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2017
ANNUAL
REPORT
Bellus
HEALTH

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Dear Shareholders,

We are a little more than one year into our new business plan focused on BLU-5937 for chronic cough. I would like to tell you about the feedback we've received to date and how 2018 is shaping into a milestone year as we enter our first in-human studies.

## Positive Feedback

When we first in-licensed BLU-5937 in February 2017, we vetted the project internally and with our Board of Directors; as well as with select key opinion leaders and consultants. We were confident that we had a robust project and appreciated the positive feedback we received once we announced our new core program. Public markets responded positively, and physicians and patients acknowledged that chronic cough is an important condition with real unmet need. Importantly, for a project that needed to be financed, prospective investors opened their doors and took meetings.

## Data Drives Financing

Our pitch deck was 20 slides, but the investment proposition was straightforward and compelling:

| | | |
|---|---|---|
| Refractory Chronic Cough – Large Unmet Medical Need<br><br>Important patient population that does not respond to current therapies | P2X3 – A Validated Target<br><br>Merck's MK-7264 is a P2X3 antagonist that has shown strong efficacy but with altered or loss of taste in 80% of patients | BLU-5937<br><br>P2X3 antagonist with potential to have similar efficacy as MK-7264 with limited or no taste loss side effect |
| Experienced Team<br><br>Track record of drug development plan execution | Key Data (September 2017)<br><br>BLU-5937 showed equivalent anti-cough effect and no taste loss compared to MK-7264 in animal studies | Efficient Plan<br><br>First in-human study in 2018 to assess drug safety, including taste loss, in healthy subjects. Study in chronic cough patients in 2019 |

In September 2017, we released additional animal data that supported BLU-5937 as a potentially best in class therapeutic. Having demonstrated enough progress to provide a clear path toward clinical testing by Q3 2018, investor traction culminated in a $20M financing that closed in mid-December.

## Taste Data in 2018

Obtaining human data is a key driver of our chronic cough program, and we are planning to start our clinical Phase 1 study in healthy subjects in Q3 2018. This study will provide data on dosing, safety and

tolerability of BLU-5937 including whether subjects experience taste alteration, or partial or complete taste loss. Based on our animal studies, we are hopeful that we will observe few or possibly no adverse effects on taste function in humans at the targeted therapeutic dose, which would solidify BLU-5937's potential as a best in class P2X3 antagonist for chronic cough.

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We would like to thank all of our shareholders, new and longstanding, for their valuable support. We are proud of the progress we made in 2017 and plan to build on this momentum with continued positive execution of our plan in 2018 and beyond.

Sincerely,

Roberto Bellini
President and Chief Executive Officer

## TABLE OF CONTENTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of BELLUS Health Inc.'s ("BELLUS Health" or the "Company") operations and financial performance for the years ended December 31, 2017 and 2016. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, 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 20, 2018.

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

## CORPORATE PROFILE

BELLUS Health is a biopharmaceutical development company advancing novel therapeutics for conditions with high unmet medical need. Its pipeline of projects includes the Company's lead drug candidate BLU-5937 for chronic cough and several other partnered clinical-stage drug development programs. The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol BLU.

## BUSINESS OVERVIEW

BELLUS Health's lead drug candidate is BLU-5937 for the treatment of chronic cough, a condition affecting millions of patients and for which no therapy has been approved by the FDA in the last 60 years. Preclinical data support BLU-5937 as a potential best in P2X3 class anti-tussive drug that reduces cough with little or no taste effect. Clinical data from the current leading P2X3 antagonist in development, Merck & Co's Gefapixant, have shown clinically meaningful anti-tussive efficacy, but also significant taste disturbance. BLU-5937 was in-licensed from the NEOMED Institute ("NEOMED") in February 2017. Since the transaction, the Company has made significant strides towards moving BLU-5937 into human clinical studies, expected in mid-2018.

To support the development of BLU-5937, the Company completed a $20 million equity financing (before share issue costs) in December 2017, with most of the offering subscribed to by institutional healthcare investors. In addition, the Company has made strategic divestitures in 2017 with the sale of its subsidiary, Thallion Pharmaceuticals Inc. ("Thallion"), and its equity interest in FB Health S.p.A ("FB Health"), which generated a total of $4.5 million in cash to date, and could provide up to an additional $0.7 million in cash in the coming year.

BELLUS Health also has economic interests in other partnered clinical-stage drug development programs, including KIACTA™ for sarcoidosis, AMO-01 for Fragile X Syndrome and ALZ-801 for APOE4 homozygous Alzheimer's disease.

The Company concluded its 2017 year with a liquidity position of $23.9 million. As at February 20, 2018, the Company has 119,497,581 common shares outstanding and 132,747,316 common shares on a fully diluted basis, including 11,443,000 stock options granted under the stock option plan and 1,806,735 broker warrants.

**2017 Highlights**

- Entered into a license agreement with NEOMED for the exclusive worldwide rights to develop and commercialize BLU-5937 - a selective antagonist of the P2X3 receptor, a clinically validated target for chronic cough - that has the potential to be a best-in-class therapeutic for chronic cough patients who do not respond to current therapies;
- Closed a $20 million equity offering subscribed to in majority by institutional healthcare investors and which also included the participation by members of the senior management team and board of directors of the Company;
- Announced that in a guinea pig cough model, BLU-5937 has shown comparable efficacy to the current leading P2X3 antagonist in development, Merck & Co's Gefapixant;
- Announced that in a rat taste model, BLU-5937 did not inhibit taste, while, consistent with clinical trial data previously presented by Merck & Co, Gefapixant led to significant taste disturbance;
- Hosted a Key Opinion Leader ("KOL") event on chronic cough with Dr. Jacky Smith. The archived version of the webcast and presentation are available on the Company's website at www.bellushealth.com;
- Announced that the U.S. Patent and Trademark Office issued a patent that grants claims covering the composition of matter of the Company's lead drug candidate, BLU-5937, until 2034.The Company was granted a patent for similarly broad claims in China in July 2017;
- Sold its wholly-owned subsidiary, Thallion, to Taro Pharmaceuticals Inc. ("Taro") for total consideration of $2.7 million;
- Sold its equity interest in FB Health for a potential total consideration of approximately $2.5 million;
- Concluded the year with cash, cash equivalents and short-term investments totaling $23.9 million.

Equity Offering

On December 12, 2017, the Company closed an equity offering, issuing a total of 52,631,580 common shares at a price of $0.38 per share for aggregate gross proceeds of $20 million (the "Offering"). The Offering was subscribed to in majority by institutional healthcare investors and also included the participation by members of the senior management team and board of directors of the Company.

In addition, 1,806,735 broker warrants exercisable for common shares were issued to the agents of the Offering. Each broker warrant entitles the agents to buy one common share at a price of $0.38 per share for a period of 18 months from the closing of the Offering.

Net proceeds from the Offering will be used to fund the Company's research and development activities, including but not limited to, activities related to BLU-5937's clinical development, general and administrative expenses, working capital needs and other general corporate purposes.

Pipeline of Projects

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

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

BLU-5937 for Chronic Cough

On February 28, 2017, the Company announced that it had obtained from NEOMED an exclusive worldwide license to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough. BLU-5937 has the potential to be a best-in-class therapeutic for chronic cough patients who do not respond to current therapies. The P2X3 antagonist program was initiated by AstraZeneca scientists in Montreal and assigned to NEOMED in October 2012.

Under the terms of the agreement, the Company paid an upfront fee of $3.2 million, consisting of $1.7 million in cash and $1.5 million in equity with the issuance of 5,802,177 BELLUS Health common shares. NEOMED will be entitled to receive a royalty on net sales-based revenues. In lieu of milestone payments, a certain portion of all other revenues received by BELLUS Health from BLU-5937 will be shared with NEOMED in accordance with a pre-established schedule whereby the shared revenue portion decreases as the program progresses in development. In addition, NEOMED will provide development support to the BLU-5937 program and will contribute $950,000 towards the funding of research and development activities, of which $475,000 was received during the second quarter of 2017.

On September 18, 2017, the Company announced that BLU-5937 showed a significant reduction in cough and no taste disturbance in two separate preclinical models. In a guinea pig cough model, BLU-5937 showed comparable efficacy to the current leading P2X3 antagonist in development, Merck & Co's Gefapixant (also named AF-219 or MK-7264). In a rat taste model, BLU-5937 did not inhibit taste, while, consistent with clinical trial data previously presented by Merck & Co, Gefapixant led to significant taste disturbance.

On April 24, 2017, the Company announced that the U.S. Patent and Trademark Office issued U.S. Patent No. 9,598,409, which grants claims covering the composition of matter of BLU-5937 and related imidazopyridine compounds, in addition to pharmaceutical compositions comprising BLU-5937 and uses thereof. The patent has an expiration date of 2034, excluding any potential patent term extension. In addition, on July 10, 2017, the Chinese Patent Office issued a Notification of Granting Patent Rights, granting claims covering the composition of matter of BLU-5937 and related imidazopyridine compounds. Patent applications with similarly broad claims are currently pending in Europe, Japan and other industrialized nations.

The Company is currently performing preclinical studies on BLU-5937 to complete its package for submission of a Clinical Trial Application ("CTA"), expected in the second quarter of 2018. The Company plans to initiate a Phase 1 clinical study in the third quarter of 2018.

Chronic cough is a cough that lasts more than eight weeks and is associated with significant adverse social, psychosocial and physical effects on quality of life. In June 2017, the Company commissioned Torreya Insights LLC to conduct a market assessment through an evaluation of chronic cough epidemiology and pricing estimates. Based on primary and secondary research, the report concludes that, in the United States alone, more than 26 million adults suffer from chronic cough and more than 2.6 million of these patients have chronic cough lasting for more than a year. The number of treatment-refractory chronic cough patients expands to 11.7 million when taking into account those patients with a cough duration between eight weeks and one year. The market assessment also sought to better understand the pricing and reimbursement landscape for a condition that has no recently-approved therapies, and therefore no direct comparable. Based on interviews with KOLs, prescribing physicians and payers, the consensus is that new chronic cough treatments, such as BLU-5937, will be priced similarly to therapies for chronic constipation, asthma and partial onset seizures. These analogs represent non-lethal chronic conditions that have a significant impact on quality of life and address a large patient population in competitive markets that also include generic and over-the-counter products. The monthly price for these analogs varies between US $300 and $600.

