



BELLUS HEALTH INC.

ANNUAL INFORMATION FORM

Fiscal year ended December 31, 2017

March 13, 2018

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As used in this annual information form, unless the context otherwise requires, the terms “we”, “us”, “our”, “BELLUS Health” or the “Company” mean or refer to BELLUS Health Inc. and its subsidiaries and its Affiliates (as such term is defined in this annual information form). All currency figures reported in this document are in CDN dollars, unless otherwise specified.

Certain statements contained in this annual information form, 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. When used in this annual information form, the words “believe”, “anticipate”, “intend”, “estimate” and “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. 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. 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 annual information form. 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.

Unless otherwise noted, all information in this annual information form is presented as at December 31, 2017.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

BELLUS Health was incorporated on April 12, 2012 under the Canada Business Corporations Act (the “CBCA”) and is the successor of BELLUS Health Inc., a company incorporated on June 17, 1993, as described herein. References herein to BELLUS Health’s business and operations include activities prior to May 25, 2012, date of the strategic partnership and financing with Pharmascience Inc. (“Pharmascience”), on the basis that such historical business and operations have been continued by the Company.

The Company’s shares trade on the Toronto Stock Exchange (“TSX”) under the symbol BLU.

The Company’s head office is located at 275 Armand-Frappier Boulevard, Laval, Quebec H7V 4A7, Canada.

INTERCORPORATE RELATIONSHIPS

As at March 13, 2018, BELLUS Health Inc. has one wholly-owned subsidiary, BELLUS Health Cough Inc. (formerly 10036269 Canada Inc.), a CBCA company incorporated on March 16, 2017.

BUSINESS

BUSINESS OVERVIEW

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.

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

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

BELLUS Health also has economic interests in other partnered clinical-stage drug development programs, including KIACTA™ for sarcoidosis (partnered with Auvén Therapeutics), AMO-01 for intellectual disabilities (partnered with AMO Pharma) and ALZ-801 for APOE4 homozygous Alzheimer's disease (partnered with Alzheon).

The Company concluded its 2017 year with a liquidity position of \$23.9 million. As at March 13, 2018, the Company has 119,497,581 common shares outstanding and 132,747,316 common shares on a fully diluted basis, including 11,443,000 stock options granted under the stock option plan and 1,806,735 broker warrants.

2017 HIGHLIGHTS

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

- Sold its wholly-owned subsidiary, Thallion, to Taro Pharmaceuticals Inc. (“**Taro**”) for total consideration of \$2.7 million;
- Sold its equity interest in FB Health for a potential total consideration of approximately \$2.5 million;
- Concluded the year with cash, cash equivalents and short-term investments totaling \$23.9 million.

EQUITY OFFERING

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

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

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

PIPELINE OF PROJECTS

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

Disease indication	Drug candidate	Stage of development
Chronic cough	BLU-5937	Pre-clinical
Sarcoidosis	KIACTA™	Clinical Phase 2/3
Intellectual disabilities	AMO-01	Clinical Phase 2
Alzheimer’s disease	ALZ-801	Clinical Phase 2/3

BLU-5937 for Chronic Cough

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

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

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

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

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

Chronic cough is a cough that lasts more than eight weeks and is associated with significant adverse social, psychosocial and physical effects on quality of life. In June 2017, the Company commissioned Torrey 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.

Sale of Thallion

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

Refer to section *Contingent Value Rights - Acquisition of Thallion Pharmaceuticals Inc in 2013* for details on payments made to the CVR holders in accordance with the terms of the agreements of the 2013 Thallion acquisition by BELLUS Health.

Sale of Equity Interest in FB Health

On June 30, 2017, the Company sold its equity interest in FB Health for a potential total consideration of \$2.5 million consisting of an upfront cash payment of \$1.8 million and a contingent revenue-based milestone payment of up to \$0.7 million (€0.5 million), which will be determined one year from the closing of the transaction.

FB Health is an Italy-based specialty pharma focused on neurology and psychiatry. BELLUS Health's equity interest in FB Health was acquired at the time the Company entered into a worldwide license agreement with FB Health for BLU8499 (ALZ-801). In turn, FB Health sublicensed all its rights to Alzheon as part of an exclusive worldwide license, excluding Italy.

KIACTA™ for Sarcoidosis

In 2010, BELLUS Health entered into a sale and license agreement with global private equity firm Auvon 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 KIIACTA™ 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 KIIACTA™ 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 Intellectual Disabilities

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 intellectual disabilities in 2018.

Intellectual disabilities are characterized by significant limitations both in intellectual functioning (reasoning, learning, problem solving) and in adaptive behavior, which covers a range of everyday social and practical skills. This disability has a typical onset before the age of 18 and affects 6.5 million people in the U.S. and 1.5 million people in the U.K.

ALZ-801 for APOE4 Homozygous Alzheimer’s Disease

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

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

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.

KIIACTA™ for AA Amyloidosis Terminated in 2016

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

CONTINGENT VALUE RIGHTS - ACQUISITION OF THALLION PHARMACEUTICALS INC. IN 2013

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

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

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

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

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

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

In accordance with the terms of the plan of arrangement, BELLUS Health applied to list the CVRs on the TSX, which request was rejected. Therefore, the CVRs are not listed on a stock exchange.

INTELLECTUAL PROPERTY

BELLUS Health's approach regarding its intellectual property portfolio is to file and/or license patents and patent applications as appropriate and to obtain patent protection in at least the major pharmaceutical markets, including the US, major European countries, Japan, and Canada. BELLUS Health also relies on trade secrets, proprietary unpatented information, trademarks and contractual arrangements to protect the Company's technology and enhance its competitive position.

BELLUS Health currently has a patent estate comprised of exclusively owned and in-licensed patents and patent applications. The patent portfolio includes patents and patent applications claiming compounds, pharmaceutical compositions, nutraceuticals, processes, and methods for treating diseases, disorders, or conditions.

BLU-5937

BELLUS Health's BLU-5937 program is covered by a comprehensive patent estate comprised of issued and allowed patents, as well as pending patent applications. The main patent family, incorporating composition of matter and methods of use claims for a broad array of potent and selective P2X3 antagonist compounds, has been allowed in the United States and China, and is pending in all other major pharmaceutical markets. The main patent portfolio provides protection from generics until at least 2034. A second patent family with claims directed specifically to P2X3 antagonists was issued in the United States and several other major pharmaceutical markets. It provides protection until 2030.

Partnered Projects

BELLUS Health also owns other patents, including patents relating to BLU8499 (ALZ-801) and TLN-4601 (AMO-01), that have been licenced to third parties.

HUMAN RESOURCES

As at March 13, 2018, BELLUS Health employed 8 people.

FACILITIES

BELLUS Health leases office space in facilities located in the *Parc Scientifique de la Haute Technologie* in Laval, Quebec, Canada, pursuant to a lease originally entered into in March 2011. In March 2018, the lease was extended to January 31, 2020.

RISK FACTORS

Investing in BELLUS Health's securities involves a significant amount of risk. You should carefully consider the risks described below, together with all of the other information in publicly filed documents, before making an investment decision. If any of the following risks actually occurs, the Company's business, financial condition or results of operations could be adversely affected. In such an event, the trading price of the Company's Common Shares could decline and you may lose part or all of your investment in our securities. Any reference in this section to the Company's "products" includes a reference to BELLUS Health's product or product candidates and future products that may be develop.

BELLUS Health may not be able to maintain its operations and research and development without additional financing, and the Company may not have access to sufficient capital.

To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes and research tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception. As at December 31, 2017, the Company had available cash, cash equivalents and short-term investments totalling \$23,888,000. The Company will need to raise additional capital to fund its operations and to develop its drug candidates. The Company's future capital requirements will be substantial and may increase beyond current expectations depending on many factors, such as the duration, scope, rate of progress, results and costs of any clinical and preclinical trials for drug candidates; unexpected delays or developments in seeking regulatory approvals and the outcome thereof; the time and cost in preparing, filing, prosecuting, maintaining, and enforcing patent claims; other unexpected developments encountered in implementing the Company's business development and commercialization strategies; the outcome of any litigation; and arrangements with collaborators. Further, changing circumstances may cause the Company to consume capital significantly faster than it currently anticipates. The Company has based the foregoing estimates on assumptions that may prove to be wrong, and the Company could utilize its available financial resources sooner than it currently expects.

