamab™ generates revenues in the future, BELLUS Health shall pay to CVR holders their pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500,000 (refer to details below). The amount represents the fair value of the contingent liability as at December 31, 2016.

(3) BELLUS Health shall pay to CVR holders 100% of future revenues from assets developed by Caprion Proteomics Inc. (refer to details below). No value has been attributed to this contingent liability as the Company does not expect to receive any revenue from these assets in the future.

On August 15, 2013, the Company acquired all of the issued and outstanding common shares of Thallion for a purchase price of $6,266,000 consisting of cash paid on closing of transaction and the issuance of one CVR per common share, with an expiration date of August 14, 2028, to be paid upon the settlement of the amounts described below.

The CVRs issued to Thallion's shareholders entitle the holder thereof to a pro rata share of:

(a) 100% of any additional purchase price consideration to be received in relation to a 2009 sale transaction by Thallion;
(b) 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6.5 million; and
(c) 100% of any net proceeds generated from the licensing, selling or otherwise commercializing of (i) diagnostic products or services using certain Caprion Proteomics Inc. products, and (ii) all issued patents or pending patents pertaining to such Caprion Proteomics Inc. products, in respect of which Thallion has an ownership interest or monetary entitlement.

The amount to which the holders of CVRs may be entitled can be reduced for potential contingent liabilities owing by Thallion (including, but not limited to, in respect of the indemnity agreement entered into in relation to the 2009 Thallion transaction, accounts payable or litigation).

On February 17, 2017, the Company announced that it had received $573,000 as additional purchase price consideration in relation to the 2009 Thallion transaction. This amount will be paid in full to the CVR holders on March 10, 2017.

The financial statements as at December 31, 2016 have been adjusted accordingly to reflect the amount of the contingent right asset in Prepaid expenses and other assets and the current portion of the Financial Liabilities at $573,000. ($1,313,000 as at December 31, 2015). The contingent right is presented in current Prepaid expenses and other assets in the consolidated statement of financial position.

The Company is potentially liable in relation to the following indemnity agreements:

(i) Pursuant to an indemnity agreement entered into between the Company and Pharmascience in May 2012, the Company agreed to indemnify Pharmascience, subject to certain conditions and limitations, for all losses which it may suffer or incur, arising out of any debts, liabilities, commitments or obligations of any nature resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of the company sold to Pharmascience in 2012, which occurred prior to the effective time of the agreement. No significant indemnity provision has been recorded by the Company as at December 31, 2016 and 2015.

(ii) In 2009, Thallion (acquired by BELLUS Health in August 2013) entered into an arrangement with a third party, under which it agreed to indemnify the third party, subject to certain conditions and limitations, for all losses which they may suffer, sustain, pay or incur arising out of, resulting from, attributable to or connected with certain specified tax matters. No indemnity provision has been recorded by the Company as at December 31, 2016 and 2015.

The Company has a letter of credit issued in connection with a lease agreement in the amount of $50,000. Cash is pledged under the letter of credit and is presented as restricted cash under non-current Other assets in the consolidated statement of financial position as at December 31, 2016.

The Company has entered into a number of other agreements, which involve future commitments, including agreements with Parteq Research and Development Innovations and the federal Ministry of Industry (Technology Partnerships Canada Program). Refer to note 17 (c) to the consolidated financial statements for the year ended December 31, 2016 for details.

The Company has not engaged in commodity contract trading or off-balance sheet financing, other than in relation to operating leases.

FINANCIAL RISK MANAGEMENT

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

Credit Risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and trade and other receivables. The Company invests cash with major North American financial institutions. Cash equivalents and short-term investments are comprised of fixed income instruments with a high credit ranking (not less than A-1) as rated by Standard and Poor's. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and yields that are appropriate. In addition, current trade and other receivables totaling $506,000 as at December 31, 2016 relate to one customer ($2,167,000 current and non-current trade and other receivables and other assets related to two customers as at December 31, 2015). As at December 31, 2016, the Company's maximum credit exposure corresponded to the carrying amount of these financial assets.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company requires continued access to capital markets to support its operations, as well as to achieve its strategic plans. Any impediments to the Company's ability to access capital markets, including the lack of financing capability or an adverse perception in capital markets of the Company's financial condition or prospects, could have a materially adverse effect on the Company. In addition, the Company's access to financing is influenced by the economic and credit market environment.

The Company manages liquidity risk through the management of its capital structure, as outlined in note 20 to the consolidated financial statements for the year ended December 31, 2016 (Capital Disclosures). In addition, the Company manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews, approves and monitors the Company's annual operating and capital budgets, as well as any material transactions.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company's exposure relates primarily to changes in the Canadian dollar versus the US dollar exchange rate. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue and expenses in its consolidated statement of (loss) income. Additional variability arises from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar at the rates of exchange at each reporting date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of (loss) income. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows, by transacting with third parties in the Company's functional currency to the maximum extent possible and practical and holding cash, cash equivalents and short-term investments as well as incurring borrowings in its functional currency. The Company does not use derivative financial instruments to reduce its foreign exchange exposure. Note 21 (d) to the consolidated financial statements for the year ended December 31, 2016 provides indication of the Company's significant foreign exchange currency exposures as at that date.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company's financial instruments exposed to interest rate risk are cash and cash equivalents, short-term investments and restricted cash. The risk that the Company will realize a loss as a result of the decline in the fair value of its cash equivalents and short-term investments is limited because these investments have short-term maturities and are generally held to maturity. The capacity of the Company to reinvest the short-term amounts with equivalent returns will be impacted by variations in short-term fixed interest rates available in the market.

The Company has had no interest rate hedging activities during the current year.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its reports filed with securities regulatory authorities is recorded, processed, summarized and reported within prescribed time periods and is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's Chief Executive Officer and its Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified by applicable securities legislation. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The Company's Chief Executive Officer and its Chief Financial Officer are assisted in this responsibility by the Company's disclosure committee, which is composed of members of senior management. Based on an evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Annual Report on Internal Control Over Financial Reporting

Internal control over financial reporting (ICFR) is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, including the Company's Chief Executive Officer and its Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Management assessed the effectiveness of the Company's ICFR as of December 31, 2016 based on the framework established in Internal Control – Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company's ICFR were effective as of December 31, 2016. This MD&A does not include an attestation report of the Company's auditors regarding ICFR.

Changes in Internal Controls Over Financial Reporting

In accordance with the Canadian Securities Administrators' Multilateral Instrument 52-109, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer, that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

There have been no changes in the Company's ICFR during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect its ICFR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to adopt accounting policies and to make certain judgments, estimates and assumptions that the Company believes are reasonable based upon the information available at the time these decisions are made. These accounting policies, judgments, estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenses and cash flows during the reporting periods. By their nature, these judgments are subject to an inherent degree of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. On an ongoing basis, management reviews its estimates and actual results could differ from estimates.

The Company's significant accounting policies are described in note 3 to the consolidated financial statements for the year ended December 31, 2016. Management considers that the following accounting policies and estimates are more important in assessing, understanding and evaluating the Company's consolidated financial statements.

Revenue recognition: Revenue from the Company's different agreements is assessed in order to determine whether they contain separately identifiable components. When separation is required, the consideration received or receivable is allocated amongst the separate components based on the relative fair values of each component. When the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The applicable revenue recognition criteria are applied to each of the separate components. Otherwise, the applicable revenue recognition criteria are applied to the combined components as a whole. Payments received under agreements may include payments received as licensing fees, sale-based royalty payments, upfront payments, as well as regulatory and sales-based milestone payments for specific achievements.

Revenue for each separately identifiable component is recorded as follows:

(i) fixed payments received as revenue from intellectual property under licensing agreements are recognized into income when conditions and events under the license agreement have been met or occurred, the Company has no future involvement or obligations to perform related to the specified element of the arrangement and it is probable that the economic benefits associated with the transaction will flow to the Company;

(ii) sales-based milestone payments and royalty payments, for which the Company has no future involvement or obligations to perform related to that specified element of the arrangement, are recognized into income upon the achievement of the specified sales level and when it is probable that the economic benefits associated with the transaction will flow to the Company; and

(iii) non-refundable upfront payments received on the signing of agreements and regulatory milestone payments, which require the Company's ongoing involvement, are deferred and amortized in income on a straight-line basis over the expected period of performance of the related activities, provided that revenue subject to the achievement of milestones is recognized only when the specified events have occurred and it is probable that the economic benefits associated with the transaction will flow to the Company.

Amounts received or billed in advance of recognition are presented as deferred revenue. Amounts receivable in advance of progress billing are presented as other assets.

Investment in FB Health: In 2016, the Company changed its valuation method to determine the fair value of the Company's investment in FB Health, consistent with the stage of business development of FB Health as management determined it no longer qualifies as a start-up business. The investment which was valued in prior years using a market valuation method based on a sales multiple, is now valued using the discounted cash flow method. Under the discounted cash flow method, BELLUS Health estimates the fair value of the investment by discounting the forecasted FB Health cash-flows, using an after-tax discount rate of 19%. In estimating the fair value, management used assumptions based on FB Health historical results of operations as well as market comparables of companies operating in the same industry who share similar characteristics. Estimates of the fair value of the investment are not supported by active market prices, and therefore are subject to uncertainty. In addition to inherent uncertainty in forecasting expected future cash flows to be realized for this business, the estimate of the fair value is sensitive to the discount rate used. Based on the estimated future cash flows as at December 31, 2016, an increase or decrease of 2% in the discount rate used, would decrease or increase other comprehensive income by $74,000 and $94,000, respectively.

