Q1 2018

QUARTERLY REPORT

FIRST QUARTER
ended march 31

Bellus HEALTH

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 three-month period ended March 31, 2018. It should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three-month period ended March 31, 2018, as well as the Company's audited consolidated financial statements for the year ended December 31, 2017. These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). For discussion regarding related-party transactions, contractual obligations, financial risk management, disclosure controls and procedures, internal control over financial reporting, and risks and uncertainties, refer to the Annual Report and the Annual Information Form for the year ended December 31, 2017, as well as other public filings, which are 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 condensed consolidated interim financial statements and MD&A for the three-month period ended March 31, 2018 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 May 15, 2018.

All currency figures reported in the condensed consolidated interim 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

Recent Highlights

- Completed all preclinical studies on BLU-5937 for chronic cough needed to submit a Clinical Trial Application ("CTA") to Health Canada; expects to initiate a Phase 1 clinical study in the third quarter of 2018;
- Completed 28-day toxicology preclinical studies further demonstrating BLU-5937's excellent safety profile;
- Patent granted by the European Patent Office ("EPO") in April 2018 with claims covering the composition of matter of BLU-5937 until 2034;
- Concluded the quarter with cash, cash equivalents and short-term investments totalling $21.7 million.

BLU-5937 for Chronic Cough

The Company's lead drug candidate is BLU-5937, 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.

In two separate preclinical models, BLU-5937 showed a significant reduction in cough and no effect on taste perception. In a guinea pig cough model, BLU-5937 showed comparable anti-tussive 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 change taste perception whereas, consistent with clinical trial data previously presented by Merck & Co, Gefapixant led to significant change in taste perception (alteration or loss).

The Company has completed all preclinical studies on BLU-5937 needed to submit a CTA, including 28-day toxicology animal studies, which demonstrated an excellent safety profile. The Company expects to submit the CTA to Health Canada in the second quarter of 2018 to initiate a Phase 1 clinical study on humans in the third quarter of 2018.

The main objectives of the Phase 1 clinical study will be to assess the safety, tolerability (including taste perception) and pharmacokinetic profile of BLU-5937 in healthy subjects. This will be a randomized, double-blind, placebo-controlled, single- and multiple-dose escalating study of orally administered BLU-5937 in healthy adult subjects.

Subject to final regulatory approval, the study will be designed as follows:

Part 1: A single-ascending dose ("SAD") study will be conducted in approximately 60 healthy subjects. Subjects will be enrolled into approximately 6 cohorts of 10 subjects (8 BLU-5937: 2 placebo).

Part 2: A multiple-ascending dose ("MAD") study will be conducted in approximately 30 healthy subjects. Subjects will be enrolled into approximately 3 cohorts of 10 subjects (8 BLU-5937: 2 placebo). Each subject will receive daily oral administrations of the assigned treatment for 7 consecutive days. The dose regimen for the MAD study will be established based on the SAD study results.

Results of the Phase 1 clinical study are expected in the fourth quarter of 2018. These results will help define BLU-5937's expected product profile, including: safety, tolerability (including taste perception) and dosing regimen.

On April 4, 2018, the EPO granted patent No. 2951177 with claims covering the composition of matter of BLU-5937 and related imidazopyridine compounds in addition to pharmaceutical compositions comprising BLU-5937 and uses thereof. BLU-5937 has now obtained patent protection in three of the four major pharmaceutical markets, with equivalent patents issued in 2017 by the U.S. Patent and Trademark Office and the Chinese Patent Office with similar broad claims. The patents have an expiration date of 2034, excluding any potential patent term extension. Patent applications with similarly broad claims are currently pending in Japan and other industrialized nations.

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.

Other Development Programs

BELLUS Health has economic interests in other partnered clinical-stage drug development programs, including revenue sharing and royalties on sales.

Rights to KIACTA™ were sold/licensed to global private equity firm Auven Therapeutics, which is currently evaluating whether to further pursue the development of KIACTA™ for the treatment of patients suffering from active pulmonary sarcoidosis, and has developed a clinical Phase 2/3 study protocol. The U.S. Food and Drug Administration has cleared the IND application for this clinical Phase 2/3 study.

