

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from        to

Commission File Number: 001-34949

**Tekmira Pharmaceuticals Corporation**  
(Exact Name of Registrant as Specified in Its Charter)

**British Columbia, Canada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**980597776**  
(I.R.S. Employer  
Identification No.)

**100-8900 Glenlyon Parkway, Burnaby, BC, Canada**  
(Address of Principal Executive Offices)

**V5J 5J8**  
(Zip Code)

**604-419-3200**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [  ]                      Accelerated filer [  ]                      Non-accelerated filer [x]                      Smaller reporting company [  ]  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [  ] No [x]

As of August 12, 2014, the registrant had 22,105,977 common shares, no par value, outstanding.

TEKMIRA PHARMACEUTICALS CORP.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (Unaudited)**

**TEKMIRA PHARMACEUTICALS CORPORATION**

**Condensed Consolidated Balance Sheets**

(Unaudited)

(Expressed in US Dollars and in thousands, except share and per share amounts)

(Prepared in accordance with U.S. GAAP)

	<b>June 30 2014</b>	December 31 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 85,267	\$ 68,717
Short-term investments (note 2)	31,966	-
Accounts receivable	299	117
Accrued revenue	200	212
Deferred expenses	57	173
Investment tax credits receivable	40	40
Prepaid expenses and other assets	335	1,084
<b>Total current assets</b>	<b>118,164</b>	<b>70,343</b>
Long-term investments (note 2)	12,228	-
Property and equipment	13,589	13,039
Less accumulated depreciation	(11,913)	(11,666)
<b>Property and equipment, net of accumulated depreciation</b>	<b>1,676</b>	<b>1,373</b>
<b>Total assets</b>	<b>\$ 132,068</b>	<b>\$ 71,716</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 3,780	\$ 3,680
Deferred revenue (note 3)	6,043	3,463
Warrants (note 2)	6,590	5,379
<b>Total current liabilities</b>	<b>16,413</b>	<b>12,522</b>
Deferred revenue, net of current portion (note 3)	10,510	-
<b>Total liabilities</b>	<b>26,923</b>	<b>12,522</b>
<b>Stockholders' equity:</b>		
Common shares (note 5)		
Authorized - unlimited number with no par value		
Issued and outstanding: 22,079,727 (December 31, 2013 - 19,048,900)	284,790	216,702
Additional paid-in capital	25,655	25,343
Deficit	(191,092)	(167,027)
Accumulated other comprehensive income (loss)	(14,208)	(15,824)
<b>Total stockholders' equity</b>	<b>105,145</b>	<b>59,194</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 132,068</b>	<b>\$ 71,716</b>

Nature of business and future operations (note 1)

Contingencies and commitments (note 7)

Subsequent event (note 8)

See accompanying notes to the condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(Expressed in US Dollars and in thousands, except share and per share amounts)

(Prepared in accordance with U.S. GAAP)

	Three months ended		Six months ended	
	June 30		June 30	
	2014	2013	2014	2013
<b>Revenue (note 3)</b>				
Collaborations and contracts	\$ 1,144	\$ 2,844	\$ 4,833	\$ 4,975
Licensing fees, milestone and royalty payments	667	-	1,408	-
<b>Total revenue</b>	<b>1,811</b>	<b>2,844</b>	<b>6,241</b>	<b>4,975</b>
<b>Expenses</b>				
Research, development, collaborations and contracts	9,298	4,914	17,502	8,981
General and administrative	1,787	849	3,837	1,741
Depreciation of property and equipment	149	152	283	318
<b>Total expenses</b>	<b>11,234</b>	<b>5,915</b>	<b>21,622</b>	<b>11,040</b>
<b>Loss from operations</b>	<b>(9,423)</b>	<b>(3,071)</b>	<b>(15,381)</b>	<b>(6,065)</b>
<b>Other income (losses)</b>				
Interest income	257	146	404	290
Foreign exchange losses	(2,728)	(61)	(1,285)	(65)
(Increase) decrease in fair value of warrant liability	5,813	(28)	(7,803)	280
<b>Net loss</b>	<b>\$ (6,081)</b>	<b>\$ (3,014)</b>	<b>\$ (24,065)</b>	<b>\$ (5,560)</b>
Loss per common share				
Basic and diluted	\$ (0.28)	\$ (0.21)	\$ (1.15)	\$ (0.39)
Weighted average number of common shares				
Basic and diluted	22,063,438	14,406,911	20,938,503	14,375,538
<b>Comprehensive loss</b>				
Cumulative translation adjustment	3,774	(1,236)	1,616	(2,111)
<b>Comprehensive loss</b>	<b>\$ (2,307)</b>	<b>\$ (4,250)</b>	<b>\$ (22,449)</b>	<b>\$ (7,671)</b>

See accompanying notes to the condensed consolidated financial statements.

**TEKMIRA PHARMACEUTICALS CORPORATION**

**Condensed Consolidated Statement of Stockholders' Equity**

(Unaudited)

(Expressed in US Dollars and in thousands, except share and per share amounts)

(Prepared in accordance with U.S. GAAP)

	Number of shares	Share capital	Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Total stockholders' equity
Balance, December 31, 2013	19,048,900	\$ 216,702	\$ 25,343	\$ (167,027)	\$ (15,824)	\$ 59,194
Stock-based compensation	-	-	2,269	-	-	2,269
Issuance of common shares pursuant to exercise of options	524,064	4,029	(1,957)	-	-	2,072
Issuance of common shares pursuant to exercise of warrants	381,763	7,582	-	-	-	7,582
Issuance of common shares in conjunction with the private offering, net of issuance costs of \$4,085,000	2,125,000	56,477	-	-	-	56,477
Currency translation adjustment	-	-	-	-	1,616	1,616
Net loss	-	-	-	(24,065)	-	(24,065)
<b>Balance, June 30, 2014</b>	<b>22,079,727</b>	<b>\$ 284,790</b>	<b>\$ 25,655</b>	<b>\$ (191,092)</b>	<b>\$ (14,208)</b>	<b>\$ 105,145</b>

**TEKMIRA PHARMACEUTICALS CORPORATION**

**Condensed Consolidated Statements of Cash Flow**

(Unaudited)

(Expressed in US Dollars and in thousands, except share and per share amounts)

(Prepared in accordance with U.S. GAAP)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (6,081)	\$ (3,014)	\$ (24,065)	\$ (5,560)
Items not involving cash:				
Depreciation of property and equipment	149	152	283	318
Stock-based compensation - research, development, collaborations and contract expenses	792	86	1,640	189
Stock-based compensation - general and administrative expenses	289	26	629	54
Unrealized foreign exchange (gains) losses	1,391	3	1,332	9
Change in fair value of warrant liability	(5,813)	28	7,803	(280)
Net change in non-cash operating items:				
Accounts receivable	1,231	(213)	(178)	(630)
Accrued revenue	220	287	12	(819)
Deferred expenses	57	57	112	117
Prepaid expenses and other assets	243	(7)	725	(501)
Accounts payable and accrued liabilities	(943)	535	108	1,342
Deferred revenue	455	(734)	12,744	127
<b>Net cash provided by (used in) operating activities</b>	<b>(8,010)</b>	<b>(2,794)</b>	<b>1,145</b>	<b>(5,634)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of investments	(42,992)	-	(42,992)	-
Acquisition of property and equipment	(246)	(210)	(581)	(411)
<b>Net cash used in investing activities</b>	<b>(43,238)</b>	<b>(210)</b>	<b>(43,573)</b>	<b>(411)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of common shares, net of issuance costs	-	-	56,477	-
Issuance of common shares pursuant to exercise of options	148	7	2,072	89
Issuance of common shares pursuant to exercise of warrants	86	61	974	117
<b>Net cash provided by financing activities</b>	<b>234</b>	<b>68</b>	<b>59,523</b>	<b>206</b>
Effect of foreign exchange rate changes on cash & cash equivalents	1,924	(1,454)	(545)	(2,453)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(49,090)</b>	<b>(4,390)</b>	<b>16,550</b>	<b>(8,292)</b>
Cash and cash equivalents, beginning of period	134,357	43,122	68,717	47,024
<b>Cash and cash equivalents, end of period</b>	<b>\$ 85,267</b>	<b>\$ 38,732</b>	<b>\$ 85,267</b>	<b>\$ 38,732</b>

**Supplemental cash flow information**

Fair value of warrants exercised on a cashless basis	\$ (116)	\$ (109)	\$ (116)	\$ (216)
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See accompanying notes to the condensed consolidated financial statements.

## **TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)  
(Expressed in US dollars – tabular amounts in thousands)

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### **1. Nature of business and future operations**

Tekmira Pharmaceuticals Corporation (the “Company”) is a Canadian biopharmaceutical business focused on advancing novel RNA interference therapeutics.

The success of the Company is dependent on obtaining the necessary regulatory approvals to bring its products to market and achieve profitable operations. The continuation of the research and development activities and the commercialization of its products are dependent on the Company’s ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs or the Company’s ability to fund these programs in the future.