Sale of Thallion

On March 16, 2017, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Taro for the sale of the Company's wholly-owned subsidiary Thallion, including all the rights to the drug candidate Shigamab™. Taro acquired all issued and outstanding shares of Thallion for a total consideration of $2.7 million, consisting of a cash payment of $2.3 million on closing and a deferred payment of $0.4 million upon the completion of a pre-established milestone event, which payment was received in January 2018. In addition, BELLUS Health will receive a portion of certain potential future post-approval revenues related to the Shigamab™ program. A gain on sale of subsidiary in the amount of $1,944,000 was recognized in the consolidated statement of loss for the year ended December 31, 2017.

Refer to section Contractual Obligations for details of payments made to the CVR holders in accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

Sale of Equity Interest in FB Health

On June 30, 2017, the Company sold its equity interest in FB Health for a potential total consideration of $2,536,000, consisting of an upfront cash payment of $1,769,000 and a contingent revenue-based milestone payment of up to $767,000 (€518,000), which will be determined one year from the closing of the transaction.

As at June 30, 2017, the Company estimated the fair value of the total consideration to be received at $2,153,000, consisting of $1,769,000 received in cash on closing and the fair value of the contingent consideration estimated at $384,000 on transaction date, determined based on management's best estimate of FB Health's future revenues. A realized gain on sale of available-for-sale investment in FB Health of $1,909,000, being the difference between the fair value of the total consideration and the amount paid for the original investment, was recognized by the Company in the consolidated statement of loss for the year ended December 31, 2017.

As at December 31, 2017, the Company estimated the fair value of the contingent consideration to be received at $384,000, determined based on management's best estimate of FB Health's future revenues. The contingent consideration to be received is presented as current Contingent consideration receivable in the consolidated statement of financial position.

KIACTA™ for Sarcoidosis

In 2010, BELLUS Health entered into a sale and license agreement with global private equity firm Auven Therapeutics for the worldwide rights to KIACTA™ in exchange for an upfront fee and revenue sharing.

Auven Therapeutics is currently evaluating whether to further pursue the development of KIACTA™ for the treatment of patients suffering from active pulmonary sarcoidosis. Auven Therapeutics has developed a clinical Phase 2/3 study protocol to evaluate the safety and efficacy of KIACTA™ in pulmonary sarcoidosis. The U.S. Food and Drug Administration has cleared the IND application for this clinical Phase 2/3 study.

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

AMO-01 for Fragile X Syndrome

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

AMO Pharma is a private company focused on the treatment of central nervous system and neuromuscular diseases. AMO Pharma is preparing for a Phase 2 study to evaluate the efficacy of AMO-01 in patients suffering from Fragile X Syndrome in 2018.

Fragile X Syndrome is the most common inherited cause of autism and intellectual disabilities, affecting approximately 1 in 4,000 males and 1 in 8,000 females. Symptoms range in severity and can include intellectual disabilities, attention deficit and hyperactivity, anxiety and seizures. There are currently no approved drugs for the treatment of Fragile X Syndrome.

ALZ-801 for APOE4 Homozygous Alzheimer's Disease

ALZ-801 (formerly BLU8499) for the treatment of Alzheimer's disease (AD), initially developed by BELLUS Health, was licensed to Alzheon Inc. (Alzheon) in 2013 in return for revenue sharing and royalties on sales.

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

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

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

**Selected Financial Information**

*(In thousands of dollars, except per share data)*

| | Years ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenues | $ 165 | $ 1,893 | $ 4,024 |
| Expenses: | | | |
| Research and development | 3,610 | 1,515 | 1,293 |
| Research tax credits | (289) | (149) | (285) |
| | 3,321 | 1,366 | 1,008 |
| General and administrative | 2,529 | 2,624 | 3,122 |
| Total operating expenses | 5,850 | 3,990 | 4,130 |
| Results from operating activities | (5,685) | (2,097) | (106) |
| Finance income | 80 | 806 | 701 |
| Finance costs | (61) | (922) | (217) |
| Net finance income (costs) | 19 | (116) | 484 |
| Realized gain on sale of available-for-sale investment in FB Health | 1,909 | - | - |
| Gain on sale of subsidiary | 1,944 | - | - |
| (Loss) income before income taxes | (1,813) | (2,213) | 378 |
| Deferred tax expense (recovery) | 61 | 15 | (27) |
| Net (loss) income for the year | $ (1,874) | $ (2,228) | $ 405 |
| Net (loss) income attributable to: | | | |
| Shareholders | $ (1,874) | $ (2,159) | $ 202 |
| Non-controlling interest | - | (69) | 203 |
| | (1,874) | (2,228) | 405 |
| Loss per share – Basic and diluted | $ (0.03) | $ (0.04) | $ Nil |

Financial Position:

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Total assets | $ 28,498 | $ 9,584 | $ 15,013 |
| Total non-current financial liabilities | $ Nil | $ 104 | $ 70 |

## RESULTS OF OPERATIONS

### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

For the year ended December 31, 2017, *net loss* amounted to $1,874,000 ($0.03 per share), compared to $2,228,000 ($0.04 per share) for the previous year. The decrease in net loss is primarily attributable to the gain on sale of Thallion of $1,944,000 and the gain on sale of equity interest in FB Health of $1,909,000*,* offset by lower revenue recognized in 2017 as well as higher research and development expenses.

*Revenues* amounted to $165,000 for the year ended December 31, 2017, compared to $1,893,000 for the previous year. Revenues for 2016 included those in relation to agreements with a partner for the now terminated development of KIACTA™ for AA amyloidosis.

*Research and development expenses,* net of research tax credits, amounted to $3,321,000 for the year ended December 31, 2017, compared to $1,366,000 for the previous year. The increase is attributable to expenses incurred in relation to the development of BLU-5937, the Company's lead drug candidate for chronic cough, for which an exclusive worldwide license to develop and commercialize was entered into in February 2017. The Company is currently performing preclinical studies on BLU-5937 and expects to initiate a Phase 1 clinical study in the third quarter of 2018. Expenses for 2016 included those in relation to the development of Shigamab™, which was sold to Taro in March 2017 as part of the sale of the Company's wholly-owned subsidiary Thallion.

*General and administrative expenses* amounted to $2,529,000 for the year ended December 31, 2017, compared to $2,624,000 for the previous year.

*Net finance income* amounted to $19,000 for the year ended December 31, 2017, compared to net finance costs of $116,000 for the previous year. The increase in net finance income is primarily attributable to lower foreign exchange loss in 2017 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 2017.

*Realized gain on sale of available-for-sale investment in FB Health* amounted to $1,909,000 for the year ended December 31, 2017 and is related to the sale of the Company's equity interest in FB Health in June 2017, as discussed previously.

*Gain on sale of subsidiary* amounted to $1,944,000 for the year ended December 31, 2017 and is related to the sale of Thallion in March 2017, as discussed previously.

As at December 31, 2017, total assets amounted to $28,498,000, compared to $9,584,000 as at December 31, 2016. The increase is primarily due to funds received from the Offering, the sale of Thallion and the sale of the Company's equity interest in FB Health, offset by funds used to finance the Company's operating activities. Total non-current financial liabilities amounted to nil and $104,000 as at December 31, 2017 and December 31, 2016, respectively.

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

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

*Revenues* amounted to $1,893,000 for the year ended December 31, 2016, compared to $4,024,000 for the previous year. The decrease is primarily attributable to lower revenues recognized for accounting purposes in relation to the VIVIMIND™ license agreement with FB Health. As at December 31, 2015, as management assessed that uncertainty in relation to the collectability of future receivables decreased, all amounts to be received until 2017 under this agreement relating to licensing fees, sales-based royalty payments and certain costs reimbursement had been recognized as revenues by the Company. The decrease in revenues is also attributable to lower revenues recognized for accounting purposes from the service agreement with a partner for the development of KIACTA™ for AA amyloidosis, which was terminated in 2016.

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

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

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

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

**Quarter Ended December 31, 2017 Compared to Quarter Ended December 31, 2016 (Unaudited)**

For the three-month period ended December 31, 2017*, net loss* amounted to $1,605,000 ($0.02 per share), compared to $496,000 ($0.01 per share) for the corresponding period the previous year. The increase in net loss is primarily attributable to higher research and development expenses in relation to the development of BLU-5937, the Company's lead drug candidate for chronic cough.

*Revenues* amounted to $22,000 for the three-month period ended December 31, 2017, compared to $359,000 for the corresponding period the previous year. Revenues for 2016 included those in relation to agreements with a partner for the now terminated development of KIACTA™ for AA amyloidosis.

*Research and development expenses*, net of research tax credits, amounted to $792,000 for the three-month period ended December 31, 2017, compared to $207,000 for the corresponding period the previous year. The increase is attributable to expenses incurred in relation to the development of BLU-5937, which was in-licensed in February 2017.

*General and administrative expenses* amounted to $851,000 for the three-month period ended December 31, 2017, compared to $604,000 for the corresponding period the previous year. The increase is primarily attributable to an increase in incentive-based compensation.

*Net finance income* amounted to $16,000 for the three-month period ended December 31, 2017 compared to net finance costs of $1,000 for the corresponding period the previous year.

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

| Quarter | Revenues | Net (loss) income attributable to shareholders | Basic and diluted (loss) earnings per share |
|---|---|---|---|
| *Year ended December 31, 2017* | | | |
| Fourth | $ 22 | $ (1,605) | $ (0.02) |
| Third | 93 | (1,680) | (0.03) |
| Second | 41 | 267 | Nil |
| First | 9 | 1,144 | 0.02 |
| *Year ended December 31, 2016* | | | |
| Fourth | $ 359 | $ (496) | $ (0.01) |
| Third | 358 | (612) | (0.01) |
| Second | 585 | (327) | (0.01) |
| First | 591 | (724) | (0.01) |

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

The increase in net loss for the fourth quarter ended December 31, 2017 is primarily attributable to higher research and development expenses. The increase in net loss for the third quarter of 2017 is also primarily attributable to higher research and development expenses. The increase in net income for the second quarter of 2017 is primarily attributable to the realized gain on sale of available-for-sale investment in FB Health, offset by a decrease in revenues and an increase in research and development expenses. The increase in net income for the first quarter of 2017 is primarily attributable to the gain on sale of subsidiary.

### Related Party Transactions

Dr. Francesco Bellini is the Chairman of the Board of Directors and provides ongoing advisory services to the Company under the terms of a consulting and services agreement between the Company and Picchio International Inc. ("Picchio International"), wholly-owned by Dr. Francesco Bellini and his spouse. Picchio International receives a monthly fee of $20,833, plus reimbursement of applicable expenses for services rendered under the agreement. The agreement has a one-year term renewable for successive one-year terms. The Company recorded fees and expenses under the consulting and services agreement of $381,000 for the years ended December 31, 2017 and 2016.