Rights to AMO-01 (formerly TLN-4601) for the treatment of neurologic and psychiatric disorders were licensed to AMO Pharma Limited, which is preparing for a Phase 2 study to evaluate the efficacy of AMO-01 in patients suffering from intellectual disabilities in 2018.

Rights to ALZ-801 (formerly BLU8499) for the treatment of Alzheimer's disease ("AD") were licensed to Alzheon Inc., which 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 apolipoprotein E4 ("APOE4"), the most important genetic risk factor for late-onset AD.

RESULTS OF OPERATIONS

For the three-month period ended March 31, 2018*, net loss* amounted to $1,843,000 ($0.02 per share), compared to a *net income* of $1,144,000 ($0.02 per share) for the corresponding period the previous year. The increase in net loss is primarily attributable to higher research and development expenses in the current quarter in addition to the gain on sale of Thallion Pharmaceuticals Inc. ("Thallion") of $1.9 million recorded in the first quarter of 2017.

Research and development expenses, net of research tax credits, amounted to $1,245,000 for the three-month period ended March 31, 2018, compared to $251,000 for the corresponding period the previous year. The increase is attributable to higher 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 has completed the CTA-enabling preclinical studies on BLU-5937 and expects to initiate a Phase 1 clinical study in the third quarter of 2018.

General and administrative expenses amounted to $704,000 for the three-month period ended March 31, 2018, compared to $566,000 for the corresponding period the previous year. The increase is mainly due to higher stock-based compensation expense in relation to the Company's stock option plan and deferred share unit plans.

Net finance income amounted to $97,000 for the three-month period ended March 31, 2018, compared to $8,000 for the corresponding period the previous year. The increase is primarily attributable to higher interest income due to the Company's increased cash, cash equivalents and short-term investments position following the equity offering in December 2017.

Gain on sale of subsidiary amounted to nil for the three-month period ended March 31, 2018, compared to $1,944,000 for the corresponding period the previous year, and is related to the sale of the Company's wholly-owned subsidiary, Thallion, to Taro Pharmaceuticals Inc. ("Taro") in March 2017.

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, 2018			
First	$ 9	$ (1,843)	$ (0.02)
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)

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 first quarter ended March 31, 2018 is primarily attributable to higher research and development expenses in addition to the gain on sale of Thallion of $1.9 million recorded in the first quarter of 2017. 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 gain on sale of the equity interest in FB Health S.p.A, offset by a decrease in revenues and an increase in research and development expenses.

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 the 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 of $95,000 under the consulting and services agreement for the three-month periods ended March 31, 2018 and 2017.

FINANCIAL CONDITION

Liquidity and capital resources

As at March 31, 2018, the Company had available cash, cash equivalents and short-term investments totalling $21,731,000, compared to $23,888,000 as at December 31, 2017. For the three-month period ended March 31, 2018, the net decrease in cash, cash equivalents and short-term investments amounted to $2,157,000, compared to a net increase of $185,000 for the corresponding period the previous year. The net decrease in 2018 is primarily attributable to funds used to finance the Company’s operating activities, including the research and development of BLU-5937 for chronic cough. The net increase in 2017 is primarily attributable to funds received from the sale of Thallion, partially offset by funds used to obtain the BLU-5937 license and funds used to finance the Company’s operating activities.

During the three-month period ended March 31, 2018, the Company sold short-term investments for a net amount of nil with initial maturities greater than three months and less than a year ($2,643,000 for the three-month period ended March 31, 2017).

In January 2018, the Company received $0.4 million from Taro as a milestone payment in relation to the sale of the Company’s wholly-owned subsidiary Thallion in March 2017. In accordance with the terms of the agreements of the 2013 Thallion acquisition, 5% of the milestone payment received by BELLUS Health from the sale of Thallion, including the Shigamab™ technology (the “Shigamab™ Consideration”), was payable to the contingent value right (“CVR”) holders. Accordingly, on January 26, 2018, a net amount of $14,721 ($0.00041 per CVR) was paid to the CVR holders, 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 accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

There has been no significant change to the Company’s contractual obligations since December 31, 2017.

As at May 15, 2018, BELLUS Health 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 and 1,806,735 warrants issued in relation to the equity offering in December 2017. During the three-month period ended March 31, 2018, the Company granted 4,150,000 stock options.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make judgements, 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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*, which are described in note 3 to the March 31, 2018 condensed consolidated interim financial statements.

