ANNUAL REPORT 2014

PREMIUM PRICING $100K-300K PER PATIENT PER YEAR

REGULATORY ADVANTAGE

SMALL PATIENT NUMBERS, BIG OPPORTUNITY

MARKET PROTECTION FROM GENERICS

SMALLER CLINICAL TRIALS

85%-95% OF RARE DISEASES ARE LIFE THREATENING

ONLY 5% of these people have a specific therapy for their disease

30 MILLION PEOPLE IN THE U.S. HAVE A RARE DISEASE

Bellus HEALTH

DEVELOPING DRUGS FOR RARE DISEASES

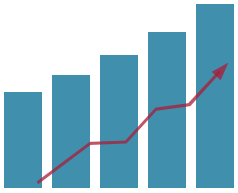
FINANCIAL FACTS

Ticker : BLU (TSX)
BLUSF (OTC)

FD Shares Outstanding : 66M

Cash (12.31.14) : $12M

Burn rate (monthly) : < $300k



COMPANY STRENGTHS

- Late stage and diversified product pipeline
- Fully funded business plan
- Strong and growing shareholder base
- Experienced management team and board of directors; shareholders with track record of success
- Focused business model to create value in clinical development

12 Month Milestones

- Potential KIACTA exit
- Progress rare disease pipeline:
  - Start of KIACTA Phase II study for Sarcoidosis
  - Pre-clinical proof of concept for Shigamab

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 obtain financing, the impact of general economic conditions, general conditions in the pharmaceutical industry, changes in the regulatory environment in the jurisdictions in which BELLUS Health Inc. does business, stock market volatility, fluctuations in costs, changes to the competitive environment due to consolidation, achievement of forecasted burn rate, potential payments in relation to indemnity agreements, achievement of forecasted clinical trial milestones, dependence on Auven Therapeutics for the completion of the KIACTA™ Phase III Confirmatory Study, 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 KIACTA™ Phase III Confirmatory Study is dependent upon many factors including patient drop-out rate and occurrence of clinical endpoint events, and the sharing of proceeds between Auven Therapeutics and BELLUS Health Inc. from potential future revenue of KIACTA™ is dependent upon a number of factors, including the quantum of proceeds. 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 document. 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 event, 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,

We remain on track to create value for our owners through our business plan focused on developing drugs for rare diseases.

Over the past year, our projects have taken important steps forward, including the achievement of a number of key milestones:

- Reached the 230 patient recruitment target for the KIACTA™ Phase III Confirmatory Study in AA amyloidosis and completed recruitment with 261 patients;
- Recorded more than 2/3 of the required events to complete the KIACTA™ Phase III Confirmatory Study; the study is on track to conclude in 2016;
- Completed an in-depth market assessment for KIACTA™, including more than 60 interviews with key opinion leaders, treating physicians and payors. The assessment identified between 10,000-15,000 KIACTA™ eligible patients with AA amyloidosis in the United States and Europe;
- Signed a license agreement with Mt. Sinai Hospital in New York to develop KIACTA™ in a second rare disease indication called sarcoidosis, a disease that affects the lungs;
- Demonstrated in a preclinical animal model that Shigamab™ – another one of our rare disease drug candidates - can prevent the occurrence of Hemolytic Uremic Syndrome caused by Shiga toxin-producing *E. coli* (sHUS), a rare disease that affects the kidneys.

As our own portfolio progressed, the broader rare disease drug space continued to generate momentum.

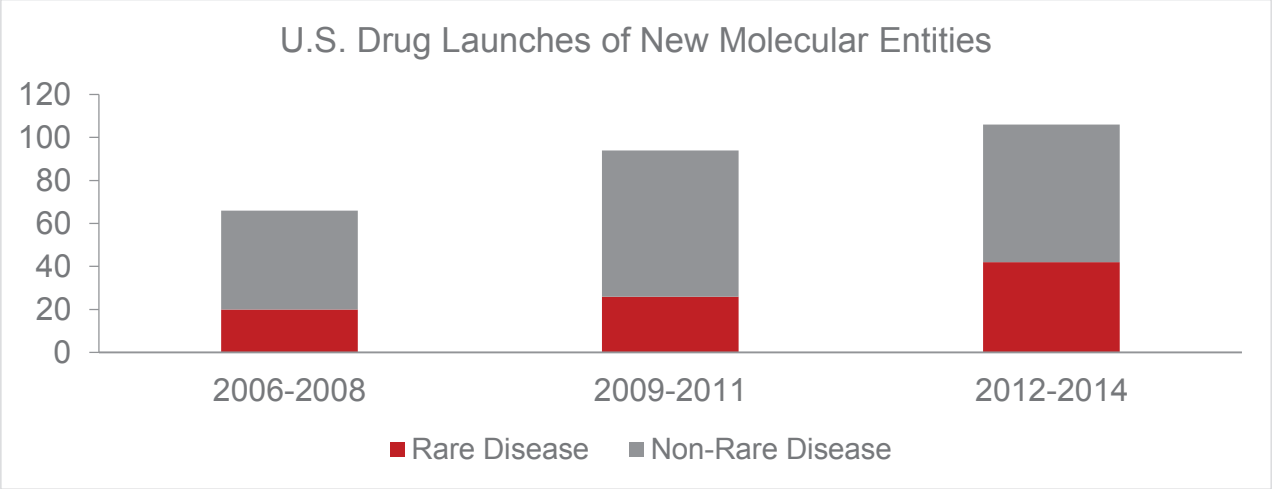
Rare Disease Drugs Are Increasingly Attractive

Continuing the trend we have seen over the last decade, rare disease drugs are becoming an increasingly attractive area to develop new drugs, due to several advantages. These advantages include:

Regulatory legislation:	regulators work closely with orphan drug companies to shape development programs that are often less stringent in terms of demonstrable efficacy and safety evidence required for marketing approval.
Premium pricing:	because rare disease therapies can contribute to significant improvements in patient outcomes and quality of life, higher pricing, faster market penetration and larger margins are now consistent with this drug class. Even with only thousands of patients to treat, commercially approved orphan therapeutics often generate substantial returns.
Market protection:	rare disease drug development companies typically are assured of market exclusivity for a designated period following launch.

Over the last three years, there have been 42 rare disease drug launches in the United States, compared to 26 in the 2009-2011 period and 20 in the 2006-2008 period.

Over that same time, rare disease drug launches in the United States have grown in proportion of total drug launches from 30 per cent to 40 per cent.



Source: IMS Institute

We anticipate receiving final data from the KIACTA™ Phase III Confirmatory Study in 2016. In the coming quarters after that, we hope to gain FDA approval for the product.

Strong Financial Stewardship

An important part of our business plan is the prudent allocation of capital towards high potential milestones such as final data.

We finished 2014 with $12.3 million in cash reserves. Coupled with our low operational burn rate, we have enough cash to take us beyond the KIACTA™ Phase III Confirmatory Study data and a potential exit.

Shareholder Returns

While our mission is to develop innovative drugs for patients in need, we also understand that our principal responsibility is to generate shareholder returns. In 2014, we were one of the top 10 highest returning stocks on the Toronto Stock Exchange. We hope to continue that momentum in 2015.

We appreciate the continued support of both old and new shareholders. We believe we are on the right path to deliver further value to you with our rare disease pipeline, and we look forward to working hard for you in 2015 and beyond.

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, 2014 and 2013. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014, 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 24, 2015.

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 drug development company focused on rare diseases. It has a portfolio of rare disease projects including lead program KIACTA™ in Phase III for AA amyloidosis, KIACTA™ for sarcoidosis, clinical stage Shigamab™ for Hemolytic Uremic Syndrome caused by Shiga toxin-producing *E. coli* (STEC) (sHUS) and a research-stage project for AL amyloidosis. The Company's shares trade on the Toronto Stock Exchange (TSX) under the symbol BLU.

BUSINESS OVERVIEW

During 2014, the Company's pipeline of rare disease projects continued moving forward. The KIACTA™ Phase III Confirmatory Study reached its targeted enrollment during the year, and completed its enrollment in January 2015. As the KIACTA™ study continues to advance, the Company is moving closer to provide patients with a safe and efficacious therapy for AA amyloidosis. Other pipeline projects, including clinical stage Shigamab™ for sHUS as well as the research-stage project for AL amyloidosis, progressed as well. In addition, a second rare disease indication was added to KIACTA™, for the treatment of sarcoidosis. The Company also simplified its balance sheet in 2014 by selling all of its asset-backed commercial paper notes (ABCP Notes) and using the proceeds thereof to settle its credit facilities. Based on management's estimate, the Company's current cash position should enable the Company to finance its operations beyond the end of the KIACTA™ Phase III Confirmatory Study, expected to be completed in 2016.

2014 Highlights

- Targeted enrollment reached for the KIACTA™ Phase III Confirmatory Study in AA amyloidosis; enrollment was completed in January 2015, with a total of 261 patients participating in the study;
- More than two-thirds (2/3) of the required events to complete the KIACTA™ Phase III Confirmatory Study have occurred; the study is on track to conclude in 2016;
- An exploratory sale process for KIACTA™ was initiated in May 2014 with financial advisor Lazard, which process is on-going;
- License agreement for the development of KIACTA™ in sarcoidosis entered into by BELLUS Health's partner, Auven Therapeutics, with Mount Sinai Hospital;
- Shigamab™ proof of concept studies demonstrated prevention of toxicity of Shiga toxin type 2 in a lethal sHUS mouse model;
- Sold all ABCP Notes and used proceeds thereof to settle credit facilities;
- Concluded the year with cash, cash equivalents and short-term investments totaling $12.3 million, which should enable the Company to finance its operations beyond the end of the Phase III Confirmatory Study for KIACTA™;
- Subsequent to year end, regained exclusive rights to AL amyloidosis program and related compounds.

Pipeline of Rare Disease Projects

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

Disease indication	Drug candidate	Stage of development
AA amyloidosis	KIACTA™ (1)	Phase III clinical trial
Sarcoidosis	KIACTA™ (1)	Phase II clinical trial
sHUS	Shigamab™	Pre-Phase II clinical trial
AL amyloidosis	N/A	Research

(1) See below for details on the asset sale and license agreement entered into in 2010 in relation to KIACTA™.

KIACTA™ for AA Amyloidosis

KIACTA™ is an orally bioavailable small molecule intended for the treatment of AA amyloidosis, an orphan indication resulting in renal dysfunction that often leads to dialysis and death. The disease occurs in a subset of patients with long-lasting inflammatory conditions, such as rheumatic diseases, Familial Mediterranean Fever and Crohn's disease, in addition to certain chronic infectious diseases, such as tuberculosis and chronic bronchiectasis. Approximately 65% of AA amyloidosis patients are first diagnosed with rheumatic diseases. There is currently no available treatment for AA amyloidosis.

During 2014, the KIACTA™ Phase III Confirmatory Study reached its targeted enrollment of 230 patients from more than 70 sites in 30 countries. In January 2015, the study completed its enrollment with a total of 261 patients participating in the study. The enrollment was extended beyond 230 patients as eligible patients who were in pre-screening and screening at the time the target was reached were also given the opportunity to enroll in the study. The study is designed to confirm the safety and efficacy of KIACTA™ in preventing renal function decline in patients diagnosed with AA amyloidosis. KIACTA™'s safety and efficacy were demonstrated in a previous Phase II/III study, as discussed below. The Phase III Confirmatory Study is the last key step before applications for regulatory approval for KIACTA™ can be filed.