In-process research and development asset: The Company estimated the fair value of the in-process research and development (IPR&D) asset related to Shigamab™ at acquisition date by discounting the estimated cash flows based on various assumptions. The in-process research and development asset is accounted for as an indefinite-lived intangible asset until the project is completed or abandoned, at which point it will be amortized or impaired, respectively. The Company accounts for subsequent research and development costs associated with the acquired IPR&D asset consistent with the research and development policy in note 3 (d) to the consolidated financial statements. The Company assesses at each reporting date whether there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, the IPR&D asset is tested for impairment annually by comparing its carrying amount with its recoverable amount. The Company estimates the recoverable amount of the IPR&D asset by discounting the estimated cash flows based on various assumptions.

Stock-based compensation: The Company follows the fair value based method to account for options granted to employees, whereby compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period with a corresponding increase to equity. The fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Expected volatility is estimated by considering historic average share price volatility. For stock options with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date. When stock options are exercised, the Company issues new shares. The proceeds received, together with the related portion previously recorded in other equity, are credited to share capital. Changes to any assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company's income.

CHANGES IN ACCOUNTING POLICIES

New accounting standards and interpretations not yet applied:

Share-based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of adoption of amendments to IFRS 2, and does not intend to early adopt amendments to IFRS 2 in its consolidated financial statements.

Financial instruments

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, *Financial Instruments,* which addresses the classification and measurement of financial assets and liabilities, impairment and hedge accounting, replacing IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of adoption of IFRS 9, and does not intend to early adopt IFRS 9 in its consolidated financial statements.

Revenue

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers.* IFRS 15 will replace IAS 18, *Revenue,* as well as other revenue-related standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. The standard will require all leases of more than 12 months to be reported on a company's statement of financial position as assets and liabilities. The new standard is effective for fiscal years beginning on or after January 1, 2019, and is available for early adoption for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company has not yet assessed the impact of adoption of IFRS 16, and does not intend to early adopt IFRS 16 in its consolidated financial statements.

RISKS AND UNCERTAINTIES

Since its inception in 1993, BELLUS Health has incurred significant operating losses. The Company's pharmaceutical product candidates are in development and none have yet been approved for commercialization by regulatory authorities in any jurisdiction. The Company's business entails significant risks, including the ability to expand and develop its project pipeline, costs and time involved in obtaining the required regulatory approvals, the adequacy of patent protection, the uncertainties involved in clinical testing, the availability of capital to continue development and commercialization of the products, and competition from pharmaceutical and biotechnology companies.

Significant funding is required for research and development, clinical trials, marketing, commercial manufacturing of products and the establishment of sales and marketing teams that may be necessary for the launch and sales of new products. In addition, major financial resources are necessary until such time as the products are commercialized and sold successfully, and sales are sufficient to generate profits. The Company may seek to raise additional funds through public or private financing, collaborations agreements with other companies, or financing from other sources. However, there can be no assurance that these financing efforts will be successful or that the Company will continue to be able to meet its ongoing cash requirements. It is possible that financing will not be available or, if available, may not be on favourable terms.

The availability of financing will be affected by the results of scientific research and clinical development, the Company's ability to obtain regulatory approvals, the market acceptance of the Company's products, the state of the capital markets generally (with particular reference to pharmaceutical, biotechnology, nutraceutical and medical companies), the status of strategic alliance agreements, and other relevant commercial considerations.

Product research and development involves a high degree of risk, and returns to investors are dependent upon successful development and commercialization of the Company's products. A setback in any of the Company's clinical trials may cause a drop in the Company's stock price. Difficulties encountered in enrolling patients in the Company's clinical trials could delay or adversely affect the trials. There can be no assurance that development of any product will be successfully completed or that regulatory approval of any of the Company's products under development will be obtained. Furthermore, there can be no assurance that existing products or new products developed by competitors will not be more effective, or more effectively marketed and sold, than any that may be developed by the Company. There can be no assurance that the Company's future potential products will gain market acceptance among physicians, patients, healthcare payers, the medical community and consumers. In addition, given the very high costs of development of pharmaceutical products, the Company anticipates having to partner with pharmaceutical companies to develop and/or bring pharmaceutical products to market. The terms of such partnership arrangements along with the related financial obligations cannot be determined at this time and the timing of completion of the development and/or approval of such products will likely not be within the Company's control.

Because of the length of time and expense associated with bringing new products through development, obtaining regulatory approval and bringing products to market, the Company places considerable importance on obtaining and maintaining patent protection and safeguarding trade secret protection for significant discoveries. There can be no assurance that any pending patent application filed by the Company will mature into an issued patent. Furthermore, there can be no assurance that existing or pending patent claims will offer protection against competition, or will not be designed around or infringed upon by others. Commercial success will also depend in part on the Company not infringing patents or proprietary rights of others. Patent litigation is costly and time consuming and may subject the Company to liabilities.

As the Company develops drugs for the treatment of rare diseases, it has drug candidates which have obtained orphan drug status designation or its equivalent. This designation may not guarantee exclusive marketing rights which would allow marketing exclusivity for a certain period. In addition, target patient populations of rare disease drugs are small and have not been definitively determined, which could adversely affect the drug candidates' future revenues.

The Company is currently dependent on third parties for a variety of functions and may enter into future collaborations for the development, manufacture and commercialization of products. There is no assurance that the arrangements with these third parties will provide benefits the Company expects. There can also be no assurance that the Company will be successful in manufacturing, marketing and distributing products, or that the Company will be able to make adequate arrangements with third parties for such purposes. There can be no assurance that the Company will generate significant revenue or achieve profitability.

The Company may be required to make payments under indemnity agreements, entered into with Pharmascience and in relation to the acquisition of Thallion.

A detailed discussion on the Company's risks and uncertainties can be found in the Company's public filings including the Annual Information Form available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, other than statements of fact that are independently verifiable at the date of this report, may constitute “forward-looking statements” within the meaning of Canadian securities legislation and regulations. Such statements, based as they are on the current expectations of management, inherently involve numerous important risks, uncertainties and assumptions, known and unknown, many of which are beyond the Company's control. This forward-looking information may include among other things, information with respect to the Company’s objectives and the strategies to achieve these objectives, as well as information with respect to the Company’s beliefs, plans, expectations, anticipations, estimates, and intentions. Forward-looking statements generally can be identified by the use of conditional or forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “plan”, “foresee”, “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. Refer to the Company’s public filings with the Canadian securities regulatory authorities, including the Annual Information Form, for a discussion of the various risk factors that may affect the Company’s future results. Such risks factors include but are not limited to: the ability to expand and develop its project pipeline, the ability to obtain financing, the impact of general economic conditions, general conditions in the pharmaceutical industry, changes in the regulatory environment in the jurisdictions in which the Company does business, stock market volatility, fluctuations in costs, changes to the competitive environment due to consolidation, achievement of forecasted burn rate, potential payments/outcomes in relation to indemnity agreements and contingent value rights, achievement of forecasted pre-clinical and clinical trial milestones and that actual results may vary once the final and quality-controlled verification of data and analyses has been completed. In addition, the length of the Company’s drug candidates development process, their market size and commercial value, as well as the sharing of proceeds between the Company and its potential partners from potential future revenues, if any, are dependent upon a number of factors. Consequently, actual future results and events may differ materially from the anticipated results and events expressed in the forward-looking statements. The Company believes that expectations represented by forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The reader should not place undue reliance, if any, on any forward-looking statements included in this report. These forward-looking statements speak only as of the date made, and the Company is under no obligation and disavows any intention to update publicly or revise such statements as a result of any new information, future events, circumstances or otherwise, unless required by applicable legislation or regulation. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. When it was possible to apply diverse accounting methods, management has chosen those it deemed to be most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality, and for the consistency of financial data included in the text of the Management's Discussion and Analysis with the data contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal control over financial reporting as described in the Management's Discussion and Analysis.

The Company's Audit Committee is appointed by the Board of Directors annually and is comprised exclusively of outside, independent directors. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements to be issued to shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors. The external auditors, KPMG LLP, have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by KPMG LLP on behalf of the shareholders, in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements of the Company.

Roberto Bellini
President and Chief Executive Officer

François Desjardins, CPA, CA
Vice President, Finance

Laval, Quebec, Canada
February 28, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of BELLUS Health Inc.

We have audited the accompanying consolidated financial statements of BELLUS Health Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of (loss) income, other comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BELLUS Health Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP*

February 28, 2017

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A119178

BELLUS HEALTH INC.

