

(formerly Stem Cell Therapeutics Corp.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(UNAUDITED)

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TRILLIUM THERAPEUTICS INC.
(formerly Stem Cell Therapeutics Corp.)

Interim Condensed Consolidated Statements of Financial Position

Amounts in Canadian Dollars

(Unaudited)

	Note	As at September 30, 2014 $	As at December 31, 2013 $
ASSETS			
Current			
Cash		**27,754,378**	32,456,506
Marketable securities		**505,490**	526,598
Amounts receivable	5	**468,307**	427,234
Prepaid expenses		**719,680**	94,569
Total current assets		**29,447,855**	33,504,907
Property and equipment	6	**221,424**	109,007
Intangible assets	7	**517,770**	1,473,472
Total non-current assets		**739,194**	1,582,479
Total assets		**30,187,049**	35,087,386
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	**1,358,761**	669,860
Other current liabilities	9	**263,860**	62,766
Total current liabilities		**1,622,621**	732,626
Loan payable	9	**297,185**	341,884
Long-term liability	9	**66,870**	104,429
Total non-current liabilities		**364,055**	446,313
Total liabilities		**1,986,676**	1,178,939
EQUITY			
Common shares	10	**48,807,033**	47,191,303
Preferred shares	10	**10,774,910**	11,292,525
Warrants	10	**9,283,332**	9,818,179
Contributed surplus	10	**5,676,272**	3,280,656
Deficit		**(46,341,174)**	(37,674,216)
Total equity		**28,200,373**	33,908,447
Total liabilities and equity		**30,187,049**	35,087,386

Commitments and contingencies *[note 14]*

Approved by the Board and authorized for issue on November 12, 2014:

(signed) Luke Beshar, Director (signed) Henry Friesen, Director

See accompanying notes to the interim condensed consolidated financial statements

TRILLIUM THERAPEUTICS INC.
(formerly Stem Cell Therapeutics Corp.)

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Amounts in Canadian Dollars

(Unaudited)

	Note	**Three months ended September 30, 2014 $**	Three months ended September 30, 2013 **$**	**Nine months ended September 30, 2014 $**	Nine months ended September 30, 2013 $
EXPENSES					
Research and development	11	**2,089,977**	1,053,047	**6,760,861**	2,274,779
General and administrative	12	**500,072**	223,920	**2,137,614**	731,521
Operating expenses		**2,590,049**	1,276,967	**8,898,475**	3,006,300
Finance income	13	**(92,517)**	(8,404)	**(291,382)**	(24,360)
Finance costs	13	**28,995**	26,257	**59,865**	25,145
Net finance (income) costs		**(63,522)**	17,853	**(231,517)**	785
Net loss and comprehensive loss for the period		**2,526,527**	1,294,820	**8,666,958**	3,007,085
Basic and diluted loss per share	10(c)	**(0.02)**	(0.03)	**(0.07)**	(0.09)

See accompanying notes to the interim condensed consolidated financial statements

TRILLIUM THERAPEUTICS INC.
(formerly Stem Cell Therapeutics Corp.)
Interim Condensed Consolidated Statements of Changes in Equity

Amounts in Canadian Dollars

(Unaudited)

	Common shares		Preferred shares		Warrants		Contributed		
	Number	Amount	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	#	$	$	$	$
		(note 10) (Restated note 16)		(note 10)		(note 10) (Restated note 16)	(note 10)		
Balance, December 31, 2013	121,752,380	47,191,303	77,895,165	11,292,525	142,230,123	9,818,179	3,280,656	(37,674,216)	33,908,447
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	(8,666,958)	(8,666,958)
Transactions with owners of the Company, recognized directly in equity									
Exercise of warrants	2,596,251	1,065,015	-	-	(2,596,251)	(118,202)	-	-	946,813
Exercise of stock options	78,400	33,100	-	-	-	-	(13,500)	-	19,600
Conversion of preferred shares	3,570,476	517,615	(3,570,476)	(517,615)	-	-	-	-	-
Expiry of warrants	-	-	-	-	(909,091)	(416,645)	416,645	-	-
Share-based compensation	-	-	-	-	-	-	1,992,471	-	1,992,471
Total transactions with owners of the Company	6,245,127	1,615,730	(3,570,476)	(517,615)	(3,505,342)	(534,847)	2,395,616	-	2,958,884
Balance, September 30, 2014	**127,997,507**	**48,807,033**	**74,324,689**	**10,774,910**	**138,724,781**	**9,283,332**	**5,676,272**	**(46,341,174)**	**28,200,373**