BELLUS Health may seek to raise additional funds through public or private equity or debt financing, collaborations agreements with other companies and/or from other sources. Additional funding may not be available on terms that are acceptable to the Company, or at all. If adequate funding is not available on reasonable terms, BELLUS Health may need to obtain funds on terms less favorable than it would otherwise accept. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of those securities could result in dilution to the Company's shareholders. Moreover, the incurrence of debt financing could result in a substantial portion of BELLUS Health's future operating cash flow, if any, being dedicated to the payment of principal and interest on such indebtedness and could impose restrictions on operations. This could render the Company more vulnerable to competitive pressures and economic downturns. If BELLUS Health is unable to raise additional capital in sufficient amounts or on terms acceptable to the Company, it may have to significantly delay, scale back or discontinue the development or commercialization of BLU-5937 or other drug candidates or other research and development initiatives. The Company could be required to seek collaborators for its product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms its rights to its product candidates in markets where the Company otherwise would seek to pursue development or commercialization itself.

BELLUS Health has a history of losses and has not generated any significant product sales revenue to date. The Company may never achieve or maintain profitability.

BELLUS Health's potential drug candidates are still only in development, and as a result, the Company has not generated significant revenues from drug sales to date. BELLUS Health has incurred substantial expenses in its efforts to develop drugs, and consequently, has generated operating losses each year since its inception. As of December 31, 2017, the Company had an accumulated deficit of \$467,167,000. BELLUS Health's losses have adversely affected, and will continue to adversely impact, working capital, total assets, and shareholders' equity. The Company does not expect to generate any significant revenues from drug sales in the immediate future. The Company may never successfully commercialize any drugs. Even if BELLUS Health succeeds in developing commercial drugs, it expects to incur additional operating losses for at least the next several years. If the Company does not ultimately commercialize drugs and achieve or maintain profitability, an investment in its shares could result in a significant or total loss.

BELLUS Health's prospects currently depend heavily on the success and market acceptance of BLU-5937, which is still in clinical development.

BELLUS Health currently has no drug products for sale and may never be able to successfully develop drug products. The Company currently believes that its growth and future prospects are mainly dependent on the successful development, regulatory approval and commercialization of its lead product candidate BLU-5937, which may never occur. The Company is investing the vast majority of its efforts and resources into the development of BLU-5937. BELLUS Health's business thus depends heavily on the successful pre-clinical and clinical development, regulatory approval and commercialization of BLU-5937, for which the Company must conduct additional preclinical and clinical trials, undergo further development activities and seek and receive regulatory approval prior to commercial launch. Further development of BLU-5937 will require substantial investment, access to sufficient commercial manufacturing capacity and significant marketing efforts before the Company can generate any revenue from product sales, if approved.

The Company anticipates that its ability to generate revenues will depend mainly on the commercial success of BLU-5937, which will depend upon its market acceptance by purchasers in the pharmaceutical market and the future market demand and medical need for products and research utilizing BLU-5937. Most prescription drug candidates never reach the clinical development stage and even those that do reach clinical development have only a small chance of successfully completing clinical development and gaining regulatory approval. If the Company is unable to successfully commercialize BLU-5937, it may never generate meaningful revenues. There is also the risk that the actual market size or opportunity for BLU-5937 is not certain. If BLU-5937 reaches commercialization and there is low market demand for BLU-5937 or the market for BLU-5937 develops less rapidly than the Company anticipates, the Company may not have the ability to shift its resources to the development of alternative products. Failure to gain

market acceptance of BLU-5937 or an incorrect estimate in the nature and size of its market could have a material adverse effect on the Company.

Lack of supporting clinical data

The clinical effectiveness and safety of BLU-5937 and of the Company's other drug candidates is not yet supported by clinical data and the medical community has not yet developed a large body of peer reviewed literature that supports the safety and efficacy of the Company's products, including BLU-5937. If future studies call into question the safety or efficacy of BLU-5937 or any of the Company's other products, the Company's business, financial condition, and results of operations could be adversely affected.

Even if BLU-5937 or any of the Company's other products successfully complete the clinical trials and receive the regulatory approval necessary to market the drug candidates to the public, there is also the risk of unknown side effects, which may not appear until the drug candidates are on the market and may result in delay or denial of regulatory approval or withdrawal of previous approvals, product recalls or other adverse events, which could materially adversely affect the Company.

BELLUS Health's clinical trials may not yield results that will enable the Company to obtain regulatory approval for its or its partnered drug candidates.

The Company will only receive regulatory approval for a drug candidate if it can demonstrate in carefully designed and conducted clinical trials that the drug candidate is safe and effective. BELLUS Health does not know whether its current or any future clinical trials will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or if they will result in marketable drugs.

Clinical trials are lengthy, complex, costly, and uncertain processes. It takes several years to complete testing, and failure can occur at any stage of testing. Results attained in preclinical testing and early clinical studies or trials may not be indicative of results that are obtained in later studies. The Company has suffered, and may suffer further, significant setbacks in advanced clinical trials, even after promising results in earlier studies. Based on results at any stage of clinical trials, BELLUS Health may decide to repeat or redesign a trial or discontinue the development of a drug candidate. Furthermore, actual results may vary once the final and quality-controlled verification of data and analyses has been completed. If the Company fails to adequately demonstrate the safety and efficacy of a drug under development, BELLUS Health will not be able to obtain the required regulatory approvals to commercialize that drug candidate.

Clinical trials are subject to continuing oversight by governmental regulatory authorities and institutional review boards, and must meet the requirements of these authorities; must meet requirements for informed consent; and must meet requirements for good clinical practices.

BELLUS Health may not be able to comply with these requirements. The Company relies on third parties, including contract research organizations and outside consultants, to assist in managing and monitoring clinical trials. BELLUS Health's reliance on these third parties may result in delays in completing, or in failing to complete, these trials if one or more third parties fail to perform with the speed and level of competence expected. If clinical trials for a drug candidate are unsuccessful, BELLUS Health will be unable to commercialize such drug candidate. If one or more of the clinical trials is delayed, the Company will be unable to meet its anticipated development or commercialization timelines. Either circumstance could cause the price of the Company's Common Shares to decline.

If BELLUS Health encounters difficulties enrolling patients in clinical trials, the trials could be delayed or otherwise adversely affected.

Clinical trials for drug candidates require to identify and enroll a large number of patients with the disorder under investigation. The Company or its partner may not be able to enroll a sufficient number of patients to complete clinical trials in a timely manner. Patient enrollment is a function of many factors, including the following: design of the protocol, size of the patient population, eligibility criteria for the study in question, perceived risks and benefits of the drug under study, availability of competing therapies, efforts to facilitate timely enrollment in clinical trials, patient

referral practices of physicians, and availability of clinical trial sites. If BELLUS Health or its partner has difficulty enrolling a sufficient number of patients to conduct its clinical trials as planned, it may need to delay or terminate ongoing clinical trials.

Setbacks in any of the clinical trials would likely cause a drop in the price of the Company's Common Shares.

Setbacks in any phase of the clinical development of a product candidate would have an adverse financial impact and could jeopardize FDA, EMA or PMDA approval, and would likely cause a further drop in the price of the Company's Common Shares.

BELLUS Health does not have the required approvals to market any of its drug candidates, and the Company does not know if it will ever receive such approvals.

To date, none of the Company's drug candidates has received regulatory approval for commercial sale. BELLUS Health cannot market a drug in any jurisdiction until it has completed rigorous clinical trials as well as such jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and efficacy of BELLUS Health's drug candidates before the Company can submit regulatory applications. Preparing, submitting, and advancing applications for regulatory approval is sometimes complex, costly, and time consuming and entails significant uncertainty.

Even if BELLUS Health or its partners obtain regulatory approvals for its drug candidates, the Company will be subject to ongoing government regulation.

