2017 QUARTERLY REPORT

SECOND QUARTER
ended june 30

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 and six-month periods ended June 30, 2017. It should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2017, as well as the Company's audited consolidated financial statements for the year ended December 31, 2016. 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, 2016, 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 and six-month periods ended June 30, 2017 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 August 8, 2017.

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 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

<u>2017 Highlights</u>

- Entered into a license agreement for the exclusive worldwide rights to develop and commercialize BLU-5937 (formerly NEO5937), a potent, highly selective, orally bioavailable small molecule antagonist of the P2X3 receptor, a clinically validated target for chronic cough;
- Announced that 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;
- Sold the Company's wholly-owned subsidiary, Thallion Pharmaceuticals Inc. (Thallion), to Taro Pharmaceuticals Inc. (Taro) for total consideration of $2.7 million, including an upfront payment of $2.3 million;
- Sold the Company's equity interest in FB Health S.p.A. (FB Health) for a potential total consideration of approximately $2.5 million, of which $1.8 million was received in the second quarter;

- Concluded the quarter with cash, cash equivalents, cash held in trust and short-term investments totaling $8.0 million, which the Company believes should be sufficient to finance its operations to the first quarter of 2019.

BLU-5937 for Chronic Cough

On February 28, 2017, the Company announced that it had 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. BLU-5937 is a promising best-in-class drug candidate that has the potential to help millions of chronic cough patients who do not respond to current therapies.

Under the terms of the agreement, the Company paid an upfront fee of $3.2 million, consisting of $1.7 million in cash and $1.5 million with the issuance of 5,802,177 BELLUS Health's 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.

The P2X3 antagonist program was initiated by AstraZeneca scientists in Montreal, and assigned to NEOMED in October 2012. BLU-5937 was selected as a drug candidate to advance towards the clinic based on comprehensive structure-activity relationship testing at AstraZeneca and extensive preclinical development efforts in chronic cough undertaken by NEOMED.

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 BELLUS' Health lead drug candidate, 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. Patent applications with similarly broad claims are currently pending in Europe, Japan, China and other industrialized nations.

The Company is currently performing preclinical studies in order to complete its package for submission of an Investigational New Drug (IND) application expected in 2018. The Company plans to initiate a phase 1 clinical study in the second half 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. It is estimated that, in the United States alone, more than 2.7 million patients suffer from chronic cough that is not controlled by currently available medications.

Sale of Thallion

On March 16, 2017, the Company entered into a share purchase agreement (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 to occur within 24 months of the closing of the transaction. In addition, BELLUS Health will receive a portion of certain post-approval revenues related to the Shigamab™ program.

The Company realized a gain on subsidiary disposal of $1,944,000 presented in the condensed consolidated interim statement of income (loss) for the three and six-month periods ended June 30, 2017. 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.

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 CVR holders. Accordingly, on April 7, 2017, an amount of $94,550 ($0.00263 per CVR) was paid to CVR holders. An amount of $20,450 of CVR agent costs was deducted from the Shigamab™ Consideration, in conformity 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 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 at June 30, 2017, the Company estimated the fair value of the total consideration to be received at $2,153,000, which includes $56,000 received in cash, $1,713,000 received in trust on closing and the fair value of the contingent consideration estimated by management at $384,000. In the condensed consolidated interim statement of income (loss) for the three and six-month periods ended June 30, 2017, the Company realized a gain on sale of available-for-sale financial asset of $1,644,000, being the difference between the fair value of the total consideration and the amount paid for the original investment.

The proceed from this transaction, along with the proceed from the sale of Thallion, will support the development of BLU-5937, the Company's lead drug candidate for the treatment of chronic cough, while extending the Company's cash runway to the first quarter of 2019.

FB Health is an Italy-based specialty pharma focused on neurology and psychiatry. BELLUS Health acquired its interest in FB Health in 2013 when the Company granted FB Health a license for BLU-8499, a drug candidate for the treatment of Alzheimer's disease.

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 2017.