	Common shares		Preferred shares		Warrants		Contributed		
	Number	Amount	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	#	$	$	$	$
Balance, December 31, 2012	18,661,936	31,388,959	-	-	1,036,364	508,281	2,870,138	(33,384,908)	1,382,470
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	(3,007,085)	(3,007,085)
Transactions with owners of the Company, recognized directly in equity									
Share units issued, net of issue costs	12,735,000	2,092,192	-	-	12,735,000	523,048	-	-	2,615,240
Compensation warrants	-	-	-	-	814,051	48,843	-	-	48,843
Issued to acquire Trillium Privateco (notes 4 and 10)	6,079,180	1,215,836	-	-	3,300,000	165,000	-	-	1,380,836
Issued to acquire technology rights (notes 7 and 10)	5,028,571	1,005,714	-	-	1,600,000	80,000	-	-	1,085,714
Expiry of warrants	-	-	-	-	(127,273)	(91,636)	91,636	-	-
Share-based compensation	-	-	-	-	-	-	277,041	-	277,041
Total transactions with owners of the Company	23,842,751	4,313,742	-	-	18,321,778	725,255	368,677	-	5,407,674
Balance, September 30, 2013	**42,504,687**	**35,702,701**	**-**	**-**	**19,358,142**	**1,233,536**	**3,238,815**	**(36,391,993)**	**3,783,059**

See accompanying notes to the interim condensed consolidated financial statements

TRILLIUM THERAPEUTICS INC.
(formerly Stem Cell Therapeutics Corp.)

Interim Condensed Consolidated Statements of Cash Flows

Amounts in Canadian Dollars

(Unaudited)

	Note	**Nine months ended September 30, 2014 $**	Nine months ended September 30, 2013 $
OPERATING ACTIVITIES			
Net loss for the period		**(8,666,958)**	(3,007,085)
Adjustments for items not affecting cash			
Share-based compensation	10	**1,992,471**	277,041
Interest accretion	9,13	**54,169**	22,011
Amortization of intangible assets	7	**525,939**	412,228
Impairment of intangible assets	7	**429,763**	-
Depreciation of property and equipment	6	**31,779**	9,600
		(5,632,837)	(2,286,205)
Changes in non-cash working capital balances			
Amounts receivable		**(41,073)**	712,802
Prepaid expenses		**(625,111)**	5,868
Accounts payable and accrued liabilities		**688,901**	101,754
Other current liabilities		**201,094**	-
Cash used in operating activities		**(5,409,026)**	(1,465,781)
FINANCING ACTIVITIES			
Change in loan payable	9	**(86,274)**	16,048
Decrease in long-term liability	9	**(50,153)**	143,000
Issue of share capital, net of issuance costs	10	**966,413**	2,664,083
Cash provided by financing activities		**829,986**	2,823,131
INVESTING ACTIVITIES			
Purchase of property and equipment	6	**(144,196)**	(27,827)
Acquisition of Trillium Privateco, net of cash acquired	4	**-**	(647,996)
Net change in marketable securities		**21,108**	605,399
Cash used in investing activities		**(123,088)**	(70,424)
Net increase (decrease) in cash during the period	10	**(4,702,128)**	1,286,926
Cash, beginning of period	10	**32,456,506**	1,375,015
Cash, end of period		**27,754,378**	2,661,941
Supplemental cash flow information			
Common share purchase warrants issued as agent's compensation (note 10)		-	48,843
Common shares and warrants issued on acquisition of Trillium Privateco (note 4)		-	1,380,836
Common shares and warrants issued on acquisition of technology rights (note 7)		-	1,085,714
Preferred shares converted to common shares (note 10)		**517,615**	-

See accompanying notes to the interim condensed consolidated financial statements

1. Corporate information

Trillium Therapeutics Inc. (formerly Stem Cell Therapeutics Corp.) (the "Company" or "Trillium") is a Canadian public immuno-oncology company developing innovative therapies for the treatment of cancer. The Company was incorporated under the laws of the Province of Alberta on March 31, 2004 with nominal share capital. On October 19, 2004, the Company changed its name from Neurogenesis Biotech Corp. to Stem Cell Therapeutics Corp. On November 7, 2013, the Company filed Articles of Continuance to change its jurisdiction to Ontario. On June 1, 2014, the Company amalgamated with its wholly-owned subsidiary Trillium Therapeutics Inc. ("Trillium Privateco") and changed its name to Trillium Therapeutics Inc.