Even if regulatory authorities approve any of the Company's drug candidates, the manufacturing, marketing, and sale of such drugs will be subject to strict and ongoing regulation. Compliance with such regulation may be costly and consume substantial financial and management resources. For example, an approval for a drug may be conditioned on conducting costly post-marketing follow-up studies. In addition, if, based on these studies, a regulatory authority does not believe that the drug demonstrates a benefit to patients, such authority could limit the indications for which the drug may be sold or revoke the drug's regulatory approval.

BELLUS Health and its contract manufacturers are required to comply with applicable current Good Manufacturing Practice ("cGMP") regulations for the manufacture of drugs. These regulations include requirements relating to quality assurance, as well as the corresponding maintenance of records and documentation. Manufacturing facilities must be approved before they can be used in the commercial manufacturing of products and are subject to subsequent periodic inspection by regulatory authorities. In addition, material changes in the methods of manufacturing or changes in the suppliers of raw materials are subject to further regulatory review and approval.

If the Company or any future marketing collaborators or contract manufacturers fail to comply with applicable regulatory requirements, BELLUS Health may be subject to sanctions, including fines, drug recalls or seizures, injunctions, total or partial suspension of production, civil penalties, withdrawals of previously granted regulatory approvals, and criminal prosecution. Any of these penalties could delay or prevent the promotion, marketing, or sale of the Company's drugs.

If BELLUS Health's drugs do not gain market acceptance, the Company may be unable to generate significant revenues.

Even if the Company's drugs are approved for sale, they may not be successful in the marketplace. Market acceptance of any of BELLUS Health's drugs will depend on a number of factors including demonstration of clinical effectiveness and safety, the advantages and disadvantages of the Company's drugs relative to alternative treatments, the availability of acceptable pricing and adequate third-party reimbursement, and the effectiveness of marketing and distribution methods for the drugs. If BELLUS Health's drugs do not gain market acceptance among consumers, physicians, patients, and others in the medical community, the ability to generate significant revenues from its drugs would be limited.

BELLUS Health may not achieve its projected development goals in the announced and expected time frames.

The Company sets goals for and makes public statements regarding timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated regulatory submission and approval dates, and time of drug launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in clinical trials, the uncertainties inherent in the regulatory approval process, and delays in achieving manufacturing or marketing arrangements sufficient to commercialize drugs. There can be no assurance that BELLUS Health's clinical trials will be completed, that it will make regulatory submissions or receive regulatory approvals as planned, or that the Company will be able to adhere to its current schedule for the launch of any of its drugs. If BELLUS Health fails to achieve one or more of these milestones as planned, the price of its Common Shares would likely decline.

If BELLUS Health or its partners fail to obtain acceptable prices or adequate reimbursement for its drugs, the Company's ability to generate revenues will be diminished.

BELLUS Health's ability to successfully commercialize drugs would depend significantly on the ability to obtain acceptable prices and the availability of reimbursement to the patient from third-party payers, such as government and private insurance plans. While the Company has not commenced discussions with any such parties, these third-party payers frequently require companies to provide predetermined discounts from list prices, and they are increasingly challenging the prices charged for pharmaceuticals and other medical products. BELLUS Health's drugs may not be considered cost-effective, and reimbursement to the patient may not be available or sufficient to allow the Company to sell its drugs on a competitive basis. BELLUS Health may not be able to negotiate favorable reimbursement rates for its drugs.

In addition, the continuing efforts of third-party payers to contain or reduce the costs of healthcare through various means may limit the Company's commercial opportunity and reduce any associated revenue and profits. BELLUS Health expects proposals to implement similar government controls to continue. In addition, increasing emphasis on managed care will continue to put pressure on the pricing of pharmaceutical and biopharmaceutical products. Cost-control initiatives could decrease the price that the Company or any current or potential collaborators could receive for any of the drugs and could adversely affect profitability. In addition, in Canada and in many other countries, including in the US, where significant healthcare reforms are currently under discussion, pricing and/or profitability of some or all prescription pharmaceuticals and biopharmaceuticals are subject to government control. If BELLUS Health fails to obtain acceptable prices or an adequate level of reimbursement for its drugs, the sales of the drugs would be adversely affected or there may be no commercially viable market for the Company's drugs.

Competition in the biopharmaceutical industry is intense, and development by other companies could render BELLUS Health's drugs or technologies non-competitive.

The biopharmaceutical industry is highly competitive. New drugs developed by other companies could render the Company's drugs or technologies non-competitive. Competitors are developing and testing drugs and technologies that would compete with the drugs that BELLUS Health is developing. Some of these drugs may be more effective or have an entirely different approach or means of accomplishing the desired effect than the Company's drugs. BELLUS Health expects competition from biopharmaceutical and pharmaceutical companies and academic research institutions to increase over time. Many of BELLUS Health's competitors and potential competitors have substantially greater drug development capabilities and financial, scientific, marketing, and human resources. The Company's competitors may succeed in developing drugs earlier and in obtaining regulatory approvals and patent protection for such drugs more rapidly than BELLUS Health can or at a lower price.

BELLUS Health is heavily dependent on licensed intellectual property. If the Company was to lose its rights to licensed intellectual property, it would not be able to continue developing or commercializing BLU-5937. If the Company breaches any of the agreements under which it licenses the use, development and commercialization rights to BLU-5937 or any other product candidate or technology from third parties or if certain insolvency events were to occur, it could lose license rights that are critical to its business.

The Company has an exclusive worldwide license to develop and commercialize BLU-5937 pursuant to a license agreement with NEOMED that is critical to its business, which is subject to termination for breach of its terms, and therefore its rights may only be available to it for as long as NEOMED agrees that the Company's development and commercialization activities are sufficient to meet the terms of the license. In addition, the Company may need to enter into additional license agreements in the future. BELLUS Health's existing license agreements impose, and it expects that any future license agreements will impose on the Company, various development, regulatory and/or commercial diligence obligations, payment of milestones and/or royalties and other obligations. If the Company fails to comply with its obligations under these agreements, or it is subject to a bankruptcy, the licensor may have the right to terminate the license, in which event the Company would not be able to market products covered by the license, which would have a material adverse effect on its business and financial condition. Moreover, the Company's current or future licenses may provide for a reversion to the licensor of its rights in regulatory filings or other intellectual property or data that it regards as its own in the event the license terminates under certain circumstances, such as due to breach.

Licensing of intellectual property is of critical importance to BELLUS Health's business and involves complex legal, business and scientific issues. Disputes may arise between the Company and its licensors regarding intellectual property subject to a license agreement, including with respect to:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- whether and the extent to which the Company's technology and processes infringe on intellectual property of the licensors that is not subject to the licensing agreement;
- the rights of the Company's licensors under the license agreements;
- the Company's right to sublicense patent and other rights to third parties under collaborative development relationships;
- the Company's diligence obligations with respect to the use of the licensed technology in relation to its development and commercialization of its product candidates, and what activities satisfy those diligence obligations; and
- the ownership of inventions and know-how resulting from the joint creation or use of intellectual property by the Company's licensors, and the Company and its partners.

Any disputes with the Company's licensors over intellectual property that it has licensed from them may prevent or impair its ability to maintain its current licensing arrangements on acceptable terms. Termination or expiry of the Company's license agreements could result in the loss of significant rights and could materially harm its ability to further develop and commercialize BLU-5937 or other product candidates.

The Company depends on its licensors to protect a significant portion of its proprietary rights that derive from license agreements, including its exclusive worldwide license with NEOMED to develop and commercialize BLU-5937. BLU-5937 is covered by a patent that is not owned by the Company but is instead licensed to the Company by NEOMED. Moreover, BELLUS Health's licensors under current licenses retain and its licensors under future licenses may retain certain rights and obligations. For example, the licensor may retain control over patent prosecution and maintenance under a license agreement, in which case the Company may not be able to adequately influence patent prosecution or prevent inadvertent lapses of coverage due to failure to pay maintenance fees. Similarly, the licensor may retain the sole right or a first right to enforce the licensed patents against infringement, in which case the Company may not be able to adequately influence or may be delayed in enforcing certain licensed patents. If such licensors fail to adequately maintain, prosecute or protect these patents or patent applications, the Company may have the right to take further action on its own to protect its technology. However, the Company may not be successful or have adequate resources to do so.