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

ALZ-801 for APOE4 Homozygous Alzheimer's Disease

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

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

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

RESULTS OF OPERATIONS

For the three-month period ended June 30, 2017*, net income* amounted to $267,000 (nil per share), compared to *net loss* of $361,000 ($0.01 per share) for the corresponding period the previous year. For the six-month period ended June 30, 2017, *net income* amounted to $1,411,000 ($0.02 per share), compared to *net loss* of $1,120,000 ($0.02 per share) for the corresponding period the previous year. The increase in net income is primarily attributable to the gain on subsidiary disposal of $1,944,000 recorded in the first quarter 2017 and the gain on sale of FB Health interest of $1,644,000 recorded in the second quarter of 2017*.* The increase in net income is partially offset by lower revenue recognized in 2017 as well as higher research and development expenses.

Revenues amounted to $41,000 for the three-month period ended June 30, 2017 ($50,000 for the six-month period), compared to $585,000 for the corresponding period the previous year ($1,176,000 for the six-month period). Revenues for 2016 included those related to Auven Therapeutics' development of KIACTA™ in AA Amyloidosis, which was completed in 2016.

Research and development expenses, net of research tax credits, amounted to $1,084,000 for the three-month period ended June 30, 2017 ($1,335,000 for the six-month period), compared to $543,000 for the corresponding period the previous year ($829,000 for the six-month period). The increase is primarily 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 BLU-5937 was entered into in February 2017. Expenses incurred in 2016 were related 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 $541,000 for the three-month period ended June 30, 2017 ($1,107,000 for the six-month period), compared to $368,000 for the corresponding period the previous year ($1,356,000 for the six-month period). The increase in the three-month period is primarily attributable to 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. The decrease in the six-month period is primarily attributable to cost reduction measures implemented by the Company in 2016 after the announcement of the KIACTA™ Phase 3 results in June 2016.

Net finance income amounted to $3,000 for the three-month period ended June 30, 2017 ($11,000 for the six-month period), compared to *net finance costs* of $51,000 for the corresponding period the previous year ($139,000 for the six-month period). 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.

Realized gain on sale of available-for-sale financial asset amounted to $1,644,000 for the three and six-month periods ended June 30, 2017 and is related to the sale of the Company's investment in FB Health in June 2017, as discussed previously.

Gain on subsidiary disposal amounted to $1,944,000 for the six-month period ended June 30, 2017 and is related to the sale of Thallion in March 2017, as discussed previously.

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

Quarter		Revenues		Net income (loss) attributable to shareholders		Basic and diluted income (loss) per share
Year ended December 31, 2017						
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)
Year ended December 31, 2015						
Fourth	$	2,053	$	865	$	0.02
Third		593		(191)		Nil

The variation of the net income (loss) 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 income for the second quarter of 2017 is primarily attributable to the realized gain on sale of available-for-sale financial asset, 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 subsidiary disposal. The increase in net loss for the fourth quarter of 2016 is primarily attributable to lower revenues recognized for accounting purposes in 2016 in relation to the VIVIMIND™ license agreement with FB Health and the service agreement with Auven Therapeutics for KIACTA™. The increase is partially offset by lower general and administrative expenses. The increase in net loss for the third quarter of 2016 is primarily due to lower revenues recognized for accounting purposes in relation to the service agreement with Auven Therapeutics for KIACTA™ as well as a decrease in the foreign exchange gain.

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 of $95,000 under the consulting and services agreement for the three-month periods ended June 30, 2017 and 2016 ($190,000 for the six-month periods ended June 30, 2017 and 2016).

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

The Company recognized revenues of $8,000 and $17,000 under these license agreements for the three and six-month periods ended June 30, 2017 ($13,000 and $27,000 for the corresponding periods the previous year).

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 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.

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 convertible notes previously amended as part of the 2012 Plan of Arrangement (the Amended Note).

FINANCIAL CONDITION

Liquidity and capital resources

As at June 30, 2017, the Company had available cash, cash equivalents, cash held in trust and short-term investments totalling $7,986,000, compared to $6,834,000 as at December 31, 2016. The cash held in trust was released and reclassified to cash and cash equivalents on July 3, 2017.

For the six-month period ended June 30, 2017, net increase in cash, cash equivalents, cash held in trust and short-term investments amounted to $1,152,000, compared to a net decrease of $1,752,000 for the corresponding period the previous year. The net increase in 2017 is primarily attributable to funds received from the sale of Thallion and FB Health interest, partially offset by funds used to acquire the BLU-5937 license and funds used to finance the Company's operating activities. The net decrease in 2016 was primarily attributable to funds used to finance the Company's operating activities.