The Company's head office is located at 96 Skyway Avenue, Toronto, Ontario, M9W 4Y9 and is listed on the Toronto Stock Exchange under the symbol TR.

2. Basis of presentation

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in its annual audited consolidated financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved the interim condensed consolidated financial statements on November 12, 2014. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2014 could result in a restatement of these unaudited interim condensed consolidated financial statements.

(b) Basis of measurement

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for held-for-trading financial assets which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities and the determination of the Company's ability to continue as a going concern. Actual results could differ materially from these estimates and assumptions. The Company reviews its estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

2. Basis of presentation (continued)

Management has applied significant estimates and assumptions to the following:

Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Intangible assets

The Company estimates the useful lives of intangible assets from the date they are available for use in the manner intended by management and periodically reviews the useful lives to reflect management's intent about developing and commercializing the assets.

3. Significant accounting policies

The Company's significant accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2013 and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, except as described below in new standards and interpretations adopted during 2014. These interim condensed consolidated statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2013.

(a) Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Stem Cell Therapeutics Inc. to the date of its dissolution on September 17, 2014, and Trillium Privateco from April 9, 2013, the date of acquisition (see note 4) to the date of its amalgamation with the Company on June 1, 2014.

(b) New standards and interpretations adopted during 2014

IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 *Financial Instruments: Presentation* ("IAS 32"), clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014, with retrospective application required. The adoption of these amendments did not have a material impact on the interim condensed consolidated financial statements.

3. Significant accounting policies (continued)

IFRIC 21 *Levies*

In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21, Levies ("IFRIC 21") was issued. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. The Company adopted IFRIC 21 in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption did not have a material impact on the interim condensed consolidated financial statements.

IAS 36 *Impairment of Assets*

In May 29, 2013, the IASB published amendments to IAS 36 *Impairment of Assets* which reduce the circumstances in which the recoverable amount of cash-generating units is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014. The Company adopted the IAS 36 amendments in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption did not have a material impact on the interim condensed consolidated financial statements.

(c) New standards and interpretations not yet effective

IFRS 9 *Financial Instruments*

In October 2010, the IASB published amendments to IFRS 9 which provides added guidance on the classification and measurement of financial liabilities. In July 2014, the IASB issued its final version of IFRS 9, which completes the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The final standard is mandatorily effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the interim condensed consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is reviewing the standard to determine the impact on the interim condensed consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's interim condensed consolidated financial statements. The Company assesses the impact of adoption of future standards on its interim condensed consolidated financial statements, but does not anticipate significant changes in 2014.

4. Acquisition of Trillium Privateco

On April 9, 2013, the Company completed a merger with Trillium Privateco, a private biopharmaceutical company specializing in immune regulation and the development of cancer therapeutics. The Company applied the acquisition method of accounting for the business combination and the losses have been consolidated from the acquisition date. The consideration was allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of acquisition. The purchase price allocation was assigned to the net identifiable assets based on their estimated fair values. The final purchase price allocation was as follows:

	$
Fair value of consideration paid:	
Cash	1,200,000
2,779,180 common shares and 3,300,000 units	1,380,836
	2,580,836
Assets acquired:	
Cash and marketable securities	1,182,714
Amounts receivable	820,944
Prepaid expenses	44,300
Equipment	91,000
Acquired technology	1,018,037
	3,156,995
Liabilities assumed:	
Accounts payable and accrued liabilities	282,178
Loan payable	293,981
	576,159
Net identifiable assets acquired	2,580,836

As consideration, the Company paid $1,200,000 in cash and issued 2,779,180 common shares and 3,300,000 units. Each unit consisted of one common share and one common share purchase warrant, with each common share purchase warrant allowing its holder to acquire one additional common share at an exercise price of $0.40 until March 15, 2018. The fair value of the unit was determined based on the stand-alone value of the common share and the common share purchase warrant, in accordance with IFRS 13 *Fair Value Measurement* and IFRS 3 *Business Combinations*. Accordingly, the fair value of the aggregate 6,079,180 common shares issued was based on the closing price of the Company's common shares of $0.20 on April 9, 2013. The fair value of the 3,300,000 common share purchase warrants was determined using the Black-Scholes option pricing model. Assumptions used to determine the value of the common share purchase warrant were: dividend yield of 0%; risk-free interest rate of 1.1%; expected volatility of 68%; and average expected life of 3 years. Post-closing, Trillium Privateco shareholders held approximately 16% of the issued and outstanding common shares, and Trillium Privateco became a wholly-owned subsidiary of the Company.