BELLUS Health's business could suffer, for example, if any current or future licenses terminate, if the licensors fail to abide by the terms of the license, if the licensors fail to protect its intellectual property rights or prevent infringement

by third parties, if the licensed patents or other rights are found to be invalid or unenforceable, or if the Company is unable to enter into necessary licenses on acceptable terms.

BELLUS Health may not obtain adequate protection for its drugs through its intellectual property.

BELLUS Health's success depends, in large part, on its ability to protect the Company's competitive position through patents, trade secrets, trademarks, and other intellectual property rights. The patent positions of pharmaceutical and biopharmaceutical firms, including BELLUS Health's, are uncertain and involve complex questions of law and fact for which important legal issues remain unresolved. The patents issued or to be issued to BELLUS Health may not provide it with any competitive advantage. The Company's patents may be challenged by third parties in patent litigation, which is becoming widespread in the biopharmaceutical industry. In addition, it is possible that third parties with drugs that are very similar to BELLUS Health will circumvent patents by means of alternate designs or processes. The Company may have to rely on method of use protection for its compounds in development and any resulting drugs, which may not confer the same protection as protection of its compounds *per se*. BELLUS Health may be required to disclaim part of the term of certain patents. There may be prior art of which the Company is not aware that may affect the validity or enforceability of a patent claim. There also may be prior art of which BELLUS Health is aware, but which it does not believe affects the validity or enforceability of a claim, which may, nonetheless ultimately be found to affect the validity or enforceability of a claim. No assurance can be given that the Company's patents would, if challenged, be held by a court to be valid or enforceable or that a competitor's technology or drug would be found by a court to infringe BELLUS Health's patents. Applications for patents and trademarks in Canada, the US, and in foreign markets have been filed and are being actively pursued. Pending patent applications may not result in the issuance of patents, and the Company may not develop additional proprietary drugs that are patentable.

Patent applications relating to or affecting the Company's business may have been filed by a number of pharmaceutical and biopharmaceutical companies and academic institutions. A number of the technologies in these applications or patents may conflict with BELLUS Health's technologies, patents, or patent applications, and such conflict could reduce the scope of patent protection that the Company could otherwise obtain. BELLUS Health could become involved in interference proceedings in the US in connection with one or more of its patents or patent applications to determine priority of invention. The Company's granted patents could also be challenged and revoked in opposition proceedings in certain countries outside of the US. In addition to patents, the Company relies on trade secrets and proprietary know-how to protect its intellectual property. BELLUS Health generally requires employees, consultants, outside scientific collaborators, and sponsored researchers and other advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with the Company is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees, the agreements provide that all of the technology that is conceived by the individual during the course of employment is the exclusive property of BELLUS Health. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of proprietary information. In addition, it is possible that third parties could independently develop proprietary information and techniques substantially similar to the Company's or otherwise gain access to BELLUS Health's trade secrets.

BELLUS Health may obtain the right to use certain technology under license agreements with third parties. The Company's failure to comply with the requirements of material license agreements could result in the termination of such agreements, which could cause BELLUS Health to terminate the related development program and cause a complete loss of investment in that program. As a result of the foregoing factors, the Company may not be able to rely on its intellectual property to protect its products in the marketplace.

BELLUS Health may infringe the intellectual property rights of others.

The Company's commercial success depends significantly on its ability to operate without infringing on the patents and other intellectual property rights of third parties. There could be issued patents of which BELLUS Health is not aware that its products infringe or patents that the Company believes it does not infringe, but that it may ultimately be found to infringe. Moreover, patent applications are, in some cases, maintained in secrecy until patents are issued. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. Because patents can take many years to issue, there may be currently pending applications of which BELLUS Health is unaware that may later result in

issued patents that its products infringe. For example, pending applications may exist that provide support or can be amended to provide support for a claim that results in an issued patent that the Company's drug infringes.

The biopharmaceutical industry has produced a proliferation of patents, and it is not always clear to industry participants which patents cover various types of products. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. BELLUS Health is aware of, and has reviewed, third-party patents relating to the treatment of amyloid-related diseases, and the Company believes that its drug candidates do not infringe any valid claim of these patents, although there can be no assurances of this. In the event of an infringement or violation of another party's patent, BELLUS Health may not be able to enter into licensing arrangements or make other arrangements at a reasonable cost. Any inability to secure licenses or alternative technology could result in delays in the introduction of drugs or lead to prohibition of the manufacture or sale of drugs by the Company.

Patent litigation is costly and time consuming and may subject BELLUS Health to liabilities.

The Company's involvement in any patent litigation, interference, opposition, or other administrative proceedings will likely cause BELLUS Health to incur substantial expenses, and the efforts of technical and management personnel will be significantly diverted. In addition, an adverse determination in litigation could subject the Company to significant liabilities.

BELLUS Health may not obtain trademark registrations.

The Company has filed applications for trademark registrations in connection with its drug candidates in various jurisdictions, including in the US. BELLUS Health does not believe that any of these current trademarks is critical to the success of the drug candidate to which it relates. No assurance can be given that any of BELLUS Health's trademarks will be registered in the US or elsewhere, or that the use of any trademark will confer a competitive advantage in the marketplace. Furthermore, even if the Company is successful in these trademark registrations, the FDA has its own process for drug nomenclature and its own views concerning appropriate proprietary names. It also has the power, even after granting market approval, to request that a corporation reconsider the name for a drug because of evidence of confusion in the market place. No assurance can be given that the FDA or any other regulatory authority will approve any of the Company's trademarks or will not request reconsideration of one of these trademarks at some time in the future.

Unstable market conditions may have serious adverse consequences on BELLUS Health's business.

BELLUS Health's business may be adversely affected by unpredictable and unstable market conditions. If the current equity and credit markets deteriorate it may make any necessary equity or debt financing more difficult, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on the Company's growth strategy, financial performance and stock price and could require the Company to delay or abandon clinical development plans. Global economic volatility and uncertainty may also have an adverse effect on the Company's the ability to obtain strategic partner support or commercialization opportunities and alliances for the Company's drug candidates, and to obtain continued services and supplies. There is a risk that one or more of the Company's current or future strategic partners may encounter difficulties during challenging economic times, which would directly affect its ability to attain our operating goals on schedule and on budget.

The market price of the Company's Common Shares experiences a high level of volatility due to factors such as the volatility in the market for biotechnology stocks generally and the short-term effect of a number of possible events.

BELLUS Health is a public growth company in the biotechnology sector. As frequently occurs among these companies, the market price for the Company's Common Shares may experience a high level of volatility. During the year ended December 31, 2017, BELLUS Health's Common Shares traded between \$0.24 and \$0.55 per share on the TSX. Numerous factors, including many over which the Company has no control, may have a significant impact on the market price of its Common Shares, including, among other things, the following: (1) clinical and regulatory developments regarding the Company's drugs and drug candidates and those of its competitors; (2) arrangements or

strategic partnerships by BELLUS Health or its competitors; (3) other announcements by the Company or its competitors regarding technological, drug development, sales, or other matters; (4) patent or other intellectual property achievements or adverse developments; (5) arrivals or departures of key personnel; (6) changes in financial estimates and recommendations by securities analysts; (7) government regulatory action affecting BELLUS Health's drug candidates and its competitors' drugs in the US, Canada, and foreign countries; (8) actual or anticipated fluctuations in revenues or expenses; (9) general market conditions and fluctuations for the emerging growth and biopharmaceutical market sectors; (10) failure to enter into favorable third-party manufacturing agreements; (11) events related to threatened, new, or existing litigation; (12) economic conditions in the US, Canada, or abroad; (13) purchases or sales of blocks of BELLUS Health's securities; and (14) difficulties in the Company's ability to obtain additional financing.

Listing on the TSX may increase share price volatility due to various factors, including that the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of the Company's Common Shares, regardless of its operating performance. In addition, sales of substantial amounts of its Common Shares in the public market after any offering, or the perception that those sales may occur, could cause the market price of the Company's Common Shares to decline.