Refer to the audited consolidated financial statements for the year ended December 31, 2017 for discussions on accounting policies and estimates that are most important in assessing, understanding and evaluating the Company's consolidated financial statements. Change in these estimates and assumptions could have a significant impact on the Company's consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Changes in significant accounting policies in 2018

On January 1, 2018, the Company adopted the following new accounting standards and interpretations issued by the IASB, for which the application did not have a material impact on the condensed consolidated interim financial statements for the period ended March 31, 2018:

(a) IFRS 2, *Share-Based Payment*;

(b) IFRS 9 (2014), *Financial Instruments*; and

(c) IFRS 15, *Revenue from Contracts with Customers*.

Further information on these accounting changes can be found in note 3 to the March 31, 2018 condensed consolidated interim financial statements.

New accounting standard and interpretation not yet adopted

IFRS 16, *Leases*, a new accounting standard issued by the IASB, is not yet effective for the three-month period ended March 31, 2018, and has not been applied in preparing the condensed consolidated interim financial statements.

Further information on this new accounting standard can be found in note 4 to the March 31, 2018 condensed consolidated interim financial statements.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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 three-month period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect its ICFR.

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.

BELLUS HEALTH INC.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

March 31, 2018 and December 31, 2017
(in thousands of Canadian dollars)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (note 5)	$ 5,535	$ 7,749
Short-term investments (note 5)	16,196	16,139
Trade and other receivables (note 6)	1,158	1,714
Contingent consideration receivable (note 7)	384	384
Prepaid expenses and other assets	85	84
Total current assets	23,358	26,070
Non-current assets:		
Other assets	72	69
In-process research and development asset (note 8)	2,359	2,359
Total non-current assets	2,431	2,428
Total Assets	$ 25,789	$ 28,498
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 1,214	$ 2,190
Financial liabilities – CVRs (note 10)	—	20
Total current liabilities	1,214	2,210
Total Liabilities	1,214	2,210
Shareholders' equity:		
Share capital (note 11 (a))	467,253	467,253
Other equity (note 11 (b) (i))	26,332	26,202
Deficit	(469,010)	(467,167)
Total Shareholders' Equity	24,575	26,288
Total Liabilities and Shareholders' Equity	$ 25,789	$ 28,498

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

Condensed Consolidated Interim Statements of (Loss) Income and Other Comprehensive (Loss) Income
(Unaudited)

Periods ended March 31, 2018 and 2017
(in thousands of Canadian dollars, except per share data)

	Three-month periods ended March 31,	
	2018	2017
Revenues	$ 9	$ 9
Expenses:		
Research and development	1,405	256
Research tax credits	(160)	(5)
	1,245	251
General and administrative	704	566
Total operating expenses	1,949	817
Loss from operating activities	(1,940)	(808)
Finance income	99	18
Finance costs	(2)	(10)
Net finance income (note 12)	97	8
Gain on sale of subsidiary (note 9)	—	1,944
Net (loss) income and total comprehensive (loss) income for the period	$ (1,843)	$ 1,144
(Loss) earnings per share (note 13)		
Basic and diluted	$ (0.02)	$ 0.02

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

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

Periods ended March 31, 2018 and 2017
(in thousands of Canadian dollars)

	Share capital (note 11(a))	Other equity	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2017	$ 467,253	$ 26,202	$ —	$ (467,167)	$ 26,288
Total comprehensive loss for the period:					
Net loss	—	—	—	(1,843)	(1,843)
Total comprehensive loss for the period	—	—	—	(1,843)	(1,843)
Transactions with shareholders, recorded directly in shareholders' equity:					
Stock-based compensation (note 11 (b) (i))	—	130	—	—	130
Balance, March 31, 2018	$ 467,253	$ 26,332	$ —	$ (469,010)	$ 24,575

	Share capital (note 11(a))	Other equity	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2016	$ 445,753	$ 25,527	$ 334	$ (463,351)	$ 8,263
Total comprehensive income for the period:					
Net income	—	—	—	1,144	1,144
Total comprehensive income for the period	—	—	—	1,144	1,144
Transactions with shareholders, recorded directly in shareholders' equity:					
Issued as part of upfront payment for license acquisition (note 11 (a) (i))	1,500	—	—	—	1,500
Stock-based compensation (note 11 (b) (i))	—	31	—	—	31
Balance, March 31, 2017	$ 447,253	$ 25,558	$ 334	$ (462,207)	$ 10,938