Based on management's estimate and current level of operations, the Company believes that the current liquidity position should be sufficient to finance its operations to the first quarter of 2019.

During the six-month period ended June 30, 2017, the Company sold short-term investments for a net amount of $1,751,000 with initial maturities greater than three months and less than a year (1,426,000 for the six-month period ended June 30, 2016).

On February 17, 2017, the Company announced that it had received $572,586 as settlement for the additional purchase price consideration (Additional Consideration Payment) in relation to the 2009 Thallion transaction. An amount of $577,152 ($0.01609 per CVR) was paid to CVR holders on March 10, 2017. In addition to the Additional Consideration Payment, BELLUS Health remitted to CVR holders $50,000 in relation to the replacement cost of Shigamab™ antibodies, and deducted $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.

There has been no significant change to the Company's contractual obligations since December 31, 2016, with the exception of the Share Purchase Agreement entered into with Taro and the license agreement entered into with NEOMED (refer to note 5 and 7 of the condensed consolidated interim financial statements).

As at August 8, 2017, the Company had 66,866,001 common shares outstanding and 74,059,001 common shares on a fully diluted basis, including 7,193,000 stock options granted under the stock option plan. During the six-month period ended June 30, 2017, 2,685,000 stock option were granted, 190,000 stock options were forfeited and 90,000 stock options expired.

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, 2016, except for the valuation of the investment in FB Health, which was sold on June 30, 2017.

Refer to the audited consolidated financial statements for the year ended December 31, 2016 for discussions on accounting policies and estimates that are more 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

New accounting standards not yet adopted

Amendments to IFRS 2, *Share-based Payment*, IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*, new accounting standards issued by the IASB, are not yet effective for the three and six-month periods ended June 30, 2017, and have not been applied in preparing the condensed consolidated interim financial statements.

Further information on these new accounting standards can be found in note 4 to the June 30, 2017, 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 June 30, 2017 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)

June 30, 2017 and December 31, 2016
(in thousands of Canadian dollars)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents (note 6)	$ 3,765	$ 2,575
Cash held in trust (note 8)	1,713	—
Short-term investments (note 6)	2,508	4,259
Trade and other receivables (note 5 and 7)	1,221	810
Prepaid expenses and other assets (note 9)	136	685
Total current assets	9,343	8,329
Non-current assets:		
Contingent consideration (note 8)	384	—
Other assets	71	74
In-process research and development asset (note 5 and 7)	2,359	542
Investment in FB Health (note 8)	—	639
Total non-current assets	2,814	1,255
Total Assets	$ 12,157	$ 9,584
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 1,282	$ 644
Financial liabilities – CVRs (note 9)	20	573
Total current liabilities	1,302	1,217
Non-current liabilities:		
Financial liabilities – CVRs (note 9)	—	104
Total non-current liabilities	—	104
Total Liabilities	1,302	1,321
Shareholders' equity:		
Share capital (note 10 (b))	447,253	445,753
Other equity (notes 10 (c))	25,542	25,527
Accumulated other comprehensive income (note 8)	—	334
Deficit	(461,940)	(463,351)
Total Shareholders equity	10,855	8,263
Total Liabilities and Shareholders' Equity	$ 12,157	$ 9,584

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

Condensed Consolidated Interim Statements of Income (Loss)
(Unaudited)

Periods ended June 30, 2017 and 2016
(in thousands of Canadian dollars, except per share data)

	Three-month periods ended June 30, 2017	Three-month periods ended June 30, 2016	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Revenues (note 11)	$ 41	$ 585	$ 50	$ 1,176
Expenses:				
Research and development	1,148	543	1,404	865
Research tax credits	(64)	—	(69)	(36)
	1,084	543	1,335	829
General and administrative	541	368	1,107	1,356
Total operating expenses	1,625	911	2,442	2,185
Loss from operating activities	(1,584)	(326)	(2,392)	(1,009)
Finance income	16	86	34	171
Finance costs	(13)	(137)	(23)	(310)
Net finance income (costs) (note 12)	3	(51)	11	(139)
Gain on subsidiary disposal (note 5)	—	—	1,944	—
Realized gain on sale of available-for-sale financial asset (note 8)	1,644	—	1,644	—
Income (loss) before income taxes	63	(377)	1,207	(1,148)
Deferred tax recovery	(204)	(16)	(204)	(28)
Net income (loss) for the period	$ 267	$ (361)	$ 1,411	$ (1,120)
Net income (loss) attributable to:				
Shareholders	$ 267	$ (327)	$ 1,411	$ (1,051)
Non-controlling interest	—	(34)	—	(69)
	267	$ (361)	1,411	$ (1,120)
(Loss) income per share (note 13)				
Basic and diluted	$ —	$ (0.01)	$ 0.02	$ (0.02)