The Phase III Confirmatory Study is an event-driven trial that will conclude when 120 patients have experienced an event linked to the deterioration of kidney function. An event is counted when a patient's kidney function has deteriorated as measured by a persistent 80 per cent increase in serum creatinine, a persistent 40 per cent decrease in creatinine clearance or reaching end stage renal disease. To date, more than two-thirds (2/3) of the required events have occurred, and based on the current event rate, the KIACTA™ Phase III Confirmatory Study is expected to conclude in 2016.

Patients completing the KIACTA™ Phase III Confirmatory Study are offered the opportunity to continue in an extended program.

As part of the Phase III Confirmatory Study, there are periodic meetings of the Data Safety Monitoring Board (DSMB), which independently assesses the safety of KIACTA™ throughout the study. Based on its last review in December 2014, the DSMB recommended that the study continue as per protocol.

KIACTA™ is partnered with global private equity firm Auven Therapeutics following an asset sale and license agreement signed in 2010, pursuant to which Auven Therapeutics acquired and licensed the worldwide rights related to KIACTA™. Auven Therapeutics is conducting the KIACTA™ study and funding 100% of the development costs of KIACTA™, including the Phase III Confirmatory Study and other related activities, which total costs are currently estimated to be in excess of US$60 million. In conjunction with the asset sale and license agreement, a service agreement was entered into between the parties, pursuant to which BELLUS Health is compensated to provide support and assistance to Auven Therapeutics in connection with their development plan for KIACTA™.

In May 2014, Auven Therapeutics and BELLUS Health agreed upon modified terms to the KIACTA™ asset sale and license agreement in relation to the share of proceeds from a potential divestiture of KIACTA™. Overall proceeds from potential future revenue of KIACTA™ will be shared between Auven Therapeutics and BELLUS Health based on a pre-agreed formula included in the agreement, and assuming that total divestiture transaction proceeds reach a pre-determined threshold, the parties will share aggregate proceeds equally. Auven Therapeutics retains certain preference rights on exit proceeds related to Auven Therapeutics' aggregate investment in KIACTA™ up to the date of the sale.

In May 2014, Auven Therapeutics and BELLUS Health announced that Auven Therapeutics had engaged Lazard as a financial advisor to explore the sale of KIACTA™, which process is on-going. This initiative provides more flexibility to divest KIACTA™ at the most opportune time for stakeholders, whether that is prior to or following the conclusion of the KIACTA™ Phase III study.

In July 2013, the U.S. Patent and Trademark Office (USPTO) granted a U.S. Patent offering strengthened intellectual property protection for KIACTA™. The patent, which will expire in 2026 with a possible extension available up to 2031, covers the dosing regimen of daily administration of KIACTA™ relative to AA amyloidosis patients' kidney impairment. The patent has also been granted in Canada, Australia and certain countries in Eurasia.

KIACTA™ has been granted Orphan Drug Designation or its equivalent for the treatment of AA amyloidosis in the United States, Europe, Japan and Switzerland, which provide for market exclusivity for a period of seven to ten years once the drug is approved, as well as a reduction in application and review fees.

KIACTA™ was previously investigated in a landmark international, randomized, double-blind, placebo-controlled, and parallel-designed clinical trial in which 183 AA amyloidosis patients were enrolled at 27 sites around the world. The results of the Phase II/III study demonstrated that KIACTA™ offers important clinical benefits to patients by reducing the progression of AA amyloidosis-associated renal disease. The primary endpoint analysis of this study demonstrated a 42% reduction in the risk of reaching kidney dysfunction events. The Phase II/III study also deemed KIACTA™ to be safe and well tolerated. These results were published in the June 7, 2007 issue of the New England Journal of Medicine (Volume 356, no.23). Following regulatory discussions with both the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA) in 2007, it was determined to proceed with a confirmatory phase III study.

KIACTA™ for Sarcoidosis

In May 2014, Auven Therapeutics and BELLUS Health announced that Auven Therapeutics had entered into a license agreement with Icahn School of Medicine at Mount Sinai Hospital in New York, under which Auven Therapeutics obtained the rights to develop KIACTA™ (eprodisate) as a treatment for chronic sarcoidosis, a rare inflammatory condition that affects the lungs. Obtaining the rights to move KIACTA™ into a second indication further expands its commercial potential.

Auven Therapeutics intends to conduct a Phase II proof-of-concept trial to evaluate KIACTA™'s effectiveness in treating certain medical manifestations of sarcoidosis. The Phase II trial is expected to begin in mid-2015, for which a clinical study protocol is currently being developed. All costs in relation to the development of KIACTA™ in sarcoidosis will be borne by Auven Therapeutics. Proceeds from potential future revenue of KIACTA™, including the rights to KIACTA™ for sarcoidosis, are subject to the proceeds sharing agreement between Auven Therapeutics and BELLUS Health mentioned above.

Sarcoidosis is a rare condition that causes small patches of red and swollen tissue - called granulomas - that can develop in multiple organs in the body, but mostly in the lungs and skin. The disease affects approximately 120,000 patients in the U.S. alone, and the identification of an effective treatment is a major unmet medical need. Most patients with sarcoidosis recover, but approximately 30% develop chronic, debilitating disease. Mortality occurs in 1-5% of patients. There is no cure for sarcoidosis, and treatment options are limited and can have serious adverse effects.

Shigamab™ for sHUS - Acquisition of Thallion Pharmaceuticals Inc. in 2013

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

During 2014, in studies performed in collaboration with the Uniformed Services University of the United States Department of Defense, Shigamab™ was shown to prevent toxicity of Shiga toxin type 2 in a sHUS mouse model as measured by body weight loss, renal biomarkers and renal histopathology. Further pre-clinical studies are being conducted to evaluate Shigamab™ in the treatment of toxicity of Shiga toxin type 2.

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™ previously completed a Phase II clinical trial, where it was shown to be safe and well tolerated in a STEC-positive pediatric population. Following the acquisition of Thallion, the Company shifted the program's focus from prevention to treatment of sHUS. Current pre-clinical efforts are geared towards the validation of the new development approach prior to undertaking further clinical trials.

Shigamab™ was acquired in August 2013 when the Company purchased all of the issued and outstanding common shares of Thallion for a purchase price of $6.266 million in cash or $0.1889 per common share (on a fully-diluted basis, including stock options) and the issuance of one contingent value right (CVR) per common share. The transaction was done by way of a court approved plan of arrangement. Thallion is a biotechnology company developing pharmaceutical products in the areas of infectious disease and oncology.

The acquisition of Thallion in 2013 added to BELLUS Health's pipeline a clinical stage drug candidate in a rare disease indication and increased the Company's cash and short-term investments position by more than $1.1 million.

The CVRs issued to Thallion's shareholders entitle the holder thereof to: (A) its pro rata share of 100% of any additional purchase price consideration to be received from Premium Brands Holding Corp. (Premium Brands) in 2016 (total amount receivable estimated by management to be up to approximately $1.5 million, or $0.0404 per CVR), (B) its pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6.5 million (or $0.1812 per CVR) and (C) its pro rata share of 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 with Premium Brands (discussed in the Financial Condition – Contractual Obligations section below), accounts payable or litigation).

Co-development Agreement for AL Amyloidosis

In February 2015, the agreement entered into by BELLUS Health with AmorChem Holdings Inc. in October 2013 was terminated. This agreement focused on the development of drug candidates for the treatment of AL amyloidosis, a rare disease in which amyloid protein builds up and causes dysfunction in various parts of the body. The termination of the agreement did not give rise to any amount payable by BELLUS Health. As a result of the termination, BELLUS Health regained exclusive rights to its AL amyloidosis program and related compounds.

VIVIMIND™ and BLU8499 Divestiture in 2013

In October 2013, BELLUS Health divested two non-core assets, VIVIMIND™, a natural health product for memory protection, and BLU8499, a drug candidate for the treatment of central nervous system diseases including Alzheimer's disease.

BELLUS Health licensed the VIVIMIND™ worldwide rights to FB Health S.p.A (FB Health) for a cash consideration of more than $2 million to be received until 2017. FB Health is an Italy-based distributor of specialty natural health and pharmaceutical products targeting neurologists and geriatricians.

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 an equity stake in FB Health. In turn, FB Health sublicensed all its rights to Alzheon Inc. (Alzheon), as part of an exclusive worldwide license, excluding Italy. BELLUS Health will receive a portion of all future payments received by Alzheon related to BLU8499 and royalties on net sales of BLU8499. 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.

FB Health and Alzheon are related parties to the Company. FB Health is controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health. Alzheon is controlled by Dr. Martin Tolar, a member of the Board of Directors of BELLUS Health. Refer to the Related Party Transactions section for further details.

BELLUS Health concurrently terminated its agreement with Asclepios Bioresearch (UK) Limited for the development of BLU8499.

Selected Financial Information

(In thousands of dollars, except per share data)

	Years ended December 31		
	2014	2013	2012
	$	$	$
Revenues	2,376	2,256	2,298
Expenses:			
Research and development	1,695	1,270	954
General and administrative	3,150	4,275	4,961
	4,845	5,545	5,915
Results from operating activities	(2,469)	(3,289)	(3,617)
Finance income	730	846	1,272
Finance costs	(278)	(200)	(19,625)
Net finance income (costs)	452	646	(18,353)
Gain on acquisition	-	1,672	-
Gain on sale of unrecognized assets	-	-	8,150
Other income	-	-	650
Loss before income taxes	(2,017)	(971)	(13,170)
Deferred tax recovery	(49)	-	-
Net loss for the year	(1,968)	(971)	(13,170)
Net loss attributable to:			
Shareholders	(1,931)	(872)	(13,255)
Non-controlling interest	(37)	(99)	85
	(1,968)	(971)	(13,170)
Loss per share – Basic and diluted	(0.04)	(0.02)	(0.41)

	December 31, 2014	December 31, 2013	December 31, 2012
	$	$	$
Total assets	16,708	23,630	27,098
Total non-current financial liabilities	1,177	6,191	8,245

RESULTS OF OPERATIONS

Year Ended December 31, 2014, Compared to Year Ended December 31, 2013

For the year ended December 31, 2014, net loss attributable to shareholders amounted to $1,931,000 ($0.04 per share), compared to $872,000 ($0.02 per share) for the previous year. The increase in net loss is primarily due to a gain of $1,672,000 recorded in 2013 in relation to the acquisition of Thallion, as well as higher research and development expenses. The increase is partially offset by a reduction of general and administrative expenses.

Revenues amounted to $2,376,000 for the year ended December 31, 2014, compared to $2,256,000 for the previous year. Revenues primarily consist of revenue recognized for accounting purposes in relation to the asset sale and license agreement and the service agreement entered into with Auven Therapeutics in 2010 for KIACTA™.

Research and development expenses amounted to $1,695,000 for the year ended December 31, 2014, compared to $1,270,000 for the previous year. The increase is primarily attributable to expenses incurred in relation to the development of Shigamab™, which drug candidate was acquired through the acquisition of Thallion in August 2013.

General and administrative expenses amounted to $3,150,000 for the year ended December 31, 2014, compared to $4,275,000 for the previous year. The decrease is primarily attributable to transaction costs recorded in 2013 in relation to the acquisition of Thallion, as well as a reduction of expenses in relation to VIVIMIND™, divested in October 2013, and professional fees.

Net finance income amounted to $452,000 for the year ended December 31, 2014, compared to $646,000 for the previous year. The decrease is primarily attributable to a lower increase in the fair value of the ABCP Notes compared to the previous year, partially offset by an increase in 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 2014.