In October 2013, BELLUS Health entered into an agreement to license the worldwide rights of VIVIMIND™ to FB Health, a then related company. BELLUS Health also entered into a worldwide license agreement with FB Health for BLU8499, in exchange for an equity stake in FB Health. FB Health was a related party to the Company until June 30, 2017, as it was controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health. The Company recognized revenues in relation to this related party of $17,000 for the year ended December 31, 2017 (2016 - $55,000).

On June 30, 2017, the Company sold its equity interest in FB Health for a potential total consideration of approximately $2,536,000, consisting of an upfront cash payment of $1,769,000 and a contingent revenue-based milestone payment of up to $767,000 (€518,000), which will be determined one year from the closing of the transaction.

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

## FINANCIAL CONDITION

### Liquidity and Capital Resources

As at December 31, 2017, the Company had available cash, cash equivalents and short-term investments totaling $23,888,000, compared to $6,834,000 as at December 31, 2016. For the year ended December 31, 2017, net increase in cash, cash equivalents and short-term investments amounted to $17,054,000, compared to $2,868,000 for the previous year. The Company's working capital amounted to $23,860,000 as at December 31, 2017, compared to $7,112,000 as at December 31, 2016. The net increase in the cash position and working capital for the year ended December 31, 2017 is primarily attributable to funds received from the Offering, the sale of Thallion and the sale of the Company's equity interest in FB Health, offset by funds used to finance the Company's operating activities.

The other significant changes in the Company's financial position as at December 31, 2017, compared to the financial position as at December 31, 2016, are as follows:

- The increase in Trade and other receivables is mainly due to receivables recorded in relation to the in-licensing of the BLU-5937 program from NEOMED and the sale of Thallion in 2017.
- The increase in Contingent consideration receivable and decrease in Investment in FB Health is in relation to the sale of the Company's equity interest in FB Health in 2017.
- The decrease in Prepaid and other assets and decrease in the current portion of the Financial liabilities – CVRs is mainly due to the additional purchase price consideration received in 2017 in relation to the 2009 sale transaction by Thallion and corresponding payment made to CVR holders.

- The increase in In-process research and development assets is due to the in-licensing of the BLU-5937 program from NEOMED in 2017, partially offset by the sale of Thallion in 2017, including all the rights to the drug candidate Shigamab™.
- The increase in Trade and other payables reflects the increased Company operations in 2017.

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

The Company is subject to a number of risks associated with the conduct of its drug development programs and their results, the establishment of strategic alliances and the successful development of new drug products and their marketing. The Company has incurred significant operating losses and negative cash flows from operations since inception. To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes and the proceeds from research tax credits. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful expansion and development of its project pipeline, obtaining regulatory approval in various jurisdictions and successful sale or commercialization of the Company's products and technologies, which is dependent on a number of factors outside of the Company's control.

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

Financing and Investing Activities

On December 12, 2017, the Company completed an Offering by issuing 52,631,580 common shares at a price of $0.38 per share for aggregate gross proceeds of $20 million, representing an 8% discount to the 5-day volume weighted average price before the announcement of the Offering pricing on December 5, 2017. In addition, 1,806,735 broker warrants exercisable for common shares were issued. Each warrant entitles the holders to buy one common share at a price of $0.38 per share for a period of 18 months from the closing of the Offering.

On February 28, 2017, the Company paid $3.2 million in relation to the BLU-5937 license obtained from NEOMED, consisting of $1.7 million in cash and $1.5 million in equity with the issuance of 5,802,177 common shares ($0.2585 per share), as discussed in the Business Overview section.

On March 16, 2017, the Company sold its wholly-owned subsidiary, Thallion, to Taro for total consideration of $2.7 million, consisting of a cash payment of $2.3 million on closing and a deferred payment of $0.4 million, which payment was received in January 2018, as discussed in the Business Overview section.

On June 30, 2017, the Company sold its equity interest in FB Health for a potential total consideration of $2,536,000, consisting of upfront cash payments of $1,769,000 and a contingent revenue-based milestone payment of up to $767,000 (€518,000), which will be determined one year from the closing of the transaction, as discussed in the Business Overview section.

During 2017, cash and cash equivalents amounting to net $11,880,000 were invested in short-term investments with initial maturities greater than three months and less than a year. During 2016, the Company sold short-term investments amounting to net $2,404,000 with initial maturities greater than three months and less than a year.

As at December 31, 2017, the Company is contingently liable for a letter of credit in the amount of $50,000. Cash is pledged under this letter of credit and is presented as restricted cash under non-current Other assets in the consolidated statement of financial position as at December 31, 2017.

Other

During 2016, the Company completed the simplification of its capital structure initiated in 2012 by issuing the following common shares. On January 1, 2016, BELLUS Health issued 7,286,828 common shares from treasury in settlement of the Amended Note. On June 2, 2016, BELLUS Health issued 6,350,638 common shares from treasury upon the exercise of Pharmascience Inc. (“Pharmascience”)'s right to exchange its 10.4% interest (the “Interest”) in BHI Limited Partnership into common shares. Pharmascience first acquired the Interest in connection with the strategic partnership it entered into with BELLUS Health in May 2012.

As at February 20, 2018, the Company had 119,497,581 common shares outstanding and 132,747,316 common shares on a fully diluted basis, including 11,443,000 stock options granted under the stock option plan (of which 4,150,000 stock options were granted on February 20, 2018) and 1,806,735 warrants issued in relation to the December 2017 Offering.

During the year ended December 31, 2017, 2,885,000 stock options were granted (103,000 in 2016), 290,000 stock options were forfeited (nil in 2016) and 90,000 stock options expired (nil in 2016).

**Contractual Obligations**

As at December 31, 2017, BELLUS Health’s minimum future contractual obligations are principally for payments in relation to operating leases, consulting fees for Picchio International, trade and other payables as well as a contingent consideration payable in relation to CVRs on Shigamab™ future revenues. Future contractual obligations by year of maturity are presented below.

| Contractual obligations *(in thousands of dollars)* | Total | Less than 1 year | 2–3 years | Greater than 3 years |
|---|---|---|---|---|
| Operating leases | $ 159 | $ 147 | $ 12 | $ — |
| Consulting fees | 250 | 250 | — | — |
| Trade and other accrued liabilities | 2,190 | 2,190 | — | — |
| Contingent consideration payable (CVRs – On Shigamab™ future revenues) (1) | 20 | 20 | — | — |
| Contingent consideration payable (CVRs – On future revenues from assets developed by Caprion Proteomics Inc.) (2) | — | — | — | — |

(1) BELLUS Health shall pay to CVR holders their pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health (refer to details below). The amount represents the fair value of the contingent liability as at December 31, 2017, which was paid in January 2018 as final payment of the contingent consideration payable in relation to CVRs on Shigamab™ future revenues.

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

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

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

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

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

In relation to (i), the Company announced on February 17, 2017 that it had received $572,586 as settlement for the additional purchase price consideration (Additional Consideration Payment) in relation to the 2009 Thallion Transaction. A net amount of $577,152 ($0.01609 per CVR) was paid to CVR holders on March 10, 2017, which consists of the Additional Consideration Payment, in addition to $50,000 in relation to the replacement cost of Shigamab™ antibodies less $28,458 of CVR agent costs, $13,404 of undisclosed liability not included in the 2013 Thallion Statement of Net cash and $3,572 of expenses in relation to the unsuccessful listing of the CVR on the Toronto Stock Exchange, all in accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

On March 16, 2017, the Company entered into a Share Purchase Agreement with Taro for the sale of the Company's wholly-owned subsidiary Thallion, including all the rights to the drug candidate Shigamab™. Taro acquired all issued and outstanding shares of Thallion for a total consideration of $2.7 million, consisting of a cash payment of $2.3 million on closing and a deferred payment of $0.4 million upon the completion of a pre-established milestone, which payment was received in January 2018. In relation to (ii), in accordance with the terms of the agreements of the 2013 Thallion acquisition, 5% of the proceeds received by BELLUS Health from the sale of Thallion, including the Shigamab™ technology (the "Shigamab™ Consideration"), was paid to CVR holders. Accordingly, on April 7, 2017, a net amount of $94,550 ($0.00263 per CVR), which consists of the Shigamab™ Consideration of $115,000 less $20,450 for CVR agent costs, was paid to CVR holders. In addition, on January 26, 2018, a net amount of $14,721 ($0.00041 per CVR) was paid to CVR holders as final payment of the contingent consideration payable in relation to CVRs on Shigamab™ future revenues, which consists of the Shigamab™ Consideration of $20,000 less $5,279 for CVR agent costs. CVR agent costs were deducted from the Shigamab™ Consideration in conformity with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

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

(i) In March 2017, the Company entered into a Share Purchase Agreement with Taro for the sale of the Company's wholly-owned subsidiary Thallion, including all the rights to the drug candidate Shigamab™. The Company agreed to indemnify Taro, subject to certain conditions and limitations, for 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 or affairs of Thallion, which occurred prior to the effective time of the Share Purchase Agreement. No indemnity provision has been recorded by the Company as at December 31, 2017 and 2016.

(ii) Pursuant to an indemnity agreement entered into between the Company and Pharmascience in May 2012, the Company agreed to indemnify Pharmascience, subject to certain conditions and limitations, for all losses which it may suffer or incur, arising out of any debts, liabilities, commitments or obligations of any nature resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of the company sold to Pharmascience in 2012, which occurred prior to the effective time of the agreement. No indemnity provision has been recorded by the Company as at December 31, 2017 and 2016.

The Company has a letter of credit issued in connection with a lease agreement in the amount of $50,000. Cash is pledged under the letter of credit and is presented as restricted cash under non-current Other assets in the consolidated statement of financial position as at December 31, 2017.

The Company has entered into a number of other agreements, which involve future commitments, including agreements with Parteq Research and Development Innovations, the federal Ministry of Industry (Technology Partnerships Canada Program) and NEOMED. Refer to note 19 (c) to the consolidated financial statements for the year ended December 31, 2017 for details.

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

## FINANCIAL RISK MANAGEMENT

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

### Credit Risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and trade and other receivables. The Company invests cash with major North American financial institutions. Cash equivalents and short-term investments are comprised of fixed income instruments with a high credit ranking (not less than A-1) as rated by Standard and Poor's. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and yields that are appropriate. In addition, trade and other receivables totaling $875,000 related to two counterparties as at December 31, 2017 ($506,000 related to one counterparty as at December 31, 2016).