As at March 13, 2018, Victoria Square Ventures Inc. ("VSVI"), a subsidiary of Power Corporation of Canada, and Rocabe Investments Inc. ("Rocabe"), a company in which Mr. Roberto Bellini has a 50% equity interest, (the "Major Shareholders") own, directly or indirectly, respectively 14.9% and 13.8% of the Company's outstanding Common Shares. A decision by one or more of the foregoing persons, or any other significant shareholder, to sell a substantial amount of the Company's Common Shares could cause the trading price of such Common Shares to decline substantially. Furthermore, shareholders may initiate securities class action lawsuits if the market price of BELLUS Health's stock drops significantly, which may cause the Company to incur substantial costs and could divert the time and attention of its management.

These factors, among others, could depress the trading price of the Company's securities. Because BELLUS Health may experience high volatility in its Common Shares, individuals or entities should not invest in the stock unless prepared to absorb a significant loss of capital. At any given time, investors may not be able to sell their shares at a price that is acceptable. The market liquidity for BELLUS Health's stock is low. While a more active trading market may develop in the future, the limited market liquidity for the Company's stock may affect investor's ability to sell at a price that is satisfactory to them.

BELLUS Health's revenues and expenses may fluctuate significantly and any failure to meet financial expectations may disappoint securities analysts or investors and result in a decline in the price of its Common Shares.

The Company's revenues and expenses have fluctuated in the past and are likely to do so in the future. These fluctuations could cause BELLUS Health's share price to decline. Some of the factors that could cause revenues and expenses to fluctuate include the following: the inability to complete drug development in a timely manner that results in a failure or delay in receiving the required regulatory approvals or allowances to commercialize drug candidates; the timing of regulatory submissions and approvals; the timing and willingness of any current or future collaborators to invest the resources necessary to commercialize the drug candidates; the outcome of any litigation; changes in foreign currency fluctuations; the conversion of any convertible; the timing of achievement and the receipt of milestone payments from current or future collaborators; failure to enter into new or the expiration or termination of current agreements with collaborators; failure to introduce the drug candidates to the market in a manner that generates anticipated revenues; the potential payments in relation to indemnity agreements and accounting policies adopted by the Company, including the fair value determination of financial instruments based on the Company's share price.

Due to fluctuations in the Company's revenues and expenses, BELLUS Health believes that period-to-period comparisons of its results of operation are not indicative of future performance. It is possible that in some future quarter or quarters, revenues and expenses will be below the expectations of securities analysts or investors. In this case, the price of the Company's Common Shares could fluctuate significantly or decline.

BELLUS Health would not be able to successfully commercialize drug candidates if the Company is unable to create sales, marketing, and distribution capabilities or make adequate arrangements with third parties, including entering into collaborations with partners, for such purposes.

In order to commercialize the Company's drug candidates successfully, BELLUS Health could, on a product-by-product basis, either develop internal sales, marketing, and distribution capabilities or make arrangements with third parties, including entering into collaborations with partners, to perform some or all of these services. The Company currently has no marketing capabilities and sales force. To the extent that BELLUS Health internally develops a sales force, the cost of establishing and maintaining a sales force would be substantial and may exceed its cost effectiveness. In addition, in marketing the Company's drugs, BELLUS Health would likely compete with many companies that currently have extensive and well-funded marketing and sales operations. Despite marketing and sales efforts, BELLUS Health may be unable to compete successfully against these companies. The Company may not be able to do so on favorable terms. The Company could rely on third parties to market and sell its drugs in certain territories, rather than establishing an internal sales force. When BELLUS Health contracts with third parties, including entering into collaborations with partners, for the sale and marketing of its drugs, revenues depend upon the efforts of these third parties, which may not be successful. If the Company fails to establish successful marketing and sales capabilities or to make arrangements with third parties for such purposes, BELLUS Health's business, financial condition, and results of operations will be materially adversely affected.

BELLUS Health is subject to intense competition for skilled personnel. The loss of key personnel or the inability to attract additional personnel could impair the Company's ability to conduct operations.

BELLUS Health is highly dependent on its management and staff; the loss of whose services might adversely impact the Company's ability to achieve its objectives. Recruiting and retaining qualified management and other personnel is critical to BELLUS Health's success. Competition for skilled personnel is intense, and the ability to attract and retain qualified personnel may be affected by such competition.

BELLUS Health is subject to the risk of drug liability claims, for which the Company may not have, or may not be able to obtain, adequate insurance coverage.

Human therapeutic products involve the risk of drug liability claims and associated adverse publicity. Currently, BELLUS Health's principal risks relate to participants in the clinical trials who may suffer unintended consequences, and to consumers of VIVIMIND™. Claims might be made directly by consumers, patients, healthcare providers, or pharmaceutical companies or others selling or consuming BELLUS Health's drugs. The Company may not have or be able to obtain or maintain sufficient and affordable insurance coverage, including coverage for potentially very significant legal expenses. Without sufficient coverage, any claim brought against BELLUS Health could have a materially adverse effect on its business, financial condition, or results of operations.

Legislative actions, potential new accounting pronouncements, and higher insurance costs are likely to impact the Company's future financial position or results of operations.

Future changes in financial accounting standards may cause adverse, unexpected revenue or expense fluctuations and affect BELLUS Health's financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with greater frequency and are expected to occur in the future, and the Company may make, or may be required to make, changes in its accounting policies in the future. Compliance with changing regulations of corporate governance and public disclosure, notably with respect to internal controls over financial reporting, may result in additional expenses. Changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for companies such as BELLUS Health, and insurance costs are increasing as a result of this uncertainty.

BELLUS Health may incur losses associated with foreign currency fluctuations.

The Company's functional and reporting currency is the Canadian dollar. BELLUS Health's operations are, in some instances, conducted in currencies other than the Canadian dollar (principally in US dollars) and a portion of the Company's net monetary assets is denominated in other currencies (principally in US dollars). Fluctuations in the

value of foreign currencies relative to the Canadian dollar could cause BELLUS Health to incur currency exchange losses.

BELLUS Health may incur losses due to adverse decisions by tax authorities

The Company's income tax reporting is subject to audit by tax authorities. The effective tax rate may change from year to year based on the mix of income; non-deductible expenses; changes in tax law; and changes in the estimated values of future income tax assets and liabilities.

BELLUS Health may enter into transactions and arrangements in the ordinary course of business in which the tax treatment is not entirely certain. The Company must therefore make estimates and judgments in determining its consolidated tax provision. In addition, BELLUS Health applies for numerous tax credits that play an important role in its financial planning and it is not certain that the tax authorities will grant them. The final outcome of any audits by taxation authorities may differ from estimates and assumptions used in determining the consolidated tax provisions and accruals. This could result in a material effect on the Company's consolidated research tax credits, income tax provision, financial position and the net income/loss for the period in which such determinations are made.

The Company is subject to taxation in Canada and was subject to taxation in certain foreign jurisdictions prior to the corporate reorganization. The Company's effective tax rate and tax liability are determined by a number of factors, including the amount of taxable income in particular jurisdictions, the tax rates in these jurisdictions, tax treaties between jurisdictions, the extent to which it transfers funds to and repatriates funds from its subsidiaries and future changes in laws. An adverse interpretation or ruling by one of the taxing authorities in a jurisdiction in which the Company operates or a change in law could increase its tax liability or result in the imposition of penalty payments, which could adversely impact its operating results.

Further to the 2012 Pharmascience transaction and the sale of Thallion in March 2017, unrecognized tax attributes in relation to research and development expenses, federal research and development investment tax credits and tax losses carried forward are no longer available to the Company.

The Major Shareholders have influence over BELLUS Health's business and corporate matters, including those requiring shareholder approval. This could delay or prevent a change in control. Sales of Common Shares by BELLUS Health's largest shareholders could have an impact on the market price of the Company's Common Shares.

The Major Shareholders own, directly or indirectly, an aggregate of approximately 28.7% of BELLUS Health's outstanding Common Shares as at March 13, 2018. In addition, pursuant to board representation agreements dated April 16, 2009, between the Company and each of VSVI and a predecessor to Rocabe (the "**2009 Board Representation Agreements**"), each of VSVI and Rocabe is entitled to cause two nominees to be included in the list of management nominees to be proposed for election to the Board at each shareholders meeting occurring following that date. Despite their rights, each of VSVI and Rocabe has only nominated one candidate. VSVI's and Rocabe's right to two nominees each shall terminate on the date each of VSVI, on the one hand, and Rocabe, FMRC and 1324286 Alberta Limited, a wholly-owned subsidiary of the FMRC, collectively, on the other hand, ceases to beneficially hold at least 7.5% of the issued and outstanding Common Shares. Therefore, VSVI, FMRC, Rocabe and certain persons related to such entities have the ability to exercise some degree of influence over BELLUS Health's business and the outcome of various corporate matters, including those requiring shareholder approval. In particular, this concentration of ownership may have the effect of delaying or deferring a change in control of the Company and may adversely affect the price of its Common Shares.