Gain on acquisition amounted to $1,672,000 for the year ended December 31, 2013, and is in relation to the acquisition of Thallion in August 2013. The gain on acquisition represents the difference between the fair value of the identifiable assets acquired and liabilities assumed and the consideration transferred.

As at December 31, 2014, total assets amounted to $16,708,000, compared to $23,630,000 as at December 31, 2013. The decrease is primarily attributable to the sale of ABCP Notes, as described in the Financial Condition - Liquidity and Capital Resources section below, as well as funds used in operating activities in 2014. As at December 31, 2014, total non-current financial liabilities amounted to $1,177,000, compared to $6,191,000 as at December 31, 2013. The decrease is primarily attributable to the settlement of credit facilities in 2014, as described in the Financial Condition - Liquidity and Capital Resources section below.

Year Ended December 31, 2013, Compared to Year Ended December 31, 2012

For the year ended December 31, 2013, net loss attributable to shareholders amounted to $872,000 ($0.02 per share), compared to $13,255,000 ($0.41 per share) for the previous year. The decrease in net loss is primarily due to items recorded in 2012 in relation to the strategic partnership, financing and capital reorganization that occurred in May 2012, as discussed in the Financial Condition - Liquidity and Capital Resources section, namely a non-cash loss on settlement of convertible securities in the amount of $15,751,000 (including the change in fair value of the embedded conversion option liability on convertible notes), partially offset by a gain on sale of unrecognized assets in the amount of $8,150,000. The decrease is also due to a reduction in accretion expense in the amount of $3,566,000 as a result of the settlement of convertible securities, as part of the same transaction. In addition, the decrease is attributable to the gain on acquisition in the amount of $1,672,000 recorded in 2013 in relation to the acquisition of Thallion.

Revenues amounted to $2,256,000 for the year ended December 31, 2013, compared to $2,298,000 for the previous year. Revenues primarily consist of revenue recognized for accounting purposes in relation to the asset sale and license agreement and the service agreement entered into with Auven Therapeutics in 2010 for KIACTA™. The decrease is primarily due to lower revenue recognized for accounting purposes in relation to these agreements, following the review and extension of management's estimate of the KIACTA™ development phase period during the fourth quarter of 2012. This revenue is recognized over the estimated period of the KIACTA™ development phase. Revenue adjustments in relation to a change in the life of the agreement are recognized prospectively. The decrease is partially offset by an increase in revenues recorded under the agreements for VIVIMIND™ and BLU8499.

Research and development expenses amounted to $1,270,000 for the year ended December 31, 2013, compared to $954,000 for the previous year. The increase is primarily attributable to an expense reversal recorded in the previous year in relation to accruals that no longer met the definition of a liability.

General and administrative expenses amounted to $4,275,000 for the year ended December 31, 2013, compared to $4,961,000 for the previous year. The decrease is primarily due to transaction costs recorded in the previous year in relation to the strategic partnership, financing and capital reorganization that occurred in May 2012, partially offset by transaction costs recorded in 2013 in relation to the acquisition of Thallion.

Finance income amounted to $846,000 for the year ended December 31, 2013, compared to $1,272,000 for the previous year. The decrease is primarily attributable to a lower increase in the fair value of the ABCP Notes in 2013 compared to the previous year.

Finance costs amounted to $200,000 for the year ended December 31, 2013, compared to $19,625,000 for the previous year. The decrease is primarily due to a non-cash loss on settlement of convertible securities recorded in the previous year in the amount of $15,751,000 (including the change in fair value of the embedded conversion option liability on convertible notes) in relation to the strategic partnership, financing and capital reorganization that occurred in May 2012. The decrease is also due to a reduction in accretion expense on convertible notes in the amount of $3,566,000 as a result of the settlement of convertible securities, as part of the same transaction.

Gain on acquisition amounted to $1,672,000 for the year ended December 31, 2013, and is in relation to the acquisition of Thallion in August 2013 described previously. The gain on acquisition represents the difference between the fair value of the identifiable assets acquired and liabilities assumed and the consideration transferred.

Gain on sale of unrecognized assets amounted to $8,150,000 for the year ended December 31, 2012, and is in relation to the non-dilutive capital payment received from Pharmascience Inc. (Pharmascience) as part of the strategic partnership, financing and capital reorganization that occurred in May 2012.

Other income amounted to $650,000 for the year ended December 31, 2012. This income represents a payment received from Advanced Orthomolecular Research Inc. (AOR) in 2012 in relation to the achievement of a pre-established milestone set in the share purchase agreement entered into at the time AOR acquired BELLUS Health's wholly-owned Canadian subsidiary, OVOS Natural Health Inc., in December 2010.

As at December 31, 2013, total assets amounted to $23,630,000, compared to $27,098,000 as at December 31, 2012. The decrease is primarily attributable to funds used in operating activities and the settlement of a credit facility in 2013. The decrease is partially offset by assets acquired through the acquisition of Thallion. As at December 31, 2013, total non-current financial liabilities amounted to $6,191,000, compared to $8,245,000 as at December 31, 2012. The decrease is primarily attributable to a decrease in credit facilities following the exercise of the put option in 2013 on one of the Company's credit facilities, partially offset by contingent value rights liabilities recorded in relation to the acquisition of Thallion.

Fourth Quarter (Unaudited)

For the fourth quarter ended December 31, 2014, net income attributable to shareholders amounted to $196,000 (nil per share), compared to a net loss of $507,000 ($0.01 per share) for the corresponding quarter the previous year. The increase in net income is primarily attributable to a reduction of general and administrative expenses.

Revenues amounted to $1,061,000 for the quarter ended December 31, 2014, compared to $746,000 for the corresponding quarter the previous year. Revenues primarily consist of revenue recognized for accounting purposes in relation to the asset sale and license agreement and the service agreement entered into with Auven Therapeutics in 2010 for KIACTA™. The increase is primarily due to higher revenue recognized for accounting purposes in relation to these agreements, following an increase, in the current quarter, of management's estimate of BELLUS Health' expected support and assistance to Auven Therapeutics in connection with their development plan for KIACTA™, which adjusted the expected amount receivable by the Company over the life of the service agreement. This revenue is recognized over the estimated period of the KIACTA™ development phase. Revenue adjustments in relation to a change in the expected amount to be received are recognized prospectively.

Research and development expenses amounted to $456,000 for the quarter ended December 31, 2014, compared to $309,000 for the corresponding quarter the previous year. The increase is primarily attributable to expenses incurred in relation to the development of Shigamab™.

General and administrative expenses amounted to $603,000 for the quarter ended December 31, 2014, compared to $1,186,000 for the corresponding quarter the previous year. The decrease is primarily attributable to a reduction of expenses in relation to VIVIMIND™, divested in October 2013, and professional fees.

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

Quarter	Revenues	Net income (loss) attributable to shareholders	Basic earnings (loss) per share	Diluted earnings (loss) per share
	$	$	$	$
Year ended December 31, 2014				
Fourth	1,061	196	Nil	Nil
Third	420	(710)	(0.01)	(0.01)
Second	420	(737)	(0.02)	(0.02)
First	475	(680)	(0.01)	(0.01)
Year ended December 31, 2013				
Fourth	746	(507)	(0.01)	(0.01)
Third	528	1,039	0.02	0.02
Second	383	(867)	(0.02)	(0.02)
First	599	(537)	(0.01)	(0.01)

The following explains the variation of the net income (loss) attributable to shareholders of a quarter compared to the corresponding quarter of the previous year. The increase in net income for the fourth quarter ended December 31, 2014 is primarily due to a reduction of general and administrative expenses, mainly in relation to VIVIMIND™, divested in October 2013, and professional fees. The increase in net loss for the third quarter ended September 30, 2014 is primarily due to a gain recorded in the comparative period in relation to the acquisition of Thallion in August 2013. The decrease in net loss for the second quarter ended June 30, 2014 is primarily due to transaction costs recorded in the comparative period in relation to the acquisition of Thallion in August 2013. The increase in net loss for the first quarter ended March 31, 2014 is primarily due to lower revenue, mainly in relation to VIVIMIND™.

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 year ended December 31, 2014 ($381,000 for the year ended December 31, 2013).

In October 2013, BELLUS Health entered into an agreement to license the worldwide rights to VIVIMIND™ to FB Health. 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 Inc., as part of an exclusive worldwide license, excluding Italy. As FB Health and Alzheon are related parties to the Company, these transactions are considered to be "related party transactions" under IFRS. An independent committee of the BELLUS Health Board of Directors was put in place to review and consider the transactions. The independent committee was formed of independent members of the BELLUS Health Board of Directors. It was chaired by Mr. Charles Cavell and also included Mr. Donald Olds and Mr. Pierre Larochelle. The independent committee found the transactions fair and unanimously recommended their approval to the BELLUS Health Board of Directors, which voted unanimously in favour of the transactions, excluding Dr. Bellini and Dr. Tolar who declared their interest and recused themselves.

For the year ended December 31, 2014, the Company recorded revenues of $408,000 under the VIVIMIND™ license agreement ($213,000 in 2013), as well as revenues of $22,000 under the BLU8499 license agreement ($169,000 in 2013). Refer to the Business Overview section for additional details on the transactions.

In 2014, an additional amount of $61,000 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%.

In 2010, the Company entered into a license and supply agreement with FB Health relating to the distribution of VIVIMIND™ in Italy. The Company recorded revenues of $159,000 under this agreement for the year ended December 31, 2013. The supply agreement was terminated upon the conclusion of the VIVIMIND™ worldwide rights license agreement with FB Health in October 2013, discussed previously.

In May 2013, the agreement effective December 1, 2004 with Dr. Francesco Bellini, then Chief Executive Officer, to issue up to 7,333 common shares was terminated. The Company did not pay any compensation to Dr. Bellini and did not record any expense or income in the consolidated statement of loss for the year ended December 31, 2013 in regards to the termination of the agreement.

An amended note convertible into common shares of the Company in 2016 (the Amended Note) was issued to a significant influence shareholder of the Company in May 2012. Refer to the Financial Condition – Liquidity and Capital Resources section for the terms of the Amended Note.

FINANCIAL CONDITION

Liquidity and Capital Resources

As at December 31, 2014, the Company had available cash, cash equivalents and short-term investments totaling $12,307,000, compared to $15,297,000 as at December 31, 2013. For the year ended December 31, 2014, net decrease in cash, cash equivalents and short-term investments amounted to $2,990,000, compared to $3,272,000 for the previous year. The Company's working capital amounted to $9,870,000 as at December 31, 2014, compared to $13,711,000 as at December 31, 2013. The decrease in the cash position and working capital for the year ended December 31, 2014 is primarily attributable to funds used to finance the Company's operating activities.

Based on management's estimate, the current cash position should enable the Company to finance its operations beyond the end of the KIACTA™ Phase III Confirmatory Study, expected to be completed in 2016. 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, issuance of convertible notes, a sale of non-controlling interest, 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 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.

The Company continues to explore opportunities in order to expand its pipeline, including through acquisitions and/or in-licensing.

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

In November 2014, the Company sold all of its remaining ABCP Notes having a notional value of $5,747,000 for a total consideration of $5,345,000, and used the proceeds thereof to settle its credit facilities which amounted to $5,193,000. These credit facilities were entered into in 2009 in connection with the restructuring of the ABCP market, following the liquidity disruption that hit the Canadian third party ABCP market in 2007, and were scheduled to mature in April 2016. Net cash generated from these transactions amounted to $152,000. Early settlement of its credit facilities will enable the Company to save approximately $150,000 in future interest payments, and fully eliminated its bank indebtedness. The sale of ABCP Notes also eliminated the market risk associated with these assets.