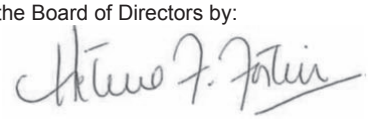
Consolidated Statements of Financial Position

December 31, 2016 and 2015
(in thousands of Canadian dollars)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (note 5)	$ 2,575	$ 3,039
Short-term investments (note 5)	4,259	6,663
Trade and other receivables (note 12 (b))	810	813
Prepaid expenses and other assets (note 6)	685	2,614
Total current assets	8,329	13,129
Non-current assets:		
Trade and other receivables (note 12 (b))	—	512
Other assets (note 6)	74	82
In-process research and development asset (note 7)	542	542
Investment in FB Health (note 8)	639	748
Total non-current assets	1,255	1,884
Total Assets	$ 9,584	$ 15,013
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables (note 9)	$ 644	$ 947
Deferred revenue (note 12 (a))	—	2,311
Financial liabilities – CVRs (note 10)	573	1,313
Total current liabilities	1,217	4,571
Non-current liabilities:		
Financial liabilities – CVRs (note 10)	104	70
Total non-current liabilities	104	70
Total Liabilities	1,321	4,641
Shareholders' equity:		
Share capital (note 11 (a))	445,753	418,592
Other equity (notes 11 (a) and (b))	25,527	34,058
Accumulated other comprehensive income	334	383
Deficit	(463,351)	(443,992)
Total shareholders' equity attributable to shareholders	8,263	9,041
Non-controlling interest (note 11 (a) (ii))	—	1,331
Total Shareholders' equity	8,263	10,372
Subsequent event (note 22)		
Total Liabilities and Shareholders' Equity	$ 9,584	$ 15,013

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors by:



Hélène F. Fortin
Director

Pierre Larochelle
Director

BELLUS HEALTH INC.

Consolidated Statements of (Loss) Income

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars, except per share data)

	Year ended December 31, 2016	Year ended December 31, 2015
Revenues (note 12)	$ 1,893	$ 4,024
Expenses:		
Research and development	1,515	1,293
Research tax credits	(149)	(285)
	1,366	1,008
General and administrative	2,624	3,122
Total operating expenses	3,990	4,130
Results from operating activities	(2,097)	(106)
Finance income	806	701
Finance costs	(922)	(217)
Net finance (costs) income (note 14)	(116)	484
(Loss) income before income taxes	(2,213)	378
Deferred tax expense (recovery) (note 15)	15	(27)
Net (loss) income for the year	$ (2,228)	$ 405
Net (loss) income attributable to:		
Shareholders	$ (2,159)	$ 202
Non-controlling interest	(69)	203
	$ (2,228)	$ 405
Loss per share (note 16)		
Basic and diluted	$ (0.04)	$ —

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Other Comprehensive (Loss) Income

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Net (loss) income for the year	$ (2,228)	$ 405
Other comprehensive (loss) income (that may be reclassified subsequently to net (loss) income):		
Unrealized (loss) gain on available-for-sale investment (note 8)	(109)	198
Related income tax recovery (expense) (note 15)	15	(27)
Other comprehensive (loss) income for the year	(94)	171
Comprehensive (loss) income for the year	$ (2,322)	$ 576
Comprehensive (loss) income attributable to:		
Shareholders	$ (2,261)	$ 355
Non-controlling interest	(61)	221
	$ (2,322)	$ 576

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Attributable to shareholders						
	Share capital (note 11(a))	Other equity	Accumulated other comprehen-sive income	Deficit	Total	Non-controlling interest	Total
Balance, December 31, 2015	$ 418,592	$ 34,058	$ 383	$ (443,992)	$ 9,041	$ 1,331	$ 10,372
Comprehensive (loss) income for the year:							
Net loss	—	—	—	(2,159)	(2,159)	(69)	(2,228)
Other comprehensive income	—	—	(102)	—	(102)	8	(94)
Comprehensive (loss) income for the year	—	—	(102)	(2,159)	(2,261)	(61)	(2,322)
Transactions with shareholders, recorded directly in shareholders' equity:							
Issued on settlement of the Amended Note (note 11(a)(i))	8,744	(8,744)	—	—	—	—	—
Issued upon exercise of the Exchange Right (note 11 (a)(ii))	18,417	—	53	(17,200)	1,270	(1,270)	—
Stock-based compensation (note 11 (b))	—	213	—	—	213	—	213
Balance, December 31, 2016	$ 445,753	$ 25,527	$ 334	$ (463,351)	$ 8,263	$ —	$ 8,263

	Attributable to shareholders						
	Share capital (note 11(a))	Other equity	Accumulated other comprehen-sive income	Deficit	Total	Non-controlling interest	Total
Balance, December 31, 2014	$ 418,592	$ 33,770	$ 230	$ (444,194)	$ 8,398	$ 1,110	$ 9,508
Comprehensive income for the year:							
Net income	—	—	—	202	202	203	405
Other comprehensive income	—	—	153	—	153	18	171
Comprehensive income for the year	—	—	153	202	355	221	576
Transactions with shareholders, recorded directly in shareholders' equity:							
Stock-based compensation (note 11 (b))	—	288	—	—	288	—	288
Balance, December 31, 2015	$ 418,592	$ 34,058	$ 383	$ (443,992)	$ 9,041	$ 1,331	$ 10,372

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities:		
Net (loss) income for the year	$ (2,228)	$ 405
Adjustments for:		
Stock-based compensation	213	288
Net finance costs (income)	116	(484)
Deferred tax expense (recovery)	15	(27)
Other items	(10)	(14)
Changes in operating assets and liabilities:		
Trade and other receivables	515	(1,168)
Prepaid expenses and other assets	577	920
Trade and other payables	(303)	(338)
Deferred revenue	(1,838)	(2,427)
	(2,943)	(2,845)
Cash flows from financing activities:		
Interest and bank charges paid	(11)	(11)
	(11)	(11)
Cash flows from investing activities:		
Sale (purchase) of short-term investments, net	2,404	(3,249)
Interest received	100	145
	2,504	(3,104)
Net decrease in cash and cash equivalents	(450)	(5,960)
Cash and cash equivalents, beginning of year	3,039	8,893
Effect of foreign exchange on cash and cash equivalents	(14)	106
Cash and cash equivalents, end of year	$ 2,575	$ 3,039

See accompanying notes to consolidated financial statements.

1. Reporting entity:

BELLUS Health Inc. (BELLUS Health or the Company) is a biopharmaceutical development company advancing novel therapeutics for conditions with high unmet medical need. The Company is domiciled in Canada. The address of the Company's registered office is 275 Armand-Frappier Blvd., Laval, Quebec, H7V 4A7. The Company's shares trade on the Toronto Stock Exchange (TSX) under the symbol BLU.

Since inception (June 17, 1993), the business activities of the Company have been devoted principally to the development of the Company's core technology platform, amyloid inhibitors, which focus on chemical compounds that have the potential to inhibit the formation, deposition and toxicity of amyloid fibrils which are implicated or believed to be the underlying causes of certain diseases. BELLUS Health is focused on advancing novel therapeutics for conditions with high unmet medical need. Its pipeline of projects includes BLU-5937 for chronic cough, KIACTA™ for the treatment of sarcoidosis and Shigamab™ for the treatment of Hemolytic Uremic Syndrome caused by Shiga toxin-producing *E. coli* (sHUS). BELLUS Health also has economic interests in several other partnered drug development projects. In 2010, the Company entered into an asset sale and license agreement in relation to KIACTA™ for the treatment of AA amyloidosis. In 2016, the Company announced top-line Phase 3 results that failed to meet primary efficacy endpoints, which resulted in the termination of the KIACTA™ program for the treatment of AA amyloidosis by the licensor (refer to note 12 (a)).

To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes, a sale of non-controlling interest in a controlled entity, a sale-leaseback transaction, research tax credits, collaboration and research contracts, asset sales, licensing and supply agreements, interest and other income. The Company has incurred significant operating losses and negative cash flows from operations since inception. As a result of measures implemented by the Company in the past years, the Company has significantly reduced its net cash outflows**.** The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful expansion and development of its projects pipeline, obtaining regulatory approval in various jurisdictions and successful sale or commercialization of the Company's products and technologies, which is dependent on a number of factors outside of the Company's control.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements for the year ended December 31, 2016, were approved by the Board of Directors on February 28, 2017.

2. Basis of preparation (continued):

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the consolidated statement of financial position:

(i) available-for-sale financial asset which is measured at fair value;

(ii) liabilities for cash-settled share-based payment arrangements which are measured at fair value, and equity-classified share-based payment arrangement are measured at fair value at grant date pursuant to IFRS 2, *Share-based payment*; and

(iii) contingent consideration (contingent value rights (CVR) payable) and related contingent right (contingent right asset) from a business acquisition which are measured at fair value.

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In establishing fair value, the Corporation uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no little observable market data, therefore requiring entities to develop their own assumptions.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates.

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

A critical judgment in applying accounting policies that has the most significant effect on the amounts recognized in the consolidated financial statements relates to the use of the going concern basis of preparation of the financial statements. At the end of each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is included within the following notes and is described below:

(i) estimating the fair value of the investment in FB Health (note 8);

(ii) estimating the recoverable amount of the in-process research and development asset related to Shigamab™ for the purpose of the annual impairment test (note 7).

Other areas requiring the use of management estimates and judgements include assessing the recoverability of research tax credits and amounts receivable under license agreements, as well as estimating the initial fair value of equity-classified stock-based compensation. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they are made and in future periods affected.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(a) Basis of consolidation:

(i) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company measures goodwill as the fair value for the consideration transferred including the recognized amount of any non-controlling interest in the acquiree less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized immediately in income as a gain from a bargain purchase. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(i) Business combinations (continued):

The contingent consideration payable and related contingent right asset were recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration payable and related contingent right asset classified as a financial liability and financial asset respectively, are recognized in income. Restructuring, transaction costs and other direct costs of a business combination are not considered part of the business acquisition transaction. Instead, such costs are expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with shareholders in their capacity as shareholders. Adjustments to non-controlling interests are based on a proportionate amount of the book value of the net assets of the subsidiary. No gain or loss is recognized in income.