As at December 31, 2017, 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 22 to the consolidated financial statements for the year ended December 31, 2017 (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 reporting 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 23 (d) to the consolidated financial statements for the year ended December 31, 2017 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, 2017.

## 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, 2017 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, 2017. The Company's assessment is not subject to an attestation report of the Company's auditors regarding ICFR.

### Changes in Internal Controls Over Financial Reporting

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

There have been no changes in the Company's ICFR during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect its ICFR.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Company's significant accounting policies are described in note 3 to the consolidated financial statements for the year ended December 31, 2017. Management considers that the following accounting policies and estimates are more important in assessing, understanding and evaluating the Company's consolidated financial statements.

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

Revenue for each separately identifiable component is recorded as follows:

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

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

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

*In-process research and development asset:* The Company estimated the fair value of the in-process research and development ("IPR&D") asset related to the in-licensing of the BLU-5937 program from NEOMED at acquisition date using the fair value of the consideration paid in relation to the acquisition, including fees, net of the agreed upon development support payment. 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.

Note 2 (d) to the consolidated financial statements provides additional information regarding the use of estimates and judgements in the application of accounting policies.

## CHANGES IN ACCOUNTING POLICIES

### New accounting standards and interpretations not yet applied:

Share-based Payment

In June 2016, the International Accounting Standards Board ("IASB") issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect that the adoption of IFRS 2 will have a material impact on its consolidated financial statements.

Financial instruments

In July 2014, the 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 (2014) is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect that the adoption of IFRS 9 (2014) will have a material impact on its consolidated financial statements.

Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18, Revenue, as well as other revenue-related standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has initiated review of its contracts for development services, license agreements, and service agreement giving rise to revenues. The Company will adopt the new standard in the first quarter of 2018 using the modified retrospective transition method, with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings at date of initial adoption. Given the limited revenues recognized in 2017, the Company does not expect that the adoption of IFRS 15 will have a material impact on its consolidated financial statements.

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. The standard will require all leases of more than 12 months to be reported on a company's statement of financial position as assets and liabilities. The new standard is effective for annual periods beginning on or after January 1, 2019, and is available for early adoption for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company expects that its operating leases will need to be recognized in its consolidated statement of financial position on initial adoption of IFRS 16.

## RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

The Company may be required to make payments under indemnity agreements in relation to the sale of Thallion in 2017, the Pharmascience transaction in 2012 and the 2009 Thallion Transaction.

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

## FORWARD-LOOKING STATEMENTS

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

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

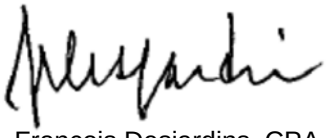
The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best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

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

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

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

Roberto Bellini
President and Chief Executive Officer



François Desjardins, CPA, CA
Vice President, Finance

Laval, Quebec, Canada
February 20, 2018

**KPMG LLP**
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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of BELLUS Health Inc.

We have audited the accompanying consolidated financial statements of BELLUS Health Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of loss, other comprehensive loss, 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 audits 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, 2017 and December 31, 2016, 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 20, 2018

Montréal, Canada

*CPA auditor, CA, public accountancy permit Nº. A129444

# BELLUS HEALTH INC.

Consolidated Statements of Financial Position

December 31, 2017 and 2016
(in thousands of Canadian dollars)

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 5) | $ 7,749 | $ 2,575 |
| Short-term investments (note 5) | 16,139 | 4,259 |
| Trade and other receivables (note 6) | 1,714 | 810 |
| Contingent consideration receivable (note 7) | 384 | — |
| Prepaid expenses and other assets (note 8) | 84 | 685 |
| Total current assets | 26,070 | 8,329 |
| Non-current assets: | | |
| Other assets (note 8) | 69 | 74 |
| In-process research and development assets (notes 9 and 10) | 2,359 | 542 |
| Investment in FB Health (note 7) | — | 639 |
| Total non-current assets | 2,428 | 1,255 |
| Total Assets | $ 28,498 | $ 9,584 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Trade and other payables (note 11) | $ 2,190 | $ 644 |
| Financial liabilities – CVRs (note 12) | 20 | 573 |
| Total current liabilities | 2,210 | 1,217 |
| Non-current liabilities: | | |
| Financial liabilities – CVRs (note 12) | — | 104 |
| Total non-current liabilities | — | 104 |
| Total Liabilities | 2,210 | 1,321 |
| Shareholders' equity: | | |
| Share capital (note 13 (a)) | 467,253 | 445,753 |
| Other equity (notes 13 (b) (i) and (ii)) | 26,202 | 25,527 |
| Accumulated other comprehensive income (note 7) | — | 334 |
| Deficit | (467,167) | (463,351) |
| Total Shareholders' equity | 26,288 | 8,263 |
| Commitments and contingencies (note 19) | | |
| Total Liabilities and Shareholders' Equity | $ 28,498 | $ 9,584 |

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors by:

Pierre Larochelle
Director

Franklin M. Berger
Director

# BELLUS HEALTH INC.

Consolidated Statements of Loss

Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars, except per share data)

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Revenues (note 14) | $ 165 | $ 1,893 |
| Expenses: | | |
| Research and development | 3,610 | 1,515 |
| Research tax credits | (289) | (149) |
| | 3,321 | 1,366 |
| General and administrative | 2,529 | 2,624 |
| Total operating expenses | 5,850 | 3,990 |
| Results from operating activities | (5,685) | (2,097) |
| Finance income | 80 | 806 |
| Finance costs | (61) | (922) |
| Net finance income (costs) (note 16) | 19 | (116) |
| Realized gain on sale of available-for-sale investment in FB Health (note 7) | 1,909 | — |
| Gain on sale of subsidiary (note 10) | 1,944 | — |
| Loss before income taxes | (1,813) | (2,213) |
| Deferred tax expense (note 17) | 61 | 15 |
| Net loss for the year | $ (1,874) | $ (2,228) |
| Net loss attributable to: | | |
| Shareholders | $ (1,874) | $ (2,159) |
| Non-controlling interest | — | (69) |
| | $ (1,874) | $ (2,228) |
| Loss per share (note 18) | | |
| Basic and diluted | $ (0.03) | $ (0.04) |

See accompanying notes to consolidated financial statements.

# BELLUS HEALTH INC.

Consolidated Statements of Other Comprehensive Loss

Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Net loss for the year | $ (1,874) | $ (2,228) |
| Other comprehensive loss (that may be reclassified subsequently to net loss): | | |
| Unrealized gain (loss) on available-for-sale investment in FB Health (note 7) | 1,514 | (109) |
| Related income taxes (expense) recovery | (204) | 15 |
| Realized gain on available-for-sale investment in FB Health reclassified to net loss (note 7) | (1,909) | — |
| Related income taxes expense | 265 | — |
| Other comprehensive loss for the year | (334) | (94) |
| Comprehensive loss for the year | $ (2,208) | $ (2,322) |
| Comprehensive loss attributable to: | | |
| Shareholders | $ (2,208) | $ (2,261) |
| Non-controlling interest | — | (61) |
| | $ (2,208) | $ (2,322) |

See accompanying notes to consolidated financial statements.

# BELLUS HEALTH INC.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

| | Attributable to shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital (note 13(a)) | Other equity | Accumulated other comprehen-sive income | Deficit | Total | Non-controlling interest | Total |
| Balance, December 31, 2016 | $ 445,753 | $ 25,527 | $ 334 | $ (463,351) | $ 8,263 | $ — | $ 8,263 |
| Comprehensive loss for the year: | | | | | | | |
| Net loss | — | — | — | (1,874) | (1,874) | — | (1,874) |
| Other comprehensive loss | — | — | (334) | — | (334) | — | (334) |
| Comprehensive loss for the year | — | — | (334) | (1,874) | (2,208) | — | (2,208) |
| Transactions with shareholders, recorded directly in shareholders' equity: | | | | | | | |
| Issued as part of upfront payment for license acquisition (note 13 (a) (i)) | 1,500 | — | — | — | 1,500 | — | 1,500 |
| Issued in connection with the Offering (notes 13 (a) (ii) and 13 (b) (ii)) | 20,000 | 483 | — | (1,942) | 18,541 | — | 18,541 |
| Stock-based compensation (note 13 (b) (i)) | — | 192 | — | — | 192 | — | 192 |
| Balance, December 31, 2017 | $ 467,253 | $ 26,202 | $ — | $ (467,167) | $ 26,288 | $ — | $ 26,288 |

| | Attributable to shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital (note 13(a)) | Other equity | Accumulated other comprehen-sive income | Deficit | Total | Non-controlling interest | Total |
| Balance, December 31, 2015 | $ 418,592 | $ 34,058 | $ 383 | $ (443,992) | $ 9,041 | $ 1,331 | $ 10,372 |
| Comprehensive loss for the year: | | | | | | | |
| Net loss | — | — | — | (2,159) | (2,159) | (69) | (2,228) |
| Other comprehensive loss | — | — | (102) | — | (102) | 8 | (94) |
| Comprehensive loss for the year | — | — | (102) | (2,159) | (2,261) | (61) | (2,322) |
| Transactions with shareholders, recorded directly in shareholders' equity: | | | | | | | |
| Issued on settlement of Amended Note (note 13 (a)(iii)) | 8,744 | (8,744) | — | — | — | — | — |
| Issued upon exercise of Exchange Right (note 13 (a)(iv)) | 18,417 | — | 53 | (17,200) | 1,270 | (1,270) | — |
| Stock-based compensation (note 13 (b) (i)) | — | 213 | — | — | 213 | — | 213 |
| Balance, December 31, 2016 | $ 445,753 | $ 25,527 | $ 334 | $ (463,351) | $ 8,263 | $ — | $ 8,263 |

See accompanying notes to consolidated financial statements.