Prior to their disposal, the investments in ABCP Notes were measured at fair value in the consolidated financial statements. In connection with its fair value determination, the Company recorded an increase in fair value of $203,000 for the year ended December 31, 2014 (2013 – increase of $499,000), which is presented in Finance income in the consolidated statement of loss.

In April 2013, the Company exercised the put option on one of its credit facilities, which reduced both the aggregate credit facilities and nominal value of the related ABCP Notes by $3,087,000 (US$3,009,000). Upon the exercise of the put option, the Company transferred to the bank ownership of the underlying ABCP Notes, and paid an amount of $1,282,000 (US$1,250,000) to settle the credit facility. The settlement of the facility for $1,805,000 (US$1,759,000) by the exercise of the put option is a non-cash transaction, therefore excluded from the consolidated statement of cash flows.The put option exercise enabled the Company to save more than $200,000 in future interest payments.

In August 2013, the Company acquired all of the issued and outstanding common shares of Thallion for a purchase price of $6,266,000 in cash and the issuance of one CVR per common share. At the date of acquisition, Thallion had cash of $6,664,000 and short-term investments of $750,000. Refer to the Business Overview section for additional details on the transaction.

As at December 31, 2014, the Company is contingently liable for a letter of credit in the amount of $50,000, which was reduced from $138,000 during 2014. Cash is pledged under the letter of credit and is presented as restricted cash in the consolidated balance sheet as at December 31, 2014. In 2013, this letter of credit was reduced from $465,000 to $138,000, and ABCP Notes pledged to a bank as collateral for the letter of credit became available for sale. In turn, the Company put an additional $88,000 in cash as collateral to the letter of credit.

The Company sold short-term investments having maturities greater than three months and less than a year which amounted to $604,000 for the year ended December 31, 2014 ($4,556,000 for the year ended December 31, 2013).

Strategic Partnership, Financing and Capital Reorganization in 2012

On May 25, 2012, BELLUS Health Inc., a company incorporated in June 1993 under the Canada Business Corporations Act and now named 2930862 Canada Inc. (Old BELLUS), entered into a strategic partnership and financing agreement with Pharmascience Inc. (Pharmascience). Pharmascience paid a total of $17.25 million, including $8.15 million in non-dilutive capital for 100% of Old BELLUS outstanding common shares and $9.1 million for a 10.4% ownership stake in BHI Limited Partnership (BHI LP), a newly-created partnership operated by a new public company (New BELLUS or BELLUS Health), owned by Old BELLUS's former security holders. The transaction was put in place through a plan of arrangement (the Plan of Arrangement).

Pharmascience has the right to exchange its interest in BHI LP for 6,350,640 New BELLUS common shares (the Exchange Right) at any time. On or after September 30, 2016, New BELLUS has the right to have Pharmascience exercise the Exchange Right.

References herein to BELLUS Health’s business and operations include activities prior to May 25, 2012, on the basis that such historical business and operations have been continued by the Company.

Other

In accordance with the Plan of Arrangement of May 2012 described in the Strategic Partnership, Financing and Capital Reorganization in 2012 section above, holders of Old BELLUS' convertible notes had the option to either immediately convert their notes into common shares at a fixed conversion ratio or have the terms of their notes amended to rank *pari passu* with the Company's common shares and to be convertible into a fixed number of common shares in 2016. As such, all of Old BELLUS' convertible notes were settled through the issuance of common shares, with the exception of a portion of the convertible notes issued in 2009, for which the option to amend the terms was exercised (the Amended Note).

The following are the terms of the Amended Note, ranking *pari passu* with the common shares:

(i) maturity date of January 1, 2016;

(ii) notional amount of $10,930,000 and does not bear interest (classified in Other equity in the consolidated balance sheet);

(iii) payable at maturity in cash or in 7,286,828 common shares of the Company (on the basis of the fixed conversion price as per the Plan of Arrangement, subject to customary anti-dilution provisions);

(iv) on maturity, any of BELLUS Health or the note holder may require the Amended Note to be paid in common shares of the Company; and

(v) will be automatically converted into BELLUS Health common shares upon a change of control or liquidity events, as defined in the Plan of Arrangement.

As at February 24, 2015, the Company had 47,426,358 common shares outstanding and 65,658,826 common shares on a fully diluted basis. Dilution items, subject to customary anti-dilution provisions, are as follows:

- 7,286,828 common shares that may be issuable upon the settlement of the Amended Note on January 1, 2016;
- 6,350,640 common shares issuable upon the exercise of the Pharmascience Exchange Right; and
- 4,595,000 stock options granted under the stock option plan.

During the year ended December 31, 2014, no stock options were granted (75,000 in 2013), and no stock options were forfeited (200,000 in 2013).

Contractual Obligations

As at December 31, 2014, 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 contingent consideration 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 5 years
	$	$	$	$
Operating leases	146	135	11	Nil
Consulting fees	250	250	Nil	Nil
Trade and other payables	1,285	1,285	Nil	Nil
Contingent consideration (CVRs – On receivable from Premium Brands) (1)	1,107	Nil	Nil	Nil
Contingent consideration (CVRs – On Shigamab™ future revenues) (2)	70	Nil	Nil	70
Contingent consideration (CVRs – On future revenues from assets developed by Caprion Proteomics Inc.) (3)	Nil	Nil	Nil	Nil

(1) Assuming the Company receives in 2016 the additional purchase price consideration from Premium Brands estimated by management to amount up to $1,450,000, it would have to pay 100% of the amount received to the CVR holders (refer to details on the 2013 Thallion acquisition in the Business Overview section). The amount represents the fair value of the contingent liability as at December 31, 2014. As the contingent consideration and contingent right are of the same amount, there is no cash exposure for the Company.

(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 on the 2013 Thallion acquisition in the Business Overview section). The amount represents the fair value of the contingent liability as at December 31, 2014.

(3) BELLUS Health shall pay to CVR holders 100% of future revenues from assets developed by Caprion Proteomics Inc. (refer to details on the 2013 Thallion acquisition in the Business Overview section). 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.

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

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, including a reduction in tax pools under the Plan of Arrangement. No significant indemnity provision has been recorded by the Company as at December 31, 2014 and 2013.

(ii) In July 2009, Thallion (acquired by BELLUS Health in August 2013) was party to an arrangement pursuant to which it effectively sold its tax attributes to Premium Brands Holding Corporation (Old Thallion) and Premium Brands Income Fund (Premium Brands) in exchange for $8,850,000.

Pursuant to an indemnity agreement, Thallion agreed to indemnify Premium Brands and Old Thallion, 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 matters, including with respect to certain reductions of the tax pools, as defined in the indemnity agreement, if such reductions result in the tax pools being below $160,000,000. In such case, the amount of the indemnity would be 5.5% of the amount by which the adjusted tax pools is less than $160,000,000, subject to a cap of $4,425,000, which represents a maximum of 50% of the cash received from Premium Brands pursuant to the arrangement. In exchange for such indemnity, BELLUS Health is entitled to the additional cash proceeds from Old Thallion equaled to 5.5% of the amount, if any, by which the aggregate balance of the tax pools exceeds $170,000,000, which amount shall be determined in 2016. In the event BELLUS Health receives an additional purchase price consideration from Premium Brands, it would have to pay 100% of the amount received to the CVR holders (refer to Business Overview section). No indemnity provision has been recorded by the Company as at December 31, 2014, as management does not expect the balance of the tax pools to fall below $160,000,000.

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 in the consolidated balance sheet as at December 31, 2014.

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 14 to the consolidated financial statements for the year ended December 31, 2014 for details.

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, restricted cash, trade and other receivables and other assets. 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 and non-current other assets and trade receivables totaling $1,855,000 as at December 31, 2014 relate to one customer (2013 – $893,000). As at December 31, 2014, 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 19 to the consolidated financial statements for the year ended December 31, 2014 (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. 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 balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of loss. 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 20 (d) to the consolidated financial statements for the year ended December 31, 2014, 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, 2014.

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, 2014, 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, 2014. 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 year ended December 31, 2014 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the determination of the separate components and the timing of their recognition in accounting for revenue recognition, the determination of accounting for the acquisition of Thallion as a business combination, the evaluation of the collectibility of the consideration receivable from FB Health and the classification of the Amended Note as equity.

The Company's significant accounting policies are described in note 3 to the consolidated financial statements for the year ended December 31, 2014. 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, regulatory and sales-based milestone payments for specific achievements, as well as revenue from the supply of products.

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;

(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; and

(iv) revenues from the sale or supply of products are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the products, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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: The Company estimated the fair value of the investment in FB Health by using an enterprise valuation method based on a sales multiple. Estimates of the fair value of the investment are not supported by active market prices, and therefore are subject to uncertainty. Changes in the sales multiple might result in a significantly higher or lower fair value measurement and the ultimate fair value of the investment may vary significantly from the Company's current estimate.

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

Future Accounting Changes

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, among other standards. 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. The new standard is effective for annual periods beginning on or after January 1, 2017, 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.

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 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 larger pharmaceutical companies to 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 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.

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 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 in relation to indemnity agreements, achievement of forecasted clinical trial milestones, dependence on Auven Therapeutics for the completion of the KIACTA™ Phase III Confirmatory Study 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 KIACTA™ Phase III Confirmatory Study is dependent upon many factors, including patient drop-out rate and occurrence of clinical endpoint events, and the sharing of proceeds between Auven Therapeutics and the Company from potential future revenue of KIACTA™ is dependent upon a number of factors, including the quantum of proceeds. 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 24, 2015

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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 balance sheets as at December 31, 2014 and December 31, 2013, the consolidated statements of loss, other comprehensive 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, 2014 and December 31, 2013, 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 24, 2015

Montréal, Canada

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

BELLUS HEALTH INC.