(ii) Subsidiaries:

These consolidated financial statements include the accounts of BELLUS Health Inc. and its subsidiaries, including BHI Limited Partnership (BHI LP). Subsidiaries are entities controlled by BELLUS Health Inc. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions have been eliminated on consolidation.

(b) Cash, cash equivalents and short-term investments:

The Company considers all investments with maturities of three months or less at inception, that are highly liquid and readily convertible into cash, to be cash equivalents. Investments with maturities greater than three months and less than one year are presented as short-term investments in the consolidated statement of financial position.

3. Significant accounting policies (continued):

(c) Revenue recognition:

Revenue from the Company's different agreements is assessed in order to determine whether they contain separately identifiable components. When separation is required, the consideration received or receivable is allocated amongst the separate components based on the relative fair values of each component. When the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The applicable revenue recognition criteria are applied to each of the separate components. Otherwise, the applicable revenue recognition criteria are applied to the combined components as a whole. Consideration received under agreements may include payments received as licensing fees, sale-based royalty payments, upfront payments as well as regulatory and sales-based milestone payments for specific achievements.

Revenue for each separately identifiable component is recorded as follows:

(i) fixed payments received as revenue from intellectual property under licensing agreements are recognized into income when conditions and events under the license agreement have been met or occurred, the Company has no future involvement or obligations to perform related to the specified element of the arrangement and it is probable that the economic benefits associated with the transaction will flow to the Company;

(ii) sales-based milestone payments and royalty payments, for which the Company has no future involvement or obligations to perform related to that specified element of the arrangement, are recognized into income upon the achievement of the specified sales level and when it is probable that the economic benefits associated with the transaction will flow to the Company; and

(iii) non-refundable upfront payments received on the signing of agreements and regulatory milestone payments, which require the Company's ongoing involvement, are deferred and amortized in income on a straight-line basis over the expected period of performance of the related activities, provided that revenue subject to the achievement of milestones is recognized only when the specified events have occurred and it is probable that the economic benefits associated with the transaction will flow to the Company.

Amounts received or billed in advance of recognition are presented as deferred revenue. Amounts receivable in advance of progress billing are presented as other assets.

Interest income is recognized using the effective interest method.

3. Significant accounting policies (continued):

(d) Research and development:

Research and development costs consist of direct and indirect expenditures, including a reasonable allocation of overhead expenses, associated with the Company's various research and development programs. Overhead expenses comprise general and administrative support provided to the research and development programs and involve costs associated with support activities.

Research expenditures undertaken with the prospect of gaining new scientific or technical knowledge are expensed as incurred. Development expenditures are deferred when they meet the criteria for capitalization in accordance with IFRS, and the future benefits could be regarded as being reasonably certain. The criteria to be fulfilled in order to capitalize development costs are if such costs can be measured reliably, if the product or process is technically and commercially feasible, if future economic benefits are probable and if the Company intends to and has sufficient resources to complete the development and to use or sell the asset. As at December 31, 2016 and 2015, no development costs were deferred.

(e) In-process research and development asset:

In-process research and development (IPR&D) assets that are acquired by the Company are accounted for as indefinite-lived intangible assets until the project is completed or abandoned, at which point they will be amortized or impaired, respectively. Subsequent research and development costs associated with the acquired IPR&D assets are accounted for consistent with the research and development policy in note 3 (d).

The Company assesses at each reporting date whether there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, the IPR&D asset is tested for impairment annually by comparing its carrying amount with its recoverable amount.

The asset’s recoverable amount is the greater of its fair value less costs to sell and its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount immediately. Impairment losses are recognized in the consolidated statement of (loss) income. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years.

3. Significant accounting policies (continued):

(f) Government assistance:

Government assistance, consisting of research tax credits, is recorded as a reduction of the related expense. Research tax credits are recognized when management determines that there is reasonable assurance that the tax credits will be received. Research tax credits claimed for the current and prior years are subject to government review and approval which could result in adjustments to amounts recognized by the Company. Adjustments from tax authorities, if any, would be recognized in the period of revision.

(g) Foreign exchange:

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction. Income and expenses denominated in foreign currencies are translated at exchange rates in effect at the transaction date. Translation gains and losses are included in income.

(h) Leased assets:

All of the Company's leases are operating leases. The leased assets are not recognized in the Company's consolidated statement of financial position since the Company does not assume substantially all risks and rewards of ownership of the leased assets. Lease payments related to leased assets are recognized over the term of the lease.

(i) Income taxes:

Deferred tax is recognized for temporary differences between the financial reporting bases and the income tax bases of the Company's assets and liabilities and is recorded using the substantively enacted tax rates anticipated to be in effect when the tax differences are expected to reverse. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(j) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Earnings per share:

Basic earnings per share are determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed in a manner consistent with basic earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of dilutive stock options. The number of additional shares is calculated by assuming that outstanding stock options were exercised, and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

(l) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present, legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Stock-based compensation:

The Company follows the fair value based method to account for stock options granted to employees, whereby compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period with a corresponding increase to equity. For the stock options with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

When stock options are exercised, the Company issues new shares. The proceeds received, together with the related portion previously recorded in other equity, are credited to share capital.

3. Significant accounting policies (continued):

(l) Employee benefits (continued):

(ii) Stock-based compensation (continued):

The Company has also granted Deferred Share Units (DSU) as compensation for directors and designated employees. Upon termination of service, DSU participants are entitled to receive for each DSU credited to their account the payment in cash on the date of settlement based on the value of a BELLUS Health common share. For DSUs, compensation cost is measured based on the market price of the Company's common shares from the date of grant through to the settlement date. Any changes in the market value of the Company's common shares through to the settlement date result in a change to the measure of compensation cost for those awards and are recorded in income.

(m) Financial instruments:

Financial assets and liabilities are initially recognized at fair value and classified at inception as either loans and receivables, available-for-sale financial assets, other financial liabilities or designated at fair value through profit and loss (FVTPL). Subsequently, financial instruments are measured in accordance with the measurement provision of the category to which they have been initially classified or designated. Transaction costs are expensed as incurred for financial instruments designated at FVTPL. For other financial instruments, transaction costs are accumulated on initial recognition and presented as an increase or reduction of the underlying financial instruments. Financial assets and financial liabilities are classified at FVTPL if they are classified as held for trading or are designated as such upon initial recognition. Financial assets and liabilities at FVTPL are measured at fair value, and changes therein are recognized in income. Available-for-sale financial assets are measured at fair value, and changes therein are recognized in other comprehensive income. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method.

Financial instruments that meet equity classification criteria upon initial recognition are not remeasured subsequent to initial recognition.

The Company has designated or classified its financial instruments as follows:

Financial assets and Financial liabilities

Cash, cash equivalents and short-term investments, restricted cash, trade and other receivables are classified as loans and receivables.

The investment in FB Health is classified as an available-for-sale financial asset. Changes in fair value, including foreign exchange measurement, are recorded in other comprehensive income.

3. Significant accounting policies (continued):

(m) Financial instruments (continued):

The contingent right asset and the contingent consideration payable related to CVRs were measured at fair value at the time of the business acquisition. Changes in fair value are recorded in income.

Trade and other payables are classified as other financial liabilities.

Derivative instruments are measured at their fair value each period through income. Attributable transaction costs are recognized in income as incurred. Certain derivatives embedded in other contracts are required to be separated from the host contract and measured at fair value when the embedded derivative and host contract are not deemed to be closely related, and the combined contract is not held for trading or designated at fair value.

Share capital

Common shares and preferred shares that are not redeemable or are redeemable only at the Company's option are classified as equity. Incremental costs directly attributable to the issue of equity-classified shares are recognized as a deduction from the deficit, net of any tax effects.

4. Changes in accounting policies:

New accounting standards and interpretations not yet applied:

(a) Share-based payment:

On June 20, 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018.

The Company has not yet assessed the impact of adoption of amendments to IFRS 2, and does not intend to early adopt amendments to IFRS 2 in its consolidated financial statements.

4. Changes in accounting policies (continued):

New accounting standards and interpretations not yet applied (continued):

(b) Financial instruments:

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, *Financial Instruments,* which addresses the classification and measurement of financial assets and liabilities, impairment and hedge accounting, replacing IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of adoption of IFRS 9, and does not intend to early adopt IFRS 9 in its consolidated financial statements.

(c) Revenue:

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers.* IFRS 15 will replace IAS 18, *Revenue,* as well as other revenue-related standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

(d) Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. The standard will require all leases of more than 12 months to be reported on a company's statement of financial position as assets and liabilities. The new standard is effective for fiscal years beginning on or after January 1, 2019, and is available for early adoption for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company has not yet assessed the impact of adoption of IFRS 16, and does not intend to early adopt IFRS 16 in its consolidated financial statements.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

5. Cash, cash equivalents and short-term investments:

Cash, cash equivalents and short-term investments consist of cash balances with banks and short-term investments:

	December 31, 2016	December 31, 2015
Cash balances with banks	$ 967	$ 984
Short-term investments with initial maturities of less than three months (yielding interest at 0.75% to 1.10% as at December 31, 2016) (December 31, 2015 – 1.00%)	1,608	2,055
Cash and cash equivalents	2,575	3,039
Short-term investments with initial maturities greater than three months and less than one year (yielding interest at 1.35% to 1.65% as at December 31, 2016) (December 31, 2015 – 1.30% to 1.48%)	4,259	6,663
Cash, cash equivalents and short-term investments	$ 6,834	$ 9,702

6. Prepaid expenses and other assets:

Prepaid expenses and other assets consist of:

	December 31, 2016	December 31, 2015
Prepaid expenses	$ 112	$ 232
Contingent right asset (note 10)	573	1,313
Unbilled amount receivable from Auven Therapeutics (note 12 (a))	—	1,069
Restricted cash (note 17 (e))	50	50
Other	24	32
Total	759	2,696
Current portion – Prepaid expenses and other assets	685	2,614
Non-current portion – Other assets	$ 74	$ 82

7. In-process research and development asset:

BELLUS Health acquired the IPR&D asset related to Shigamab™ in 2013 through the acquisition of Thallion Pharmaceuticals Inc. (Thallion). The IPR&D asset is accounted for as an indefinite-lived intangible asset until the project, currently in its clinical phase, is completed or abandoned, at which point it will be amortized or impaired, respectively. The carrying value of the IPR&D asset related to Shigamab™ amounted to $542 for both years ended December 31, 2016 and 2015.