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Periods ended March 31, 2018 and 2017
(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income for the period	$ (1,843)	$ 1,144
Adjustments for:		
Stock-based compensation	130	31
Net finance income	(97)	(8)
Gain on sale of subsidiary	—	(1,944)
Other items	(2)	(1)
Changes in operating assets and liabilities		
Trade and other receivables	556	155
Prepaid expenses and other assets	(4)	50
Trade and other payables	(976)	167
Financial liabilities - CVRs	(20)	—
	(2,256)	(406)
Cash flows from financing activities:		
Interest and bank charges paid	(2)	(6)
	(2)	(6)
Cash flows from investing activities:		
Net proceeds from sale of short-term investments	—	2,643
Acquisition of in-process research and development asset, net of costs (note 8)	—	(1,720)
Proceeds from sale of subsidiary (note 9)	—	2,300
Interest received	30	18
	30	3,241
Net (decrease) increase in cash and cash equivalents	(2,228)	2,829
Cash and cash equivalents, beginning of period	7,749	2,575
Effect of foreign exchange on cash and cash equivalents	14	(1)
Cash and cash equivalents, end of period	$ 5,535	$ 5,403
Supplemental cashflow disclosure:		
Non-cash transactions:		
Issuance of shares in connection with acquisition of in-process research and development asset (note 8)	$ —	$ 1,500
Development support payment receivable in connection with acquisition of in-process research and development asset (note 8)	—	950
Costs in relation to acquisition of in-process research and development asset in Trade and other payables (note 8)	—	89
Deferred payment on sale of subsidiary included in Trade and other receivables (note 9)	—	400
Costs in relation to sale of subsidiary in Trade and other payables (note 9)	—	183

See accompanying notes to unaudited condensed consolidated interim 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's pipeline of projects includes its lead drug candidate BLU-5937 for the treatment of chronic cough and several other partnered clinical-stage drug development programs. The Company is domiciled in Canada. The address of the Company's registered office is 275 Armand-Frappier Blvd., Laval, Quebec, H7V 4A7.

These condensed consolidated interim financial statements include the accounts of BELLUS Health Inc. and its subsidiaries.

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol BLU. The annual consolidated financial statements of the Company as at and for the year ended December 31, 2017 are available at www.bellushealth.com or at www.sedar.com.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The condensed consolidated interim financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2017. These condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

These condensed consolidated interim financial statements for the three-month period ended March 31, 2018 were approved by the Board of Directors on May 15, 2018.

(b) Use of estimates and judgements:

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

2. Basis of preparation (continued):

(b) Use of estimates and judgements (continued):

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described in note 3.

3. Significant accounting policies and basis of measurement:

The accounting policies and basis of measurement applied in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2017, except as described below:

Changes in significant accounting policies in 2018

On January 1, 2018, the Company adopted the following new accounting standards and interpretations issued by the International Accounting Standards (IASB):

(a) Share-based payment:

Amendments to IFRS 2, *Share-Based Payment*, clarify 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 adoption of amendments to IFRS 2 did not have a material impact on the condensed consolidated interim financial statements.

(b) Financial instruments:

The final 2014 version of IFRS 9, *Financial Instruments* addresses the classification and measurement of financial assets and liabilities, impairment and hedge accounting, replacing IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 (2014) did not have a material impact on the condensed consolidated interim financial statements.

3. Significant accounting policies and basis of measurement (continued):

Changes in significant accounting policies in 2018 (continued)

(c) Revenue:

IFRS 15, *Revenue from Contracts with Customers*, replaces 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 determine the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. The Company adopted IFRS 15 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 Company's limited revenues, the adoption of IFRS 15 did not have a material impact on the condensed consolidated interim financial statements.