# BELLUS HEALTH INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Net loss for the year | $ (1,874) | $ (2,228) |
| Adjustments for: | | |
| Stock-based compensation | 192 | 213 |
| Net finance (income) costs | (19) | 116 |
| Realized gain on sale of available-for-sale investment in FB Health | (1,909) | — |
| Gain on sale of subsidiary | (1,944) | — |
| Deferred tax expense | 61 | 15 |
| Other items | (13) | (10) |
| Changes in operating assets and liabilities | | |
| Trade and other receivables | (29) | 515 |
| Prepaid expenses and other assets | 33 | 577 |
| Trade and other payables | 1,256 | (303) |
| Financial liabilities – CVRs | (115) | — |
| Deferred revenue | — | (1,838) |
| | (4,361) | (2,943) |
| Cash flows from (used in) financing activities: | | |
| Issuance of common shares, net of share issue costs | 18,831 | |
| Interest and bank charges paid | (11) | (11) |
| | 18,820 | (11) |
| Cash flows from (used in) investing activities: | | |
| Net proceeds from (purchase) sale of short-term investments | (11,880) | 2,404 |
| Proceeds on sale of investment in FB Health (note 7) | 1,769 | — |
| Acquisition of in-process research and development asset, net of costs (note 9(a)) | (1,334) | — |
| Proceeds from sale of subsidiary, net of costs (note 10) | 2,117 | — |
| Interest received | 80 | 100 |
| | (9,248) | 2,504 |
| Net increase (decrease) in cash and cash equivalents | 5,211 | (450) |
| Cash and cash equivalents, beginning of year | 2,575 | 3,039 |
| Effect of foreign exchange on cash and cash equivalents | (37) | (14) |
| Cash and cash equivalents, end of year | $ 7,749 | $ 2,575 |
| Supplemental cashflow disclosure: | | |
| Non-cash transactions: | | |
| Contingent consideration receivable in connection with sale of investment in FB Health (note 7) | $ 384 | $ — |
| Issuance of shares in connection with acquisition of in-process research and development asset (note 9 (a)) | 1,500 | — |
| Development support payment receivable in connection with acquisition of in-process research and development asset (note 9 (a)) | 475 | — |
| Deferred payment on sale of subsidiary included in Trade and other receivables (note 10) | 400 | — |
| Share issue costs from Offering in Trade and other payables (note 13 (a)(ii)) | 290 | — |
| Issuance of broker warrants in connection with the Offering (note 13 (b) (ii)) | 483 | — |
| Issuance of shares in settlement of the Amended Note (note 13 (a) (iii)) | — | 8,744 |
| Issuance of shares upon exercise of the Exchange Right (note 13 (a) (iv)) | — | 18,417 |

See accompanying notes to consolidated financial statements.

## 1. Reporting entity:

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

The Company's pipeline of projects includes its lead drug candidate BLU-5937 for chronic cough and several other partnered clinical-stage drug development programs.

The Company is subject to a number of risks associated with the conduct of its drug development programs and their results, the establishment of strategic alliances and the successful development of new drug products and their marketing. The Company has incurred significant operating losses and negative cash flows from operations since inception. To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes and the proceeds from research tax credits. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful expansion and development of its projects pipeline, obtaining regulatory approval in various jurisdictions and successful sale or commercialization of the Company's products and technologies, which is dependent on a number of factors outside of the Company's control.

## 2. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements for the year ended December 31, 2017, were approved by the Board of Directors on February 20, 2018.

(b) Basis of measurement:

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

(i) contingent consideration receivable in connection with the sale of the investment in FB Health, which is measured at fair value;

(ii) available-for-sale investment in FB Health, sold on June 30, 2017, which was measured at fair value;

**2. Basis of preparation (continued):**

(b) Basis of measurement (continued):

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

(iv) contingent consideration (contingent value rights (CVRs) payable) and related contingent right (contingent right asset) from a business acquisition, settled in 2017, which were measured at fair value.

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

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

**2. Basis of preparation (continued):**

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

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

(i) estimating the fair value of the contingent consideration receivable in connection with the sale of the investment in FB Health (note 7);

(ii) estimating the recoverable amount of the in-process research and development asset related to BLU-5937 for the purpose of the annual impairment test (note 9).

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

**3. Significant accounting policies:**

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

(a) Basis of consolidation:

(i) Business combinations:

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

**3. Significant accounting policies (continued):**

(a) Basis of consolidation (continued):

(i) Business combinations (continued):

The contingent consideration payable and related contingent right asset, which were settled in 2017, were recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration payable and related contingent right asset classified as a financial liability and financial asset respectively, were 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. 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.

On March 16, 2017, BELLUS Health entered into a share purchase agreement (Share Purchase Agreement) with Taro Pharmaceuticals Inc. (Taro) for the sale of the Company's wholly-owned subsidiary Thallion Pharmaceuticals Inc. (Thallion), including all the rights to the drug candidate Shigamab™ (refer to note 10). Prior to the effective date of the Share Purchase Agreement, BELLUS Health proceeded with an internal reorganization under which BHI Limited Partnership (BHI LP), a partnership operated by BELLUS Health where BELLUS Health's main business and operations were carried, was dissolved, and transferred its assets and liabilities to BELLUS Health.

On March 16, 2017, the Company incorporated a new wholly-owned subsidiary, BELLUS Health Cough Inc.

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

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

**3. Significant accounting policies (continued):**

(c) Revenue recognition:

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

Revenue for each separately identifiable component is recorded as follows:

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

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

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

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.

**3. Significant accounting policies (continued):**

(d) Research and development (continued):

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, 2017 and 2016, no development costs were deferred.

(e) In-process research and development asset:

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

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

The asset's recoverable amount is the greater of its fair value less costs to sell and its value in use. 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 research tax credits, is recorded as a reduction of the related expense. Research tax credits are recognized when management determines that there is reasonable assurance that the tax credits will be received. Research tax credits claimed for the current and prior years are subject to government review and approval which could result in adjustments to amounts recognized by the Company. Adjustments from tax authorities, if any, would be recognized in the period of revision.

**3. Significant accounting policies (continued):**

(g) Foreign exchange:

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

(h) Leased assets:

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

(i) Income taxes:

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

(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.

**3. Significant accounting policies (continued):**

(k) Earnings per share:

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

(l) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Stock-based compensation:

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

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

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

**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.

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

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

*Financial assets and Financial liabilities*

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

The contingent consideration receivable in connection with the sale of the investment in FB Health was measured at fair value at the time of the transaction. Changes in fair value are recorded in income.

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

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

Trade and other payables are classified as other financial liabilities.

**3. Significant accounting policies (continued):**

(m) Financial instruments (continued):

*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. New accounting standards and interpretations not yet adopted:**

(a) Share-based payment:

In June 2016, the International Accounting Standards Board (IASB) issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect that the adoption of IFRS 2 will have a material impact on its consolidated financial statements.

(b) Financial instruments:

In July 2014, the 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 (2014) is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect that the adoption of IFRS 9 (2014) will have a material impact on its consolidated financial statements.

**4. New accounting standards and interpretations not yet adopted (continued):**

(c) Revenue:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 will replace IAS 18, *Revenue*, as well as other revenue-related standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has initiated review of its contracts for development services, license agreements, and service agreement giving rise to revenues (refer to note 14). The Company will adopt the new standard in the first quarter of 2018 using the modified retrospective transition method, with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings at date of initial adoption. Given the limited revenues recognized in 2017, the Company does not expect that the adoption of IFRS 15 will have a material impact on its consolidated financial statements.

(d) Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. The standard will require all leases of more than 12 months to be reported on a company's statement of financial position as assets and liabilities. The new standard is effective for annual periods beginning on or after January 1, 2019, and is available for early adoption for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company expects that its operating leases will need to be recognized in its consolidated statement of financial position on initial adoption of IFRS 16.

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

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

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash balances with banks | $ 2,932 | $ 967 |
| Short-term investments with initial maturities of less than three months (yielding interest at 0.95% to 1.20% as at December 31, 2017) (December 31, 2016 – 0.75% to 1.10%) | 4,817 | 1,608 |
| Cash and cash equivalents | 7,749 | 2,575 |
| Short-term investments with initial maturities greater than three months and less than one year (yielding interest at 1.00% to 2.20% as at December 31, 2017) (December 31, 2016 – 1.35% to 1.65%) | 16,139 | 4,259 |
| Cash, cash equivalents and short-term investments | $ 23,888 | $ 6,834 |

## 6. Trade and other receivables:

Trade and other receivables consist of:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Trade receivables | $ 25 | $ 31 |
| Development support payment receivable (note 9) | 475 | — |
| Deferred payment on sale of subsidiary (note 10) | 400 | — |
| Research tax credits receivable | 301 | 154 |
| Amounts receivable under license agreements (note 14 (b)) | 60 | 506 |
| Other receivables | 453 | 119 |
| | $ 1,714 | $ 810 |

## 7. Investment in FB Health:

On June 30, 2017, BELLUS Health sold its 5.72% equity interest in FB Health S.p.A (FB Health) for a potential total consideration of $2,536, consisting of an upfront cash payment of $1,769 and a contingent revenue-based milestone payment of up to $767 (€518), which will be determined one year from the closing of the transaction.

The investment in FB Health was acquired by BELLUS Health as part of the licence agreement with FB Health for BLU8499 in October 2013 (refer to note 14 (b)).

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

**7. Investment in FB Health (continued):**

Prior to sale on June 30, 2017, the Company increased the fair value of its available-for-sale investment to $2,153 ($639 as at December 31, 2016) representing the estimated fair value of the total consideration to be received. Total consideration consists of $1,769 received in cash on closing and the estimated fair value of the contingent consideration of $384 on the transaction date, determined based on management's best estimate of FB Health's future revenues.

A realized gain on sale of available-for-sale investment in FB Health in the amount of $1,909, being the difference between the fair value of the total consideration and the amount paid for the original investment, was recognized by the Company in the consolidated statement of loss for the year ended December 31, 2017, following the sale of the investment.

As at December 31, 2017, the Company estimated the fair value of the contingent consideration to be received at $384, determined based on management's best estimate of FB Health's future revenues. The contingent consideration to be received is presented as current Contingent consideration receivable in the consolidated statement of financial position.

In connection with the fair value determination of its available-for-sale investment prior to its sale, the Company recorded an increase in fair value of $1,514 for the year ended December 31, 2017, recognized in other comprehensive income (2016 – decrease of $109).

As at December 31, 2016, the Company estimated the fair value of its available-for-sale investment in FB Health by using the discounted cash flow method. Under the discounted cash flow method, BELLUS Health estimated the fair value of the investment by discounting the forecasted FB Health cash-flows, using an after-tax discount rate of 19%. In estimating the fair value, management used assumptions based on FB Health historical results of operations, as well as market comparables of companies operating in the same industry who share similar characteristics.

**8. Prepaid expenses and other assets:**

Prepaid expenses and other assets consist of:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Prepaid expenses | $ 84 | $ 112 |
| Contingent right asset (note 12) | — | 573 |
| Restricted cash (note 19 (e)) | 50 | 50 |
| Other | 19 | 24 |
| Total | 153 | 759 |
| Current portion – Prepaid expenses and other assets | 84 | 685 |
| Non-current portion – Other assets | $ 69 | $ 74 |

**9. In-process research and development assets:**

(a) IPR&D asset related to BLU-5937:

On February 28, 2017, BELLUS Health announced that it had obtained from the NEOMED Institute (NEOMED) an exclusive worldwide license to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough.