### **2. Significant accounting policies**

#### ***Basis of presentation***

Tekmira Pharmaceuticals Corporation was incorporated on October 6, 2005 as an inactive wholly owned subsidiary of Inex Pharmaceuticals Corporation (“Inex”). Pursuant to a “Plan of Arrangement” effective April 30, 2007, the business, and substantially all of the assets and liabilities of Inex were transferred to the Company. The consolidated financial statements for all periods presented herein include the consolidated operations of Inex until April 30, 2007 and the operations of the Company thereafter.

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America (“U.S. GAAP”) for interim financial statements and accordingly, do not include all disclosures required for annual financial statements. These statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2013 and included in the Company’s 2013 annual report on Form 10-K. The unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at June 30, 2014 and for all periods presented. The results of operations for the three and six months ended June 30, 2014 and June 30, 2013 are not necessarily indicative of the results for the full year. These condensed consolidated financial statements follow the same significant accounting policies as those described in the notes to the audited consolidated financial statements of the Company for the year ended December 31, 2013, with the exception of the recent accounting pronouncement described further below.

#### ***Principles of Consolidation***

The Company has three wholly-owned subsidiaries: Protiva Biotherapeutics Inc., Protiva Biotherapeutics (USA) Inc., and Protiva Agricultural Development Company Inc. (“PADCo”).

These condensed consolidated financial statements include the accounts of the Company and two of its wholly-owned subsidiaries, Protiva Biotherapeutics Inc. and Protiva Biotherapeutics (USA) Inc. All intercompany transactions and balances have been eliminated on consolidation.

The Company records its investment in PADCo using the equity method. The Company has determined that PADCo is a variable interest entity (“VIE”) of which it is not the primary beneficiary. The Company is not the primary beneficiary as it does not have the power to make decisions that most significantly affect the economic performance of the VIE nor does the Company have the right to receive benefits or the obligation to absorb losses that in either case could potentially be significant to the VIE. PADCo is described further in note 3.

#### ***Comparative Information***

Certain information has been reclassified to conform with the financial statement presentation adopted for the current period.

#### ***Income or loss per share***

Income or loss per share is calculated based on the weighted average number of common shares outstanding. Diluted loss per share does not differ from basic loss per share since the effect of the Company’s stock options and warrants is anti-dilutive. Diluted income per share is calculated using the treasury stock method which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding, in-the-money stock options and warrants. At June 30, 2014, potential common shares of 2,558,925 (June 30, 2013 – 3,396,671) were excluded from the calculation of income per common share because their inclusion would be anti-dilutive.



**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)  
 (Expressed in US dollars – tabular amounts in thousands)

***Fair value of financial instruments***

We measure certain financial instruments and other items at fair value.

To determine the fair value, we use the fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use to value an asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs based on assumptions about the factors market participants would use to value an asset or liability. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 inputs are quoted market prices for identical instruments available in active markets.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. If the asset or liability has a contractual term, the input must be observable for substantially the full term. An example includes quoted market prices for similar assets or liabilities in active markets.
- Level 3 inputs are unobservable inputs for the asset or liability and will reflect management’s assumptions about market assumptions that would be used to price the asset or liability.

The following tables present information about the Company’s assets and liabilities that are measured at fair value on a recurring basis, in thousands, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value:

	Level 1	Level 2	Level 3	June 30, 2014
<b>Assets</b>				
Cash and cash equivalents	\$ 85,267	-	-	\$ 85,267
Guaranteed Investment Certificates	44,194	-	-	44,194
Total	\$ 129,461	-	-	\$ 129,461
<b>Liabilities</b>				
Warrants	-	-	\$ 6,590	\$ 6,590
Financial Instrument	-	-	0	0
Total	-	-	\$ 6,590	\$ 6,590
	Level 1	Level 2	Level 3	December 31, 2013
<b>Assets</b>				
Cash and cash equivalents	\$ 68,717	-	-	\$ 68,717
<b>Liabilities</b>				
Warrants	-	-	\$ 5,379	\$ 5,379

The Company acquired guaranteed investment certificates in April 2014, which are classified as short-term and long-term investments on the balance sheet. Short-term investments have original maturities between three months and twelve months. Long-term investments have original maturities greater than twelve months. For the period ended June 30, 2014, the value of short-term investments is \$31,966,000 with original maturities between six to twelve months, and the value of the long-term investment is \$12,228,000 with an original maturity of eighteen months.

The Company used a discounted cash flow model to determine the fair value of the financial instrument related to Monsanto’s call option to acquire the equity or all of the assets of PADCo, as described in note 3. The fair value was determined at the date of recognition, and at each reporting date. The initial fair value of the financial liability was nil, and there has been no change to its fair value as at June 30, 2014.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)  
 (Expressed in US dollars – tabular amounts in thousands)

The following table presents the changes in fair value of the Company's warrants:

	Liability at beginning of the period	Opening liability of warrants issued in the period	Fair value of warrants exercised in the period	Increase in fair value of warrants	Foreign exchange loss	Liability at end of the period
Six months ended June 30, 2014	\$ 5,379	-	\$ (6,607)	\$ 7,803	\$ 15	\$ 6,590

The change in fair value of warrant liability for the six months ended June 30, 2014 is recorded in the statement of operations and comprehensive loss.

The weighted average Black-Scholes option-pricing assumptions and the resultant fair values, in thousands, for warrants outstanding at June 30, 2014 and at December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
Dividend yield	0.00%	0.00%
Expected volatility	96.17%	47.03%
Risk-free interest rate	1.10%	1.13%
Expected average term (years)	1.0	1.6
Fair value of warrants outstanding	\$ 10.42	\$ 5.30
Aggregate fair value of warrants outstanding	\$ 6,590	\$ 5,379

**Foreign currency translation and change in reporting currency**

The functional currency of the Company is the Canadian dollar. For the Company and its integrated and consolidated subsidiaries (Protiva Biotherapeutics Inc. and Protiva Biotherapeutics (USA) Inc.), foreign currency monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. The previous month's average rate of exchange is used to translate revenue and expense transactions. Exchange gains and losses are included in income or loss for the period.

Effective October 1, 2013, the Company began using United States dollars as its reporting currency. All assets and liabilities are translated using the exchange rate at the balance sheet date (June 30, 2014 – 0.9372; December 31, 2013 – 0.9402). Revenues, expenses and other income (losses) are translated using the average rate for the period (six months ended June 30, 2014 – 0.9117; six months ended June 30, 2013 – 0.9710), except for large transactions, for which the exchange rate on the date of the transaction is used. Equity accounts are translated using the historical rate. As the translation differences from the Company's functional currency of Canadian dollars to the Company's reporting currency of U.S. dollars are unrealized gains and losses, the differences are recorded in other comprehensive income (loss), and do not impact the calculation of Income or Loss per Share.

**Recent accounting pronouncements**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (ASC 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists* (Update). The update is intended to eliminate the diversity in practice of the presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists. The update is effective for annual and interim financial statements for fiscal years beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance on January 1, 2014 did not have an impact on the Company's consolidated financial statements.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)

(Expressed in US dollars – tabular amounts in thousands)

In March 2014, the FASB issued ASU 2014-06, *Technical Corrections and Improvements Related to Glossary Terms* (Update). The update contains amendments that affect a wide variety of Topics in the Codification, and represent changes to clarify the Master Glossary of the Codification. The update does not have transition guidance and is effective upon issuance. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The standard is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS by creating a new Topic 606, *Revenue from Contracts with Customers*. This guidance supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*. The core principle of the accounting standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments should be applied by either (1) retrospectively to each prior reporting period presented; or (2) retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. The update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2016, which for the Company means January 1, 2017. Early application is not permitted. The extent of the impact of adoption has not yet been determined.

In June 2014, the FASB issued ASU 2014-12, *Compensation – Stock Compensation (ASC 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The update is intended to resolve diverse accounting treatment of share-based payments that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. The update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015, which for the Company means January 1, 2016. The amendments should be applied either (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. The Company does not currently have any unvested performance based options and does not expect to issue any in the future so the adoption of this guidance is not expected to have any impact on the Company's consolidated financial statements.

**3. Collaborations, contracts and licensing agreements**

The following tables set forth revenue recognized under collaborations, contracts and licensing agreements:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
<b>Collaborations and contracts</b>				
DoD (a)	\$ 861	\$ 2,453	\$ 4,101	\$ 4,353
Monsanto (b)	283	-	526	-
BMS (d)	-	323	206	554
Other RNAi collaborators (e)	-	68	-	68
Total research and development collaborations and contracts	1,144	2,844	4,833	4,975
<b>Licensing fees, milestone and royalty payments</b>				
Monsanto licensing fees and milestone payments (b)	626	-	1,171	-
Acuitas milestone payments (c)	-	-	150	-
Spectrum royalty payments (f)	41	-	87	-
Total licensing fees, milestone and royalty payments	667	-	1,408	-
<b>Total revenue</b>	<b>\$ 1,811</b>	<b>\$ 2,844</b>	<b>\$ 6,241</b>	<b>\$ 4,975</b>

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)  
 (Expressed in US dollars – tabular amounts in thousands)

The following table sets forth deferred collaborations and contracts revenue:

	June 30, 2014	December 31, 2013
DoD (a)	\$ 311	\$ 1,655
Monsanto current portion (b)	4,143	-
BMS (d)	1,589	1,808
Deferred revenue, current portion	6,043	3,463
Monsanto long-term portion (b)	10,510	-
<b>Total deferred revenue</b>	<b>\$ 16,553</b>	<b>\$ 3,463</b>

**(a) Contract with United States Government’s Department of Defense (“DoD”) to develop TKM-Ebola**

On July 14, 2010, the Company signed a contract with the DoD to advance TKM-Ebola, an RNAi therapeutic utilizing the Company’s lipid nanoparticle technology to treat Ebola virus infection.