Cash used in the investment was determined as follows:

	$
Cash consideration	1,200,000
Less cash acquired	552,004
	647,996

Acquisition costs incurred by the Company and included in general and administrative expenses for the year ended December 31, 2013, were approximately $113,000. From the date of the acquisition to December 31, 2013, Trillium Privateco contributed revenue of nil and a loss of $2,236,262.

5. Amounts receivable

	September 30, 2014	December 31, 2013
	$	$
Government programs receivable	**468,307**	426,946
Other amounts receivable	**-**	288
	468,307	427,234

6. Property and equipment

	Lab equipment	Computer equipment and software	Office equipment and leaseholds	Total
	$	$	$	$
Cost				
Balance, December 31, 2012	-	13,500	-	13,500
Additions	111,025	4,611	9,381	125,017
Balance, December 31, 2013	111,025	18,111	9,381	138,517
Additions	128,373	15,823	-	144,196
Balance, September 30, 2014	239,398	33,934	9,381	**282,713**
Accumulated depreciation				
Balance, December 31, 2012	-	13,500	-	13,500
Depreciation	14,723	504	783	16,010
Balance, December 31, 2013	14,723	14,004	783	29,510
Depreciation	24,075	5,286	2,418	31,779
Balance September 30, 2014	38,798	19,290	3,201	**61,289**
Net carrying amounts				
December 31, 2013	96,302	4,107	8,598	109,007
September 30, 2014	200,600	14,644	6,180	**221,424**

In the second quarter of 2013, the Company acquired lab equipment with a fair value of $91,000 on its acquisition of Trillium Privateco.

7. Intangible assets

	Total $
Cost	
Balance, December 31, 2012	2,431,279
Additions	2,103,751
Disposals	(2,431,279)
Balance December 31, 2013	2,103,751
Disposals	(1,085,714)
Balance September 30, 2014	**1,018,037**
Accumulated amortization	
Balance, December 31, 2012	2,428,779
Amortization	632,779
Disposals	(2,431,279)
Balance, December 31, 2013	630,279
Amortization	525,939
Disposals	(655,951)
Balance, September 30, 2014	**500,267**
Net carrying amounts	
December 31, 2013	1,473,472
September 30, 2014	**517,770**

On April 9, 2013, licensed patent rights acquired of Trillium Privateco amounted to $1,018,037 (see note 4).

On April 16, 2013, the Company signed an agreement with the University Health Network ("UHN") to gain rights to intellectual property related to the use of tigecycline for the treatment of leukemia. The initial consideration for the UHN license of $1,085,714 was satisfied by the issuance of 5,028,571 common shares and 1,600,000 common share purchase warrants, each warrant allowing its holder to acquire one additional common share at an exercise price of $0.40 until March 15, 2018. Additional consideration under the UHN license included an annual license maintenance fee and future development milestones. The fair value of the common shares issued was based on the closing price of the Company's common shares of $0.20 on April 16, 2013 and $0.25 per unit based on the fair value of the common share and common share purchase warrant components as of the date of acquisition. The Company returned the rights back to UHN and recorded an impairment loss of $429,763 in the second quarter of 2014.

During the third quarter of 2013, the Company ceased all activities related to the regenerative stem cell products and retired the fully amortized assets in the amount of $2,431,279.

8. Accounts payable and accrued liabilities

	September 30, 2014 $	December 31, 2013 $
Trade and other payables	**428,674**	113,003
Accrued liabilities	**893,827**	221,580
Due to related parties (note 15)	**36,260**	335,277
	1,358,761	669,860

9. Non-current liabilities

(a) Trillium is indebted to the Federal Economic Development Agency for Southern Ontario under a non-interest-bearing contribution agreement dated February 1, 2012. The period of contribution ended on December 31, 2013. As at September 30, 2014, the Company has repayable contributions of $575,139 representing the outstanding principal balance, repayable in equal monthly instalments for 60 months beginning on December 1, 2014. The loan payable bears no interest. The fair value of the loan payable was determined by discounting the loan payable using an estimated market interest rate of 15%. Interest expense accretes on the discounted loan amount until it reaches its face value at maturity.