Under the terms of the agreement, BELLUS Health paid NEOMED an upfront fee of $3,200, consisting of $1,700 in cash and $1,500 in equity with the issuance of 5,802,177 BELLUS Health common shares. NEOMED will be entitled to receive a royalty on net sales-based revenues. In lieu of milestone payments, a certain portion of all other revenues received by BELLUS Health from BLU-5937 will be shared with NEOMED in accordance with a pre-established schedule whereby the shared revenue portion decreases as the program progresses in development.

In addition, NEOMED will provide development support to the BLU-5937 program and will contribute $950 towards the funding of research and development activities, of which $475 has been received during the second quarter of 2017 and the balance of $475 is presented as current Trade and other receivable in the consolidated statement of financial position as at December 31, 2017.

BELLUS Health estimated the fair value of the in-process research and development (IPR&D) asset related to BLU-5937 to be $2,359, being the fair value of the consideration plus fees paid in relation to acquisition of $109 net of the agreed upon development support payment of $950.

The IPR&D asset related to BLU-5937 is accounted for as an indefinite-lived intangible asset until the project, currently in its preclinical phase, is completed or abandoned, at which point it will be amortized or impaired, respectively.

As at December 31, 2017, the carrying amount of the IPR&D asset related to BLU-5937 did not exceed its estimated recoverable amount. The recoverability of this asset is dependent on successfully developing this project, and achieving the expected future revenues from commercialization.

(b) IPR&D asset related to Shigamab™:

BELLUS Health sold its IPR&D asset related to Shigamab™ through the sale of its wholly-owned subsidiary Thallion on March 16, 2017 (refer to note 10). The IPR&D asset was accounted for as an indefinite-lived intangible asset prior to its sale. The carrying value of the IPR&D asset related to Shigamab™ amounted to $542 for the year ended December 31, 2016.

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

## 10. Sale of subsidiary:

On March 16, 2017, BELLUS Health entered into a Share Purchase Agreement with Taro for the sale of 100% of the shares of its wholly-owned subsidiary, Thallion, including all the rights to the drug candidate Shigamab™, for a total consideration of $2,700, consisting of a cash payment of $2,300 on closing and a deferred payment of $400 to be received upon the completion of a pre-established milestone, which payment was received by the Company on January 4, 2018. In addition, the Company will receive a portion of certain potential future post-approval revenues related to Shigamab™ program.

BELLUS Health also entered into a one-year service agreement with Taro for BELLUS Health to provide support for the preclinical development plan of Shigamab™ for service fees of $130 over the period.

A gain on sale of subsidiary in the amount of $1,944 (net of transaction costs of $183, the increase in fair value of the contingent consideration payable of $31 and the carrying value of the asset sold of $542) was recognized in the consolidated statement of loss for the year ended December 31, 2017. As at December 31, 2017, the deferred payment of $400 is presented as current Trade and other receivable in the statement of financial position as the completion of the pre-established milestone had occurred as at December 31, 2017, and as the payment was received by the Company on January 4, 2018.

In accordance with the terms of the agreements of the 2013 Thallion acquisition, 5% of the proceeds received by BELLUS Health from the sale of Thallion, including the Shigamab™ technology (the Shigamab™ Consideration), was payable to CVR holders (refer to note 12).

## 11. Trade and other payables:

Trade and other payables consist of:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Trade payables | $ 479 | $ 126 |
| Other accrued liabilities | 1,630 | 455 |
| Deferred share unit plans (note 13 (b) (iii)) | 81 | 63 |
| | $ 2,190 | $ 644 |

## 12. Financial liabilities - CVRs:

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

**12. Financial liabilities – CVRs (continued):**

The CVRs issued to Thallion's shareholders entitle the holder thereof to: (i) its pro rata share of 100% of any additional purchase price consideration to be received in relation to a 2009 sale transaction by Thallion, (ii) its pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500, and (iii) its pro rata share of 100% of any net proceeds generated from the licensing, selling or otherwise commercializing of (a) diagnostic products or services using certain Caprion Proteomics Inc. products, and (b) all issued patents or pending patents pertaining to such Caprion Proteomics Inc. products, in respect of which Thallion has an ownership interest or monetary entitlement.

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

In relation to (i) above, the Company announced on February 17, 2017 that it had received $573 as settlement for the additional purchase price consideration (Additional Consideration Payment) in relation to the 2009 sale transaction by Thallion. A net amount of $577 ($0.01609 per CVR) was paid to CVR holders on March 10, 2017, which consists of the Additional Consideration Payment, in addition to $50 in relation to the replacement cost of Shigamab™ antibodies less $29 of CVR agent costs, $13 of undisclosed liability not included in the 2013 Thallion Statement of Net cash and $4 of expenses in relation to the unsuccessful listing of the CVR on the Toronto Stock Exchange, all in accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

The contingent right asset and contingent consideration payable are nil as at December 31, 2017 ($573 in Prepaid expenses and other assets and in current Financial liabilities – CVRs as at December 31, 2016, respectively). There were no changes in the fair value of the contingent right asset nor the contingent consideration payable for the year ended December 31, 2017 (2016 – decrease of $740 to reflect cash flows estimated by management to be received, presented in Finance costs for the asset and in Finance income for the liability in the consolidated statement of loss).

In relation to (ii) above, the Company paid on April 7, 2017 a net amount of $95 ($0.00263 per CVR) to CVR holders, which consists of the Shigamab™ Consideration of $115 on the cash payment received in 2017 on the sale of Thallion (refer to note 10), less $20 for CVR agent costs. CVR agent costs were deducted from the Shigamab™ Consideration in accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

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

**12. Financial liabilities – CVRs (continued):**

As at December 31, 2017 the Company estimated the fair value of the consideration payable related to CVRs on Shigamab™ future revenues at $20, which consists of the Shigamab™ Consideration on the deferred payment on the sale of Thallion, received by the Company on January 4, 2018 (2016 - $104). The Shigamab™ Consideration of $20 was paid to CVR holder on January 26, 2018 as final payment of the contingent consideration payable in relation to CVRs on Shigamab™ future revenues. The change in fair value for the year ended December 31, 2017 amounted to $31 and was presented against the gain on sale of subsidiary in the consolidated statement of loss (2016 – $34 in Finance income as a reduction of the above change in fair value of the contingent consideration payable).

In relation to (iii) above, no value has been attributed to contingent consideration related to CVRs on future revenues from assets developed by Caprion Proteomics Inc. as the Company does not expect to receive any revenue from these assets in the future.

**13. Shareholders' equity:**

(a) Share capital:

The authorized share capital of the Company consists of:

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

Issued and outstanding common shares are as follows:

| | Number | | Dollars |
|---|---|---|---|
| Balance, December 31, 2016 | 61,063,824 | $ | 445,753 |
| Issued as part of upfront fee for license acquisition (i) | 5,802,177 | | 1,500 |
| Issued in connection with the Offering (ii) | 52,631,580 | | 20,000 |
| Balance, December 31, 2017 | 119,497,581 | $ | 467,253 |

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

**13. Shareholders' equity (continued):**

(a) Share capital (continued):

(i) On February 28, 2017, the Company issued 5,802,177 common shares from treasury as part of an upfront payment to obtain an exclusive worldwide license to develop and commercialize BLU-5937 (refer to note 9 (a)).

(ii) On December 12, 2017, the Company closed an equity offering, issuing a total of 52,631,580 common shares from treasury at a price of $0.38 per share for aggregate gross proceeds of $20,000 (the Offering). Share issue costs of $1,942, comprised of agent commission of $1,040, legal, professional and filing fees of $419 as well as broker warrants having a fair value of $483 (refer to note 13 (b) (ii)), have been charged to the deficit.

(iii) On January 1, 2016, the Company issued 7,286,828 common shares from treasury to a significant influence shareholder, Victoria Square Ventures Inc., in settlement of converted notes previously amended concurrent with the strategic partnership and financing agreement with Pharmascience in May 2012 (the Amended Note). As a result, the carrying value of the Amended Note of $8,744, initially allocated to Other equity pending the issuance of common shares, was reclassified to Share capital.

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

The common shares were issued at a price of $2.90 per share, for a total consideration of $18,417. An amount of $17,200 was recognized in Deficit, representing the difference between the carrying value of the non-controlling interest and the fair value of the common shares issued. As well, the balance of other comprehensive income allocated to the non-controlling interest up to June 2, 2016 of $53 was reallocated to Accumulated other comprehensive income to reflect the change of interests in BHI LP.

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

**13. Shareholders' equity (continued):**

(b) Share-based payment arrangements:

(i) 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, 2017 and 2016 were as follows:

| | Number | | Weighted average exercise price |
|---|---|---|---|
| Options outstanding, December 31, 2016 | 4,788,000 | $ | 0.53 |
| Granted [(1) (2)] | 2,885,000 | | 0.31 |
| Forfeited | (290,000) | | 0.58 |
| Expired | (90,000) | | 0.50 |
| Options outstanding, December 31, 2017 | 7,293,000 | $ | 0.44 |

(1) Stock options granted on May 23, 2017, having an exercise price of $0.30; 2,400,000 stock options were granted to key management personnel and 285,000 were granted to other employees.

(2) Stock options granted on November 7, 2017, having an exercise price of $0.42; 150,000 stock options were granted to key management personnel and 50,000 were granted to other employees.

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

**13. Shareholders' equity (continued):**

(b) Share-based payment arrangements (continued):

(i) Stock Option Plan (continued):

| | Number | Weighted average exercise price |
|---|---|---|
| Options outstanding, December 31, 2015 | 4,685,000 | $ 0.51 |
| Granted [3] | 103,000 | 1.12 |
| Options outstanding, December 31, 2016 | 4,788,000 | $ 0.53 |

[3] All stock options were granted to key management personnel on February 24, 2016.

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017:

| | Options outstanding | | Options exercisable |
|---|---|---|---|
| Exercise price/share | Number | Weighted average years to expiration | Number |
| $0.30 | 2,630,000 | 9.3 | 45,000 |
| $0.42 | 200,000 | 9.9 | — |
| $0.50 | 4,300,000 | 4.6 | 4,300,000 |
| $1.05 | 60,000 | 4.6 | 60,000 |
| $1.12 | 103,000 | 8.2 | 20,600 |
| | 7,293,000 | 6.5 | 4,425,600 |

Stock-based compensation:

For the year ended December 31, 2017, the Company recorded a stock-based compensation expense related to stock options granted under the stock option plan in the amount of $192 in the consolidated statement of loss; from this amount, $32 is presented in Research and development expenses and $160 is presented in General and administrative expenses (2016 – $213, $18 presented in Research and development expenses and $195 presented in General and administrative expenses).