The Company may be required to make a payment under indemnity agreements

In March 2017, the Company entered into a Share Purchase Agreement with Taro for the sale of the Company's wholly-owned subsidiary Thallion, including all the rights to the drug candidate ShigamabTM. The Company agreed to indemnify Taro, subject to certain conditions and limitations, for losses which it may suffer or incur, arising out of any debts, liabilities, commitments or obligations of any nature resulting from any matters, actions, events, facts or

circumstances related to the activities or affairs of Thallion, which occurred prior to the effective time of the Share Purchase Agreement. No indemnity provision has been recorded by the Company as at December 31, 2017.

Pursuant to an indemnity agreement entered into between the Company and Pharmascience on May 25, 2012, subject to certain conditions and limitations, the Company agreed to indemnify Pharmascience for all losses which it may suffer or incur, arising out of any debts, liabilities, commitments or obligations of any nature resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of the predecessor of the Company which occurred prior to the effective time of the agreement, including a reduction in tax pools. Payments under the indemnity agreement could have a material adverse effect on the financial condition of the Company. No indemnity provision has been recorded by the Company as at December 31, 2017.

DIVIDENDS

BELLUS Health has not declared any dividends on Common Shares since its incorporation. Any future determination to pay dividends on Common Shares will remain at the discretion of BELLUS Health's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

BELLUS Health's authorized share capital consists of an unlimited number of voting Common Shares and an unlimited number of non-voting preferred shares ("**Preferred Shares**"), all without nominal or par value.

As at March 13, 2018, the Company had 119,497,581 common shares outstanding, 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 December 2017 Offering.

EQUITY

Common Shares. Each Common Share entitles the holder thereof to one vote at any meeting of the shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote. Subject to the rights of holders of the Preferred Shares, the Common Shares are entitled to receive, as and when declared by the Board of Directors, dividends in such amounts as shall be determined by the Board of Directors. The holders of Common Shares have the right, subject to the rights of the holders of Preferred Shares, to receive the remaining property of the Company in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

Preferred Shares. No Preferred Shares are currently issued however they may be issued from time to time in one or more series, the terms of each series, including the number of shares, the designation, rights, preferences, privileges, priorities, restrictions, conditions and limitations, to be determined at the time of creation of each such series by the Board of Directors without shareholder approval, provided that all Preferred Shares will rank, with respect to dividends and return of capital in the event of liquidation, dissolution, winding-up or other distribution of the Company's assets for the purpose of winding-up its affairs, *pari passu* among themselves and in priority to all Common Shares or shares of any class ranking junior to the Preferred Shares. Except as provided for in the Company's articles of incorporation (as amended), the holders of Preferred Shares shall not be entitled to receive notice of meetings of the Company's shareholders nor to attend thereat and shall not be entitled to vote at any such meeting.

MARKET FOR SECURITIES

BELLUS Health's Common Shares are listed and posted for trading on the TSX (BLU). The following table sets forth, for the periods indicated, the reported high and low sales prices and the aggregate volume of trading of the Company's Common Shares on the TSX.

Period	TSX		
	High	Low	Volume
January 2017	0.295	0.26	439,217
February 2017	0.365	0.24	3,181,755
March 2017	0.355	0.265	2,130,435
April 2017	0.30	0.265	744,971
May 2017	0.55	0.28	3,470,632
June 2017	0.48	0.32	1,034,757
July 2017	0.445	0.35	7,669,714
August 2017	0.39	0.34	535,022
September 2017	0.45	0.325	2,039,552
October 2017	0.45	0.37	971,404
November 2017	0.435	0.36	756,034
December 2017	0.435	0.33	1,345,983

PRIOR SALES

No securities of the Company that are outstanding but not listed or quoted on a marketplace were issued during the financial year ended December 31, 2017.

DIRECTORS AND OFFICERS

The following table lists BELLUS Health’s directors and executive officers, as at March 13, 2018. All members of the Board of Directors will hold their positions until the next annual meeting of shareholders of the Company (the Meeting).

Name and Municipality of Residence	Age (at March 13, 2018)	Principal Occupation	Office	Period during which served as a Director
Dr. Francesco Bellini, O.C. ⁽¹⁾ Calgary, Alberta, Canada	70	Chairman of the Board of Picchio International Inc (a management and holding company)	Chairman of the Board	2002-2018
Mr. Roberto Bellini ⁽¹⁾ Montreal, Quebec, Canada	38	President and Chief Executive Officer of the Company	Director	2009-2018
Dr. Youssef L. Bennani ⁽²⁾ Lorraine, Quebec, Canada	57	Pharmaceutical Executive & Chairman of the Board of Domain Therapeutics ⁽³⁾	Director	2017-2018
Mr. Franklin M. Berger, CFA ⁽⁴⁾ New York, New York, United States	68	Consultant	Director	2010-2018
Dr. Clarissa Desjardins..... Montreal, Quebec, Canada	51	Chief Executive Officer of Clementia Pharmaceuticals Inc. ⁽⁵⁾	Director	2017-2018
Mr. Pierre Larochelle ^{(1), (2), (4)} Montreal, Quebec, Canada	46	Vice President, Investments at Power Corporation of Canada (a diversified management and holding company)	Director	2009-2018
Mr. Joseph Rus ^{(2), (4)} Toronto, Ontario, Canada	72	Consultant	Director	2009-2018
Mr. François Desjardins, CPA, CA..... Montreal, Quebec, Canada	55	Vice President, Finance of the Company	Vice President, Finance	—
Dr. Denis Garceau..... Montreal, Quebec, Canada	61	Senior Vice President, Drug Development of the Company	Senior Vice President, Drug Development	—
Mr. Tony Matzouranis..... Montreal, Quebec, Canada	45	Vice President, Business Development of the Company	Vice President, Business Development	—
Mr. Sébastien Roy..... Montreal, Quebec, Canada	42	Partner, Davies Ward Phillips & Vineberg LLP (a law firm)	Corporate Secretary	—

NOTES:

- (1) Pursuant to board representation agreements dated April 16, 2009, between the Company and each of VSVI and a predecessor to Rocabe (the “**2009 Board Representation Agreements**”), each of VSVI and Rocabe is entitled to cause two nominees to be included in the list of management nominees to be proposed for election to the Board at each shareholders meeting occurring following that date. VSVI’s and Rocabe’s right to two nominees each shall terminate on the date each of VSVI, on the one hand, and Rocabe, FMRC Family Trust (“**FMRC**”), a trust of which Dr. Francesco Bellini, Chairman of the Board of the Company, and Mr. Roberto Bellini, President and Chief Executive Officer of the Company, are beneficiaries and 1324286 Alberta Limited (“**AlbertaCo**”), a wholly-owned subsidiary of the FMRC, collectively, on the other hand, ceases to beneficially hold at least 7.5% of the issued and outstanding Common Shares. Despite their rights, VSVI has only nominated one candidate, being Mr. Larochelle, and Rocabe has only nominated one candidate, being Dr. Bellini.
- (2) Member of the Human Resources and Governance Committee.
- (3) From 2013 to 2017, Dr. Bennani was Site Head and Vice-President of R&D at Vertex Pharmaceuticals Canada Inc., a research and development company. From 2011 to 2013 Dr. Bennani was Vice-President R&D at Vertex Canada.
- (4) Member of the Audit Committee.
- (5) Dr. Desjardins founded Clementia Pharmaceuticals Inc. in 2011 and has served as the company’s chief executive officer since its inception.