7. In-process research and development asset (continued):

In accordance with its accounting policies, the Company tests the IPR&D asset for impairment as at December 31 of each financial year. As at December 31, 2016, the Company estimated the recoverable amount of the IPR&D asset as at that date by discounting the probability weighted estimated cash flows based on future estimated revenues, including royalties and milestones, and expenses to be incurred from the preclinical development phase until the end of the product market exclusivity, using a pre-tax discount rate of 20%. Management's estimate was based on the Company's Shigamab™ development budget, comparable market information and future sales-based contractual payments. The carrying amount of the asset did not exceed its estimated recoverable amount. The recoverability of this asset is dependent on successfully developing this project, and achieving the expected future revenues from commercialization.

8. Investment in FB Health:

In October 2013, the Company acquired a 5.50% equity stake in FB Health S.p.A (FB Health) as part of the license agreement entered into with FB Health for BLU8499 (refer to note 12 (b)). FB Health is a related party to the Company, as FB Health is controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health. In 2014, an additional amount of $61 was invested in FB Health, mainly in order to maintain the Company's pro rata ownership, as well as to acquire BELLUS Health's pro rata share of a minority shareholder's ownership, bringing the Company's equity stake to 5.72%.

As at December 31, 2016, the Company estimated the fair value of the investment at $639 ($748 as at December 31, 2015). In connection with its fair value determination, the Company recorded a decrease in fair value of $109 for the year ended December 31, 2016, recognized in other comprehensive income (2015 – increase of $198). The balance of Accumulated other comprehensive income in the statement of financial position relates to the unrealized gain on remeasurement of the investment, net of tax.

During 2016, the Company changed its valuation method to determine the fair value of the Company's investment in FB Health, consistent with the stage of business development of FB Health as management determined it no longer qualifies as a start-up business. The investment, which was valued in prior years using a market valuation method based on a sales multiple, is now valued using the discounted cash flow method. Under the discounted cash flow method, BELLUS Health estimates the fair value of the investment by discounting the forecasted FB Health cash-flows, using an after-tax discount rate of 19%. In estimating the fair value, management used assumptions based on FB Health historical results of operations, as well as market comparables of companies operating in the same industry who share similar characteristics.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

8. Investment in FB Health (continued):

Estimates of the fair value of the investment are not supported by active market prices, and therefore are subject to uncertainty. In addition to inherent uncertainty in forecasting expected future cash flows to be realized from this business, the estimate of the fair value is sensitive to the discount rate used. Based on the estimated future cash flows as at December 31, 2016, an increase or decrease of 2% in the discount rate used, would decrease or increase other comprehensive income by $74 and $94, respectively.

9. Trade and other payables:

Trade and other payables consist of:

	December 31, 2016	December 31, 2015
Trade payables	$ 126	$ 93
Other accrued liabilities	455	627
Deferred share unit plans (note 11 (c))	63	227
	$ 644	$ 947

10. Financial liabilities - CVRs:

On August 15, 2013, the Company acquired all the issued and outstanding common shares of Thallion through a business combination for consideration consisting of cash paid on closing of the transaction and the issuance of one contingent value right (CVR) per common share, with an expiration date of August 14, 2028, to be paid upon the settlement of the amounts described below.

The CVRs issued to Thallion's shareholders entitle the holder thereof to a pro rata share of:

(a) 100% of any additional purchase price consideration to be received in relation to a 2009 sale transaction by Thallion;

(b) 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500; and

(c) 100% of any net proceeds generated from the licensing, selling or otherwise commercializing of (i) diagnostic products or services using certain Caprion Proteomics Inc. products, and (ii) all issued patents or pending patents pertaining to such Caprion Proteomics Inc. products, in respect of which Thallion has an ownership interest or monetary entitlement.

The amount to which the holders of CVRs may be entitled can be reduced for potential contingent liabilities owing by Thallion (including, but not limited to, in respect of the indemnity agreement entered in relation to the 2009 Thallion transaction (refer to note 17 (b) (ii)), accounts payable or litigation).

10. Financial liabilities – CVRs (continued):

On February 17, 2017, the Company announced that it had received $573 as additional purchase price consideration in relation to the 2009 Thallion transaction. This amount will be paid in full to the CVR holders on March 10, 2017.

The financial statements as at December 31, 2016, have been adjusted accordingly to reflect the amount of the contingent right asset in Prepaid expenses and other assets and the current portion of the Financial Liabilities at $573. As at December 31, 2015, the Company had estimated at $1,313 the fair value of these contingent asset and liability by discounting the probability weighted cash flows estimated by management to be received of up to $1,450, using a pre-tax discount rate of 18.62%.

The change in fair value for the current portion of the CVR for the year ended December 31, 2016 amounted to $740 and was presented in Finance income for the liability and in Finance costs for the asset in the consolidated statement of (loss) income (2015 - $206 presented in Finance income for the asset and in Finance costs for the liability in the consolidated statement of (loss) income).

As at December 31, 2016 the Company estimated the fair value of the contingent consideration payable related to CVRs on Shigamab™ future revenues at $104 (2015 - $70). The change in fair value for the year ended December 31, 2016 amounted to $34 and was presented in Finance income as a reduction of the above change in fair value of the current contingent consideration payable (2015 – Nil).

No value has been attributed to contingent consideration related to CVRs on future revenues from assets developed by Caprion Proteomics Inc. as the Company does not expect to receive any revenue from these assets in the future.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

11. Shareholders' equity:

(a) Share capital:

The authorized share capital of the Company consists of:

- an unlimited number of voting common shares with no par value; and
- an unlimited number of non-voting preferred shares, issuable in one or more series, with no par value.

Issued and outstanding common shares are as follows:

	Number		Dollars
Balance, December 31, 2014, and December 31, 2015	47,426,358	$	418,592
Issued on settlement of the Amended Note (i)	7,286,828		8,744
Issued upon exercise of the Exchange Right (ii)	6,350,638		18,417
Balance, December 31, 2016	61,063,824	$	445,753

(i) On January 1, 2016, as scheduled, the Company issued 7,286,828 common shares from treasury to a significant influence shareholder, Victoria Square Ventures Inc., in settlement of converted notes as amended as part of the 2012 Plan of Arrangement (the Amended Note). As a result, the carrying value of the Amended Note of $8,744, initially allocated to Other equity pending the issuance of common shares, was reclassified to Share capital. This is a non-cash transaction, and is therefore excluded from the consolidated statement of cash flows.

(ii) On June 2, 2016, BELLUS Health issued 6,350,638 common shares from treasury upon the exercise of Pharmascience's right to exchange its 10.4% interest (Interest) in BHI LP into common shares of the Company (the Exchange Right). Pharmascience first acquired the Interest in connection with a strategic partnership agreement entered into with BELLUS Health in May 2012.

The common shares were issued at a price of $2.90 per share, for a total consideration of $18,417. An amount of $17,200 was recognized in Deficit, representing the difference between the carrying value of the non-controlling interest and the fair value of the common shares issued. As well, the balance of other comprehensive income allocated to the non-controlling interest up to June 2, 2016 has been reallocated to Accumulated other comprehensive income to reflect the change of interests. This is a non-cash transaction, and is therefore excluded from the consolidated statement of cash flows.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

11. Shareholders' equity (continued):

(b) Stock option plan:

Under its stock option plan, the Company may grant options to purchase common shares to directors, officers, employees and consultants of the Company (the Stock Option Plan). The number of common shares subject to each stock option, the vesting period, the expiration date and other terms and conditions related to each stock option are determined and approved by the Board of Directors. In general, stock options vest over a period of up to five years, and are exercisable over a period of 10 years from the grant date. The aggregate number of common shares reserved for issuance under this plan shall not exceed 12.5% of the total issued and outstanding common shares of the Company from time to time. The aggregate number of common shares reserved for issuance at any time to any optionee shall not exceed 5% of the issued and outstanding common shares of the Company. The aggregate number of common shares issuable or reserved for issuance to insiders of the Company under this plan and any other share compensation arrangement of the Company cannot at any time exceed 10% of the issued and outstanding common shares of the Company. The option price per share is equal to the weighted average trading price of common shares for the five days preceding the date of grant during which the common shares were traded on the TSX.