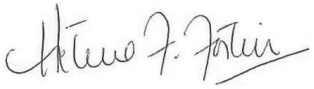
Consolidated Balance Sheets

December 31, 2014 and 2013
(in thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents (note 6)	$ 8,893	$ 11,279
Short-term investments (note 6)	3,414	4,018
Investments in ABCP Notes (note 7)	–	582
Restricted cash (note 14 (e))	–	88
Trade and other receivables	157	174
Prepaid expenses and other assets (note 10 (a) (i))	1,056	831
Total current assets	13,520	16,972
Non-current assets:		
Investments in ABCP Notes (note 7)	–	4,605
Restricted cash (note 14 (e))	50	50
Other assets (notes 5 and 10 (a) (i))	2,046	1,255
In-process research and development asset (note 5)	542	542
Investment in FB Health (note 8)	550	206
Total non-current assets	3,188	6,658
Total Assets	$ 16,708	$ 23,630
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables (note 9)	$ 1,285	$ 1,581
Deferred revenue (note 10 (a) (i))	2,369	1,680
Total current liabilities	3,654	3,261
Non-current liabilities:		
Credit facilities (note 7)	–	5,188
Deferred revenue (note 10 (a) (i))	2,369	3,360
Financial liabilities - CVRs (note 5)	1,177	1,003
Total non-current liabilities	3,546	9,551
Total Liabilities	7,200	12,812
Shareholders' equity:		
Share capital (note 11 (a))	418,592	418,592
Other equity (notes 11 (b) and (c))	33,770	33,346
Accumulated other comprehensive income	230	20
Deficit	(444,194)	(442,263)
Total shareholders' equity attributable to shareholders	8,398	9,695
Non-controlling interest (note 11 (e))	1,110	1,123
Total Shareholder's equity	9,508	10,818
Total Liabilities and Shareholder's Equity	$ 16,708	$ 23,630

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

Years ended December 31, 2014 and 2013
(in thousands of Canadian dollars, except per share data)

	Year ended December 31, 2014	Year ended December 31, 2013
Revenues (note 10)	$ 2,376	$ 2,256
Expenses:		
Research and development	1,695	1,270
General and administrative	3,150	4,275
Total operating expenses	4,845	5,545
Results from operating activities	(2,469)	(3,289)
Finance income	730	846
Finance costs	(278)	(200)
Net finance income (note 13)	452	646
Gain on acquisition (note 5)	–	1,672
Loss before income taxes	(2,017)	(971)
Deferred tax recovery (note 16)	(49)	–
Net loss for the year	$ (1,968)	$ (971)
Net loss attributable to:		
Shareholders	$ (1,931)	$ (872)
Non-controlling interest (note 11 (e))	(37)	(99)
	$ (1,968)	$ (971)
Loss per share (note 17):		
Basic and diluted	$ (0.04)	$ (0.02)

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Other Comprehensive Income

Years ended December 31, 2014 and 2013
(in thousands of Canadian dollars)

	Year ended December 31, 2014	Year ended December 31, 2013
Net loss for the year	$ (1,968)	$ (971)
Other comprehensive income (that may be reclassified subsequently to net loss):		
Unrealized gain on available-for-sale investment (note 8)	283	22
Related income taxes (note 16)	(49)	–
Other comprehensive income for the year	234	22
Total comprehensive loss for the year	$ (1,734)	$ (949)
Total comprehensive loss attributable to:		
Shareholders	$ (1,721)	$ (852)
Non-controlling interest	(13)	(97)
	$ (1,734)	$ (949)

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2014 and 2013
(in thousands of Canadian dollars)

	Attributable to shareholders						
	Share capital	Other equity	Accumulated other comprehen-sive income	Deficit	Total	Non-controlling interest	Total
	(note 11 (a))						
Balance, December 31, 2013	$ 418,592	$ 33,346	$ 20	$ (442,263)	$ 9,695	$ 1,123	$ 10,818
Total comprehensive loss for the year:							
Net loss	–	–	–	(1,931)	(1,931)	(37)	(1,968)
Other comprehensive income	–	–	210	–	210	24	234
Total comprehensive loss for the year	–	–	210	(1,931)	(1,721)	(13)	(1,734)
Transactions with shareholders, recorded directly in shareholders' equity:							
Stock-based compensation (note 11 (c))	–	424	–	–	424	–	424
Balance, December 31, 2014	$ 418,592	$ 33,770	$ 230	$ (444,194)	$ 8,398	$ 1,110	$ 9,508

	Attributable to shareholders						
	Share capital	Other equity	Accumulated other comprehen-sive income	Deficit	Total	Non-controlling interest	Total
	(note 11 (a))						
Balance, December 31, 2012	$ 418,592	$ 32,655	$ –	$ (441,391)	$ 9,856	$ 1,220	$ 11,076
Total comprehensive loss for the year:							
Net loss	–	–	–	(872)	(872)	(99)	(971)
Other comprehensive income	–	–	20	–	20	2	22
Total comprehensive loss for the year	–	–	20	(872)	(852)	(97)	(949)
Transactions with shareholders, recorded directly in shareholders' equity:							
Stock-based compensation (note 11 (c))	–	691	–	–	691	–	691
Balance, December 31, 2013	$ 418,592	$ 33,346	$ 20	$ (442,263)	$ 9,695	$ 1,123	$ 10,818

See accompanying notes to consolidated financial statements.

BELLUS HEALTH INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013
(in thousands of Canadian dollars)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities:		
Net loss for the year	$ (1,968)	$ (971)
Adjustments for:		
Stock-based compensation	424	691
Gain on acquisition	–	(1,672)
Revenue under licensing agreement (note 8)	(56)	(169)
Net finance income	(452)	(646)
Deferred tax recovery	(49)	–
Changes in operating assets and liabilities:		
Trade and other receivables	17	175
Prepaid expenses and other assets	(719)	691
Trade and other payables	(296)	268
Deferred revenue	(302)	(1,564)
	(3,401)	(3,197)
Cash flows from financing activities:		
Settlement of credit facilities (note 7)	(5,193)	(1,349)
Interest and bank charges paid	(104)	(142)
	(5,297)	(1,491)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired (note 5)	–	398
Transaction costs for acquisition of investment (note 8)	–	(15)
Additional investment in FB Health (note 8)	(5)	–
Sale of short-term investments	604	4,556
Restricted cash	88	(88)
Proceeds from ABCP Notes (note 7)	5,390	108
Interest received	198	202
	6,275	5,161
Net (decrease) increase in cash and cash equivalents	(2,423)	473
Cash and cash equivalents, beginning of year	11,279	10,745
Effect of foreign exchange on cash and cash equivalents	37	61
Cash and cash equivalents, end of year	$ 8,893	$ 11,279

See accompanying notes to consolidated financial statements.

1. Reporting entity:

BELLUS Health Inc. (referred to as BELLUS Health or the Company), is a drug development company focused on rare diseases. 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.

On May 25, 2012, BELLUS Health Inc., a company incorporated in June 1993 under the *Canada Business Corporations Act* and now named 2930862 Canada Inc. (Old BELLUS), entered into a strategic partnership and financing agreement with Pharmascience Inc. (Pharmascience). Pharmascience paid a total of $17,250, including $8,150 in non-dilutive capital for 100% of Old BELLUS outstanding common shares and $9,100 for a 10.4% ownership stake in BHI Limited Partnership (BHI LP), a newly-created partnership operated by a new public company (New BELLUS or BELLUS Health) owned by Old BELLUS's former securityholders. The transaction was put in place through a plan of arrangement (the Plan of Arrangement).

References herein to BELLUS Health's business and operations include activities prior to May 25, 2012, on the basis that such historical business and operations have been continued by the Company.

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 could 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 developing drugs for rare diseases, with an initial focus on kidney disorders. The Company has a portfolio of rare disease projects including lead program KIACTA™ in Phase III for AA amyloidosis, KIACTA™ for sarcoidosis, clinical stage Shigamab™ for Hemolytic Uremic Syndrome caused by Shiga toxin-producing *E. coli* (sHUS) and a research-stage project for AL amyloidosis. KIACTA™ is currently in a Phase III Confirmatory Study for the treatment of AA amyloidosis, an orphan indication resulting in renal dysfunction that often leads to dialysis and death. In 2010, the Company entered into an asset sale and license agreement in relation to KIACTA™ (refer to note 10 (a) (i)).

1. Reporting entity (continued):

To date, the Company has financed its operations primarily through public offerings of common shares, private placements, issuance of convertible notes, a sale of non-controlling interest, 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 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, 2014, were approved by the Board of Directors on February 24, 2015.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated balance sheet:

(i) financial assets and liabilities designated at fair value through profit and loss are measured at fair value;

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

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

(iv) contingent consideration on business acquisition and related contingent indemnification right are measured at fair value.

(c) Functional and presentation currency:

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

2. Basis of preparation (continued):

(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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the determination of the separate components and the timing of their recognition in accounting for revenue recognition (note 3 (c)), the determination of accounting for the acquisition of Thallion as a business combination (note 5), the evaluation of the collectibility of the consideration receivable from FB Health S.p.A (FB Health) (note 10 (b)) and the classification of the Amended Note as equity (note 11 (b)).

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 timing of regulatory approvals and the pattern of performance for revenue recognition purposes (note 10 (a));

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

(iii) estimating the recoverable amount of the in-process research and development asset related to Shigamab™ for the purpose of the annual impairment test (note 5); and

(iv) estimating the fair value of the equity-classified stock-based compensation (note 11 (c)).

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.

Any contingent consideration and related indemnification right are recognized at fair value at the acquisition date. Subsequent changes in fair value of contingent consideration and related indemnification right classified as a financial liability and financial asset 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 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.

3. Significant accounting policies (continued):

(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 balance sheet.

(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. Payments received under agreements may include payments received as licensing fees, sale-based royalty payments, upfront payments, regulatory and sales-based milestone payments for specific achievements, as well as revenue from the supply of products.

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;

(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; and

3. Significant accounting policies (continued):

(c) Revenue recognition (continued):

(iv) revenues from the sale or supply of products are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the products, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

(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, 2014 and 2013, 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.

3. Significant accounting policies (continued):

(e) In-process research and development asset (continued):

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. 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.

(f) Government assistance:

Government assistance, consisting of grants and research tax credits, is recorded as a reduction of the related expense or cost of the asset acquired, as applicable. Grants are recorded when there is reasonable assurance that the Company has complied with the terms and conditions of the approved grant program. Research tax credits recorded are those in management's belief for which 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 which could result in adjustments to income.

(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 balance sheet since the Company does not assume substantially all risks and rewards of ownership of the leased assets.

3. Significant accounting policies (continued):

(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.

(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 options, if dilutive. The number of additional shares is calculated by assuming that outstanding 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. The dilutive effect of the Amended Note and the Pharmascience Exchange Right is reflected in diluted earnings per share by application of the "if-converted" method, if dilutive. Under the if-converted method, the note and exchange right are assumed to have been converted at the beginning of the period (or at time of issuance, if later), net income is adjusted for the effect of gains or charges for the period on the note and exchange right and the resulting common shares are included for purposes of calculating diluted earnings per share.

3. Significant accounting policies (continued):

(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.

The Company uses Deferred Share Units (DSU) for compensation of 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.

3. Significant accounting policies (continued):

(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.

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

Up to their disposal, investments in ABCP Notes were designated as FVTPL, as the contracts contained one or more embedded derivatives which would significantly modify the cash flows that otherwise would be required by the contract.

Contingent right from Premium Brands Holding Corp. (Premium Brands) and contingent consideration related to CVRs are measured at fair value at the time of the business acquisition and subsequently, with changes in fair value recorded in income (note 3 (a) (i)).

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.

Cash, cash equivalents and short-term investments (consisting of fixed and variable income securities), restricted cash, trade and other receivables and other assets relating to the KIACTA™ service agreement (note 10 (a) (i)) are classified as loans and receivables.

Trade and other payables and credit facilities are classified as other financial liabilities.

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

3. Significant accounting policies (continued):

(m) Financial instruments (continued):

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:

Future accounting changes:

(a) 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.

(b) Revenue:

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers.* IFRS 15 will replace IAS 18, *Revenue,* among other standards. 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. The new standard is effective for annual periods beginning on or after January 1, 2017, 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.

5. Acquisition of business:

On August 15, 2013, the Company acquired all of the issued and outstanding common shares of Thallion Pharmaceuticals Inc. (Thallion) by way of a plan of arrangement for a purchase price of $6,266 in cash and the issuance of one contingent value right (CVR) per common share (the Acquisition Agreement). Thallion is a biotechnology company developing pharmaceutical products in the areas of infectious disease and oncology.

The CVRs issued to Thallion's shareholders entitle the holder thereof to: (A) its pro rata share of 100% of any additional purchase price consideration to be received from Premium Brands in 2016 (total amount receivable estimated by management to amount up to $1,450, or $0.0404 per CVR), (B) its pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500 (or $0.1812 per CVR) and (C) its pro rata share of 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 with Premium Brands (refer to note 14 (b) (ii)), accounts payable or litigation).