4. New accounting standard and interpretation not yet adopted:

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:

	March 31, 2018	December 31, 2017
Cash balances with banks	$ 703	$ 2,932
Short-term investments with initial maturities of less than three months (yielding interest at 1.10% to 1.35% as at March 31, 2018) (December 31, 2017 – 0.95% to 1.20%)	4,832	4,817
Cash and cash equivalents	5,535	7,749
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 March 31, 2018) (December 31, 2017 – 1.00% to 2.20%)	16,196	16,139
Cash, cash equivalents and short-term investments	$ 21,731	$ 23,888

6. Trade and other receivables:

Trade and other receivables consist of:

	March 31, 2018	December 31, 2017
Trade receivables	$ 13	$ 25
Development support payment receivable (note 8)	475	475
Deferred payment on sale of subsidiary (note 9)	—	400
Research tax credits receivable	446	301
Amounts receivable under license agreements	9	60
Other receivables	215	453
	$ 1,158	$ 1,714

7. Contingent consideration receivable:

On June 30, 2017, the Company sold its 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.

As at March 31, 2018, 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 ($384 as at December 31, 2017).

8. In-process research and development asset:

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

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.

In addition, NEOMED provided development support to the BLU-5937 program and contributed $950 towards the funding of research and development activities, of which $475 was received during the second quarter of 2017 and the balance of $475 was received in May 2018. As at March 31, 2018 and December 31, 2017, the balance of $475 was presented as current Trade and other receivable in the consolidated statement of financial position.

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.

9. Sale of subsidiary:

On March 16, 2017, the Company entered into a Share Purchase Agreement with Taro Pharmaceuticals Inc. ("Taro") for the sale of 100% of the shares of its wholly-owned subsidiary, Thallion Pharmaceuticals Inc. ("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, which 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 ("Shigamab™ Consideration"), was payable to the CVR holders (refer to note 10).

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 in relation to CVRs on Shigamab™ future revenues of $31 and the carrying value of the asset sold of $542) was recognized in the condensed consolidated interim statement of (loss) income for the three-month period ended March 31, 2017. As at December 31, 2017, the deferred payment on the sale of Thallion of $400 was presented as current Trade and other receivable in the consolidated statement of financial position.

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

10. Financial liabilities – CVRs

On August 15, 2013, the Company acquired all of the issued and outstanding common shares of Thallion. The contingent value rights ("CVRs") then issued to Thallion's shareholders entitle the holder thereof to, among other things, its pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500.

Accordingly, BELLUS Health paid on January 26, 2018 a net amount of $15 ($0.00041 per CVR) to the CVR holders, which consists of the Shigamab™ Consideration of $20 on the deferred payment received by the Company in January 2018 for the sale of Thallion (refer to note 9), less $5 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.

The contingent consideration payable related to CVRs on Shigamab™ amounted to nil as at March 31, 2018 ($20 as at December 31, 2017). The change in fair value for the three-month period ended March 31, 2018 amounted to nil ($31 for the three-month period ended March 31, 2017, presented as a reduction of the gain on sale of subsidiary (refer to note 9)).

11. Shareholders' equity:

(a) Share capital:

Issued and outstanding common shares are as follows:

	Number		Dollars
Balance, March 31, 2018 and December 31, 2017	119,497,581	$	467,253

	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
Balance, March 31, 2017	66,866,001	$	447,253

(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 8).

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

11. Shareholders' equity (continued):

(b) Share-based payment arrangements:

(i) Stock option plan:

Changes in outstanding stock options issued under the stock option plan were as follows:

	Number		Weighted average exercise price
Options outstanding, December 31, 2017	7,293,000	$	0.44
Granted [1]	4,150,000		0.35
Options outstanding, March 31, 2018	11,443,000	$	0.41

[1] 3,800,000 stock options were granted to key management personnel and 350,000 were granted to other employees.

	Number		Weighted average exercise price
Options outstanding, December 31, 2016	4,788,000	$	0.53
Forfeited	(90,000)		0.50
Options outstanding, March 31, 2017	4,698,000	$	0.53

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2018:

	Options outstanding		Options exercisable
Exercise price/share	Number	Weighted average years to expiration	Number
$0.30	2,630,000	9.1	45,000
$0.35	4,150,000	9.9	—
$0.42	200,000	9.6	—
$0.50	4,300,000	4.4	4,300,000
$1.05	60,000	4.4	60,000
$1.12	103,000	7.9	41,200
	11,443,000	7.6	4,446,200

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

11. Shareholders' equity (continued):

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

(i) Stock option plan (continued):

Stock-based compensation

For the three-month period ended March 31, 2018, the Company recorded a stock-based compensation expense related to the stock option plan (excluding compensation under the DSU plans) in the amount of $130 in the condensed consolidated interim statement of (loss) income; from this amount, $20 is presented in Research and development expenses and $110 is presented in General and administrative expenses ($31 for the corresponding period of the previous year, $3 and $28 respectively presented in Research and development and General and administrative expenses).