(b) The Company has a long-term liability of $66,870 related to certain discontinued technologies. This liability has been discounted using an estimated market interest rate of 15% and interest expense is accreting.

The current portions of the loan payable and long-term liability are included in other current liabilities in the interim condensed consolidated statements of financial position.

10. Share capital

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares, Class B shares and First Preferred Shares, in each case without nominal or par value. Common shares are voting and may receive dividends as declared at the discretion of the Board of Directors. Class B shares are non-voting and convertible to common shares at the holder's discretion, on a one-for-one basis. Upon dissolution or wind-up of the Company, Class B shares participate rateably with the common shares in the distribution of the Company's assets. Preferred shares have voting rights as decided upon by the Board of Directors at the time of grant. Upon dissolution or wind-up of the Company, First Preferred Shares are entitled to priority over common and Class B shares.

In December 2013, the Company created the Series I First Preferred Shares that are non-voting, may receive dividends as declared at the discretion of the Board of Directors, and are convertible to common shares at the holder's discretion, on a one-for-one basis.

(b) Share capital issued – nine months ended September 30, 2014

During the nine months ended September 30, 2014, 2,596,251 warrants were exercised for proceeds of $946,813 and 78,400 stock options were exercised for proceeds of $19,600. Also, 909,091 warrants issued in March 2011 with an exercise price of $1.60 expired unexercised.

During the nine months ended September 30, 2014, 3,570,476 Series I First Preferred Shares were converted to common shares.

Share capital issued – year ended December 31, 2013

The Company consolidated its outstanding common shares issuing one post-consolidated share for each 10 pre-consolidated shares and the common shares began trading on a post-consolidated basis on February 6, 2013. All references in these interim condensed consolidated financial statements and notes to the number of common shares, warrants and stock options have been adjusted to the post-consolidation amounts.

10. Share capital (continued)

In March 2013, the Company completed an offering pursuant to a base shelf prospectus and prospectus supplement and in the U.S. pursuant to a private placement memorandum for a total of 12,735,000 units at a price of $0.25 per unit, for aggregate gross proceeds to the Company of $3,185,080 ($2,615,240 net of issuance costs). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.40 per share at any time prior to expiry on March 15, 2018 (12,315,000 warrants) and March 27, 2018 (420,000 warrants). In connection with the financing, the Company issued 814,051 compensation warrants having an aggregate fair value of $48,843 estimated using the Black-Scholes option pricing model. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.25 per share prior to expiry on March 16, 2015.

The allocation of the $0.25 common share unit issue price to the common shares and unit warrants was based on the relative fair values of the common shares and the warrants. The fair value of the warrants was determined using the Black-Scholes option pricing model. The common shares were allocated a price of $0.20 per share and the warrants were allocated a price of $0.05 per warrant. The costs of the issue were allocated on a pro rata basis to the common shares and warrants. Accordingly, $2,092,192 was allocated to common shares and $523,048 to warrants, net of issuance costs. Assumptions used to determine the value of the unit warrants were: dividend yield of 0%; risk-free interest rate of 1.1%; expected volatility of 64%; and average expected life of 3 years. Assumptions used to determine the value of the compensation warrants were: dividend yield of 0%; risk-free interest rate of 1.0%; expected volatility of 80%; and average expected life of 2 years.

On April 9, 2013, the Company issued 6,079,180 common shares and 3,300,000 common share purchase warrants for partial consideration for the acquisition of Trillium Privateco (see note 4).

On April 16, 2013, the Company issued 5,028,571 common shares and 1,600,000 common share purchase warrants as consideration for the acquisition of certain rights related to tigecycline from UHN (see note 7).

On December 13, 2013, the Company completed a private placement of 79,247,693 common share units (each common share unit consisting of one common share and three-quarters of a common share purchase warrant) at a price of $0.21 per unit and 77,895,165 preferred share units (each preferred share unit consisting of one Series I First Preferred Share and three-quarters of a common share purchase warrant) at a price of $0.21 per unit for gross proceeds of $32,866,025 ($30,713,841 net of issuance costs). Each whole warrant entitles the holder to purchase one common share at a price of $0.28 at any time prior to expiry on December 13, 2018. In connection with the financing, the Company issued 5,014,839 compensation warrants having an aggregate fair value of $651,929 estimated using the Black-Scholes option pricing model. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.21 per share prior to expiry on December 13, 2015.