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

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

Periods ended June 30, 2017 and 2016
(in thousands of Canadian dollars)

	Three-month periods ended June 30, 2017	Three-month periods ended June 30, 2016	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Net income (loss) for the period	$ 267	$ (361)	$ 1,411	$ (1,120)
Other comprehensive income (that may be reclassified subsequently to net income(loss)):				
Unrealized gain on available-for-sale investment (note 8)	1,514	118	1,514	209
Related income taxes	(204)	(16)	(204)	(28)
Realized gain on available-for-sale financial asset reclassified to net income (note 8)	(1,644)	—	(1,644)	—
Other comprehensive (loss) income for the period	(334)	102	(334)	181
Total comprehensive (loss) income for the period	$ (67)	$ (259)	$ 1,077	$ (939)
Total comprehensive (loss) income attributable to:				
Shareholders:	$ (67)	$ (225)	$ 1,077	$ (878)
Non-controlling interest	—	(34)	—	(61)
	$ (67)	$ (259)	$ 1,077	$ (939)

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 June 30, 2017 and 2016
(in thousands of Canadian dollars)

	Attributable to shareholders						
	Share capital (note 10(b))	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
Total comprehensive income for the period:							
Net income	—	—	—	1,411	1,411	—	1,411
Other comprehensive loss	—	—	(334)	—	(334)	—	(334)
Total comprehensive (loss) income for the period	—	—	(334)	1,411	1,077	—	1,077
Transactions with shareholders, recorded directly in shareholders' equity:							
Issued as part of upfront payment for license acquisition (note 10 (b)(i))	1,500	—	—	—	1,500	—	1,500
Stock-based compensation (note 10 (c))	—	15	—	—	15	—	15
Balance, June 30, 2017	$ 447,253	$ 25,542	$ —	$ (461,940)	$ 10,855	$ —	$ 10,855

	Attributable to shareholders						
	Share capital (note 10(b))	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
Total comprehensive loss for the period:							
Net loss	—	—	—	(1,051)	(1,051)	(69)	(1,120)
Other comprehensive income	—	—	173	—	173	8	181
Total comprehensive income (loss) for the period	—	—	173	(1,051)	(878)	(61)	(939)
Transactions with shareholders, recorded directly in shareholders' equity:							
Issued on settlement of the Amended Note (note 10 (b)(ii))	8,744	(8,744)	—	—	—	—	—
Issued upon exercise of the Exchange Right (note 10 (b)(iii))	18,417	—	53	(17,200)	1,270	(1,270)	—
Stock-based compensation (note 10 (c))	—	135	—	—	135	—	135
Balance, June 30, 2016	$ 445,753	$ 25,449	$ 609	$ (462,243)	$ 9,568	$ —	$ 9,568

See accompanying notes to unaudited condensed consolidated interim financial statements.

BELLUS HEALTH INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Periods ended June 30, 2017 and 2016
(in thousands of Canadian dollars)

	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Cash flows from operating activities:		
Net income (loss) for the period	$ 1,411	$ (1,120)
Adjustments for:		
Stock-based compensation	15	135
Net finance (income) costs	(11)	139
Gain on subsidiary disposal	(1,944)	—
Realized gain on sale of available-for-sale financial asset	(1,644)	—
Deferred tax recovery	(204)	(28)
Other items	(10)	(15)
Changes in operating assets and liabilities		
Trade and other receivables	464	163
Prepaid expenses and other assets	(24)	916
Trade and other payables	617	(336)
Financial liabilities – CVRs	(94)	—
Deferred revenue	—	(1,621)
	(1,424)	(1,767)
Cash flows from financing activities:		
Interest and bank charges paid	(9)	(5)
	(9)	(5)
Cash flows from investing activities:		
Sale of short-term investments, net	1,751	1,426
Sale of subsidiary	2,117	—
Acquisition of License	(1,334)	—
Interest received	34	54
Proceed on investment disposal (note 8)	56	—
	2,624	1,480
Net increase (decrease) in cash and cash equivalents	1,191	(292)
Cash and cash equivalents, beginning of period	2,575	3,039
Effect of foreign exchange on cash and cash equivalents	(1)	(34)
Cash and cash equivalents, end of period	$ 3,765	$ 2,713

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. Its pipeline of projects includes BLU-5937 for 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 (refer to note 3 (a)).