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for a period commensurate with the expected life. The weighted average assumptions for stock options granted during the three-month periods ended March 31, 2018 and 2017 were as follows:

		2018 [(1)]	2017
Weighted average fair value of stock options at grant date	$	0.28	N/A
Weighted average share price	$	0.35	N/A
Weighted average exercise price	$	0.35	N/A
Risk-free interest rate		2.19%	N/A
Expected volatility		100%	N/A
Expected life in years		7	N/A
Expected dividend yield		Nil	N/A

(1) All stock options were granted on February 20, 2018.

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:

The Company had 1,806,735 broker warrants outstanding to purchase common shares as at March 31, 2018 and December 31, 2017 (nil as at March 31, 2017 and December 31, 2016).

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

11. Shareholders' equity (continued):

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

(iii) Deferred share unit ("DSU") plans:

Changes in the number of units outstanding for the three-month periods ended March 31, 2018 and 2017 were as follows:

Number of units	2018	2017
Balance, beginning of period	217,953	217,953
Units granted [1]	94,495	—
Balance, end of period	312,448	217,953
Balance of DSU liability, included in Trade and other payables [2]	$ 147	$ 59

[1] All DSUs were granted to key management personnel.
[2] Balance of DSU liability as at December 31, 2017 amounted to $81.

During the three-month period ended March 31, 2018, the Company granted 94,495 DSUs having a fair value per unit of $0.46. The stock-based compensation expense (income) related to DSU plans recorded in the condensed consolidated interim statement of (loss) income for the three-month period ended March 31, 2018 amounted to $66 and is presented in General and administrative expenses ($(4) for the corresponding period of the previous year, presented in General and administrative expenses).

12. Net finance income:

Finance income and Finance costs for three-month periods ended March 31, 2018 and 2017 were attributed as follows:

	Three-month periods ended March 31, 2018	2017
Interest income	$ 87	$ 18
Foreign exchange gain	12	—
Finance income	99	18
Interest and bank charges	(2)	(6)
Foreign exchange loss	—	(4)
Finance costs	(2)	(10)
Net finance income	$ 97	$ 8

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

13. (Loss) earnings per share:

	Three-month periods ended March 31,	
	2018	2017
Basic weighted average number of common shares outstanding	119,497,581	63,062,352
Basic and diluted (loss) earnings per share	$ (0.02)	$ 0.02

Excluded from the calculation of the diluted (loss) earnings per share for the three-month periods ended March 31, 2018 and 2017 is the impact of the stock option plan, as it would be anti-dilutive.

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

14. 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 $95 for both three-month periods ended March 31, 2018 and 2017.

(c) Key management personnel:

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

The aggregate compensation for the three-month periods ended March 31, 2018 and 2017 to key management personnel of the Company is set out below:

	Three-month periods ended March 31,	
	2018	2017
Short-term benefits	$ 387	$ 409
DSU plans expense (income)	66	(4)
Stock option plan expense	117	30
	$ 570	$ 435

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

15. Financial instruments:

Carrying values and fair values:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The financial asset/liability fair valued on a recurring basis as at March 31, 2018 is the contingent consideration receivable in relation to the sale of the equity interest in FB Health in 2017. The contingent consideration payable in relation to CVRs on Shigamab™ future revenues was paid in January 2018. These financial instruments were measured using Level 3 inputs.

For the three-month period ended March 31, 2018, the reconciliation of the beginning and ending balance of the asset and the liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Contingent consideration receivable	Contingent consideration payable
Balance as at December 31, 2017	$ 384	$ (20)
Change in fair value	—	—
Reduction for distribution to CVR holders	—	20
Balance as at March 31, 2018	$ 384	$ —

For its financial assets and liabilities measured at amortized cost as at March 31, 2018, 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.

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

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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