The allocation of the $0.21 unit issue price to the common shares, Series I First Preferred Shares and unit warrants was based on the relative fair values of the common shares, Series I First Preferred Shares and the warrants. The fair value of the warrants was determined using the Black-Scholes option pricing model. The common shares were allocated a price of $0.16 per share, the Series I First Preferred Shares were allocated a price of $0.16 per share, and the warrants were allocated a price of $0.05 per three-quarter warrant. The costs of the issue were allocated on a pro rata basis. Accordingly, $11,488,602 was allocated to common shares, $11,292,525 to the Series I First Preferred Shares and $7,932,714 to warrants, net of issuance costs. Assumptions used to determine the value of the unit warrants were: dividend yield of 0%; risk-free interest rate of 1.2%; expected volatility of 70%; and average expected life of 3 years. Assumptions used to determine the value of the compensation warrants were: dividend yield of 0%; risk-free interest rate of 1.1%; expected volatility of 66%; and average expected life of 2 years.

All securities issued under the offering (including the compensation warrants) in Canada are subject to a four-month hold and resale restrictions under Canadian securities law, and in the United States are subject to statutory resale restrictions under U.S. securities laws.

10. Share capital (continued)

In the December 2013 private placement, subscribers who purchased preferred share units and certain subscribers who purchased common share units are subject to restrictions on the conversion and exercise of securities of the Company convertible into common shares. Such subscribers cannot convert or exercise securities of the Company convertible or exercisable into common shares if, after giving effect to the exercise of conversion, the subscriber and its joint actors would have beneficial ownership or direction or control over common shares in excess of 4.99% of the then outstanding common shares. This limit can be raised at the option of the subscriber on 61 days prior written notice: (i) up to 9.99%, (ii) up to 19.99%, subject to stock exchange clearance of a personal information form submitted by the subscriber, and (iii) above 19.99%, subject to stock exchange approval and shareholder approval.

Subject to receipt of any required regulatory approvals, subscribers who purchased a minimum of 10% of the securities sold under the offering were given rights to purchase securities of the Company in future financings to enable each such subscriber to maintain its percentage holding in the Company for so long as the subscriber holds at least 10% of the outstanding common shares on a fully-diluted basis.

(c) Weighted average number of common shares

The weighted average number of common shares outstanding for the three and nine months ended September 30, 2014 and 2013 was 126,905,002 and 124,817,043, 42,504,687 and 34,877,224, respectively.

(d) Warrants

Warrants outstanding at September 30, 2014 were as follows:

Expiry dates	Number of warrants	Exercise price
March 16, 2015	202,800	$0.25
December 13, 2015	5,014,839	$0.21
March 15, 2018	15,230,000	$0.40
March 27, 2018	420,000	$0.40
December 13, 2018	117,857,142	$0.28
	138,724,781	

All warrants were exercisable on issuance. Changes in the number of warrants outstanding during the nine months ended September 30 were as follows:

	2014		**2013**	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	**142,230,123**	**$ 0.30**	1,036,364	$ 1.54
Issued	**-**	**-**	18,449,051	0.39
Exercised	**(2,596,251)**	**0.36**	**-**	**-**
Expired	**(909,091)**	**1.60**	(127,273)	1.10
Balance, end of period	**138,724,781**	**$ 0.29**	19,358,142	$ 0.45

10. Share capital (continued)

(e) Stock option plan

The Company has a 10% rolling stock option plan (the "2014 Stock Option Plan") that was approved by the Company's shareholders at its annual general meeting held on May 27, 2014. Pursuant to the 2014 Stock Option Plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding common shares plus 10% of the total number of common shares into which the outstanding Series I First Preferred Shares may be converted.

Changes in the number of options outstanding during the nine months ended September 30 were as follows:

	2014		**2013**	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	**2,921,097**	**$ 0.33**	700,000	$ 1.03
Granted	**14,996,578**	**0.33**	2,623,597	0.25
Exercised	**(78,400)**	**0.25**	-	-
Cancelled/forfeited	**(115,000)**	**0.35**	(402,500)	1.02
Balance, end of period	**17,724,275**	**$ 0.33**	2,921,097	$ 0.33
Options exercisable, end of period	**6,603,959**	**$ 0.34**	1,188,877	$ 0.45

The following table reflects stock options outstanding at September 30, 2014:

	Stock options outstanding			Stock options exercisable	
Exercise prices	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.25	2,445,197	7.9	$0.25	1,322,599	$0.25
$0.278	6,472,710	9.7	$0.278	2,157,569	$0.278
$0.345	7,923,868	9.6	$0.345	2,641,290	$0.345
$0.51	200,000	9.3	$0.51	66,667	$0.51
$0.63	400,000	9.4	$0.63	133,334	$0.63
$1.00	262,500	1.4	$1.00	262,500	$1.00
$1.70	20,000	0.2	$1.70	20,000	$1.70
	17,724,275	9.2	$0.33	6,603,959	$0.34

10. Share capital (continued)

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the weighted average assumptions for the nine months ended September 30 as follows:

	2014	2013
Expected option life	**7 years**	10 years
Risk-free interest rate	**2.0%**	1.7%
Dividend yield	**0%**	0%
Expected volatility	**75%**	118%

The Black-Scholes option pricing model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and average option life, which significantly affect the calculated values.

The risk-free interest rate is based on the implied yield on a Government of Canada zero-coupon issue with a remaining term equal to the expected term of the option. The volatility for 2013 is based solely on historical volatility equal to the expected life of the option. Due to the significant changes in the operations of the Company in 2013, the Company concluded that for 2014 the use of historical volatility would not reflect the best estimate of forward looking volatility. For 2014, the Company compiled a peer group of biotechnology companies and their historical volatilities, and determined a reasonable estimate of forward looking volatility. The life of the options is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate is an estimate based on historical evidence and future expectations. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

During the nine months ended September 30, 2014 and 2013, the Company issued 14,996,578 and 2,623,597 stock options with a fair value of $3,427,955 and $535,781 and a weighted average grant date fair value of $0.23 and $0.20, respectively.

(f) Deferred Share Unit Plan

The shareholders of the Company approved the 2014 Deferred Share Unit Plan (the "2014 DSU Plan") on May 27, 2014. The 2014 DSU Plan is intended to promote a greater alignment of long-term interests between non-executive directors and executive officers of the Company and its shareholders through the issuance of deferred share units ("DSUs"). Since the value of a DSU increases or decreases with the market price of the common shares, DSUs reflect a philosophy of aligning the interests of directors and executive officers with those of the shareholders by tying compensation to share price performance. The Board of Directors intends to use DSUs issued under the 2014 DSU Plan, as well as stock options issued under the 2014 Stock Option Plan, as part of the Company's overall director and executive officer compensation program. A total of 863,310 units were issued during the nine months ended September 30, 2014 for payment of directors' fees and were outstanding as at September 30, 2014. The Company has reserved for issuance up to 2,000,000 common shares under the 2014 DSU Plan.

(g) Shareholder Rights Plan

On October 17, 2013 the Company's shareholders adopted a shareholder rights plan (the "2013 Rights Plan") and approved certain amendments on May 27, 2014 (the "Rights Plan Amendment" which together with the 2013 Rights Plan may be referred to as the "Rights Plan"). The Rights Plan is designed to provide adequate time for the Board of Directors and the shareholders to assess an unsolicited takeover bid for the Company, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, and to provide shareholders with an equal opportunity to participate in a takeover bid and receive full and fair value for their common shares. The Rights Plan will expire at the close of the Company's annual meeting of shareholders in 2016.

10. Share capital (continued)

The rights issued under the Rights Plan initially attach to and trade with the common shares and no separate certificates will be issued unless an event triggering these rights occurs. The rights will become exercisable only when a person, including any party related to it, acquires or attempts to acquire 20% or more of the outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares at an approximate 50% discount to the market price at the time.

Under the Rights Plan, a Permitted Bid is a bid made to all holders of the common shares and which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50% of the outstanding common shares, other than those owned by the offeror and certain related parties have been tendered, the offeror may take up and pay for the common shares but must extend the bid for a further 10 days to allow other shareholders to tender. The issuance of common shares upon the exercise of the rights is subject to receipt of certain regulatory approvals.