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, 2016 are available at www.bellushealth.com or at www.sedar.com.

2. Basis of presentation:

(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, 2016. These condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

These condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2017 were approved by the Board of Directors on August 8, 2017.

(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.

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, 2016, with the exception to the valuation of the FB Health S.p. A. (FB Health) investment (refer to note 8).

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, 2016, except for the following changes:

Basis of consolidation:

Subsidiaries:

These condensed consolidated interim 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 condensed consolidated interim financial statements from the date that control commences until the date that the control ceases.

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 5). Prior to the effective date of the Share Purchase Agreement, BELLUS Health proceeded with an internal reorganization under which BHI Limited Partnership was dissolved, and transferred its assets and liabilities to BELLUS Health.

On March 16, 2017, the Company incorporated a new wholly-owned subsidiary, 10036269 Canada Inc.

4. Change in accounting policies:

New accounting standards and interpretation not yet adopted:

(a) Share-based payment:

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

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

4. Change in accounting policies (continued):

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

(b) Financial instruments:

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

(c) Revenue:

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

(d) Leases:

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

5. Subsidiary Disposal:

On March 16, 2017, the Company 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^{TM}, 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, to occur within 24 month of the transaction. In addition, the Company will receive a portion of certain post-approval revenues related to Shigamab^{TM} program.

BELLUS Health has also entered into a one year service agreement with Taro, whereby BELLUS Health will provide support for the preclinical development plan and will receive service fees of $130 over the period.

A gain on subsidiary disposal in the amount of $1,944 (net of transaction cost of $214 and the carrying value of the asset sold of $542) was recognized in the condensed consolidated interim statement of income (loss) for the three and six-month periods ended June 30, 2017. The deferred payment of $400 is presented as current Trade and other receivable.

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.

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^{TM} technology (Shigamab^{TM} Consideration), was payable to contingent value right (CVR) holders. Accordingly, on April 7, 2017, an amount of $94 ($0.00263 per CVR) was paid to CVR holders. An amount of $20 of CVR agent costs was deducted from the Shigamab^{TM} Consideration, in conformity 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)

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

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

	June 30, 2017	December 31, 2016
Cash balances with banks	$ 945	$ 967
Short-term investments with initial maturities of less than three months (yielding interest at 0.75% to 1.10% as at June 30, 2017) (December 31, 2016 – 0.75% to 1.10%)	2,820	1,608
Cash and cash equivalents	3,765	2,575
Short-term investments with initial maturities greater than three months and less than one year (yielding interest at 1.00% to 1.50% as at June 30, 2017) (December 31, 2016 – 1.35% to 1.65%)	2,508	4,259
Cash, cash equivalents and short-term investments	$ 6,273	$ 6,834

7. In-process research and development asset:

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 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 condensed consolidated interim statement of financial position as at June 30, 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 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.

8. Investment in FB Health:

During the three-month period ended June 30, 2017, the Company sold its 5.72 % equity interest in FB Health, for a potential total consideration of $2,536, consisting of upfront cash payments 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, an Italy-based specialty pharma focused on neurology and psychiatry acquired by BELLUS Health as part of the licence agreement with FB Health for BLU8499 in October 2013 (refer to note 11(b)), was measured at fair value through the Other comprehensive income in the condensed consolidated interim statements of Other comprehensive (loss) income.

During the three-month period ended 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.

The total consideration consists of $56 received in cash, $1,713 received in trust on closing and a contingent consideration in the amount of $384 which was determined using management best estimate of FB Health future revenue. The change in fair value of the contingent consideration, if any, will be accounted for in profit or loss in future periods.

The Company recorded an increase in fair value in the amount of $1,514 for the three and six-month periods ended June 30, 2017, recognized in other comprehensive income (2016 – increase of $118 and $209 for the corresponding periods the previous year).