Changes in outstanding stock options issued under the Stock Option Plan for the years ended December 31, 2016 and 2015 were as follows:

	Number		Weighted average exercise price
Options outstanding, December 31, 2015	4,685,000	$	0.51
Granted [1]	103,000		1.12
Options outstanding, December 31, 2016	4,788,000	$	0.53

	Number		Weighted average exercise price
Options outstanding, December 31, 2014	4,595,000	$	0.50
Granted [1]	150,000		1.05
Forfeited	(60,000)		0.50
Options outstanding, December 31, 2015	4,685,000	$	0.51

[1] All stock options were granted to key management personnel.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

11. Shareholders' equity (continued):

(b) Stock option plan (continued):

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2016:

	Options outstanding		Options exercisable
Exercise price/share	Number	Weighted average years to expiration	Number
$0.30	75,000	6.5	45,000
$0.50	4,460,000	5.5	3,586,000
$1.05	150,000	8.2	30,000
$1.12	103,000	9.2	—
	4,788,000	5.5	3,661,000

For the year ended December 31, 2016, the Company recorded a stock-based compensation expense related to stock options granted under the stock option plan (excluding compensation under the DSU plans) in the amount of $213 in the consolidated statement of (loss) income; from this amount, $18 is presented in Research and development expenses and $195 is presented in General and administrative expenses (2015 – $288, $37 presented in Research and development expenses and $251 presented in General and administrative expenses).

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for a period commensurate with the expected life.

The weighted average assumptions for stock options granted during the years ended December 31, 2016 and 2015 were as follows:

	2016 [1]	2015 [2]
Fair value of stock options at grant date	$ 0.85	$ 0.81
Weighted average share price	$ 1.12	$ 1.05
Exercise price	$ 1.12	$ 1.05
Risk-free interest rate	0.84%	1.04%
Expected volatility	87%	102%
Expected life in years	7	7
Expected dividend yield	Nil	Nil

[1] All stock options were granted on February 24, 2016.
[2] All stock options were granted on March 17, 2015.

Dividend yield was excluded from the calculation, since it is the present policy of the Company to retain all earnings to finance operations and future growth.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

11. Shareholders' equity (continued):

(c) Deferred share unit (DSU) plans:

The Company has various deferred share unit (DSU) plans for employees and members of the Board of Directors created to afford the Company the flexibility to offer DSUs as an alternative to cash compensation.

The price of DSUs is determined by the five-day volume weighted average trading price of the Company's common shares at the time the DSUs are issued, as provided for under the respective plans. The DSUs are redeemable only upon the participant's resignation, termination, retirement or death, in cash, at a value equal to the number of DSUs credited, multiplied by the 5-day market value weighted average price of common shares prior to the date on which a notice of redemption is filed.

For DSUs, compensation cost is measured based on the market price of the Company's common shares from the date of grant through to the settlement date. Any changes in the market value of the Company's common shares through to the settlement date result in a change to the measure of compensation cost for those awards and are recorded in the consolidated statement of (loss) income.

Changes in the number of units for the years ended December 31, 2016 and 2015 were as follows:

Number of units	2016	2015
Balance, beginning of year	217,953	170,434
Units granted [(1)]	—	47,519
Balance, end of year	217,953	217,953
Balance of DSU liability, included in Trade and other payables	$ 63	$ 227

[(1)] All DSUs were granted to key management personnel.

For the year ended December 31, 2016 the Company did not grant any DSU (for December 31, 2015, the Company granted 47,519 DSUs having a fair value per unit of $1.11). The stock-based compensation (income) expense related to DSU plans recorded in the consolidated statement of (loss) income for the year ended December 31, 2016 amounted to $(164); from this amount, $(1) is presented in Research and development expenses and $(163) is presented in General and administrative expenses (2015 – $(12), $(1) presented in Research and development expenses and $(11) presented in General and administrative expenses).

12. Revenues:

Revenues mainly consist of the following:

(a) Development services:

On April 29, 2010, the Company entered into an asset sale and license agreement pursuant to which Auven Therapeutics acquired and licensed the worldwide rights related to the Phase 3 investigational product candidate KIACTA™ program for the treatment of AA amyloidosis and received non-refundable upfront payments totalling $10,039 (US$10,000).

Under this agreement, Auven Therapeutics conducted the KIACTA™ study in AA amyloidosis and funded 100% of the development costs of KIACTA™ program in AA amyloidosis, including the Phase 3 Confirmatory Study and other related activities.

In conjunction with the asset sale and license agreement, a service agreement was entered into between the parties in 2010 pursuant to which BELLUS Health was compensated to provide support and assistance to Auven Therapeutics in connection with their development program for KIACTA™ in AA amyloidosis.

The Company determined that identifiable components related to the upfront payments and other monetary considerations under both agreements did not meet the requirements for separation and, as such, accounted for the combined components as a whole for revenue recognition. Revenue was recognized on a straight-line basis over the KIACTA™ development program in AA amyloidosis conducted by Auven Therapeutics, estimated to be 80 months from 2010 to 2016.

On June 20, 2016, the Company announced top-line results from the Phase 3 study of KIACTA™ for the treatment of AA amyloidosis, an orphan indication resulting in renal dysfunction that often leads to dialysis and death. In the study, the KIACTA™ program in AA amyloidosis did not meet the primary efficacy endpoint in slowing renal function decline.

Following the negative outcome of the Phase 3 clinical trial, Auven Therapeutics decided in December 2016 to terminate the KIACTA™ program for the treatment of AA amyloidosis.

As a result, the Company's expected support and assistance to Auven Therapeutics was revised in light of these announcements and the unbilled amount receivable in relation to the service agreement (previously presented in Prepaid expenses and other assets in the consolidated statement of financial position) was decreased accordingly, with a corresponding decrease in deferred revenue of $473. This is a non-cash transaction, and is therefore excluded from the consolidated statement of cash flows. Since the development program has terminated and there are no remaining obligations for the Company under this agreement, the remaining deferred revenue of $1,838 related to this agreement was recognized as revenue for the year ended December 31, 2016.

12. Revenues (continued):

Revenues mainly consist of the following (continued):

(b) Revenue under licensing agreements:

BELLUS Health entered into an agreement in October 2013 to license the worldwide rights of VIVIMIND™, a natural health product for memory protection, to FB Health, a related company and Italy-based distributor of specialty natural health and pharmaceutical products targeting neurologists and geriatricians. The agreement provides for cash consideration of $2,000 to be received until 2017, consisting of minimum expected revenue from licensing fees of $1,500, payable in five annual payments until 2017, sales-based royalty payments capped at, but no less than $500, payable no later than December 31, 2017, as well as certain costs reimbursements. Revenues under the VIVIMIND™ license agreement of $33 were recognized for the year ended December 31, 2016 (2015 – $1,648). The amount receivable in relation to the VIVIMIND™ license agreement amounted to $506 as at December 31, 2016 which is presented in current Trade and other receivable ($1,046 as at December 31, 2015, of which $534 is presented as current Trade and other receivables and $512 as non-current Trade and other receivables) in the consolidated statement of financial position.

From the date of the transaction to December 31, 2015, management assessed that uncertainty existed in relation to the collectability of amounts to be received until 2017 under the VIVIMIND™ agreement due to the start-up nature of FB Health's business, and as such only recognized revenues to the extent received. However, as at December 31, 2015, management assessed that uncertainty decreased in relation to the collectability of these amounts as a significant portion of amounts due under the agreement had been received on scheduled payment dates, and due to FB Health's business and sales growth, which lowered the risk of the collectability of the remaining amounts. As such, the Company recognized as revenues amounts received in 2015, as well as remaining amounts to be received until 2017 relating to licensing fees, sales-based royalty payments and certain costs reimbursement.

BELLUS Health also entered into a worldwide license agreement in October 2013 with FB Health for BLU8499, a drug candidate for the treatment of central nervous system diseases including Alzheimer's disease, and a family of analogs, along with an associated platform of chemotypes and clinical datasets. In turn, FB Health sublicensed all its rights to Alzheon Inc. (Alzheon), a then related company, as part of an exclusive worldwide license, excluding Italy. Alzheon is a clinical-stage biotechnology company focused on brain health, memory and aging, developing the next generation of medicines for Alzheimer's and other neurodegenerative diseases.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

12. Revenues (continued):

Revenues mainly consist of the following (continued):

(b) Revenue under licensing agreements (continued):

As consideration, BELLUS Health received an equity stake in FB Health, and will receive a portion of all future payments received by Alzheon related to BLU8499 and royalties on net sales of BLU8499, and will be reimbursed for certain costs.

In February 2015, the BLU8499 license agreement with FB Health was amended to expand the field of use of the license. FB Health's license agreement with Alzheon was amended accordingly. In exchange, BELLUS Health received an equity stake in Alzheon having a minimal value.

As the portion of revenue based on future payments to be received by Alzheon in relation to BLU8499 and net sales of BLU8499 is contingent upon the receipt of those payments and future sales, such consideration will only be recognized as revenue when it will be probable that economic benefits will flow to the Company, as payments are received or sales are made by Alzheon. The Company recognized revenues of $22 under the BLU8499 license agreement for both years ended December 31, 2016 and 2015, for costs reimbursements.