This transaction has been accounted for as a business combination, as assets acquired and liabilities assumed meet the definition of a business per IFRS 3, *Business Combination*. Transaction costs for the year ended December 31, 2013 amounted to $253 and are presented in General and administrative expenses in the consolidated statement of loss. Transaction costs were not included as part of the consideration transferred.

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

5. Acquisition of business (continued):

The following table summarizes the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition:

Cash	$	6,664
Short-term investments		750
Trade and other receivables		192
In-process research and development asset related to Shigamab™ (1)		542
Contingent right from Premium Brands (2)		875
Trade and other payables		(140)
	$	8,883

(1) BELLUS Health estimated the fair value of the IPR&D asset related to Shigamab™ 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%.

(2) BELLUS Health is entitled to receive in 2016 an additional purchase price consideration from Premium Brands, estimated by management to amount up to $1,450. The fair value of the right was evaluated by discounting the probability weighted cash flows estimated by management to be received.

The carrying value of the IPR&D asset related to Shigamab™ amounted to $542 as at December 31, 2014. The Company tested the IPR&D asset for impairment as at December 31, 2014; 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 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. 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.

The contingent right from Premium Brands is classified in non-current Other assets in the consolidated balance sheet and is accounted for at fair value at acquisition and subsequently, on the same basis as the related contingent consideration (CVRs – On receivable from Premium Brands) below. Changes in fair value are recognized in income. As at December 31, 2014, the Company estimated the fair value of the right at $1,107 (2013 - $933). The change in fair value for the year ended December 31, 2014 amounted to an income of $174, which is presented in Finance income in the consolidated statement of loss (2013 – income of $58).

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

5. Acquisition of business (continued):

The following table summarizes the assumed consideration transferred as at the date of acquisition:

Cash consideration paid	$	6,266
Contingent consideration (CVRs – On receivable from Premium Brands) (1)		875
Contingent consideration (CVRs – On Shigamab™ future revenues) (2)		70
	$	7,211

(1) In the event BELLUS Health receives in 2016 the additional purchase price consideration from Premium Brands, it would have to pay 100% of the amount received to the CVR holders. The fair value was evaluated by discounting the probability weighted cash flows estimated by management to be received.

(2) As provided by the Acquisition Agreement, 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 fair value of this contingent liability was evaluated by discounting the probability weighted estimated cash flows based on various assumptions.

Contingent considerations are recognized at fair value on acquisition and subsequently, with changes in fair value recognized in income. As at December 31, 2014, the Company estimated the fair value of the contingent consideration related to CVRs on receivable from Premium Brands at $1,107 (2013 - $933). The change in fair value for the year ended December 31, 2014 amounted to a loss of $174, which is presented in Finance costs in the consolidated statement of loss (2013 – loss of $58). As at December 31, 2014 and 2013, the Company estimated the fair value of the contingent consideration related to CVRs on Shigamab™ future revenues at $70.

No value has been attributed to contingent consideration payable in relation 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.

As at the date of the acquisition, the difference between the fair value of the identifiable assets acquired and liabilities assumed and the consideration transferred was recognized as a gain on acquisition in the amount of $1,672 in the consolidated statement of loss for the year ended December 31, 2013.

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

6. 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, 2014	December 31, 2013
Cash balances with banks	$ 1,238	$ 919
Short-term investments with initial maturities of less than three months (yielding interest at 1.45% to 1.50% as at December 31, 2014) (December 31, 2013 – 1.37% to 1.50 %)	7,655	10,360
Cash and cash equivalents	8,893	11,279
Short-term investments with initial maturities greater than three months and less than one year (yielding interest at 1.45% to 1.80% as at December 31, 2014) (December 31, 2013 – 1.60% to 1.80%)	3,414	4,018
Cash, cash equivalents and short-term investments	$ 12,307	$ 15,297

7. Investments in ABCP Notes:

In November 2014, the Company sold all of its asset-backed commercial paper notes (ABCP Notes) having a notional value of $5,747 for a total consideration of $5,345, and used the proceeds thereof to settle its credit facilities, which amounted to $5,193. These credit facilities were entered into in 2009 in connection with the restructuring of the ABCP market, following the liquidity disruption that hit the Canadian third party ABCP market in 2007, and were scheduled to mature in April 2016.

During the year ended December 31, 2014, the Company received for its ABCP Notes partial payments for capital of nil, and for interest of $45 (2013 – $67 and $41, respectively). Capital payments received were applied to reduce the credit facilities.

Prior to their disposal, the investments in ABCP Notes were measured at fair value in the consolidated financial statements. In connection with its fair value determination, the Company recorded an increase in fair value of $203 for the year ended December 31, 2014 (2013 – increase of $499), which is presented in Finance income in the consolidated statement of loss.

In April 2013, the Company exercised the put option on one of its credit facilities, which reduced both the aggregate credit facilities and nominal value of the related ABCP Notes by $3,087 (US$3,009). Upon the exercise of the put option, the Company transferred to the bank ownership the underlying ABCP Notes, and paid an amount of $1,282 (US$1,250) to settle the credit facility. The settlement of the credit facility for $1,805 (US$1,759) by the exercise of the put option is a non-cash transaction, therefore excluded from the consolidated statement of cash flows.

8. Investment in FB Health:

In October 2013, the Company acquired a 5.5% 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 10 (b) (ii)). 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. The Company classified the investment in FB Health as an available-for-sale financial asset, and initially recognized the investment at fair value. After initial recognition, all changes in the fair value of the investment have been recognized in other comprehensive income.

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%. A portion of this amount, $56, was applied against revenue receivable (refer to note 10 (b)).

FB Health is a private company, therefore this equity instrument does not have a quoted price in an active market for an identical instrument. Initially at transaction date, the Company estimated the fair value of the investment at $184, including transaction costs of $15. As such, the Company recorded as revenue licensing fees of $169 on transaction date (refer to note 10 (b) (ii)). The initial recognition of the investment is a non-cash transaction, therefore excluded from the consolidated statement of cash flows.

As at December 31, 2014, the Company estimated the fair value of the investment at $550 (2013 – $206). In connection with its fair value determination, the Company recorded an increase in fair value of $283 for the year ended December 31, 2014, recognized in other comprehensive income (2013 – $22, including transaction costs of $15).

The Company estimated the fair value of the investment in FB Health by using an enterprise valuation method based on a sales multiple of 1.62 as at December 31, 2014 and 2013. Estimates of the fair value of the investment are not supported by active market prices, and therefore are subject to uncertainty. Changes in the sales multiple might result in a significantly higher or lower fair value measurement and the ultimate fair value of the investment may vary significantly from the Company's current estimate.

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

9. Trade and other payables:

Trade and other payables consist of:

	December 31, 2014	December 31, 2013
Trade payables	$ 69	$ 280
Other accrued liabilities	977	1,229
Deferred share unit plans (note 11 (d))	239	72
	$ 1,285	$ 1,581

10. Revenues:

Revenues mainly consist of the following:

(a) Development services:

(i) 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 III investigational product candidate KIACTA™, and received upfront payments totalling $10,039 (US$10,000). The Company also transferred related research inventory in 2010 for proceeds of $173 (US$172) in conjunction with this agreement.

Under this agreement, Auven Therapeutics is conducting the KIACTA™ study and funding 100% of the development costs of KIACTA™, including the Phase III Confirmatory Study and other related activities. In May 2014, Auven Therapeutics and BELLUS Health agreed upon modified terms to the KIACTA™ asset sale and license agreement in relation to the share of proceeds from a potential divestiture of KIACTA™. Overall proceeds from potential future revenue of KIACTA™ will be shared between Auven Therapeutics and BELLUS Health based on a pre-agreed formula included in the agreement, and assuming that total divestiture transaction proceeds reach a pre-determined threshold, the parties will share aggregate proceeds equally. Auven Therapeutics retains certain preference rights on exit proceeds related to Auven Therapeutics' aggregate investment in KIACTA™ up to the date of the sale.

10. Revenues (continued):

(a) Development services (continued):

(i) (continued):

In conjunction with the asset sale and license agreement, a service agreement was entered into between the parties in 2010 for an initial expected amount of $745 (US$745) receivable over the life of the agreement, pursuant to which BELLUS Health is compensated to provide support and assistance to Auven Therapeutics in connection with their development plan for KIACTA™. Since then, the Company's expected support and assistance to Auven Therapeutics has been increased based on management's best estimate, adjusting the expected amount receivable over the life of the service agreement. In 2014, the expected support and assistance to Auven Therapeutics has been increased by $1,589 (US$1,451). As at December 31, 2014, the expected amount receivable over the life of the service agreement amounted to $4,278 (US$4,178). The unbilled amount receivable in relation to the service agreement amounted to $1,792 as at December 31, 2014, of which $896 is presented as current Prepaid expenses and other assets and $896 as non-current Other assets ($854 as at December 31, 2013, of which $596 is presented as current Prepaid expenses and other assets and $258 as non-current Other assets). Revenue adjustments in relation to a change in the expected amount to be received are recognized prospectively.

The Company determined that identifiable components related to the upfront payments and other monetary considerations under both agreements do not meet the requirements for separation and, as such, accounted for the combined components as a whole for revenue recognition. Revenue is recognized on a straight-line basis over the KIACTA™ development phase conducted by Auven Therapeutics, estimated to be 80 months from 2010 to 2016, as this time period is considered to be management's best estimate as at December 31, 2014 of the pattern of performance of all its obligations under the agreements. Revenue adjustments in relation to a change in the life of the agreement are recognized prospectively. The Company recognized revenues of $1,891 in relation to these agreements for the year ended December 31, 2014 (2013 – $1,433). The deferred revenue balances in the consolidated balance sheet consist of unrecognized revenue in relation to these agreements.

(ii) In 2012, the Company entered into a partnership with Asclepios Bioresearch (UK) Limited for the development of BLU8499, a drug candidate for the treatment of central nervous system diseases including Alzheimer's disease. The agreement was terminated in October 2013.

The Company recognized revenues of $175 in relation to this agreement for the year ended December 31, 2013.

10. Revenues (continued):

(b) Revenue under licensing agreements:

In October 2013, BELLUS Health divested two non-core intellectual property assets: VIVIMIND™, a natural health product for memory protection, and BLU8499.

(i) BELLUS Health entered into an agreement to license the VIVIMIND™ worldwide rights to FB Health, an Italy-based distributor of specialty natural health and pharmaceutical products targeting neurologists and geriatricians. The agreement provides for a cash consideration of more than $2,000 to be received until 2017, consisting of minimum expected revenue from fixed payments to be received as licensing fees of $1,500, receivable in five annual payments until 2017, sales-based royalty payments capped at, but no less than $500, receivable no later than December 31, 2017, as well as certain costs reimbursements.

Consideration under this agreement is recognized into income when conditions and events under the license agreement have been met or occurred, and it is probable that the associated economic benefits will flow to the Company. As at the date of the transaction, management of the Company determined that it had performed all of its obligations under the agreement and that revenue under the agreement should be recognized. However, since the date of the transaction, and including as at December 31, 2014, management assessed that uncertainty existed in relation to the collectibility of the amounts to be received until 2017 due to the start-up nature of FB Health's business, therefore only recognized revenues to the extent received. The Company recognized revenues of $408 under the VIVIMIND™ license agreement for the year ended December 31, 2014 (2013 – $213). While collectibility remains uncertain, future amounts receivable will only be recognized as revenue when amounts will be received by the Company.