As of March 13, 2018, the directors and executive officers, as a group, beneficially owned or exercised control or direction over 22,936,353 of the Common Shares outstanding.¹

COMMITTEES OF THE BOARD

The following is a description of the current committees of the Board:

Audit Committee

The mandate of the Audit Committee includes assisting the Board in its oversight of (i) the integrity of the Company's financial statements, accounting and financial reporting processes, system of internal controls over financial reporting and audit process, (ii) the Company's compliance with, and process for monitoring compliance with, legal and regulatory requirements so far as they may relate to matters of financial reporting, (iii) the independent auditors' qualifications, independence and performance, and (iv) the performance of the Company's internal audit function (if any). The current members of the Audit Committee are Mr. Pierre Larochelle (Chair), Mr. Franklin M. Berger and Mr. Joseph Rus.

Human Resources and Governance Committee

During the 2017 financial year, the former Compensation Committee and the former Nominating and Corporate Governance Committee were merged into a newly-created Human Resources and Governance Committee.

Compensation Matters: The mandate of the Human Resources and Governance Committee includes reviewing the compensation arrangements for the Company's employees, including executive officers and directors, and making recommendations to the Board with respect to such compensation arrangements, as well as making recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans and overseeing succession planning.

Governance Matters: The mandate of the Human Resources and Governance Committee is also to develop and recommend to the Board a set of corporate governance principles and to prepare and review the disclosure with respect to, and the operation of, the Company's system of corporate governance, before such disclosure is submitted to the Board for its approval. The Human Resources and Governance Committee is responsible for the review and periodic update of the Company's corporate governance mandates, charters, policies and procedures, including its Code of Ethics which governs the conduct of the Company's directors, officers and other employees. Moreover, the Human Resources and Governance Committee is mandated to examine, on an annual basis, the size and composition of the Board and, if appropriate, recommend to the Board a program to establish a Board comprised of members who facilitate effective decision-making.

Human Resources Matters: Finally, the Human Resources and Governance Committee shall also identify individuals qualified to become members of the Board, recommend to the Board nominees to be put before shareholders at each annual meeting and recommend to the Board a process for board, committee and director assessment. In fulfilling its responsibilities to identify nominees to the Board, the Human Resources and Governance Committee comes up with the names of individuals it believes represent potentially suitable candidates and also solicits names of other potentially suitable candidates from the other members of the Board of Directors and also from management of the Company. It then looks at the qualifications and qualities of each in light of the needs of the Board of Directors and the Company and bases its recommendation to the Board on this basis.

The current members of the Human Resources and Governance Committee are Mr. Joseph Rus (Chair), Mr. Pierre Larochelle and Dr. Youssef L. Bennani.

¹ Included in this amount are 2,366,058 Common Shares owned directly or indirectly by FMRC, a trust of which Dr. Francesco Bellini and Mr. Roberto Bellini are beneficiaries, and its affiliate, as well as 16,433,318 Common Shares owned directly or indirectly by Rocabe, a Company in which Mr. Roberto Bellini has a 50% interest.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

From time to time during the normal course of business, BELLUS Health becomes party to legal proceedings. At the date hereof, the Company is not a party to proceedings that alone or in aggregate represent claims that could, in the judgment of management, be material to us on a consolidated basis. In addition, during the year ended December 31, 2017, BELLUS Health was not subject to: any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority; any penalties or sanctions imposed by a court or regulatory body that would be considered important by a reasonable investor; or any settlement agreements relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

CONSULTING AND SERVICE AGREEMENT

The Company has entered into a Consulting and Service Agreement with effect from January 1, 2010 with Picchio International providing for strategic advice on matters pertaining to the development and commercialization of pharmaceutical products to provide health solutions to address critical unmet needs. Under the terms of that agreement, Picchio International has assigned primary responsibility for providing such services to Dr. Francesco Bellini. For the services, a monthly retainer of \$20,833 is paid and Picchio International is reimbursed for its reasonable expenses incurred in the proper conduct of the services. During the fiscal period ended December 31, 2017, Picchio International received \$381,000 under the Consulting and Service Agreement.

LICENSE AGREEMENT

In October 2013, BELLUS Health entered into an agreement to license the worldwide rights to VIVIMIND™ to FB Health, a company then controlled by Dr. Francesco Bellini. BELLUS Health also entered into a worldwide license agreement with FB Health for BLU8499 and a family of analogs, along with an associated platform of chemotypes and clinical datasets, in exchange for a 5.5% equity stake in FB Health. In turn, FB Health sublicensed all its rights to Alzheon, a then related company, as part of an exclusive worldwide license, excluding Italy. In 2014, BELLUS Health invested an additional amount in FB Health, mainly in order to maintain the Company's pro rata ownership, as well as to acquire its pro rata share of a minority shareholder's ownership, bringing the Company's equity stake to 5.72%. FB Health was a related party to the Company until June 30, 2017, date of the sale of BELLUS Health's equity interest in FB Health.

The Company recognized revenues in relation to this related party of \$17,000 for the year ended December 31, 2017 (\$55,000 in 2016).

AUDIT COMMITTEE AND PRINCIPAL ACCOUNTANTS FEES AND SERVICES

CHARTER OF THE AUDIT COMMITTEE

The Charter of the Audit Committee is attached hereto as Schedule A.

COMPOSITION OF THE AUDIT COMMITTEE

Until the next annual meeting of shareholders of the Company, the Audit Committee is composed of Mr. Pierre Larochelle (Chair), Mr. Franklin M. Berger and Mr. Joseph Rus. Each of the members of the Audit Committee is financially literate and independent.

RELEVANT EDUCATION AND EXPERIENCE

Mr. Pierre Larochelle has an MBA from INSEAD and has experience in finance and finance-related matters through his work in banking and in a venture capital company specializing in biopharmaceutical and healthcare investments and his roles as President and Chief Executive Officer of Adaltis Inc., a publicly listed biotechnology company and

as Vice President, Investments at Power Corporation of Canada, a diversified management and holding company. Mr. Franklin M. Berger, CFA, is a biotechnology industry analyst with over 25 years of experience in capital markets and financial analysis. He holds an M.B.A. from the Harvard Graduate School of Business Administration and an M.A. in International Economics and a B.A. in International Relations both from Johns Hopkins University. Mr. Joseph Rus has broad experience in the pharmaceutical industry as he held senior management positions in global pharmaceutical companies. He is a graduate of the Executive Marketing Program at the University of Western Ontario (Canada), as well as the International Program at the Institute of Management and Development of the University of Lausanne, Switzerland.

As such, all members of the Company’s Audit Committee understand the accounting principles the Company uses to prepare its financial statements and have the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves.

Messrs. Larochelle, Berger and Rus have an understanding of internal controls and procedures for financial reporting.

EXTERNAL AUDITOR SERVICES FEES

The Company has paid KPMG LLP (“KPMG”), its external auditors, the following fees in each of the last two fiscal periods.

Annual Audit Fees

The following sets forth the aggregate fees for each of the last two fiscal periods for professional fees to KPMG for the audit of the annual financial statements or for services normally provided by KPMG in connection with statutory and regulatory filings or engagements for those fiscal periods:

Fiscal year ended December 31, 2017	\$164,000
Fiscal year ended December 31, 2016	\$95,000

Audit-Related Fees

The following sets forth additional aggregate fees to those reported under “Audit Fees” in each of the last two fiscal periods for assurance and related services by KPMG that are reasonably related to the performance of the audit of the financial statements:

Fiscal year ended December 31, 2017	Nil
Fiscal year ended December 31, 2016	Nil

Tax Fees

The following sets forth the aggregate fees in each of last two fiscal periods for professional services rendered by KPMG for tax compliance, tax advice and tax planning:

Fiscal year ended December 31, 2017	\$66,400
Fiscal year ended December 31, 2016	\$24,300

All Other Fees

The following sets forth the aggregate fees in each of the last two fiscal periods for products and services provided by the principal accountant not described above:

Fiscal year ended December 31, 2017	Nil
Fiscal year ended December 31, 2016	Nil

The Company’s Audit Committee pre-approves every significant engagement by KPMG to render audit or non-audit services. All of the services described above were approved by the Audit Committee.

TRANSFER AGENT AND REGISTRAR

In connection with BELLUS Health's Common Shares, Computershare Investor Services Inc. is the Canadian transfer agent and registrar and Computershare Trust Corporation, Inc. is the US transfer agent and registrar.