In the initial phase of the contract, funded as part of the Transformational Medical Technologies program, the Company was eligible to receive up to \$34.7 million. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an Investigational New Drug application with the United States Food and Drug Administration (“FDA”) and completing a Phase 1 human safety clinical trial. On May 8, 2013, the Company announced that the contract had been modified to support development plans that integrate recent advancements in lipid nanoparticle (“LNP”) formulation and manufacturing technologies. On April 22, 2014, the Company and the DoD signed a contract modification to increase the stage one targeted funding by \$2,100,000 to \$43,819,000. The additional funding is to compensate the Company for unrecovered overheads related to the temporary stop-work period that occurred in 2012 and to provide additional overhead funding should it be required.

The DoD has the option of extending the contract beyond the initial funding period to support the advancement of TKM-Ebola through to the completion of clinical development and FDA approval. Based on the contract’s original budget this would provide the Company with up to \$139,972,000 in funding for the entire program.

Under the contract, the Company is reimbursed for costs incurred, including an allocation of overhead costs, and is paid an incentive fee. At the beginning of the fiscal year the Company estimates its labour and overhead rates for the year ahead. At the end of the year the actual labour and overhead rates are calculated and revenue is adjusted accordingly. The Company’s actual labour and overhead rates will differ from its estimated rates based on actual costs incurred and the proportion of the Company’s efforts on contracts and internal products versus indirect activities. Within minimum and maximum collars, the amount of incentive fee the Company can earn under the contract varies based on costs incurred versus budgeted costs. During the contractual period, incentive fee revenue and total costs are impacted by management’s estimate and judgments which are continuously reviewed and adjusted as necessary using the cumulative catch-up method. At June 30, 2014, the Company believes it can reliably estimate the final contract costs so has recognized the portion of expected incentive fee which has been earned to date.

**(b) Option and Services Agreements with Monsanto Company (“Monsanto”)**

On January 13, 2014, the Company and Monsanto signed an Option Agreement and a Services Agreement (together, the “Agreements”). Under the Agreements, Monsanto has an option to obtain a license to use the Company’s proprietary delivery technology and related intellectual property for use in agriculture. Over the option period, which is expected to be approximately four years, the Company will provide lipid formulations for Monsanto’s research and development activities, and Monsanto will make certain payments to the Company to maintain its option rights. The maximum potential value of the transaction is \$86,200,000 following the successful completion of milestones. As at June 30, 2014, the Company received \$16,000,000 near term payments as outlined in the terms of the Agreements. The payments received relate to research services and use of the Company’s technology over the option period, and are recognized as revenue on a straight-line basis over the option period.

## TEKMIRA PHARMACEUTICALS CORPORATION

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Under the Agreements, the Company has established a wholly-owned subsidiary, PADCo. The Company has determined that PADCo is a variable interest entity (“VIE”); however, Monsanto is the primary beneficiary of the arrangement. PADCo was established to perform research and development activities, which have been funded by Monsanto in return for a call option to acquire the equity or all of the assets of PADCo. At any time during the option period, Monsanto may choose to exercise its option, in which case Monsanto would pay the Company an option exercise fee and would receive a worldwide, exclusive right to use the Company’s proprietary delivery technology in the field of agriculture. Monsanto may elect to terminate this option at their discretion. The Company retains all rights to therapeutics uses of all current intellectual property and intellectual property developed under the Agreements. The Company’s initial investment is not significant, and has no implied or unfunded commitments and the maximum exposure to loss is limited to the amount of investment in the entity. The Company has included its investment in PADCo in Other Assets. There were no significant assets or liabilities for PADCo as at June 30, 2014. There was no equity pickup for the three or six month periods ended June 30, 2014.

### **(c) License and collaboration with Alnylam Pharmaceuticals, Inc. (“Alnylam”) and Acuitas Therapeutics Inc. (“Acuitas”, formerly AICana Technologies Inc.)**

On November 12, 2012, the Company entered into a new licensing agreement with Alnylam that replaces all earlier licensing, cross-licensing, collaboration, and manufacturing agreements. The Company also entered into a separate cross license agreement with Acuitas which includes milestone and royalty payments and Acuitas has agreed not to compete in the RNAi field for five years.

The licensing agreement grants Alnylam license rights to the Company’s patents that were filed, or that claim priority to a patent that was filed, before April 15, 2010. Alnylam does not have rights to the Company’s patents filed after April 15, 2010 unless they claim priority to a patent filed before that date. In addition, Alnylam has transferred all agreed upon patents and patent applications related to LNP technology for the systemic delivery of RNAi therapeutic products, including the MC3 lipid family, to the Company, who will own and control prosecution of this intellectual property portfolio. The Company is the only entity able to sublicense its LNP intellectual property in future platform-type relationships. Alnylam has a license to use the Company’s intellectual property to develop and commercialize products and may only grant access to the Company’s LNP technology to its partners if it is part of a product sublicense. Alnylam will pay the Company milestones and royalties as Alnylam’s LNP-enabled products are developed and commercialized.

The licensing agreement with Alnylam also grants the Company intellectual property rights to develop its own proprietary RNAi therapeutics. Alnylam has granted the Company a worldwide license for the discovery, development and commercialization of RNAi products directed to thirteen gene targets – three exclusive and ten non-exclusive licenses – provided that they have not been committed by Alnylam to a third party or are not otherwise unavailable as a result of the exercise of a right of first refusal held by a third party or are part of an ongoing or planned development program of Alnylam. Licenses for five of the ten non-exclusive targets – ApoB, PLK1, Ebola, WEE1, and CSN5 – have already been granted, along with an additional license for ALDH2, which has been granted on an exclusive basis. In consideration for this license, the Company has agreed to pay single-digit royalties to Alnylam on product sales and have milestone obligations of up to \$8,500,000 on the non-exclusive licenses (with the exception of TKM-Ebola, which has no milestone obligations). Alnylam no longer has “opt-in” rights to the Company’s lead oncology product, TKM-PLK1, so the Company now holds all development and commercialization rights related TKM-PLK1. The Company will have no milestone obligations on the three exclusive licenses.

### **Milestone receipts and payments**

In the six months ended June 30, 2014, the Company earned a \$150,000 milestone from Acuitas, subsequent to Acuitas receiving a milestone payment from Alnylam with respect to Alnylam initiating a Phase III trial for ALN-TTR02.

### **Arbitration with Alnylam and Asclepis Pharmaceuticals (Hangzhou) Co. Ltd. (“Asclepis”)**

On June 21, 2013, the Company transferred manufacturing process technology to Asclepis to enable them to produce ALN-VSP, a product candidate licensed to them by Alnylam. The Company believes that under the new licensing agreement with Alnylam, the technology transfer to Asclepis triggers a \$5,000,000 milestone obligation from Alnylam to the Company. However, Alnylam has demanded a declaration that the Company has not yet met its milestone obligations. The Company disputes Alnylam’s position. To remedy this dispute, the Company and Alnylam have commenced arbitration proceedings as provided for under the agreement. The Company has not recorded any revenue in respect of this milestone.

### **(d) Bristol-Myers Squibb (“BMS”) collaboration**

On May 10, 2010 the Company announced the expansion of its research collaboration with BMS. Under the new agreement, BMS uses small interfering RNA (“siRNA”) molecules formulated by the Company in LNP technology to silence target genes of interest. BMS is conducting the preclinical work to validate the function of certain genes and share the data with the Company. The Company can use the preclinical data to develop RNAi therapeutic drugs against the therapeutic targets of interest. The Company received \$3,000,000 from BMS concurrent with the signing of the agreement and recorded the amount as deferred revenue. The Company is required to provide a pre-determined number of LNP batches over the four-year agreement. BMS has a first right to negotiate a licensing agreement on certain RNAi products developed by the Company that evolve from BMS validated gene targets.

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Revenue from the May 10, 2010 agreement with BMS is being recognized as the Company produces the related LNP batches.

In December 2013, a decision was made to extend the agreement's end date from May 10, 2014 to December 31, 2014. Extending the agreement will give BMS more time to order LNP batches, and resulted in a cumulative revenue adjustment recorded for the year-ended December 31, 2013. The revenue earned for the six months ended June 30, 2014 relate to BMS batches shipped during the period.

### (e) Other RNAi collaborators

The Company has active research agreements with a number of other RNAi collaborators.