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

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

**13. Shareholders' equity (continued):**

(b) Share-based payment arrangements (continued):

(i) Stock Option Plan (continued):

Stock-based compensation (continued):

The weighted average assumptions for stock options granted during the years ended December 31, 2017 and 2016 were as follows:

| | 2017 [1] | 2016 [2] |
|---|---|---|
| Weighted average fair value of stock options at grant date | $ 0.27 | $ 0.85 |
| Weighted average share price | $ 0.31 | $ 1.12 |
| Weighted average exercise price | $ 0.31 | $ 1.12 |
| Risk-free interest rate | 1.19% | 0.84% |
| Expected volatility | 107% | 87% |
| Expected life in years | 7 | 7 |
| Expected dividend yield | Nil | Nil |

[1] Stock options were granted on May 23, 2017 and on November 7, 2017.
[2] All stock options were granted on February 24, 2016.

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.

(ii) Broker warrants:

In connection with the Offering on December 12, 2017, the Company issued 1,806,735 broker warrants exercisable for common shares. Each broker warrant entitles the holders to buy one common share at a price of $0.38 per share for a period of 18 months from the closing of the Offering. The fair value of brokers warrants of $483 was allocated to Other Equity upon issuance, and was calculated using the Black-Scholes pricing model with the following assumptions: $0.38 share price, 1.50% risk-free interest rate, 169% volatility, 1.5 year expected life and 0% dividend. As at December 31, 2017, 1,806,735 broker warrants to purchase common shares are outstanding.

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

**13. Shareholders' equity (continued):**

(b) Share-based payment arrangements (continued):

(iii) 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, 2017 and 2016 were as follows:

| Number of units | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | 217,953 | 217,953 |
| Units granted | — | — |
| Balance, end of year | 217,953 | 217,953 |
| Balance of DSU liability, included in Trade and other payables | $ 81 | $ 63 |

For the years ended December 31, 2017 and 2016, the Company did not grant any DSU. The stock-based compensation expense (income) related to DSU plans recorded in the consolidated statement of loss for the year ended December 31, 2017 amounted to $18; from this amount, nil is presented in Research and development expenses and $18 is presented in General and administrative expenses (2016 – $(164), $(1) presented in Research and development expenses and $(163) presented in General and administrative expenses).

**14. Revenues:**

Revenues mainly consist of the following:

(a) Development services:

Revenues from the agreements with a partner for the development of KIACTA™ for AA amyloidosis, which was terminated in 2016, amounted to nil for the year ended December 31, 2017 (2016 - $1,838).

(b) Revenue under licensing agreements:

BELLUS Health entered into an agreement in October 2013 to license the worldwide rights of VIVIMIND™, a natural health product for memory protection, to FB Health, a then related company. The agreement provides for cash consideration of $2,000 to be received until 2017, as well as certain costs reimbursements.

BELLUS Health also entered into a worldwide license agreement in October 2013 with FB Health for BLU8499, BELLUS Health's drug candidate for the treatment of central nervous system diseases including Alzheimer's disease, and a family of analogs, along with an associated platform of chemotypes and clinical datasets. In turn, FB Health sublicensed all its rights to Alzheon Inc. (Alzheon), a then related company, as part of an exclusive worldwide license, excluding Italy. As consideration, BELLUS Health received an equity stake in FB Health (which was sold by the Company on June 30, 2017, refer to note 7), 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.

The Company recognized revenues of $35 under these agreements for the year ended December 31, 2017, for costs reimbursements (2016 - $55). The amount receivable in relation to the agreements amounted to $60 as at December 31, 2017, and is presented as current Trade and other receivables in the consolidated statement of financial position ($506 as at December 31, 2016).

(c) Service agreement:

On March 16, 2017, concurrent with the sale of Thallion to Taro (refer to note 10), BELLUS Health also entered into a one-year service agreement with Taro for BELLUS Health to provide support for the preclinical development plan of Shigamab™ for service fees of $130 over the period.

The Company recognized revenues of $130 under this agreement for the year ended December 31, 2017, as all obligations under agreement have been performed and as all service fees have been received at that date.

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

## 15. Personnel expenses:

The aggregate compensation to personnel of the Company for the years ended December 31, 2017 and 2016 is set out below:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Short-term benefits | $ | 2,037 | $ | 1,910 |
| DSUs plans expense (income) | | 18 | | (164) |
| Stock option plan expense | | 192 | | 213 |
| | $ | 2,247 | $ | 1,959 |

## 16. Net finance income (costs):

Finance income and Finance costs for the years ended December 31, 2017 and 2016 were attributed as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Interest income | $ | 80 | $ | 100 |
| Change in fair value of contingent consideration payable (CVRs) (note 12) | | — | | 706 |
| Finance income | | 80 | | 806 |
| Interest and bank charges | | (11) | | (11) |
| Change in fair value of contingent right asset (note 12) | | — | | (740) |
| Foreign exchange loss | | (50) | | (171) |
| Finance costs | | (61) | | (922) |
| Net finance income (costs) | $ | 19 | $ | (116) |

## 17. Income taxes:

Deferred tax expense

| | | December 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Origination and reversal of temporary differences | $ | (377) | $ | (544) |
| Change in unrecognized deductible temporary differences including effect of change in tax rate of $39 in 2017 (2016 – $163) | | 438 | | 559 |
| Deferred tax expense | $ | 61 | $ | 15 |

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

**17. Income taxes (continued):**

Deferred tax expense (continued)

Reconciliation of effective tax rate:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Loss before income taxes | $ (1,813) | $ (2,213) |
| Tax using the Company's domestic tax rate | (486) | (595) |
| Change in unrecognized deductible temporary differences | 1,432 | 396 |
| Non-taxable accounting gain on sale of investment in FB Heath and sale of subsidiary | (1,033) | — |
| Effect of change in tax rate | 39 | 163 |
| Non-deductible stock option expense | 51 | 57 |
| Permanent differences and other items | 58 | (6) |
| Total deferred tax expense | $ 61 | $ 15 |

The applicable statutory tax rates are 26.8% in 2017 and 26.9% in 2016. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdiction in which the Company operates. The decrease is due to the reduction of the Quebec income tax rate in 2017 from 11.9% to 11.8%.

A deferred tax recovery of $61 related to the sale of the available-for-sale investment in FB Health on June 30, 2017, net of the increase in fair value of the investment prior to its sale, was recognized in other comprehensive income for the year ended December 31, 2017, and an equal and offsetting amount was recognized as a deferred tax expense in income.

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

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities:

As at December 31, 2017 and 2016, deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Taxes losses carried forward | $ 25 | $ — | $ — | $ — | $ 25 | $ — |
| Research and development expenses | — | 486 | — | — | — | 486 |
| Equipment | — | — | (16) | — | (16) | — |
| Trade and other receivables | — | — | (9) | (128) | (9) | (128) |
| Contingent consideration receivable | — | — | — | — | — | — |
| Other assets | — | — | — | (154) | — | (154) |
| IPR&D asset | — | — | — | (144) | — | (144) |
| Investment in FB Health | — | — | — | (60) | — | (60) |
| Tax assets (liabilities) | 25 | 486 | (25) | (486) | — | — |
| Set off of tax | (25) | (486) | 25 | 486 | — | — |
| Net tax assets (liabilities) | $ — | $ — | $ — | $ — | $ — | $ — |

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

**17. Income taxes (continued):**

Deferred tax assets and liabilities (continued)

Unrecognized deferred tax assets and investment tax credits:

As at December 31, 2017 and 2016, the amounts and expiry dates of tax attributes and temporary differences for which no deferred tax assets was recognized were as follows:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Federal[1] | Provincial[1] | Federal | Provincial |
| Research and development expenses, without time limitation | $ 1,122 | $ 778 | $ 3,784 | $ 6,954 |
| Federal research and development investment tax credits | | | | |
| 2027 | — | — | 140 | — |
| 2028 | — | — | 305 | — |
| 2029 | — | — | 190 | — |
| 2030 | — | — | 221 | — |
| 2031 | — | — | 66 | — |
| 2032 | — | — | 136 | — |
| 2034 | — | — | 111 | — |
| 2035 | — | — | 120 | — |
| 2036 | — | — | 110 | — |
| 2037 | 168 | — | — | — |
| | 168 | — | 1,399 | — |
| Tax losses carried forward | | | | |
| 2028 | — | — | 814 | 550 |
| 2029 | — | — | 3,664 | 3,212 |
| 2030 | — | — | 73 | — |
| 2031 | — | — | 3,321 | 3,325 |
| 2032 | 525 | 525 | 6,112 | 6,215 |
| 2033 | 894 | 894 | 1,499 | 1,355 |
| 2034 | 822 | 822 | 4,488 | 4,590 |
| 2035 | 1,116 | 1,051 | 4,102 | 3,866 |
| 2036 | 1,143 | 1,143 | 4,754 | 4,492 |
| 2037 | 4,103 | 4,507 | — | — |
| | 8,603 | 8,942 | 28,827 | 27,605 |
| Capital losses | 14,171 | 14,171 | — | — |
| Other deductible temporary differences, without time limitation | $ 101 | $ 101 | $ 7,370 | $ 7,360 |

[1] As a result of the sale of the Company's wholly-owned subsidiary Thallion to Taro on March 16, 2017, unrecognized tax attributes of Thallion generated from its business through March 16, 2017 are no longer available to BELLUS Health.

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

**17. Income taxes (continued):**

Deferred tax assets and liabilities (continued)

Unrecognized deferred tax assets and investment tax credits (continued):

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

**18. Loss per share:**

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Basic weighted average number of common shares outstanding | 68,667,841 | 58,391,698 |
| Basic and diluted loss per share | $ (0.03) | $ (0.04) |

Excluded from the calculation of the diluted loss per share for the year ended December 31, 2017 is the impact of all broker warrants and all stock options granted under the Stock Option Plan, as they would be anti-dilutive.

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

Broker warrants and stock options granted under the Stock Option Plan could potentially be dilutive in the future.