Following the sale of its investment, the Company recognized an amount of $1,644 in the condensed consolidated interim statements of income (loss) as a realized gain on sale of available-for-sale financial asset for the three and six-month periods ended June 30, 2017.

As at June 30, 2017, the cash payment received in trust in the amount of $1,713 is presented in the condensed consolidated interim statements of financial position as cash held in trust and the fair value of the contingent consideration to be received in the amount of $384 is presented as non-current Contingent consideration receivable. The cash held in trust was released and reclassified to cash and cash equivalent on July 3, 2017.

9. Financial liabilities – CVRs:

On August 15, 2013, the Company acquired all of the issued and outstanding common shares of Thallion for a purchase price of $6,266 in cash and the issuance of one CVR per common share.

The CVRs issued to Thallion's shareholders entitle the holder thereof to, among other things: (i) its pro rata shares of 100% of any additional purchase price consideration to be received in relation to a 2009 sale transaction by Thallion and (ii) its pro rata share of 5% of the Shigamab™ revenue generated or received by BELLUS Health, capped at $6,500.

9. Financial liabilities – CVRs (continued):

In relation to (i) above, the Company announced on February 17, 2017, that it had received $573 as additional purchase price consideration settlement in relation to the 2009 Thallion transaction. This amount was paid in full to the CVR holders on March 10, 2017. The contingent right and contingent consideration as at June 30, 2017 are nil ($573 in Prepaid expenses and other assets and in current Financial liabilities – CVRs as at December 31, 2016). There were no changes in the fair value of the contingent right nor contingent consideration for the three and six-month periods ended June 30, 2017 ($60 and $117 presented in Finance income for the assets and in Finance cost for the liability in the condensed consolidated interim statements of income (loss) for the corresponding periods the previous year).

In relation to (ii) above, the Company announced on March 16, 2017, that it had sold all of the issued and outstanding shares of Thallion, including all the rights to the drug candidate Shigamab™ (refer to note 5). 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, which included all the rights to the drug candidate Shigamab™, was payable to CVR holders and was paid on April 7, 2017. The contingent consideration related to CVRs on Shigamab™ on the deferred payment of $400 (refer to note 5) of $20 is presented as Financial liabilities – CRVs in current liabilities as at June 30, 2017 ($104 as Financial liabilities – CVRs in Non-current liabilities as at December 31, 2016). The change in fair value of the contingent consideration related to CVRs on Shigamab™ for the three and six-month periods ended June 30, 2017 amounted to nil and $31 and is presented as a reduction of the gain on subsidiary disposal (nil for the three and six-month periods ended June 30, 2016) (refer to Note 5).

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

10. Shareholders' equity:

(a) 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 (note 10 (b)(i))	5,802,177		1,500
Balance, June 30, 2017	66,866,001	$	447,253

	Number		Dollars
Balance, December 31, 2015	47,426,358	$	418,592
Issued on settlement of the Amended Note (note 10 (b) (ii))	7,286,828		8,744
Issued upon exercise of the Exchange Right (note 10 (b) (iii))	6,350,638		18,417
Balance, June 30, 2016	61,063,824	$	445,753

(b) Common shares:

(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. This is a non-cash transaction, therefore excluded from the condensed consolidated interim statement of cash flows (refer to Note 7).

(ii) On January 1, 2016, in settlement of convertible notes previously amended concurrent with the strategic partnership and financing agreement with Pharmascience in May 2012 (the Amended Note), the Company issued 7,286,828 common shares from treasury. As a result, the carrying value of the Amended Note of $8,744 allocated to Other equity on issuance was reclassified to Share capital. This is a non-cash transaction, therefore excluded from the condensed consolidated interim statement of cash flows.

(iii) On June 2, 2016, BELLUS Health issued 6,350,638 common shares from treasury upon the exercise of Pharmascience's right to convert into common shares its 10.4% interest (Interest) in BHI LP (the Exchange Right). Pharmascience first acquired the Interest in connection with the strategic partnership 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. As a result, an amount of $17,200 was recognized in Deficit, representing the

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

10. Shareholders' equity (continued):

(b) Common shares (continued):

difference between the carrying value of the non-controlling interest and the fair value of the common shares issued. As well, the balance of other comprehensive income allocated to the non-controlling interest up to June 2, 2016 has been reallocated to Accumulated other comprehensive income to reflect the change of interests. This is a non-cash transaction, therefore excluded from the condensed consolidated statement of cash flows.