### (f) Agreements with Spectrum Pharmaceuticals, Inc. ("Spectrum")

On May 6, 2006, the Company signed a number of agreements with Talon Therapeutics, Inc. ("Talon", formerly Hana Biosciences, Inc.) including the grant of worldwide licenses (the "Talon License Agreement") for three of the Company's chemotherapy products, Marqibo®, Alocrest™ (Optisomal Vinorelbine) and Brakiva™ (Optisomal Topotecan).

On August 9, 2012, the Company announced that Talon had received accelerated approval for Marqibo from the FDA for the treatment of adult patients with Philadelphia chromosome negative acute lymphoblastic leukemia in second or greater relapse or whose disease has progressed following two or more anti-leukemia therapies. Marqibo is a liposomal formulation of the chemotherapy drug vincristine. There are no further milestones related to Marqibo but the Company is eligible to receive total milestone payments of up to \$18,000,000 on Alocrest and Brakiva.

Talon was acquired by Spectrum in July 2013. The acquisition does not affect the terms of the license between Talon and the Company. On September 3, 2013, Spectrum announced that they had shipped the first commercial orders of Marqibo. For the three and six months ended June 30, 2014, the Company recorded \$41,000 and \$87,000 in Marqibo royalty revenue respectively (three and six months ended June 30, 2013 - nil). For the six months ended June 30, 2014, the Company accrued 2.5% in royalties due to TPC in respect of the Marqibo royalty earned by the Company – see note 7, contingencies and commitments.

## 4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities is comprised of the following:

	June 30, 2014	December 31, 2013
Trade accounts payable	\$ 1,778	\$ 1,217
Research and development accruals	1,574	1,405
Professional fee accruals	147	247
Deferred lease inducements	5	16
Other accrued liabilities	276	795
	\$ 3,780	\$ 3,680

## 5. Financing

On March 26, 2014, the Company announced that it had completed an underwritten public offering of 2,125,000 common shares, at a price of \$28.50 per share, representing gross proceeds of \$60,562,000. The Company also granted the underwriters a 30-day option to purchase an additional 318,750 shares for an additional \$9,084,000 to cover any over-allotments. The underwriters did not exercise the option. The cost of financing, including commissions and professional fees, was \$4,085,000, resulting in net proceeds of \$56,477,000.

## 6. Concentrations of credit risk

Credit risk is defined by the Company as an unexpected loss in cash and earnings if a collaborative partner is unable to pay its obligations in due time. The Company's main source of credit risk is related to its accounts receivable balance which principally represents temporary financing provided to collaborative partners in the normal course of operations.

The Company does not currently maintain a provision for bad debts as the majority of accounts receivable are from collaborative partners or government agencies and are considered low risk.

## **TEKMIRA PHARMACEUTICALS CORPORATION**

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The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at June 30, 2014 was the accounts receivable balance of \$299,000 (December 31, 2013 - \$117,000).

All accounts receivable balances were current as at June 30, 2014 and at December 31, 2013.

### **7. Contingencies and commitments**

#### **Product development partnership with the Canadian Government**

The Company entered into a Technology Partnerships Canada ("TPC") agreement with the Canadian Federal Government on November 12, 1999. Under this agreement, TPC agreed to fund 27% of the costs incurred by the Company, prior to March 31, 2004, in the development of certain oligonucleotide product candidates up to a maximum contribution from TPC of \$7,179,000 (C\$9,323,000). As at June 30, 2014, a cumulative contribution of \$3,348,000 (C\$3,702,000) has been received and the Company does not expect any further funding under this agreement. In return for the funding provided by TPC, the Company agreed to pay royalties on the share of future licensing and product revenue, if any, that is received by the Company on certain non-siRNA oligonucleotide product candidates covered by the funding under the agreement. These royalties are payable until a certain cumulative payment amount is achieved or until a pre-specified date. In addition, until a cumulative amount equal to the funding actually received under the agreement has been paid to TPC, the Company agreed to pay 2.5% royalties on any royalties the Company receives for Marqibo. For the three and six months ended June 30, 2014, the Company earned royalties on Marqibo sales in the amount of \$41,000 and \$87,000 respectively (six months ended June 30, 2013 – nil) (see note 3(f)), resulting in \$2,000 being recorded by the Company as royalty payable to TPC (December 31, 2013 - \$1,000). The cumulative amount paid or accrued up to June 30, 2014 was \$3,000, resulting in the contingent amount due to TPC being \$3,345,000 (C\$3,699,000).

#### **License agreement with Marina Biotech, Inc. ("Marina")**

On November 29, 2012 the Company announced a worldwide, non-exclusive license to a novel RNAi payload technology called Unlocked Nucleobase Analog ("UNA") from Marina for the development of RNAi therapeutics.

UNA technology can be used in the development of RNAi therapeutics, which treat disease by silencing specific disease causing genes. UNAs can be incorporated into RNAi drugs and have the potential to improve them by increasing their stability and reducing off-target effects.

Under the license agreement the Company paid Marina an upfront fee of \$300,000. A further license payment of \$200,000 was paid in 2013 and the Company will make milestone payments of up to \$3,250,000 and royalties on each product developed by the Company that uses Marina's UNA technology. The payments to Marina are expensed to research, development, collaborations and contracts expense.

Effective August 9, 2013, Marina's UNA technology was acquired by Arcturus Therapeutics, Inc. ("Arcturus") and the UNA license agreement between the Company and Marina was assigned to Arcturus. The terms of the license are otherwise unchanged.

#### **Service agreement with Monsanto Company ("Monsanto")**

On January 13, 2014, the Company and Monsanto signed a Services Agreement ("the Services Agreement") concurrently with the Option agreement, discussed in note 3. Under the Services Agreement, the Company will make payments to Monsanto for research services over the option period, which is expected to be approximately four years, up to a maximum of \$5,000,000. During the three and six months ended June 30, 2014, the Company paid \$250,000 and \$500,000, respectively, to Monsanto for research services and expects to make further payments each of \$250,000 in July 2014 and October 2014.

#### **Lease renewal agreement**

On June 23, 2014, the Company signed a renewal agreement to the operating lease for its laboratory and office premises. The renewal is effective August 1, 2014 and expires July 31, 2019, but the Company has the option to extend the lease to 2024, 2029, and 2034. The renewal agreement includes lease inducements, which will be amortized on a straight-line basis over the term of the lease, in accordance with the Company's accounting policy.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to condensed consolidated financial statements (unaudited)  
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Following the lease renewal, the minimum rent and estimated operating cost commitment, net of lease inducements, is as follows:

Six-month period to December 31, 2014	\$ 278,000
Year ended December 31, 2015	1,216,000
Year ended December 31, 2016	1,216,000
Year ended December 31, 2017	1,216,000
Year ended December 31, 2018	1,216,000
Year ended December 31, 2019	710,000
	<b>\$ 5,852,000</b>

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**8. Subsequent event****TKM-Ebola placed on partial clinical hold**

In July 2014, the Company received notice from the FDA that the TKM-Ebola program had been placed on clinical hold. The FDA is seeking data to elucidate the mechanism of potential cytokine release and a modification to the protocol for the multiple ascending dose portion of the trial to ensure the safety of healthy volunteers. In August 2014, the Company received written notice from the FDA modifying the clinical hold to a “partial clinical hold,” allowing for the potential use of TKM-Ebola in individuals who have a confirmed or suspected Ebola infection. The program remains on clinical hold as it relates to the multiple-ascending dose portion of the Phase I clinical study in healthy human volunteers with TKM-Ebola.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis by our management of our financial position and results of operations in conjunction with our audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2013 and our unaudited condensed consolidated financial statements for the three and six month periods ended June 30, 2014. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.*