INTEREST OF EXPERTS

KPMG has audited the Company's consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income (loss), other comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2017 and 2016. KPMG are independent in accordance with the Code of Ethics of *l'Ordre des comptables professionnels agréés du Québec*.

ADDITIONAL INFORMATION

Additional information regarding BELLUS Health may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of BELLUS Health's securities, options to purchase securities and interests of informed persons in material transactions, if applicable, is contained in the Company's management information circular for the most recent meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company's consolidated financial statements for the most recently completed financial year.

SCHEDULE A

BELLUS HEALTH INC.

AUDIT COMMITTEE CHARTER

ESTABLISHMENT OF COMMITTEE

The establishment of the Audit Committee of the Board of Directors of BELLUS Health Inc. (the “Company”) is hereby confirmed with the purpose, constitution and responsibilities described below.

THE PURPOSE OF THE AUDIT COMMITTEE

The purpose of the Audit Committee is to assist the Board of Directors in its oversight of, and recommend appropriate actions with respect to (i) the integrity of the Company’s financial statements, accounting and financial reporting processes, system of internal controls over financial reporting and audit process, (ii) the Company’s compliance with, and process for monitoring compliance with, legal and regulatory requirements so far as they relate to matters of financial reporting, (iii) the independent auditor’s qualifications, independence and performance and (iv) the performance of the Company’s internal audit function. Management is responsible for (a) the preparation, presentation and integrity of the Company’s financial statements, (b) accounting and financial reporting principles and (c) the Company’s internal controls and procedures designed to promote compliance with accounting standards and applicable laws and regulations. The Company’s independent auditing firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

The Audit Committee members are not necessarily professional accountants or auditors and their functions are not intended to duplicate or to certify the activities of management and the independent auditor. The Audit Committee is not expected to certify that the independent auditor is “independent” under applicable rules. The Audit Committee serves a Board level oversight role where it oversees the relationship with the independent auditor, as set forth in this charter, and provides advice, counsel and general direction, as it deems appropriate, to management and the independent auditor on the basis of the information it receives, discussions with the auditor and the experience of the Audit Committee’s members in business, financial and accounting matters.

MEMBERSHIP

The Committee shall consist of no fewer than three members of the Board of Directors, all of whom shall be appointed by the Board. Except as otherwise permitted by applicable law and the rules of the relevant regulatory authorities and stock exchanges, the members of the Committee shall meet the independence and financial literacy requirements of The Toronto Stock Exchange (“TSX”) and applicable law and no Committee member may have participated in the preparation of the financial statements of the Company or any of its subsidiaries at any time in the previous three years. Appointment to the Committee, and the designation of any Committee members as “audit committee financial experts”, shall be made on an annual basis by the full Board upon recommendation of the Human Resources and Governance Committee.

COMPENSATION OF COMMITTEE MEMBERS

No member of the Committee may receive any compensation from the Company other than (i) director’s fees, which may be received in cash, common stock, equity-based awards or other in-kind consideration ordinarily available to directors, (ii) a pension or other deferred compensation for prior service that is not contingent on future service, and (iii) any other regular benefits that directors of peer companies may receive, all as determined from time to time by the Human Resources and Governance Committee and the Board of Directors.

COMMITTEE STRUCTURE AND CONDUCT

The Board shall designate one member of the Committee as its chairperson. The Committee shall meet at least once during each fiscal quarter, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its chairperson.

The Audit Committee shall meet at such times and places as it shall determine. The Committee may invite such members of management, the independent auditor and other persons to its meetings as it may deem desirable or appropriate. Periodically, the Audit Committee shall meet in executive session amongst themselves, with the independent auditor, the internal auditor, if any, and management. The Chairman of the Audit Committee shall report on Audit Committee activities to the full Board of Directors.

RESPONSIBILITIES

With respect to the independent auditor, the Audit Committee:

1. is directly responsible for the appointment (and recommends to the Company's Board of Directors and shareholders the appointment/ratification of the appointment of) and replacement, compensation and oversight of the work of the Company's independent auditor, including the resolution of any disagreement between management and the independent auditor; the independent auditor shall report directly to the Audit Committee.
2. reviews and discusses the written statement from the independent auditor concerning any relationship between the independent auditor and the Company or any other relationships that may adversely affect the independence of the auditor, and, based on such review, assesses the independence of the auditor.
3. reviews and evaluates the qualifications, performance and independence of the independent auditor, and makes recommendation to the Board of Directors whether to retain their services.
4. establishes policies and procedures for the review and pre-approval by the Committee of all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor, with exceptions provided for *de minimis* amounts under certain circumstances as described by law.
5. reviews and discusses with the independent auditor: (a) its audit plans and audit procedures, including the scope, fees and timing of the audit, and (b) the results of the annual audit examination and accompanying management letters.
6. discusses and reviews with the independent auditor the year-end audited financial statements, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the related press releases.
7. reviews and discusses with the independent auditor on (a) critical accounting policies used by the Company, (b) alternative accounting treatments within generally accepted accounting principles related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the independent auditor and (c) other material written communications between the independent auditor and management.
8. reviews with the independent auditor its judgment as to the quality, not just the acceptability, of the Company's accounting principles and such matters as are required to be discussed with the Committee under generally accepted auditing standards.

With respect to other matters, the Audit Committee:

9. reviews annually its Charter, prepares and approves a conforming annual work plan to ensure all tasks are duly executed.
10. discusses and reviews with management quarterly financial statements, the year-end audited financial statements, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and related press releases before the Company publicly discloses this information; and recommends to the Board of Directors that the audited financial statements be included in the annual report to shareholders.
11. reviews and discusses with management the Company’s major risks, including those affecting its financial reporting, information management and information technology as well as the steps management has taken to monitor and control such risks.
12. reviews and has prior-approval authority for related-party transactions (as defined in the relevant TSX requirements).
13. reviews and discusses with management, the Chief Financial Officer (or that person fulfilling the functions of the Chief Financial Officer) and the internal auditor, if any: (a) the adequacy and effectiveness of selected internal controls (including any significant deficiencies and significant changes in internal controls reported to the Committee by the independent auditor or management), (b) the Company’s internal audit procedures, where applicable, and (c) the adequacy and effectiveness of selected disclosure controls and procedures, and management reports thereon.
14. requires Management to prepare accurate financial reports, maintain appropriate internal controls, perform appropriate risk management, develop and apply proper practices and financial policies;
15. reviews and approves the Company’s financial policies.
16. reviews and concurs in the appointment, replacement, reassignment or dismissal of the internal auditor, if any.
17. reviews and approves the internal auditor (Bill C198 compliance officer) annual audit planning report, reviews its progress reports on a quarterly basis and evaluates its performance annually.
18. establishes procedures for the receipt, retention and treatment by the Company of complaints regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
19. establishes policies for the hiring of employees/partners and former employees/partners of the present and former independent auditor.
20. when appropriate, designates one or more of its members to perform certain of its duties on its behalf, subject to such reporting to or ratification by the Committee as the Committee shall direct.
21. ensures that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, other than the information described in paragraph 9 above, and must periodically assess the adequacy of those procedures.
22. performs financial analysis as required from time to time by the Board of Directors and provide advice.

PERFORMANCE EVALUATION

The Audit Committee will engage in periodic self-assessments with the goal of continuing improvement, and will report to the Board of Directors annually on the performance of the Audit Committee against its mandate; will annually review and reassess the adequacy of its charter, and recommend any changes to the Board of Directors, where appropriate.

RESOURCES AVAILABLE TO THE COMMITTEE

The Audit Committee shall have the authority to engage independent legal, accounting and other advisers, as it determines necessary to carry out its duties. The Audit Committee shall have sole authority to approve related fees and retention terms.

DIRECT COMMUNICATION WITH THE COMMITTEE

The Chairman of the Audit Committee is to be contacted directly by the Chief Financial Officer (or that person fulfilling the functions of the Chief Financial Officer), the internal auditor or the independent auditor: (1) to review items of a sensitive nature that can impact the accuracy of financial reporting, or (2) to discuss significant issues relative to the overall Board of Directors' responsibility that have been communicated to management but, in their judgment, may warrant follow-up by the Audit Committee.