13. Personnel expenses:

The aggregate compensation to personnel of the Company for the years ended December 31, 2016 and 2015 is set out below:

	2016	2015
Short-term benefits	$ 1,910	$ 2,016
DSUs plans income	(164)	(12)
Stock option plan expense	213	288
	$ 1,959	$ 2,292

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

14. Net finance (costs) income:

Finance income and Finance costs for the years ended December 31, 2016 and 2015 were attributed as follows:

	2016	2015
Interest income	$ 100	$ 145
Change in fair value of contingent consideration payable (CVRs) (note 10)	706	—
Change in fair value of contingent right asset (note 10)	—	206
Foreign exchange gain	—	350
Finance income	806	701
Interest and bank charges	(11)	(11)
Change in fair value of contingent right asset (note 10)	(740)	—
Change in fair value of contingent consideration payable (CVRs) (note 10)	—	(206)
Foreign exchange loss	(171)	—
Finance costs	(922)	(217)
Net finance (costs) income	$ (116)	$ 484

15. Income taxes:

Deferred tax expense

	December 31, 2016	December 31, 2015
Origination and reversal of temporary differences	$ (544)	$ 181
Change in unrecognized deductible temporary differences including effect of change in tax rate of $163 in 2016 (2015 – Nil)	559	(208)
Deferred tax expense (recovery)	$ 15	$ (27)

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

15. Income taxes (continued):

Deferred tax expense (continued)

Reconciliation of effective tax rate:

	Year ended December 31, 2016	Year ended December 31, 2015
(Loss) income before income taxes	$ (2,213)	$ 378
Tax using the Company's domestic tax rate	(595)	102
Change in unrecognized deductible temporary differences	396	(208)
Effect of change in tax rate	163	—
Non-deductible stock option expense	57	77
Other permanent differences and other items	(6)	2
Total deferred tax expense (recovery)	$ 15	$ (27)

The applicable statutory tax rates are 26.9% in 2016 and 2015. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdiction in which the Company operates.

A deferred tax recovery of $15 related to the decrease in fair value of available-for-sale investment in FB Health was recognized in other comprehensive income for the year ended December 31, 2016, and an equal and offsetting amount was recognized as a deferred tax expense in income.

A deferred tax expense of $27 related to the increase in fair value of available-for-sale investment in FB Health was recognized in other comprehensive income for the year ended December 31, 2015, and an equal and offsetting amount was recognized as a deferred tax recovery in income.

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities:

As at December 31, 2016 and 2015, deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Research and development expenses	$ 486	$ 815	$ —	$ —	$ 486	$ 815
Trade and other receivables	—	—	(128)	(240)	(128)	(240)
Other assets	—	—	(154)	(353)	(154)	(353)
In-process research and development asset	—	—	(144)	(146)	(144)	(146)
Investment in FB Health	—	—	(60)	(76)	(60)	(76)
Tax assets (liabilities)	486	815	(486)	(815)	—	—
Set off of tax	(486)	(815)	486	815	—	—
Net tax assets (liabilities)	$ —	$ —	$ —	$ —	$ —	$ —

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

15. Income taxes (continued):

Deferred tax assets and liabilities (continued)

Unrecognized deferred tax assets and investment tax credits:

As at December 31, 2016 and 2015, the amounts and expiry dates of tax attributes and temporary differences for which no deferred tax assets was recognized were as follows:

	December 31, 2016		December 31, 2015	
	Federal	Provincial	Federal	Provincial
Research and development expenses, without time limitation	$ 3,784	$ 6,954	$ 2,509	$ 5,425
Federal research and development Investment tax credits				
2027	140	—	140	—
2028	305	—	305	—
2029	190	—	190	—
2030	221	—	218	—
2031	66	—	88	—
2032	136	—	136	—
2034	111	—	111	—
2035	120	—	119	—
2036	110	—	—	—
	1,399	—	1,307	—
Tax losses carried forward				
2028	814	550	814	550
2029	3,664	3,212	3,664	3,212
2030	73	—	73	—
2031	3,321	3,325	3,322	3,325
2032	6,112	6,215	6,081	6,019
2033	1,499	1,355	1,494	1,350
2034	4,488	4,590	4,488	4,455
2035	4,102	3,866	4,129	3,882
2036	4,754	4,492	—	—
	28,827	27,605	24,065	22,793
Other deductible temporary differences, without time limitation	$ 7,370	$ 7,360	$ 9,053	$ 9,043

Deferred tax assets and investments tax credits have not been recognized in respect to these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The generation of future taxable profit is dependent on the successful commercialization of the Company's products and technologies.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

16. Loss per share:

	Year ended December 31, 2016	Year ended December 31, 2015
Basic weighted average number of common shares outstanding [1]	58,391,698	47,426,358
Basic and diluted loss per share	$ (0.04)	$ —

[1] The Amended Note has a dilutive impact for the year ended December 31, 2015, but the resulting diluted earnings per share is the same amount as the basic earnings per share.

Excluded from the calculation of the diluted loss per share for the year ended December 31, 2016 is the impact of all stock options granted under the stock option plan, as it would be anti-dilutive.

Excluded from the calculation of the diluted earnings per share for the year ended December 31, 2015 is the impact of the Pharmascience Exchange Right and all stock options granted under the stock option plan, as they would be anti-dilutive.

All stock options granted under the stock option plan could potentially be dilutive in the future.

17. Commitments and contingencies:

(a) Operating leases:

Minimum annual lease payments are as follows:

Less than one year	$ 143
Between one and five years	12
	$ 155

The property lease is a non-cancellable lease, with rent payable monthly in advance, which expires on January 31, 2019, but for which BELLUS Health has termination right effective January 31, 2018.

During the year ended December 31, 2016, an amount of $138 was recognized as an expense in the consolidated statement of (loss) income in respect of operating leases (2015 – $134).

17. Commitments and contingencies (continued):

(b) Indemnity agreements:

The Company is potentially liable in relation to the following indemnity agreements:

(i) Pursuant to an indemnity agreement entered into between the Company and Pharmascience in May 2012 as part of the strategic partnership and financing agreement, the Company agreed to indemnify Pharmascience, subject to certain conditions and limitations, for all losses which it may suffer or incur, arising out of any debts, liabilities, commitments or obligations of any nature resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of Old BELLUS which occurred prior to the effective time of the Plan of Arrangement.

(ii) In 2009, Thallion (acquired by BELLUS Health in August 2013) entered into an arrangement with a third party, under which it agreed to indemnify the third party, subject to certain conditions and limitations, for all losses which they may suffer, sustain, pay or incur arising out of, resulting from, attributable to or connected with certain specified tax matters.

No significant indemnity provision has been recorded by the Company as at December 31, 2016 and 2015 for these matters as the Company does not expect to make any payments under these provisions.

(c) License agreements and research collaborations:

On February 1, 2006, the Company entered into an assignment agreement with Parteq Research and Development Innovations (Parteq), which was amended on April 1, 2011 (the Assignment Agreement). Pursuant to the Assignment Agreement, Parteq agreed and assigned certain intellectual property to the Company for consideration, comprising an upfront payment and various deferred payment amounts. The Assignment Agreement also provides for annual technology payments, deferred milestone payments and deferred graduated payments based on gross revenues to be generated from commercialized pharmaceutical products, as well as other than pharmaceutical products, such as nutraceutical or natural health care products. Non-significant amounts are payable as at December 31, 2016 under this agreement.

Under the terms of an agreement with the federal Ministry of Industry (Technology Partnerships Canada Program), as amended in 2005, the Company is committed to pay the federal government royalties equal to 7.24% of certain milestone revenue and 0.724% of end-product sales realized from the commercialization of effective orally-administered therapeutics for the treatment of Alzheimer's disease for a limited period after regulatory approval, subject to a maximum of $20,540. To date, no royalties have been paid under this agreement.

17. Commitments and contingencies (continued):

(d) Consulting and services agreement:

The payments under the consulting and services agreement with Picchio International Inc. (Picchio International) (refer to note 18 (b)) will amount to $250 in 2017, plus the reimbursement of applicable expenses for services rendered under the agreement.

(e) Letter of credit:

As at December 31, 2016, the Company is contingently liable for a letter of credit in the amount of $50 (2015 - $50). Cash is pledged under the letter of credit and is presented as non-current Other assets in the consolidated statement of financial position as at December 31, 2016.

18. Related party transactions:

(a) There is no single ultimate controlling party.

(b) Dr. Francesco Bellini, Chairman of the Board of Directors, provides ongoing advisory services to the Company under the terms of a consulting and services agreement between the Company and Picchio International, wholly-owned by Dr. Francesco Bellini and his spouse. The agreement has a one-year term and shall renew for successive one-year terms. The Company recorded fees and expenses of $381 for both years ended December 31, 2016 and 2015.

In October 2013, BELLUS Health entered into a license agreements in relation to VIVIMIND™ and BLU8499 with related party FB Health and then related party Alzheon (refer to notes 8 and 12 (b)). FB Health is controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health.

(c) The Amended Note issued to a significant influence shareholder of the Company in May 2012 was settled through the issuance of 7,286,828 common shares from treasury on January 1, 2016, as scheduled (refer to note 11 (a) (i)).

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

18. Related party transactions (continued):

(d) Key management personnel:

The Chief Executive Officer, Vice-Presidents and Directors of BELLUS Health are considered key management personnel.

The aggregate compensation to key management personnel of the Company for the years ended December 31, 2016 and 2015 is set out below:

	2016	2015
Short-term benefits	$ 1,542	$ 1,674
DSU plans income	(164)	(12)
Stock option plan expense	204	268
	$ 1,582	$ 1,930

19. Segment disclosures:

(a) Business segment:

The Company operates in one business segment, which is the development of drugs for health solutions. As at December 31, 2016, all of the Company's operations were conducted in Canada.