### FORWARD-LOOKING STATEMENTS

*The information in this report contains forward-looking information and forward-looking statements (collectively, forward-looking statements) within the meaning of applicable securities laws. All statements other than statements relating to historical matters should be considered forward-looking statements. When used in this report, the words "believe," "expect," "plan," "anticipate," "estimate," "predict," "may," "could," "should," "intend," "will," "target," "goal" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Forward-looking statements in this report include statements about Tekmira's strategy, future operations, clinical trials, prospects and the plans of management; RNAi (ribonucleic acid interference) product development programs; the effects of Tekmira's products on the treatment of cancer, chronic Hepatitis B infection, infectious disease, alcohol use disorder, and other diseases; new product development and partnering opportunities; the potency and broader therapeutic index of third generation-LNP formulation; Tekmira's strategy for optimizing market access for TKM-HBV; filing an Investigational New Drug (IND) application or equivalent in the second half of 2014 in order to advance TKM-HBV into a Phase I clinical trial in 2015; Gastrointestinal Neuroendocrine Tumors (GI-NET) or Adrenocortical Carcinoma (ACC) enrollment in a Phase I/II clinical trial with TKM-PLK1, and expected interim data from this trial in the second half of 2014; the initiation of another Phase I/II clinical trial with TKM-PLK1 enrolling patients with Hepatocellular Carcinoma (HCC); the presentation of results of Tekmira's pre-clinical work and potential partnering or external funding opportunities for TKM-ALDH2, the timing of filing an IND or equivalent; the Phase I clinical trial with TKM-Ebola; Fast Tract designation from the US FDA for the development of TKM-Ebola; completion of the necessary preclinical work to be in a position to file on the development of TKM-Ebola under the "Animal Rule"; the clinical hold on TKM-Ebola by the FDA, Tekmira's response to the partial clinical hold and expectations of resolving the matter by the fourth quarter of this year; the potential for use of TKM-Ebola in individuals who have confirmed or suspected Ebola infection; the evaluation of options for the use of TKM-Ebola, including discussions with government agencies and NGO's (including the World Health Organization) on the potential use of TKM-Ebola to treat infected individuals; additional funding opportunities or development partnerships for TKM-Marburg; our focus on rare diseases, including glycogen storage diseases and rare forms of hypertriglyceridemia; the generation of data and the expectation of identifying another development candidate in the latter portion of 2014; Alnylam's three LNP-based products in clinical development (ALN-TTR02 (patisiran), ALN-VSP and ALN-PCS02); arbitration proceedings with Alnylam in connection with ALN-VSP; the potential quantum of value of the transactions contemplated in the Monsanto option agreement; ongoing advances in next-generation LNP technologies; anticipated royalty receipts based on sales of Marqibo; our worldwide, non-exclusive license to Unlocked Nucleobase Analog from Marina; the extension of our collaboration agreement with BMS; future changes in the fair value of our warrant liability based on our share price; foreign exchange rate fluctuation and Tekmira's currency needs; statements regarding the sufficiency of our cash resources for the next 12 months; statements with respect to revenue and expense fluctuation and guidance; the quantum and timing of potential funding.*

*With respect to the forward-looking statements contained in this report, Tekmira has made numerous assumptions regarding, among other things: LNP's status as a leading RNAi delivery technology; Tekmira's research and development capabilities and resources; the effectiveness of Tekmira's products as a treatment for cancer, chronic Hepatitis B infection, infectious disease, alcohol use disorder, or other diseases; the timing and quantum of payments to be received under contracts with Tekmira's partners including Alnylam, Spectrum, Monsanto and the DoD; assumptions related to Tekmira's share price volatility, expected lives of warrants and warrant issuances and/or exercises; and Tekmira's financial position and its ability to execute its business strategy. While Tekmira considers these assumptions to be reasonable, these assumptions are inherently subject to significant business, economic, competitive, market and social uncertainties and contingencies.*

*Our actual results could differ materially from those discussed in the forward-looking statements as a result of a number of important factors, including the risk factors discussed in this report and the risk factors discussed in our Annual Report on Form 10-K under the heading "Risk Factors," and the risks discussed in our other filings with the Securities and Exchange Commission and Canadian Securities Regulators. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. We explicitly disclaim any obligation to update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by law.*

### OVERVIEW

Tekmira is a biopharmaceutical company focused on developing and advancing novel RNA interference therapeutics, as well as pursuing partnering opportunities for its leading lipid nanoparticle (LNP) delivery technology. RNAi has the potential to generate a broad new class of therapeutics that take advantage of the body's own natural processes to silence genes—or more specifically to eliminate specific gene-products, from the cell. With this ability to eliminate disease causing proteins from cells, RNAi products represent opportunities for therapeutic intervention that have not been achievable with conventional drugs. Delivery technology is crucial in order to protect RNAi drugs in the blood stream following administration, allow efficient delivery to the target cells, and facilitate cellular uptake and release into the cytoplasm of the cell. Tekmira's LNP technology represents the most widely adopted delivery technology in RNAi, enabling eight clinical trials and administered to well over 220 patients to date. Because LNP can enable a wide variety of nucleic acid payloads, including messenger RNA, we continue to see new product development and partnering opportunities based on our industry-leading delivery expertise.

## **Our Product Candidates**

With both anti-viral and oncology product platforms, we are advancing our RNAi product pipeline with a focus on areas where there is a significant unmet medical need and commercial opportunity.

### **TKM-HBV**

Our extensive experience in the anti-viral arena has been applied to our TKM-HBV program and the development of an RNAi therapeutic for the potential treatment of chronic Hepatitis B infection. There are over 350 million people infected globally with Hepatitis B virus (HBV). In the United States there are approximately 1.4 million HBV chronically infected individuals. We are focused on addressing the unmet need of eliminating HBV surface antigen expression in chronically infected patients. Small molecule nucleotide therapy is rapidly becoming the standard of care for chronically HBV infected patients. However, many of these patients continue to express a viral protein called surface antigen. This protein causes inflammation in the liver leading to cirrhosis and in some cases to hepatocellular cancer and death.

TKM-HBV is designed to eliminate surface antigen expression in these chronically infected patients. The rationale is that by blocking surface antigen – and reducing much of the pathology associated with surface antigen expression – this therapy will also allow these patients, a potential to ‘sero-convert’, or raise their own antibodies against the virus, and effect a functional cure of the infection.

TKM-HBV is being developed as a multi-component RNAi therapeutic that targets multiple sites on the HBV genome. Our product targets the most common genotypes (A-D), of the Hepatitis virus found in infected individuals across North America, Europe and Asia. This strategy allows us to optimize market access for TKM-HBV. Because HBV is a viral infection of the liver, the TKM-HBV therapeutic will employ a liver-centric, third generation-LNP formulation that is more potent and has a broader therapeutic index than any LNP currently in clinical development. We anticipate filing an Investigational New Drug (IND) application, or equivalent, in the second half of 2014 in order to advance TKM-HBV into a Phase I clinical trial in 2015.

### **TKM-PLK1**

Our oncology product platform, TKM-PLK1, targets polo-like kinase 1 (PLK1), a protein involved in tumor cell proliferation and a validated oncology target. Inhibition of PLK1 expression prevents the tumor cell from completing cell division, resulting in cell cycle arrest and death of the cancer cell. Medical literature provides evidence that patients with elevated levels of PLK1 in their tumors exhibit poorer prognosis and survival rates.

We presented updated Phase I TKM-PLK1 data at the 6th Annual NET Conference hosted by the North American Neuroendocrine Tumor Society (NA-NETS) held in Charleston, South Carolina on October 4, 2013. This data set included a total of 36 patients in a population of advanced cancer patients with solid tumors. Doses ranged from 0.15 mg/kg to 0.90 mg/kg during the dose escalation portion of the trial, with the maximum tolerated dose (MTD) of 0.75 mg/kg. Serious adverse events (SAEs) were experienced by four subjects in this heavily pre-treated, advanced cancer patient population, with three of these four subjects continuing on study. Forty percent (6 out of 15) of patients evaluable for response, treated at a dose equal to or greater than 0.6 mg/kg, showed clinical benefit. Three out of the four Adrenocortical Carcinoma (ACC) patients (75%) treated with TKM-PLK1 achieved stable disease, including one patient who saw a 19.3% reduction in target tumor size after two cycles of treatment and is still on study receiving TKM-PLK1. Of the two Gastrointestinal Neuroendocrine Tumors (GI-NET) patients enrolled, both (100%) experienced clinical benefit: one patient had a partial response based on RECIST response criteria, and the other GI-NET patient achieved stable disease and showed a greater than 50% reduction in Chromogranin-A (CgA) levels, a key biomarker used to predict clinical outcome and tumor response.

Based on the encouraging results from the dose escalation portion and expansion cohort from our Phase I TKM-PLK1 clinical trial, we have expanded into a Phase I/II clinical trial with TKM-PLK1, which is specifically enrolling patients within two therapeutic indications: advanced GI-NET or ACC. This multi-center, single arm, open label study is designed to measure efficacy using RECIST criteria and tumor biomarkers for GI-NET patients and ACC patients as well as to evaluate the safety, tolerability and pharmacokinetics of TKM-PLK1. TKM-PLK1 will be administered weekly with each four-week cycle consisting of three once-weekly doses followed by a rest week. It is expected that approximately 20 patients with advanced GI-NET or ACC tumors will be enrolled in this trial, with a minimum of 10 GI-NET patients to be enrolled. We expect to report interim data from this trial in the second half of 2014.

Thus far, we have been able to assess response for four ACC patients and two GI-NET patients. Three of these four have demonstrated a clinical benefit, including one RECIST qualifying partial response. This patient, with the partial response, has been on TKM-PLK1 for 15 months and has experienced an over 44% reduction in their target tumor mass, located outside of the liver. This patient continues on the study with continued tumor response. Furthermore, this lesion is showing evidence of necrosis which is indicative of anti-tumor activity. Both GI-NET patients demonstrated clinical benefit, with one patient having one RECIST qualifying partial response.

In May 2014, we initiated another Phase I/II clinical trial with TKM-PLK1, enrolling patients with Hepatocellular Carcinoma (HCC). This clinical trial is a multi-center, single arm, open label dose escalation study designed to evaluate the safety, tolerability and pharmacokinetics of TKM-PLK1 as well as determine the maximum tolerated dose in HCC patients and measure the anti-tumor activity of TKM-PLK1 in HCC patients.