(c) 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, 2016	4,788,000	$	0.53
Granted [1]	2,685,000		0.30
Forfeited	(190,000)		0.68
Expired	(90,000)		0.50
Options outstanding, June 30, 2017	7,193,000	$	0.44

	Number		Weighted average exercise price
Options outstanding, December 31, 2015	4,685,000	$	0.51
Granted [2]	103,000		1.12
Options outstanding, June 30, 2016	4,788,000	$	0.53

(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) All stock options were granted to key management personnel.

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

10. Shareholders' equity (continued):

(c) Stock option plan (continued):

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2017:

	Options outstanding		Options exercisable
Exercise price/share	Number	Weighted Average Years to expiration	Number
$0.30	2,730,000	9.8	45,000
$0.50	4,300,000	5.2	3.496,000
$1.05	60,000	7.7	60,000
$1.12	103,000	8.7	20,600
	7,193,000	7.0	3,621,600

Stock-based compensation:

For the three and six-month periods ended June 30, 2017, the Company recorded a stock-based compensation expense (income) related to the stock option plan (excluding compensation under the DSU plans) in the amount of $(16) and $15 in the condensed consolidated interim statement of income (loss); from this amount, $2 and $5 respectively is presented in Research and development expenses and $(18) and $10 respectively is presented in General and administrative as (income) expense ($55 and $135 for the corresponding periods the previous year, $5 and $11 respectively presented in Research and development expenses and $50 and $124 respectively presented in General and administrative expenses).

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

10. Shareholders' equity (continued):

(c) Stock option plan (continued):

Stock-based compensation (continued):

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 six-month periods ended June 30, 2017 and 2016 were as follows:

	2017 (1)	2016 (2)
Fair value of stock options at grant date	$ 0.26	$ 0.85
Weighted average share price	$ 0.31	$ 1.12
Exercise price	$ 0.30	$ 1.12
Risk-free interest rate	1.15%	0.84%
Expected volatility	107%	87%
Expected life in years	7	7
Expected dividend yield	Nil	Nil

(1) All stock options were granted on May 23, 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.

(d) Deferred share unit (DSU) plans:

The number of units outstanding for the six-month periods ended June 30, 2017 and 2016 were as follows:

	Six-month periods ended June 30,	
Number of units	2017	2016
Balance, end of period	217,953	217,953
Balance of DSU liability, included in Trade and other payables	$ 97	$ 69

For the six-month periods ended June 30, 2017 and 2016 the Company did not grant any DSU. The stock-based compensation (income) expense related to DSU plans recorded in the condensed consolidated interim statement of income (loss) for the three and six-month periods ended June 30, 2017 amounted to $38 and $34 respectively; which is presented in General and administrative expenses ($(284) and $(158) for the corresponding periods the previous year,

10. Shareholders' equity (continued):

(d) Deferred share unit (DSU) plans (continued):

$(2) and $(1) respectively presented in Research and development expenses and $(282) and $(157) respectively presented in General and administrative expenses).

11. Revenues:

Revenues consist of the following:

(a) Development services:

Revenue from the asset sale and license agreement and the service agreement entered into with Auven Therapeutics in 2010 for KIACTA™ amounted to nil for the three and six-month periods ended June 30, 2017 ($572 and $1,149 for the corresponding periods the previous year).

(b) Revenue under license agreements:

BELLUS Health entered into an agreement in October 2013 to license the worldwide rights of VIVIMIND™, a natural health product for memory protection, to FB Health, a related company. The agreement provides for a cash consideration of more than $2,000 to be received until 2017, for which all revenue has been recognized as at December 31, 2015, 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 company focused on Alzheimer's disease and other neurodegenerative disorders, a then related company, as part of an exclusive worldwide license, excluding Italy.

The Company recognized revenues of $8 and $17 under these agreements for the three and six-month periods ended June 30, 2017 ($13 and $27 for the corresponding periods the previous year). The amount receivable in relation to the agreements amounted to $42 as at June 30, 2017, and is presented as current Trade and other receivables in the condensed consolidated interim statement of financial position ($506 as at December 31, 2016).