11. Research and development

Components of research and development expenses for the three months ended September 30 were as follows:

	2014	2013
	$	$
Research and development programs excluding the below items	**1,419,374**	595,472
Salaries, fees and short-term benefits	**543,665**	364,499
Share-based compensation	**244,552**	26,487
Amortization of intangible assets	**84,837**	202,471
Depreciation of property and equipment	**11,649**	5,175
Investment tax credits	**(214,100)**	(141,057)
	2,089,977	1,053,047

Components of research and development expenses for the nine months ended September 30 were as follows:

	2014	2013
	$	$
Research and development programs excluding the below items	**3,242,449**	1,009,308
Salaries, fees and short-term benefits	**1,593,041**	847,182
Share-based compensation	**1,367,829**	184,928
Amortization of intangible assets	**525,939**	412,228
Impairment of intangible assets	**429,763**	-
Depreciation of property and equipment	**31,779**	9,600
Investment tax credits	**(429,939)**	(188,467)
	6,760,861	2,274,779

12. General and Administrative

Components of general and administrative expenses for the three months ended September 30 were as follows:

	2014	2013
	$	$
General and administrative expenses excluding the below items	**253,427**	137,958
Salaries, fees and short-term benefits	**185,282**	69,447
Share-based compensation	**61,363**	16,515
	500,072	223,920

Components of general and administrative expenses for the nine months ended September 30 were as follows:

	2014	2013
	$	$
General and administrative expenses excluding the below items	**1,017,064**	444,680
Salaries, fees and short-term benefits	**495,908**	194,728
DSU units issued for director compensation	**240,000**	-
Share-based compensation	**384,642**	92,113
	2,137,614	731,521

13. Finance income and finance costs

Finance income for the three months ended September 30 was as follows:

	2014	2013
	$	$
Interest income	**92,517**	8,404
	92,517	8,404

Finance income for the nine months ended September 30 was as follows:

	2014	2013
	$	$
Interest income	**285,058**	19,810
Net foreign currency gain	**6,324**	4,550
	291,382	24,360

13. Finance income and finance costs (continued)

Finance costs for the three months ended September 30 were as follows:

	2014	2013
	$	$
Bank charges	**1,782**	917
Accreted interest	**15,031**	22,011
Net foreign currency loss	**12,182**	3,329
	28,995	26,257

Finance costs for the nine months ended September 30 were as follows:

	2014	2013
	$	$
Bank charges	**5,696**	3,134
Accreted interest	**54,169**	22,011
	59,865	25,145

14. Commitments and contingencies

As at September 30, 2014 and in the normal course of business, the Company had obligations to make future payments, representing research and development contracts and other commitments that are known and committed in the amount of $3,735,000 over the next 12 months, $98,000 from 12 to 24 months, $25,000 from 24 to 36 months, and $25,000 each year thereafter.

The Company enters into research, development and license agreements in the ordinary course of business where the Company receives research services and rights to proprietary technologies. Milestone and royalty payments that may become due under various agreements are dependent on, among other factors, clinical trials, regulatory approvals and ultimately the successful development of a new drug, the outcome and timing of which is uncertain. Under the license agreement for SIRPaFc, the Company has future contingent milestones payable of $60,000 related to successful patent grants, $100,000, $200,000 and $300,000 on the first patient dosed in phase I, II and III trials respectively, and regulatory milestones on their first achievement totalling $5,000,000.

The Company entered into two agreements with Catalent Pharma Solutions in August 2014 pursuant to which Trillium acquired the right to use a proprietary expression system for the manufacture of two SIRPaFc constructs. Consideration for each license includes potential pre-marketing approval milestones of up to U.S. $875,000 and aggregate sales milestone payments of up to U.S. $28.8 million.

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken by or on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the interim condensed consolidated financial statements with respect to these indemnification obligations.

15. Related parties

For the nine months ended September 30, 2014 and 2013, the key management personnel of the Company were the Board of Directors, former Executive Chairman, Chief Executive Officer, Chief Financial Officer, Chief Scientific Officer and Vice-President Drug Development.

Compensation for key management personnel of the Company for the three months ended September 30 was as follows:

	2014	2013
	$	$
Salaries, fees and short-term benefits	**379,320**	245,529
Share-based compensation	**305,244**	45,485
Total	**684,564**	291,014

Compensation for key management personnel of the Company for the nine months ended September 30 was as follows:

	2014	2013
	$	$
Salaries, fees and short-term benefits	**1,340,397**	601,034
Share-based compensation	**1,971,926**	270,660
Total	**3,312,323**	871,694

Executive officers and directors participate in the 2014 Stock Option Plan and the 2014 DSU Plan, and officers participate in the Company's benefit plans. Directors receive annual fees for their services. As at September 30, 2014, the key management personnel controlled approximately 1% of the voting shares of the Company.

Outstanding balances with related parties at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the nine months ended September 30, 2014 and 2013, $7,916 and $31,667, respectively, was paid to a former director for consulting fees.