## **TKM-ALDH2**

TKM-ALDH2 is a unique application of RNAi. In the United States, approximately 18 million people have an alcohol use disorder. Two million of these seek treatment each year, and approximately 350,000 of these patients receive pharmacotherapy for alcohol use disorder. TKM-ALDH2 will be developed for a high value segment of the alcohol use disorder market, with a target patient population who have moderate to severe alcohol use disorder, such as educated professionals who have support and are motivated to seek treatment.

TKM-ALDH2 has been designed to knock down or silence the ALDH2 enzyme to induce long term acute sensitivity to ethanol. Aldehyde dehydrogenase 2 (ALDH2) is a key enzyme in ethanol metabolism. Inhibition of aldehyde dehydrogenase 2 activity, through the silencing of ALDH2, results in the build-up of acetaldehyde. Elevated levels of acetaldehyde are responsible for adverse physiological effects that cause individuals to avoid alcohol consumption. We have developed an extremely potent RNAi trigger and combined it with a third generation LNP. Human proof of concept for ALDH2 inhibition already exists in the form of the approved drug disulfiram. However, disulfiram's efficacy suffers from poor compliance because it has to be taken daily. We believe TKM-ALDH2 will induce prolonged ethanol sensitivity that will enable it to overcome the compliance limitations associated with daily dosing.

We expect to present the results of our pre-clinical work at an appropriate scientific conference and we are exploring partnering or external funding opportunities. We will be deferring the filing of an IND, or equivalent regulatory filing, beyond this year.

## **TKM-Ebola and TKM-Marburg**

TKM-Ebola, an anti-Ebola viral therapeutic, is being developed under a contract with the U.S. Department of Defense (DoD) Joint Project Manager Medical Countermeasure Systems (JPM-MCS). In 2010, preclinical studies were published in the medical journal *The Lancet* demonstrating that when RNAi triggers targeting the Ebola virus and delivered by Tekmira's LNP technology were used to treat previously infected non-human primates, the result was 100 percent protection from an otherwise lethal dose of Zaire Ebola virus (Geisbert et al., *The Lancet*, Vol. 375, May 29, 2010).

In July 2010, we signed a contract with the DoD under their JPM-MCS program to advance TKM-Ebola, providing us with approximately \$140.0 million in funding for the entire program. In May 2013, we announced that our collaboration with the JPM-MCS was modified and expanded to include advances in LNP formulation technology since the initiation of the program in 2010. The recent contract modification increases the stage one targeted funding from \$34.7 million to \$41.7 million. In April 2014, we signed a contract modification with the DoD to increase the stage one targeted funding by \$2.1 million to \$43.8 million to compensate us for unrecovered costs that occurred in 2012 and to provide additional funding should it be required.

TKM-Ebola is being developed under specific FDA regulatory guidelines called the "Animal Rule." The Animal Rule provides that under certain circumstances, where it is unethical or not feasible to conduct human efficacy studies, the FDA may grant marketing approval based on adequate and well-controlled animal studies when the results of those studies establish that the drug is reasonably likely to produce clinical benefit in humans. Demonstration of the product's safety in humans is still required.

In January 2014, we commenced a Phase I clinical trial with TKM-Ebola. The trial is a randomized, single-blind, placebo-controlled study involving single ascending doses and multiple ascending doses of TKM-Ebola. The study will assess the safety, tolerability and pharmacokinetics of administering TKM-Ebola to healthy adult subjects. Four subjects will be enrolled per cohort. There are four cohorts for a total of 16 subjects in the single dose arm, and three planned cohorts for a total of 12 subjects in the multiple dose arm of the trial. Each cohort will enroll three subjects who receive TKM-Ebola, and one who will receive placebo. The single ascending dose portion of the TKM-Ebola Phase I clinical trial has been successfully completed in healthy human volunteers. As per the protocol maximum tolerated dose (MTD) was established to be 0.3 mg/kg for healthy subjects without steroid premedication.

In March 2014, we were granted a Fast Track designation from the U.S. Food and Drug Administration (FDA) for the development of TKM-Ebola. The FDA's Fast Track is a process designed to facilitate the development and expedite the review of drugs in order to get important new therapies to the patient earlier.

In July 2014, we received notice from the U.S. Food and Drug Administration (FDA) that the TKM-Ebola program had been placed on clinical hold. The FDA is seeking data to elucidate the mechanism of potential cytokine release, which was observed at higher doses, in the single ascending dose portion of the study, and a proposed modification to the protocol for the multiple ascending dose portion of the trial to ensure the safety of healthy volunteers. In August 2014, we received written notice from the FDA modifying the clinical hold to a "partial clinical hold," allowing for the potential use of TKM-Ebola in individuals who have a confirmed or suspected Ebola infection. The program remains on clinical hold as it relates to the multi-ascending dose portion of the Phase I clinical study in healthy volunteers with TKM-Ebola. We expect this matter will be resolved by the fourth quarter of this year.

Our therapeutic, TKM-Ebola, is currently an unapproved agent and the regulatory framework to support its use in Africa has not yet been established. Given the severity of the situation, we are carefully evaluating options for use of our investigational drug within accepted clinical and regulatory protocols. This includes discussions with government agencies and NGO's, including the World Health Organization, in various countries on the potential use of TKM-Ebola to treat infected individuals. There can be no assurance that an appropriate framework for the use of this product will be found. We will continue to provide updates as necessary when clinical and regulatory pathways become confirmed.

In April 2014, we presented preclinical data from a collaboration between Tekmira and UTMB showing 100% survival was achieved with TKM-Marburg when dosing at 0.5 mg/kg began 72 hours after infection with otherwise lethal quantities of the virus. Dosing then continued once daily for seven days. Earlier data from this collaborative research between Tekmira and UTMB showed 100% survival was achieved with TKM-Marburg when dosing at 0.5 mg/kg began either one hour, 24 hours, or 48 hours after infection with otherwise lethal quantities of the virus. These studies represent the first known demonstration of protection of non-human primates from Marburg-Angola, the most lethal strain of Marburg virus. In February 2014, UTMB and Tekmira, along with other collaborators, were awarded additional funding from the NIH in support of this research. Tekmira expects to continue to build on these data and pursue additional funding opportunities or development partnerships for TKM-Marburg.

#### **Other Preclinical Candidates**

We are currently evaluating several other preclinical candidates with potential in diverse therapeutic areas using key criteria to prioritize efforts. Given the extremely high efficiency of delivery for third generation liver-centric LNP formulations, we are focused on rare diseases where the molecular target is found in the liver, where early clinical proof-of-concept can be achieved, and where there may be accelerated development opportunities. Two areas of interest are glycogen storage diseases and rare forms of hypertriglyceridemia. Our research team intends to continue to generate preclinical data to support the advancement of the most promising of these targets, and we expect to be in a position to identify another development candidate in the latter portion of 2014.

#### **Advancements in LNP Technology**

We continue to develop our proprietary "gold standard" LNP delivery technology and receive clinical validation from LNP-based products currently in clinical trials. The most advanced LNP-enabled therapeutic, which is being developed by Alnylam Pharmaceuticals, Inc., has now entered Phase III clinical development. Ongoing advances in next-generation LNP technologies include increasing potency as well as expanding the therapeutic index. Our LNP technology remains an important cornerstone of our business development activities moving forward.

Because LNP can enable a wide variety of nucleic acid payloads, including messenger RNA, we continue to see new product development and partnering opportunities based on our industry-leading delivery expertise. In February 2014, we presented new preclinical data at the AsiaTIDES scientific symposium demonstrating that mRNA when encapsulated and delivered using Tekmira's LNP technology can be effectively delivered and expressed in liver, tumors and other specific tissues of therapeutic interest.

#### **Technology, product development and licensing agreements**

In the field of RNAi therapeutics, we have licensed our LNP delivery technology to Alnylam and Merck & Co., Inc., and Alnylam has provided royalty bearing access to our LNP delivery technology to some of its partners. In addition, we have ongoing research relationships with Bristol-Myers Squibb Company, the United States National Cancer Institute, the DoD's JPM-MCS program, Monsanto, and other undisclosed pharmaceutical and biotechnology companies. Outside the field of RNAi, we have a legacy licensing agreement with Spectrum Pharmaceuticals Inc.

We have rights under the RNAi intellectual property of Alnylam to develop thirteen RNAi therapeutic products. In addition, we have a broad non-exclusive license to use Unlocked Nucleobase Analogs (UNAs) from Arcturus Therapeutics, Inc. for the development of RNAi therapeutic products directed to any target in any therapeutic indication.

#### **Strategic Alliances**

##### **Alnylam Pharmaceuticals, Inc. and Acuitas Therapeutics Inc.**

Alnylam has a license to use our intellectual property to develop and commercialize products and may only grant access to our LNP technology to its partners if it is part of a product sublicense. Alnylam's license rights are limited to patents that we filed, or that claim priority to a patent that was filed, before April 15, 2010. Alnylam does not have rights to our patents filed after April 15, 2010 unless they claim priority to a patent filed before that date. Alnylam will pay us low single digit royalties as Alnylam's LNP-enabled products are commercialized. Alnylam currently has three LNP-based products in clinical development: ALN-TTR02 (patisiran), ALN-VSP, and ALN-PCS02.