(ii) 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 turn, FB Health sublicensed all its rights to Alzheon Inc. (Alzheon), a company controlled by Dr. Martin Tolar, a member of the Board of Directors of BELLUS Health, 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. 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.

10. Revenues (continued):

(b) Revenue under licensing agreements (continued):

(ii) (continued):

Consideration under this agreement is recognized into income when conditions and events under the license agreement have been met or occurred, and it is probable that the associated economic benefits will flow to the Company. As at the date of the transaction, management of the Company determined that it had performed all of its obligations under the agreement and that revenue under the agreement should be recognized. However, as the portion of revenue based on future payments received by Alzheon related 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 $169 under the BLU8499 license agreement for the year ended December 31, 2013, for the consideration received in the form of the equity stake in FB Health (refer to note 8). No other amount was received and recognized as revenue in relation to this agreement for the year ended December 31, 2013.

The Company recognized revenues of $22 for costs reimbursements under the BLU8499 license agreement for the year ended December 31, 2014.

As FB Health and Alzheon are related parties to the Company, these transactions are considered to be “related party transactions” under IFRS.

(c) Supply of product

The Company had, since 2010, license and supply agreements with partners in several countries relating to the distribution of VIVIMIND™. In October 2013, the Company entered into an agreement to license the VIVIMIND™ worldwide rights to FB Health (refer to note 10 (b) (i)). This transaction resulted in the termination of the supply agreement with FB Health, and the assignment of all of the Company’s other license and supply agreements to FB Health.

The Company recognized revenues of $266 in relation to these agreements for the year ended December 31, 2013.

11. Shareholders' equity:

(a) Share capital:

(i) 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.

(ii) The Company had 47,426,358 issued and outstanding common shares for all periods presented in these consolidated financial statements.

(b) Amended Note:

In accordance with the Plan of Arrangement of May 2012 (refer to note 1), holders of Old BELLUS' convertible notes had the option to either immediately convert their notes into common shares at a fixed conversion ratio or have the terms of their notes amended to rank *pari passu* with the Company's common shares and to be convertible into a fixed number of common shares in 2016. As such, all of Old BELLUS' convertible notes were settled through the issuance of common shares, with the exception of a portion of the convertible notes issued in 2009, for which the option to amend the terms was exercised (the Amended Note).

The following are the terms of the Amended Note, ranking *pari passu* with the common shares:

(i) maturity date of January 1, 2016;

(ii) notional amount of $10,930 and does not bear interest;

(iii) payable at maturity in cash or in 7,286,828 common shares of the Company (on the basis of the fixed conversion price as per the Plan of Arrangement, subject to customary anti-dilution provisions);

(iv) on maturity, any of BELLUS Health or the noteholder may require the Amended Note to be paid in common shares of the Company; and

(v) will be automatically converted into BELLUS Health common shares upon a change of control or liquidity events, as defined in the Plan of Arrangement.

The Amended Note amounts to $8,744 and is classified as Other equity in the consolidated balance sheet for accounting purposes.

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

11. Shareholders' equity (continued):

(c) 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, 2014 and 2013 were as follows:

	Number	Weighted average exercise price
Options outstanding, December 31, 2012	4,720,000	$ 0.50
Granted [1]	75,000	0.30
Forfeited	(200,000)	0.50
Options outstanding, December 31, 2013 and December 31, 2014	4,595,000	$ 0.50

[1] All stock options were granted to an employee other than key management personnel.

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

11. Shareholders' equity (continued):

(c) Stock option plan (continued):

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2014:

	Options outstanding		Options exercisable
Exercise price/share	Number	Weighted Average Years to expiration	Number
$0.30	75,000	8.5	15,000
$0.50	4,520,000	7.7	1,808,000
	4,595,000	7.7	1,823,000

Stock-based compensation

For the year ended December 31, 2014, the Company recorded stock-based compensation expense (excluding compensation under the DSU plans) in the amount of $424 in the consolidated statement of loss; from this amount, $57 is presented in Research and development expenses and $367 is presented in General and administrative expenses (2013 – $691, $78 presented in Research and development expenses and $613 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. The weighted average assumptions for stock options granted during the years ended December 31, 2014 and 2013 were as follows:

	2014	2013 [1]
Fair value of stock options at grant date	N/A	$ 0.23
Five-day weighted average share price	N/A	$ 0.30
Exercise price	N/A	$ 0.30
Risk-free interest rate	N/A	2.03%
Expected volatility	N/A	114%
Expected life in years	N/A	7
Expected dividend yield	N/A	Nil

[1] All stock options were granted on July 2, 2013.

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):

(d) 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.

Changes in the number of units for the years ended December 31, 2014 and 2013 were as follows:

Number of units	2014	2013
Balance, beginning of year	180,724	191,102
Units paid	(10,290)	(10,378)
Balance, end of year	170,434	180,724
Balance of DSU liability, included in Trade and other payables	$ 239	$ 72

The stock-based compensation expense related to DSU plans recorded in the consolidated statement of loss for the year ended December 31, 2014 amounted to $182; from this amount, $3 is presented in Research and development expenses and $179 is presented in General and administrative expenses (2013 – nil). For the year ended December 31, 2014, 10,290 units were redeemed for $15 (2013 – 10,378 units redeemed for $4).

11. Shareholders' equity (continued):

(e) Non-controlling interest:

The strategic partnership and financing agreement with Pharmascience in May 2012 resulted in Pharmascience having a non-controlling interest of 10.4% in BHI LP (refer to note 1). BHI LP is a limited partnership held by BELLUS Health at 89.6%. It is based at the same address as BELLUS Health. BELLUS Health's main business and operations are carried in BHI LP, excluding certain corporate expenses.

As at December 31, 2014, on a non-consolidated basis, total assets of BHI LP amounted to $17,700 (2013 - $23,586), and total liabilities amounted to $7,151 (2013 - $12,912). Non-consolidated net loss of BHI LP amounted to $360 for the year ended December 31, 2014, for which $37 is attributable to the non-controlling interest (2013 - $948, for which $99 is attributable to the non-controlling interest).

Prior consent of Pharmascience shall be required in respect of the following:

(i) any change to the capital structure of BHI LP;

(ii) any proceedings for the continuance, winding up, liquidation or dissolution of BHI LP;

(iii) any assignment of property of BHI LP for the benefit of creditors or any action under the terms of any law relating to insolvency or creditors arrangement;

(iv) any loans by BHI LP to: i) a person outside the BELLUS Health group of company, or ii) a company within the BELLUS Health group if above a certain threshold; or

(v) the sale, lease, exchange or other disposition of all or substantially all of the assets or any material asset of BHI LP out of the ordinary course of business, or the granting of an option or right to such effect.

Pharmascience has the right to exchange its interest in BHI LP for 6,350,640 common shares of the Company at any time (the Exchange Right). On or after September 30, 2016, BELLUS Health has the right to have Pharmascience exercise the Exchange Right.

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

12. Personnel expenses:

The aggregate compensation to personnel of the Company for the years ended December 31, 2014 and 2013 is set out below:

	2014	2013
Short-term benefits	$ 2,104	$ 2,325
DSUs plans expense	182	–
Stock option plan expense	424	691
	$ 2,710	$ 3,016

13. Net finance income:

Finance income and Finance costs for the years ended December 31, 2014 and 2013 were attributed as follows:

	2014	2013
Interest income	$ 198	$ 202
Change in fair value of ABCP Notes (note 7)	203	499
Change in fair value of contingent right from Premium Brands (note 5)	174	58
Foreign exchange gain	155	87
Finance income	730	846
Interest and bank charges	(104)	(142)
Change in fair value of contingent consideration (CVRs - On receivable from Premium Brands) (note 5)	(174)	(58)
Finance costs	(278)	(200)
Net finance income	$ 452	$ 646

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

14. Commitments and contingencies:

(a) Operating leases:

Minimum annual lease payments are as follows:

Less than one year	$	135
Between one and five years		11
	$	146

The property lease is a non-cancellable lease, with rent payable monthly in advance, which expires on January 31, 2016.

During the year ended December 31, 2014, an amount of $131 was recognized as an expense in the statement of loss in respect of operating leases (2013 – $162).

(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 (refer to note 1), 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, including a reduction in tax pools under the Plan of Arrangement. No significant indemnity provision has been recorded by the Company as at December 31, 2014 and 2013.

(ii) In July 2009, Thallion (acquired by BELLUS Health in August 2013) was party to an arrangement pursuant to which it effectively sold its tax attributes to Premium Brands Holding Corporation (Old Thallion) and Premium Brands Income Fund (Premium Brands) in exchange for $8,850.

Pursuant to an indemnity agreement, Thallion agreed to indemnify Premium Brands and Old Thallion, 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 matters, including with respect to certain reductions of the tax pools, as defined in the indemnity agreement, if such reductions result in the tax pools being below $160,000. In such case, the amount of the indemnity would be 5.5% of the amount by which the adjusted tax pools is less than $160,000, subject to a cap of $4,425, which represents a maximum of 50% of the cash received from Premium Brands pursuant to the arrangement.

14. Commitments and contingencies (continued):

(b) Indemnity agreements (continued):

(ii) (continued):

In exchange for such indemnity, BELLUS Health is entitled to the additional cash proceeds from Old Thallion equaled to 5.5% of the amount, if any, by which the aggregate balance of the tax pools exceeds $170,000, which amount shall be determined in 2016. In the event BELLUS Health receives an additional purchase price consideration from Premium Brands, it would have to pay 100% of the amount received to the CVR holders (refer to note 5). No indemnity provision has been recorded by the Company as at December 31, 2014, as management does not expect the balance of the tax pools to fall below $160,000.

(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 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, 2014 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 until a limited period after regulatory approval, subject to a maximum of $20,540. To date, no royalties have been paid under this agreement.

(d) Consulting and services agreement:

The payments under the consulting and services agreement with Picchio International Inc. (Picchio International) (refer to note 15 (b)) will amount to $250 in 2015, plus the reimbursement of applicable expenses for services rendered under the agreement.

14. Commitments and contingencies (continued):

(e) Letter of credit:

As at December 31, 2014, the Company is contingently liable for a letter of credit in the amount of $50, which was reduced from $138 during 2014. Cash is pledged under the letter of credit and is presented as Restricted cash in the consolidated balance sheet as at December 31, 2014.

In 2013, this letter of credit was reduced from $465 to $138, and ABCP Notes pledged to a bank as collateral for the letter of credit became available for sale. In turn, the Company put an additional $88 in cash as collateral to the letter of credit.

15. 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 the year ended December 31, 2014 (2013 - $381).

In October 2013, BELLUS Health entered into divestiture agreements with related parties (refer to notes 8 and 10 (b)).

In 2010, the Company entered into a license and supply agreement with FB Health relating to the distribution of VIVIMIND™ in Italy. The Company recorded revenues of $159 under this agreement for the year ended December 31, 2013. The supply agreement was terminated upon the conclusion of the VIVIMIND™ worldwide rights license agreement with FB Health in October 2013.

In May 2013, the agreement effective December 1, 2004 with Dr. Francesco Bellini, then Chief Executive Officer, to issue up to 7,333 common shares was terminated. The Company did not pay any compensation to Dr. Bellini and did not record any expense or income in the consolidated statement of loss for the year ended December 31, 2013 in regards to the termination of the agreement.