(b) Significant sources of revenue:

In 2016, 97% of revenues came from the agreements entered into with Auven Therapeutics (2015 – 58%), and 3% came from the agreements entered into with FB Health (2015 – 42%) (refer to note 12).

20. Capital disclosures:

The Company's objective in managing capital is to ensure a sufficient liquidity position to market its technologies and product candidates, to finance its research and development activities, including pipeline expansion, general and administrative expenses, working capital and overall capital expenditures.

Since inception, the Company has financed its liquidity needs primarily through public offerings of common shares, private placements, the issuance of convertible notes, a sale of non-controlling interest in a controlled entity, a sale-leaseback transaction and asset sales. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including research tax credits, grants, interest income, as well as with proceeds from the collaboration and research agreements, asset sales, supply agreements or product licensing agreements.

20. Capital disclosures (continued):

Historically, when the Company had the option, it has settled its obligations through the issuance of common shares instead of in cash, in order to preserve its liquidities to finance its operations and future growth.

The Company defines capital to include total shareholders' equity.

The capital management objectives remain the same as previous fiscal year.

As at December 31, 2016, cash, cash equivalents and short-term investments amounted to $6,834. The Company's general policy on dividends is to retain cash to keep funds available to finance the Company's growth.

The Company is not subject to any capital requirements that are externally imposed.

21. Financial instruments:

(a) Financial instruments - carrying values and fair values:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision.

Financial assets and liabilities measured at fair value on a recurring basis as at December 31, 2016 and 2015 are the investment in FB Health, as well as the contingent right asset and the related contingent consideration payable from the acquisition of Thallion in 2013. These financial instruments were measured using Level 3 inputs.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

21. Financial instruments (continued):

(a) Financial instruments - carrying values and fair values (continued):

For the years ended December 31, 2016 and 2015, the reconciliation of the beginning and ending balance of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Investment in FB Health	Contingent right asset	Contingent consideration payable
Balance as at December 31, 2014	$ 550	$ 1,107	$ (1,177)
Total gain (loss) included in income (reported as change in fair value)	—	206	(206)
Total gain included in other comprehensive income (reported as change in fair value)	198	—	—
Balance as at December 31, 2015	748	1,313	(1,383)
Total (loss) gain included in income (reported as change in fair value)	—	(740)	706
Total loss included in other comprehensive income (reported as change in fair value)	(109)	—	—
Balance as at December 31, 2016	$ 639	$ 573	$ (677)

The amounts presented above as total gain (loss) included in (loss) income and other comprehensive income attributable to the change in fair value of the related assets and liabilities still held at reporting date were unrealized.

For its financial assets and liabilities measured at amortized cost as at December 31, 2016, the Company has determined that the carrying value of its short-term financial assets and liabilities approximates their fair value because of the relatively short periods to maturity of these instruments.

21. Financial instruments (continued):

(b) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and trade and other receivables. The Company invests cash with major North American financial institutions. Cash equivalents and short-term investments are comprised of fixed income instruments with a high credit ranking (not less than A-1) as rated by Standard and Poor's. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and yields that are appropriate. In addition, current trade and other receivables totaling $506 as at December 31, 2016 related to one customers ($2,167 current and non-current trade and other receivables and other assets related to two customers as at December 31, 2015).

As at December 31, 2016, the Company's maximum credit exposure corresponded to the carrying amount of these financial assets.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company requires continued access to capital markets to support its operations, as well as to achieve its strategic plans. Any impediments to the Company's ability to access capital markets, including the lack of financing capability or an adverse perception in capital markets of the Company's financial condition or prospects, could have a materially adverse effect on the Company. In addition, the Company's access to financing is influenced by the economic and credit market environment.

The Company manages liquidity risk through the management of its capital structure, as outlined in note 20. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews, approves and monitors the Company's operating and capital budgets, as well as any material transactions.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

21. Financial instruments (continued):

(c) Liquidity risk (continued):

The following are the contractual maturities of financial liabilities as at December 31, 2016:

	Carrying amount	Contractual cash flows	Less than 1 year	Greater than 3 years
Trade and other payables	$ 644	$ 644	$ 644	$ —
Contingent consideration (CVRs – On the contingent right asset) [1]	573	573	573	—
Contingent consideration (CVRs – On Shigamab™ future revenues) [2]	104	104	—	104
Contingent consideration (CVRs – On Future revenues from assets developed by Caprion Proteomics Inc.) [3]	—	—	—	—
	$ 1,321	$ 1,321	$ 1,217	$ 104

[1] The additional purchase price consideration received in February 2017, will be paid in full to the CVR holders on March 10, 2017.

[2] Assuming Shigamab™ generates revenues in the future, BELLUS Health shall pay to CVR holders their pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500. The amount represents the fair value of the contingent liability as at December 31, 2016 (refer to note 10).

[3] BELLUS Health shall pay to CVR holders 100% of future revenues from assets developed by Caprion Proteomics Inc. No value has been attributed to this contingent liability as the Company does not expect to receive any revenue from these assets in the future (refer to note 10).

(d) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company's exposure relates primarily to changes in the Canadian dollar versus the US dollar exchange rate. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue and expenses in its consolidated statement of (loss) income. Additional variability arises from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar at the rates of exchange at each statement of financial position date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of (loss) income. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

(in thousands of Canadian dollars, except per share data, unless otherwise noted)

21. Financial instruments (continued):

(d) Foreign currency risk (continued):

The following table provides an indication of the Company's significant foreign currency exposures, from exposure to the US dollar, as at December 31, 2016:

	December 31, 2016
Cash and cash equivalents	$ 461
Trade and other receivables	2
Trade and other payables	(31)
	$ 432

The $US to $CDN exchange rate applied as at December 31, 2016 was 1.3427.

Based on the Company's foreign currency exposure noted above, a hypothetical 10% strengthening of the Canadian dollar versus the US dollar during such period would have had no significant effect on income.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk is as follows:

Cash and cash equivalents	Short-term fixed and variable interest rate
Short-term investments	Short-term fixed interest rate
Restricted cash	Short-term fixed interest rate

Based on the carrying amount of variable interest-bearing financial instruments as at December 31, 2016, an assumed 1% increase or 1% decrease in interest rates during such period would have had no significant effect on income.

Management believes that the risk that the Company will realize a loss as a result of the decline in the fair value of its cash equivalents and short-term investments is limited because these investments have short-term maturities and are generally held to maturity.

The capacity of the Company to reinvest the short-term amounts with equivalent returns will be impacted by variations in short-term fixed interest rates available in the market.

Interest income presented in the consolidated statement of (loss) income represents interest income on financial assets classified as loans and receivables.

22. Subsequent event:

On February 28, 2017, BELLUS Health announced that it had obtained from the NEOMED Institute (NEOMED) an exclusive worldwide license to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough. BLU-5937 is a promising best-in-class drug candidate that has the potential to help millions of chronic cough patients who do not respond to current therapies.

Under the terms of the agreement, BELLUS Health will pay NEOMED an upfront fee of $3.2 million, consisting of $1.7 million in cash and $1.5 million with 5,802,177 BELLUS Health common shares. NEOMED will be entitled to receive a royalty on net sales-based revenues. In lieu of milestone payments, a certain portion of all other revenues received by BELLUS Health from BLU-5937 will be shared with NEOMED according to a pre-established schedule whereby the shared revenue portion decreases as the program progresses in development.

SHAREHOLDER INFORMATION

EXECUTIVE MANAGEMENT

Mr. Roberto Bellini
President & Chief Executive Officer

—

Dr. Denis Garceau
Senior Vice President,
Drug Development

—

Mr. François Desjardins, CPA, CA
Vice President,
Finance

—

Mr. Tony Matzouranis
Vice President,
Business Development

BOARD OF DIRECTORS

Dr. Francesco Bellini, O.C.
Chairman of the Board
of the Company
Chairman of the Board,
Picchio International Inc.

—

Mr. Charles Cavell
Deputy Chairman of the Board
of the Company
Consultant

—

Mr. Roberto Bellini
President & Chief Executive Officer
of the Company

—

Mr. Franklin Berger, CFA
Consultant

—

Ms. Hélène F. Fortin, FCPA auditor, FCA
Partner
LF&B CPA Inc.

—

Mr. Pierre Larochelle
Vice President, Investments
Power Corporation of Canada

—

Ms. Murielle Lortie, CPA, CA
Vice President, Finance & Chief Financial Officer
Pharmascience Inc.

—

Mr. Joseph Rus
Consultant

—

Dr. Martin Tolar
President & Chief Executive Officer
Alzheon Inc.

CORPORATE GOVERNANCE

BELLUS Health Inc. is committed to sound corporate governance practices, which ensure that its affairs are managed in the best interest of all stake holders. The Board of Directors undertakes a periodic review to verify that BELLUS Health Inc.'s governance practices have kept pace with changing regulatory environments in Canada, to which BELLUS Health Inc. is subject as a company listed on the TSX. Please refer to the management information circular for more information on the overall structure of the Board and its Committees and for details of BELLUS Health Inc.'s corporate governance practices.

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STOCK LISTING
Toronto Stock Exchange (TSX)
Symbol: **BLU**

CORPORATE PROFILE

BELLUS Health is a biopharmaceutical development company advancing novel therapeutics for conditions with high unmet medical need. Its pipeline of projects includes BLU-5937 for chronic cough and KIACTA™ for sarcoidosis. BELLUS Health also has economic interests in several other partnered drug development projects. The Company's shares trade on the Toronto Stock Exchange (TSX) under the symbol BLU.

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