In December 2013, we received a \$5 million milestone from Alnylam, triggered by the initiation of the APOLLO Phase III trial of patisiran. We have entered an arbitration proceeding with Alnylam, as provided for under our licensing agreement, to resolve a matter related to a disputed \$5 million milestone payment to Tekmira from Alnylam related to its ALN-VSP product. We have not recorded any revenue in respect of this milestone.

In April 2014, Alnylam presented positive new data from its Phase II clinical trial with patisiran (ALN-TTR02), an RNAi therapeutic targeting transthyretin (TTR) for the treatment of TTR-mediated amyloidosis (ATTR), which is enabled by our LNP technology. The program represents the most clinically advanced application of our proprietary LNP delivery technology. These results provide support for Alnylam's Phase III APOLLO trial where patisiran is being evaluated for its potential efficacy and safety in ATTR patients with Familial Amyloidotic Polyneuropathy (FAP). Alnylam has disclosed that it continues to enroll patients in its APOLLO Phase III trial, with over 20 sites in 9 countries now open and active. The Phase III trial is intended to demonstrate the efficacy and safety of patisiran in support of marketing authorization in countries around the world.

Our licensing agreement with Alnylam grants us intellectual property rights for the development and commercialization of RNAi therapeutics for specified targets. In consideration for these three exclusive and ten non-exclusive licenses, we have agreed to pay single-digit royalties to Alnylam on product sales, with milestone obligations of up to \$8.5 million on the non-exclusive licenses and no milestone obligations on the three exclusive licenses.

In December 2013, we finalized and entered a cross-license agreement with Acuitas Therapeutics Inc. (formerly AICana Technologies, Inc.). The terms of the cross-license agreement provide Acuitas with access to certain of Tekmira's earlier IP generated prior to April 2010 and provide us with certain access to Acuitas' technology and licenses in the RNAi field, along with a percentage of each milestone and royalty payment with respect to certain products, and Acuitas has agreed that it will not compete in the RNAi field for a period of 5 years.

#### **Spectrum Pharmaceuticals, Inc.**

In September 2013, we announced that our licensee, Spectrum Pharmaceuticals, Inc. had launched Marqibo® through its existing hematology sales force in the United States and has shipped the first commercial orders. We are entitled to mid-single digit royalty payments based on Marqibo's commercial sales. Marqibo, which is a novel, sphingomyelin/cholesterol liposome-encapsulated formulation of the FDA-approved anticancer drug vincristine originally developed by Tekmira, was licensed from Tekmira to Talon Therapeutics in 2006. In July 2013, Talon was acquired by Spectrum Pharmaceuticals, Inc. Marqibo's approved indication is for the treatment of adult patients with Philadelphia chromosome-negative acute lymphoblastic leukemia (Ph-ALL) in second or greater relapse or whose disease has progressed following two or more lines of anti-leukemia therapy. Spectrum has two ongoing Phase III trials evaluating Marqibo in additional indications.

#### **Monsanto Company**

In January 2014, we signed an Option Agreement and a Service Agreement with Monsanto, pursuant to which Monsanto has an option to obtain a license to use our proprietary delivery technology. Over the option period, which is expected to be approximately four years, we will provide lipid formulations for Monsanto's research and development activities, and Monsanto will make certain payments to the Company to maintain its option rights. Under the Service Agreement, we will make payments to Monsanto for research services over the option period, up to a maximum of \$5.0 million. The transaction supports the application of our proprietary delivery technology and related IP for use in agriculture. The potential value of the transaction could reach up to \$86.2 million following the successful completion of milestones. In January 2014, we received \$14.5 million of the net \$16.5 million in anticipated near term payments, and in July 2014, we received an additional \$1.5 million payment following completion of specified program developments.

#### **Marina Biotech, Inc. / Arcturus Therapeutics, Inc.**

On November 29, 2012, we disclosed that we had obtained a worldwide, non-exclusive license to a novel RNAi trigger technology called Unlocked Nucleobase Analog (UNA) from Marina for the development of RNAi therapeutics. UNAs can be incorporated into RNAi drugs and have the potential to improve them by increasing their stability and reducing off-target effects. In August 2013, Marina assigned its UNA technology to Arcturus Therapeutics, Inc., and the UNA license agreement between Tekmira and Marina was assigned to Arcturus. The terms of the license are otherwise unchanged.

To date we have paid Arcturus \$0.5 million in license fees and there are milestones of up to \$3.2 million plus royalties for each product that we develop using UNA technology.

#### **Bristol-Myers Squibb Company (BMS)**

In May 2010 we announced the expansion of our ongoing research collaboration with BMS. Under the new agreement, BMS will use RNAi triggers molecules formulated by us in LNPs to silence target genes of interest. BMS will conduct the preclinical work to validate the function of certain genes and share the data with us. We can use the preclinical data to develop RNAi therapeutic drugs against the therapeutic targets of interest. BMS paid us \$3.0 million concurrent with the signing of the agreement. We are required to provide a predetermined number of LNP batches over the four-year agreement. BMS will have a first right to negotiate a licensing agreement on certain RNAi products developed by us that evolve from BMS validated gene targets. In May 2011, we announced a further expansion of the collaboration to include broader applications of our LNP technology and additional target validation work. In December 2013, we decided to extend the BMS batch formulation agreement end date from May 2014 to December 2014. Extending the agreement will give BMS more time to order LNP batches. There will not be any monetary consideration for extending the agreement. Recognition of revenue from agreements with BMS is covered in the Revenue section of this MD&A.

## U.S. National Institutes of Health (NIH)

On October 13, 2010 we announced that together with collaborators at The University of Texas Medical Branch (UTMB), we were awarded a new NIH grant to support research to develop RNAi therapeutics to treat Ebola and Marburg hemorrhagic fever viral infections using our LNP delivery technology. The grant, worth \$2.4 million, is supporting work at Tekmira and at UTMB. In February 2014, UTMB and Tekmira, along with other collaborators, were awarded additional funding from the NIH in support of this research.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

**Financial Instrument Valuation** / The valuation of the financial instrument, which is Monsanto's option to acquire either the shares or assets of Protiva Agricultural Development Company Inc. This is a critical accounting estimate due to the potential value of the liability and the many assumptions we must make to calculate the fair value of the liability.

We classify the financial instrument in our consolidated balance sheet as a liability and revalue it at each balance sheet date. Any change in the valuation is recorded in our statement of operations. We use a discounted cash flow model to value the financial instrument. Determining the appropriate fair-value model and calculating the fair value of the financial instrument requires considerable judgment, and changes in assumptions used may cause a relatively large change in the estimated valuation. The initial valuation of the financial instrument was determined to be nil. No change in the fair value of the financial instrument was recorded as at June 30, 2014.

**Stock-based compensation** / The stock-based compensation that we recorded is a critical accounting estimate due to the value of the compensation recorded, the volume of our stock option activity, and the many assumptions that are required to be made to calculate the compensation expense.

Compensation expense is recorded for stock-options issued to employees and directors using the fair value method. We must calculate the fair value of the stock options issued and amortize the fair value to stock compensation expense over the vesting period, and adjust the expense for stock option forfeitures and cancellations. We use the Black-Scholes model to calculate the fair value of stock options issued which requires that certain assumptions, including the expected life of the option and expected volatility of the stock, to be estimated at the time that the options are issued. Prior to Q2 2014, for the purpose of calculating the fair value, the expected life of stock options granted was eight years for employees, and ten years for directors and executives. Based on the pattern of increasing exercises of stock options, we have reduced the expected life to five years for employees, and eight years for directors and executives for stock options granted after March 31, 2014. The expected life and fair values of stock-options granted prior to this date remain unchanged. The reduction in expected life has the effect of reducing the fair value of stock-options granted. The impact on the fair value of stock options due to the reduction in expected life is relatively minor. For the three month period ended June 30, 2014, we recorded stock-based compensation expense of \$1,081,000 as compared to stock-based compensation expense of \$1,188,000 for this period if we had used the previous expected life assumptions of eight and ten years for employees and directors and executives, respectively.

There are no other changes to our critical accounting policies and estimates from those disclosed in our annual MD&A contained in our 2013 Annual Report filed on Form 10-K.

## RECENT ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (ASC 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists* (Update). The update is intended to eliminate the diversity in practice of the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The update is effective for annual and interim financial statements for fiscal years beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2014, the FASB issued ASU 2014-06, *Technical Corrections and Improvements Related to Glossary Terms* (Update). The update contains amendments that affect a wide variety of Topics in the Codification, and represent changes to clarify the Master Glossary of the Codification. The update does not have transition guidance and is effective upon issuance. The adoption of this guidance did not have an impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The standard is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS by creating a new Topic 606, Revenue from Contracts with Customers. This guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*. The core principle of the accounting standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments should be applied by either (1) retrospectively to each prior reporting period presented; or (2) retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. The update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2016, which for the Company means January 1, 2017. Early application is not permitted. The Extent of the impact of adoption has not yet been determined.