**19. Commitments and contingencies:**

(a) Operating leases:

Minimum annual lease payments are as follows:

| | |
|---|---|
| Less than one year | $ 147 |
| Between one and five years | 12 |
| | $ 159 |

The property lease is a non-cancellable lease, with rent payable monthly in advance, which expires on January 31, 2019.

During the year ended December 31, 2017, an amount of $143 was recognized as an expense in the consolidated statement of loss in respect of operating leases (2016 – $138).

**19. Commitments and contingencies (continued):**

(b) Indemnity agreements:

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

(i) In March 2017, the Company entered into a Share Purchase Agreement with Taro for the sale of the Company's wholly-owned subsidiary Thallion, including all the rights to the drug candidate Shigamab™ (refer to note 10). The Company agreed to indemnify Taro, subject to certain conditions and limitations, for 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 or affairs of Thallion, which occurred prior to the effective time of the Share Purchase Agreement.

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

No indemnity provision has been recorded by the Company as at December 31, 2017 and 2016 for these matters as the Company does not expect to make any payments under these provisions.

(c) License agreements and research collaborations:

(i) On February 28, 2017, BELLUS Health announced that it had obtained from NEOMED an exclusive worldwide license to develop and commercialize BLU-5937 (refer to note 9 (a)). Under the terms of the agreement, the Company is committed to pay NEOMED a royalty on net sales-based revenues, and in lieu of milestone payments, a certain portion of all other revenues received from BLU-5937 in accordance with a pre-established schedule whereby the shared revenue portion decreases as the program progresses in development. No amount is payable as at December 31, 2017 under this agreement.

**19. Commitments and contingencies (continued):**

(c) License agreements and research collaborations (continued):

(ii) On February 1, 2006, the Company entered into an assignment agreement with Parteq Research and Development Innovations (Parteq), which was amended on April 1, 2011 (the Assignment Agreement). Pursuant to the Assignment Agreement, Parteq agreed and assigned certain intellectual property to the Company for consideration, comprising an upfront payment and various deferred payment amounts. The Assignment Agreement also provides for annual technology payments, deferred milestone payments and deferred graduated payments based on gross revenues to be generated from commercialized pharmaceutical products, as well as other than pharmaceutical products, such as nutraceutical or natural health care products. Non-significant amounts are payable as at December 31, 2017 under this agreement.

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

(d) Consulting and services agreement:

The payments under the consulting and services agreement with Picchio International Inc. (Picchio International) (refer to note 20 (b)) will amount to $250 in 2018, plus the reimbursement of applicable expenses for services rendered under the agreement.

(e) Letter of credit:

As at December 31, 2017, the Company is contingently liable for a letter of credit in the amount of $50 (2016 - $50). Cash is pledged under the letter of credit and is presented as non-current Other assets in the consolidated statement of financial position as at December 31, 2017.

**20. Related party transactions:**

(a) There is no single ultimate controlling party.

(b) Dr. Francesco Bellini, Chairman of the Board of Directors, provides ongoing advisory services to the Company under the terms of a consulting and services agreement between the Company and Picchio International, wholly-owned by Dr. Francesco Bellini and his spouse. The agreement has a one-year term and shall renew for successive one-year terms. The Company recorded fees and expenses of $381 for both years ended December 31, 2017 and 2016.

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

**20. Related party transactions (continued):**

(b) (continued)

In October 2013, BELLUS Health entered into license agreements in relation to VIVIMIND™ and BLU8499 with FB Health (refer to note 14 (b)). FB Health was a related party to the Company until June 30, 2017, as it was controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health (refer to note 7). The Company recognized revenues in relation to this related party of $17 for the year ended December 31, 2017 (2016 - $55).

(c) The Amended Note issued to a significant influence shareholder of the Company in May 2012 was settled through the issuance of 7,286,828 common shares from treasury on January 1, 2016, as scheduled (refer to note 13 (a) (iii)).

(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, 2017 and 2016 is set out below:

| | 2017 | 2016 |
|---|---|---|
| Short-term benefits | $ 1,676 | $ 1,542 |
| DSU plans expense (income) | 18 | (164) |
| Stock option plan expense | 179 | 204 |
| | $ 1,873 | $ 1,582 |

**21. 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, 2017, all of the Company's operations were conducted in Canada.

(b) Significant sources of revenue:

In 2017, 79% of revenues came from the agreement entered into with Taro (2016 – nil) and nil came from the agreements entered into with a partner for the development of KIACTA™ for AA amyloidosis, which was terminated in 2016 (2016 – 97%) (refer to note 14).

## 22. Capital disclosures:

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

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

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

The Company defines capital to include total shareholders' equity.

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

As at December 31, 2017, cash, cash equivalents and short-term investments amounted to $23,888. 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.

## 23. Financial instruments:

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

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

Financial assets and liabilities measured at fair value on a recurring basis as at December 31, 2017 and 2016 are the contingent consideration receivable in relation to the sale of the available-for-sale investment in FB Health, the investment in FB Health, sold on June 30, 2017, the contingent right asset in relation to a 2009 sale transaction by Thallion and the related contingent consideration payable to CVR holders, which were settled in 2017, as well as the contingent consideration payable in relation to CVRs on Shigamab™ future revenues. These financial instruments were measured using Level 3 inputs.

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

**23. Financial instruments (continued):**

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

For the years ended December 31, 2017 and 2016, 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:

| | Contingent consideration receivable | Investment in FB Health | Contingent right asset | Contingent consideration payable |
|---|---|---|---|---|
| Balance as at December 31, 2015 | $ — | $ 748 | $ 1,313 | $ (1,383) |
| Total (loss) gain included in income (reported as change in fair value) | — | — | (740) | 706 |
| Total loss included in other comprehensive income (reported as change in fair value) | — | (109) | — | — |
| Balance as at December 31, 2016 | — | 639 | 573 | (677) |
| Change in fair value for the period [(1)] | — | 1,514 | — | — |
| Sale of shares of available-for-sale financial asset [(1)] | — | (2,153) | — | — |
| Contingent consideration [(1)] | 384 | — | — | — |
| Change in fair value (reported as a reduction of the gain on sale of subsidiary) [(2)] | — | — | — | (31) |
| Payment received from third party | — | — | (573) | — |
| Reduction for distribution to CVR holders | — | — | — | 688 |
| Balance as at December 31, 2017 | $ 384 | $ — | $ — | $ (20) |

[(1)] Change in fair value is presented in reduction of the realized gain on sale of investment in FB Health (refer to note 7).
[(2)] Change in fair value is presented in reduction of the gain on sale of subsidiary (refer to note 10).

The amounts presented above as total (loss) gain included in income and other comprehensive income attributable to the change in fair value of the related assets and liabilities held as at December 31, 2016 were unrealized.

For its financial assets and liabilities measured at amortized cost as at December 31, 2017, 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.

**23. Financial instruments (continued):**

(b) Credit risk:

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

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and trade and other receivables. The Company invests cash with major North American financial institutions. Cash equivalents and short-term investments are comprised of fixed income instruments with a high credit ranking (not less than A-1) as rated by Standard and Poor's. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and yields that are appropriate. In addition, trade and other receivables totaling $875 related to two counterparties as at December 31, 2017 ($506 related to one counterparty as at December 31, 2016).

As at December 31, 2017, the Company's maximum credit exposure corresponded to the carrying amount of these financial assets.

(c) Liquidity risk:

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

The Company manages liquidity risk through the management of its capital structure, as outlined in note 22. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews, approves and monitors the Company's operating and capital budgets, as well as any material transactions.

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

**23. Financial instruments (continued):**

(c) Liquidity risk (continued):

The following are the contractual maturities of financial liabilities as at December 31, 2017:

| | Carrying amount | Contractual cash flows | Less than 1 year | Greater than 1 year |
|---|---|---|---|---|
| Trade and other payables | $ 2,190 | $ 2,190 | $ 2,190 | $ — |
| Contingent consideration payable (CVRs – On Shigamab™ future revenues) [1] | 20 | 20 | 20 | — |
| Contingent consideration payable (CVRs – On future revenues from assets developed by Caprion Proteomics Inc.) [2] | — | — | — | — |
| | $ 2,210 | $ 2,210 | $ 2,210 | $ — |

[1] BELLUS Health shall pay to CVR holders their pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health. The amount represents the fair value of the contingent liability as at December 31, 2017, which was paid in January 2018 as final payment of the contingent consideration payable in relation to CVRs on Shigamab™ future revenues (refer to note 12).

[2] 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 12).

(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 statement of financial position 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.

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

**23. Financial instruments (continued):**

(d) Foreign currency risk (continued):

The following table provides an indication of the Company's significant foreign currency exposures as at December 31, 2017:

| | December 31, 2017 |
|---|---|
| Net assets denominated in US dollars: | |
| Cash and cash equivalents | $ 623 |
| Trade and other payables | (115) |
| | $ 508 |

The $US to $CDN exchange rate applied as at December 31, 2017 was 1.2545.

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

(e) Interest rate risk:

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

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

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

Based on the carrying amount of variable interest-bearing financial instruments as at December 31, 2017, an assumed 1% increase or 1% decrease in interest rates during such period would have had no significant effect on income.

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

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

Interest income presented in the consolidated statement of loss 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. Roberto Bellini**
President & Chief Executive Officer
of the Company

—

**Dr. Youssef L. Bennani**
Pharmaceutical Executive &
Chairman of the Board,
Domain Therapeutics

—

**Mr. Franklin M. Berger, CFA**
Consultant

—

**Dr. Clarissa Desjardins**
Chief Executive Officer,
Clementia Pharmaceuticals Inc.

—

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

—

**Mr. Joseph Rus**
Consultant

## 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 stakeholders. 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 Toronto Stock Exchange (TSX). Please refer to the management information circular for more information on the overall structure of the Board and its Committees and for details of BELLUS Health Inc.'s corporate governance practices.

### AUDITORS
**KPMG LLP**
600 de Maisonneuve Blvd. West
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Canada H3A 0A3

### TRANSFER AGENTS
**Computershare Investor Services Inc.**
100 University Avenue
9th Floor, North Tower
Toronto, Ontario
Canada M5J 2Y1

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

## CORPORATE PROFILE

BELLUS Health is a biopharmaceutical development company advancing novel therapeutics for conditions with high unmet medical need. Its pipeline of projects includes the Company's lead drug candidate BLU-5937 for chronic cough and several other partnered clinical-stage drug development programs. BLU-5937, a selective P2X3 antagonist, has the potential to be a best-in-class therapeutic for chronic cough patients who do not respond to current therapies. The Company's shares trade on the Toronto Stock Exchange (TSX) under the symbol BLU.


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