(c) Service agreement:

On March 16, 2017, BELLUS Health has also entered into a one year service agreement with Taro, whereby BELLUS Health will provide support for the preclinical development plan and will receive service fees of $130 over the period.

The Company recognized revenues of $33 under this agreement for the three and six-month periods ended June 30, 2017 (Nil for the corresponding period the previous year).

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

12. Net finance income (costs):

Finance income and Finance costs for three and six-month periods ended June 30, 2017 and 2016 were attributed as follows:

	Three-month periods ended June 30, 2017	Three-month periods ended June 30, 2016	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Interest income	$ 16	$ 26	$ 34	$ 54
Change in fair value of contingent right asset	—	60	—	117
Finance income	16	86	34	171
Interest and bank charges	(3)	(2)	(9)	(5)
Change in fair value of contingent consideration	—	(60)	—	(117)
Foreign exchange loss	(10)	(75)	(14)	(188)
Finance costs	(13)	(137)	(23)	(310)
Net finance income (costs)	$ 3	$ (51)	$ 11	$ (139)

13. (Loss) earnings per share:

	Three-month periods ended June 30, 2017	Three-month periods ended June 30, 2016	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Basic weighted average number of common shares, outstanding	66,866,001	56,667,228	64,974,684	55,690,207
Dilutive effect of stock option	—	—	8,826	—
Weighted average number of diluted common shares outstanding	66,866,001	56,667,228	64,982,509	55,690,207
Basic and diluted (loss) earnings per share	$ —	$ (0.01)	$ 0.02	$ (0.02)

Excluded from the calculation of the diluted earnings per share for the three-month period ended June 30, 2017 is the impact of the stock option plan, as it would be anti-dilutive.

Excluded from the calculation of the diluted loss per share for the three and six-month periods ended June 30, 2016 are the impacts of the Amended Note, the Exchange Right and the stock option plan, as they would be anti-dilutive.

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

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

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 and $190 for the three and six-month periods ended June 30, 2017 and 2016.

In October 2013, BELLUS Health entered into a license agreements in relation to VIVIMIND™ and BLU8499 with related party FB Health and then related party Alzheon (refer to note 8 and 11 (b)). FB Health is controlled by Dr. Francesco Bellini, the Chairman of the Board of Directors of BELLUS Health.

On June 30, 2017, the Company sold its 5.72 % equity interest in FB Health (refer to note 8).

(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 (refer to note 10 (b) (ii)).

(d) 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 and six-month periods ended June 30, 2017 and 2016 to key management personnel of the Company is set out below:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	2017	2016
Short term benefits	$ 348	$ 313	$ 758	$ 765
DSU plans expense (income)	38	(284)	34	(158)
Stock option plan expense	(11)	52	19	130
	$ 375	$ 81	$ 811	$ 737

(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.

Financial assets and liabilities fair valued on a recurring basis as at June 30, 2017, are the contingent consideration related to the sale of available-for-sale financial asset (refer to note 8) and the contingent consideration related to the CVRs on Shigamab™, these financial instruments were measured using Level 3 inputs.

For the six-month period ended June 30, 2017, the reconciliation of the beginning and ending balance of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Investment in FB Health	Contingent right asset receivable	Contingent Consideration Receivable	Contingent consideration payable
Balance as at December 31, 2016	$ 639	$ 573	$ —	$ (677)
Change in fair value (reported as a reduction of the gain on subsidiary disposal) (1)	—	—	—	(31)
Payment received from third party	—	(573)	—	—
Payment made to CVRs holders	—	—	—	688
Change in fair value for the period (2)	1,514	—	—	—
Sale of shares of available-for-sale financial asset (2)	(2,153)	—	—	—
Contingent consideration (2)	—	—	384	—
Balance as at June 30, 2017	$ —	$ —	$ 384	$ (20)

(1) Change in fair value is presented in reduction of the gain on subsidiary disposal (refer to note 5).

(2) Change in fair value is presented in reduction of the realized gain on sale of available for sale financial asset (refer to note 8).

For its financial assets and liabilities measured at amortized cost as at June 30, 2017, the Company has determined that the carrying value of its short-term financial assets and liabilities and non-current Trade and other receivables approximates their fair value because of the relatively short periods to maturity of these instruments.

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CORPORATE PROFILE

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

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