(c) The Amended Note was issued to a significant influence shareholder of the Company in May 2012 under the Plan of Arrangement (refer to note 11 (b)).

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

15. 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, 2014 and 2013 is set out below:

		2014		2013
Short-term benefits	$	1,714	$	1,822
DSU plans expense		170		–
Stock option plan expense		395		664
	$	2,279	$	2,486

16. Income taxes:

Deferred tax expense

		December 31, 2014		December 31, 2013
Origination and reversal of temporary differences	$	(261)	$	(621)
Change in unrecognized deductible temporary differences		212		621
Deferred tax recovery	$	(49)	$	–

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

16. Income taxes (continued):

Deferred tax expense (continued)

Reconciliation of effective tax rate:

	Year ended December 31, 2014	Year ended December 31, 2013
Loss before income taxes	$ (2,017)	$ (971)
Tax using the Company's domestic tax rate	(543)	(261)
Change in unrecognized deductible temporary differences	212	621
Non-deductible stock option expense	114	186
Permanent difference on gain on acquisition	–	(450)
Other permanent differences and other items	168	(96)
Total deferred tax recovery	$ (49)	$ –

The applicable statutory tax rates are 26.9% in 2014 and 2013. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdiction in which the Company operates.

A deferred tax expense of $49 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, 2014, 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, 2014 and 2013, deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Research and development expenses	$ 347	$ –	$ –	$ –	$ 347	$ –
Other assets	–	355	(298)	(251)	(298)	104
Investment in FB Health	–	–	(49)	–	(49)	–
Investments in ABCP Notes	–	–	–	(100)	–	(100)
Credit facilities	–	–	–	(4)	–	(4)
Tax assets (liabilities)	347	355	(347)	(355)	–	–
Set off of tax	(347)	(355)	347	355	–	–
Net tax assets (liabilities)	$ –	$ –	$ –	$ –	$ –	$ –

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

16. Income taxes (continued):

Deferred tax assets and liabilities (continued)

Unrecognized deferred tax assets:

As at December 31, 2014 and 2013, the amounts and expiry dates of tax attributes and temporary differences for which no deferred tax assets was recognized were as follows:

	December 31, 2014		December 31, 2013	
	Federal[1]	Provincial[1]	Federal[2]	Provincial[2]
	$	$	$	$
Research and development expenses, without time limitation	3,362	6,037	3,477	5,906
Federal research and development investment tax credits				
2027	140	–	–	–
2028	305	–	140	–
2029	190	–	305	–
2030	218	–	190	–
2031	88	–	218	–
2032	15	–	71	–
2033	–	–	6	–
2034	28	–	–	–
	984	–	930	–
Tax losses carried forward				
2028	814	550	–	–
2029	3,664	3,212	814	550
2030	73	–	3,664	3,212
2031	3,322	3,325	73	–
2032	6,266	6,205	3,892	3,910
2033	1,551	1,551	7,105	7,105
2034	4,447	4,474	–	–
	20,137	19,317	15,548	14,777
Other deductible temporary differences, without time limitation	12,647	12,633	16,432	16,416

(1) In 2014, BELLUS Health completed a corporate reorganization through the amalgamation of subsidiaries, which triggered a deemed year-end for those subsidiaries.

(2) Unrecognized tax attributes of Thallion generated from its business until August 15, 2013 were acquired by BELLUS Health on August 15, 2013 (refer to note 5); the change of control triggered a deemed year-end for Thallion.

Deferred tax assets 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)

17. Loss per share:

	Year ended December 31, 2014	Year ended December 31, 2013
Basic and diluted loss per share:		
Basic weighted average number of common shares outstanding	47,426,358	47,426,358
Basic and diluted loss per share	$ (0.04)	$ (0.02)

Excluded from the calculation of the diluted loss per share are the impacts of the Amended Note, the Pharmascience Exchange Right and the stock option plan, as they would be anti-dilutive. The Amended Note, the Exchange Right and the stock option plan could potentially be dilutive in the future.

18. 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, 2014, all of the Company's operations were conducted in Canada.

(b) Significant sources of revenue:

In 2014, 80% of revenues came from the agreements entered into with Auven Therapeutics (2013 – 64%), and 18% came from the agreements entered into with FB Health (2013 – 24%) (refer to note 10).

19. 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, 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, issuance of convertible notes, a sale of non-controlling interest, 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.

19. 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.

As at December 31, 2014 and 2013, the Company had an Amended Note in the amount of $8,744 classified in Other equity in the consolidated balance sheet, with a notional value of $10,930 (refer to note 11 (b)). On maturity, BELLUS Health may require that the Amended Note be paid in common shares of the Company.

The Company defines capital to include total shareholders' equity, including the Amended Note.

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

As at December 31, 2014, cash, cash equivalents and short-term investments amounted to $12,307. 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.

20. 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. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include: 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; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial assets and liabilities fair valued on a recurring basis as at December 31, 2014 and 2013 are the investment in FB Health, the contingent right from Premium Brands (presented in non-current Other assets in the consolidated balance sheet) and contingent consideration (presented in non-current Financial liabilities - CVRs in the consolidated balance sheet) from the acquisition of Thallion in August 2013, as well as the investments in ABCP Notes, sold in November 2014 (refer to note 7); these classes of financial instruments are measured using Level 3 inputs, except for ABCP Notes, which were measured prior to their sale, and since 2013, using Level 2 inputs.

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

20. Financial instruments (continued):

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

For the years ended December 31, 2014 and 2013, 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 from Premium Brands	Contingent consideration (CVRs)
Balance as at December 31, 2013	$ 206	$ 933	$ (1,003)
Additional investment (note 8)	61	–	–
Total gain (loss) included in income (reported as change in fair value)	–	174	(174)
Total gain included in other comprehensive income (reported as change in fair value)	283	–	–
Balance as at December 31, 2014	$ 550	$ 1,107	$ (1,177)

	Investments in ABCP Notes and Restricted cash[1]	Investment in FB Health	Contingent right from Premium Brands	Contingent consideration (CVRs)
Balance as at December 31, 2012	$ 6,547	$ –	$ –	$ –
Acquired through the license agreement with FB Health (note 8)	–	184	–	–
Acquired (assumed) from Thallion acquisition (note 5)	–	–	875	(945)
Proceeds	(80)	–	–	–
Exercise of put option on a credit facility (note 7)	(1,805)	–	–	–
Foreign exchange gain	54	–	–	–
Total gain (loss) included in income (reported as change in fair value)	220	–	58	(58)
Total gain included in other comprehensive income (reported as change in fair value)	–	22	–	–
Transfer to Level 2	(4,936)	–	–	–
Balance as at December 31, 2013	$ –	$ 206	$ 933	$ (1,003)

[1] ABCP Notes were measured using Level 3 inputs until the ownership of a portion of the ABCP Notes was transferred to the bank in 2013 upon the exercise of the put option on a credit facility (refer to note 7). The class of financial instruments related to ABCP Notes was then reclassified to Level 2 as the remaining instruments in this class were then all measured using broker/dealer quotes which were considered to be directly or indirectly observable inputs (Level 2).

20. Financial instruments (continued):

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

The amounts presented above as total gain (loss) included in 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, 2014, 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.

(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, restricted cash, trade and other receivables and other assets. 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 and non-current other assets and trade receivables totaling $1,855 as at December 31, 2014 relate to one customer (2013 – $893).

As at December 31, 2014, 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.

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

20. Financial instruments (continued):

(c) Liquidity risk (continued):

The Company manages liquidity risk through the management of its capital structure, as outlined in note 19. 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.

The following are the contractual maturities of financial liabilities as at December 31, 2014:

	Carrying amount	Contractual cash flows	Less than 1 year	2 to 3 years	Greater than 3 years
Trade and other payables	$ 1,285	$ 1,285	$ 1,285	$ –	$ –
Contingent consideration (CVRs - On receivable from Premium Brands) [1]	1,107	–	–	–	–
Contingent consideration (CVRs - On Shigamab™ future revenues) [2]	70	70	–	–	70
Contingent consideration (CVRs - On future revenues from assets developed by Caprion Proteomics Inc.) [3]	–	–	–	–	–
	$ 2,462	$ 1,355	$ 1,285	$ –	$ 70

[1] Assuming the Company receives in 2016 the additional purchase price consideration from Premium Brands estimated by management to amount up to $1,450, it would have to pay 100% of the amount received to the CVR holders. The amount represents the fair value of the contingent liability as at December 31, 2014 (refer to note 5). As the contingent consideration and contingent right are of the same amount, there is no cash exposure for the Company.

[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, 2014 (refer to note 5).

[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 5).

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

20. Financial instruments (continued):

(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. 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 balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of loss. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

The following table provides an indication of the Company's significant foreign currency exposures, from exposure to the US dollar, as at December 31, 2014:

(in Canadian dollars)	December 31, 2014
Cash and cash equivalents	$ 432
Trade and other receivables	74
Prepaid expenses and other assets	896
Other assets	896
Trade and other payables	(56)
	$ 2,242

The $US to $CDN exchange rate applied as at December 31, 2014 was 1.1601.

Based on the Company's foreign currency exposure noted above, a hypothetical 10% strengthening of the Canadian dollar versus the US dollar would have decreased income by $224, assuming that all other variables remain constant. A hypothetical 10% weakening of the Canadian dollar versus the US dollar would have had an equal but opposite effect on income, on the basis that all other variables remain constant.

20. Financial instruments (continued):

(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, 2014, 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 statements of loss represents interest income on financial assets classified as loans and receivables.

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
Gallant & Associés,
Chartered Professional Accountants

—

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 proxy 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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100 University Avenue
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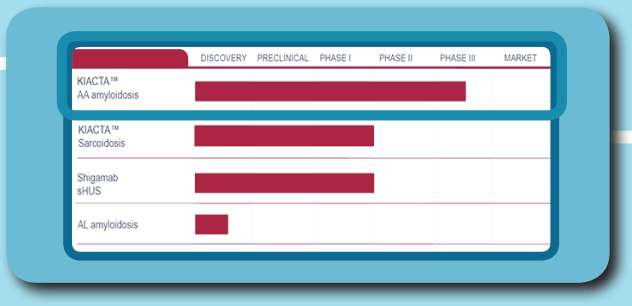
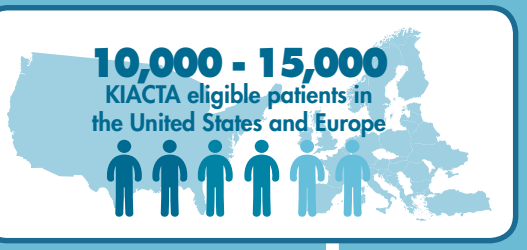
Toronto, Ontario
Canada M5J 2Y1

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



Partnered with biotech private equity fund

AUVEN THERAPEUTICS



AUVEN INVESTING

$70M

FOR ESTIMATED

50% SHARE OF ECONOMICS

KIACTA HIGHLIGHTS

Phase III Confirmatory Study underway and fully recruited.

Last study before approval for marketing.

Completion expected in 2016.

Business plan to sell to large commercial organization with Phase III data or before.

AA AMYLOIDOSIS

a deadly disease that affects KIDNEYS

STRONG CLINICAL RESULTS IN FIRST PHASE II/III STUDY

Patients on dialysis or death within **7-8** years of diagnosis


The NEW ENGLAND JOURNAL of MEDICINE

JUNE 7, 2007

Eprodisate for the Treatment of Renal Disease in AA Amyloidosis

Can potentially delay the need for dialysis by up to **2 YEARS**

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