In June 2014, the FASB issued ASU 2014-12, *Compensation – Stock Compensation (ASC 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The update is intended to resolve diverse accounting treatment of share-based payments that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. The update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015, which for the Company means January 1, 2016. The amendments should be applied either (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. We currently do not have any unvested performance-based options and do not expect to issue any in the future so the adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

## SUMMARY OF QUARTERLY RESULTS

The following table presents our unaudited quarterly results of operations for each of our last eight quarters. These data have been derived from our unaudited condensed consolidated financial statements, which were prepared on the same basis as our annual audited financial statements and, in our opinion, include all adjustments necessary, consisting solely of normal recurring adjustments, for the fair presentation of such information.

(in thousands \$ except per share data) – unaudited

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
<b>Revenue</b>								
Collaborations and contracts:								
DoD	\$ 861	\$ 3,240	\$ 2,620	\$ 2,833	\$ 2,453	\$ 1,900	\$ 3,622	\$ 1,881
Monsanto	283	243	—	—	—	—	—	—
Other	—	206	(133)	128	391	232	185	187
	1,144	3,689	2,487	2,961	2,844	2,132	3,807	2,068
Monsanto licensing fees and milestone payments								
	626	545	—	—	—	—	—	—
Alnylam milestone payments	—	—	5,000	—	—	—	—	—
Acuitas milestone payments	—	150	—	—	—	—	—	—
Spectrum milestone and royalty payments	41	46	40	2	—	—	—	1,000
<b>Total revenue</b>	<b>1,811</b>	<b>4,430</b>	<b>7,527</b>	<b>2,963</b>	<b>2,844</b>	<b>2,132</b>	<b>3,807</b>	<b>3,068</b>
Expenses	(11,234)	(10,388)	(9,962)	(6,615)	(5,915)	(5,126)	(9,816)	(4,824)
Other income (losses)	3,342	(12,026)	(162)	(2,254)	57	448	44,195	(1,702)
<b>Net (loss) income</b>	<b>(6,081)</b>	<b>(17,984)</b>	<b>(2,597)</b>	<b>(5,906)</b>	<b>(3,014)</b>	<b>(2,546)</b>	<b>38,186</b>	<b>(3,458)</b>
<b>Basic net (loss) income per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.91)</b>	<b>\$ (0.15)</b>	<b>\$ (0.41)</b>	<b>\$ (0.21)</b>	<b>\$ (0.17)</b>	<b>\$ 2.72</b>	<b>\$ (0.25)</b>
<b>Diluted net (loss) income per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.91)</b>	<b>\$ (0.15)</b>	<b>\$ (0.41)</b>	<b>\$ (0.21)</b>	<b>\$ (0.17)</b>	<b>\$ 2.51</b>	<b>\$ (0.25)</b>

## Quarterly Trends

**Revenue** / Our revenue is derived from research and development collaborations and contracts, licensing fees, milestone and royalty payments. Over the past two years, our principal source of ongoing revenue has been our contract with the DoD to advance TKM-Ebola which began in July 2010. We expect revenue to continue to fluctuate particularly due to the development stage of the TKM-Ebola contract and the irregular nature of licensing payments and milestone receipts.

In Q3 2010, we signed a contract with the DoD to develop TKM-Ebola and have since incurred significant program costs related to equipment, materials and preclinical and clinical studies. These costs are included in our research, development, collaborations and contracts expenses. These costs are fully reimbursed by the DoD and this reimbursement amount is recorded as revenue. DoD revenue from the TKM-Ebola program also compensates us for labor and overhead and provides an incentive fee. In Q3 2012, the DoD issued a temporary stop-work order, which was subsequently lifted in Q4 2012 and the contract resumed. Revenue in Q4 2012 was unusually high due to an increase in our overhead rates. As described in our critical accounting policies, we estimate the labor and overhead rates to be charged under our TKM-Ebola contract and update these rate estimates throughout the year. In Q4 2012, we incurred unforecasted expenses which led to an increase in our TKM-Ebola contract overhead rates and, therefore, an increase in our revenue under the contract. Q1 2013 DoD revenue was lower as certain activities were still building momentum following the stop-work order. TKM-Ebola contract revenue increased in Q2, Q3 and Q4 2013 as technology transfer, manufacturing and non-clinical studies were all ongoing. On April 22, 2014, we signed a contract modification to increase the phase one targeted funding by \$2.1 million to \$43.8 million. The additional funding is to compensate us for unrecovered costs related to the temporary stop-work period that occurred in 2012 and to provide additional overhead funding should it be required. In Q1 2014, we earned \$3.2 million in DoD revenue, due partially to an increase in activity as we move into Phase I Clinical Trial and animal testing. Also, as a result of the contract modification, we now expect to complete the initial phase of the contract close to budget which increases our estimate of total incentive fee to be earned under the contract and the amount we have earned to date. In Q2 2014, we recorded \$0.9 million in DoD revenue. In July 2014, we received notice from the U.S. Food and Drug Administration (FDA) that the TKM-Ebola Phase I healthy volunteer clinical study has been placed on clinical hold. In August 2014, we received written notice from the FDA modifying the clinical hold to a "partial clinical hold," allowing for the potential use of TKM-Ebola in individuals who have a confirmed or suspected Ebola infection. The program remains on clinical hold as it relates to the multiple-ascending dose portion of the Phase I clinical study in healthy volunteers with TKM-Ebola. We expect this matter to be resolved by Q4 2014.

In Q4 2013, we earned a \$5.0 million milestone from Alnylam following their initiation of a Phase III trial enabled by our LNP technology.

In Q3 2012, we earned a \$1.0 million milestone from Spectrum when they received accelerated approval for Marqibo from the U.S. Food and Drug Administration (FDA). In Q4 2013, we earned our first meaningful royalty payment from Spectrum, \$0.04 million, as they shipped commercial orders of Marqibo.

In Q4 2013, we decided to extend the BMS batch formulation agreement end date from May 2014 to December 2014. Extending the agreement will give BMS more time to order LNP batches. There will not be any monetary consideration for extending the agreement. Revenue recognized in 2013 has been reduced and the balance of deferred revenue as at December 31, 2013 has been increased to account for BMS, potentially, ordering more batches under the agreement. This adjustment is reflected in the \$0.1 million of negative "other revenue" in Q4 2013 when the decision was made to extend the agreement and a cumulative revenue adjustment was recorded.

In Q1 2014, we signed an Option Agreement and a Services Agreement with Monsanto for the use of our proprietary delivery technology and related intellectual property in agriculture. Over the option period, which is expected to be approximately four years, Monsanto will make payments to us to maintain their option rights. In Q1 2014, we received \$14.5 million of the \$16.5 million near term payments of which \$4.5 million relates to research services and \$10.0 million for the use of our technology. The payments are being recognized on a straight-line basis over the option period. On June 30, 2014, we received a \$1.5 million payment following the completion of specified program developments. This payment will be recognized as revenue on a straight-line basis over the option period.

**Expenses** / Expenses consist primarily of clinical and pre-clinical trial expenses, personnel expenses, consulting and third party expenses, reimbursable collaboration expenses, consumables and materials, patent filing expenses, facilities, stock-based compensation and general corporate costs.

Q3 2012, expenses were unusually low due in part to the TKM-Ebola contract stop-work order as discussed above. Our Q4 2012 expenses were unusually high as we paid staff bonuses and recorded \$2.5 million in license fee charges related to Acuitas, Arcturus and other parties - see the Overview section of this discussion.

From Q4 2013 to Q2 2014, our expenses increased due to an increase in our research and development activities as we seek to move more products into the clinic.

**Other income (losses)** / Other income in Q4 2012 consists primarily of \$65.0 million received under the new Alnylam license agreement net of related contingent legal fees of \$18.7 million paid to our lead litigation counsel. Q3 2013 includes a loss for the \$2.5 million increase in the fair value of our warrant liability. This is largely attributable to the increase in our share price as compared to when the warrants were last valued at the end of Q2 2013.

Other losses in Q1 2014 consist primarily of a \$13.6 million increase in the fair value of warrant liability due to the significant increase in our share price. Other income in Q2 2014 consists largely of a \$5.8 million reduction in the fair value of our warrant liability as a result of a decrease in our share price and a \$2.7 million foreign exchange loss as discussed further below.

**Net (loss) income** / The increase in loss in Q3 2012, Q3 2013, and Q1 2014 is largely due to increases in the fair value of our warrant liability which is caused by increases in our share price over the previous quarter ends. The net income in Q4 2012 is largely due to the litigation settlement payments received from Alnylam, and the decrease in loss in Q4 2013 is largely due to the milestone payment we received from Alnylam.

## RESULTS OF OPERATIONS

The following summarizes the results of our operations for the periods shown, in thousands:



	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total revenue	\$ 1,811	\$ 2,844	\$ 6,241	\$ 4,975
Operating expenses	11,234	5,915	21,622	11,040
Loss from operations	(9,423)	(3,071)	(15,381)	(6,065)
Net loss	\$ (6,081)	\$ (3,014)	\$ (24,065)	\$ (5,561)
Basic and diluted loss per share	(0.28)	(0.21)	(1.15)	(0.39)

**Revenue** / Revenue is summarized in the following table, in thousands:

	Three months ended June 30,			
	2014	% of Total	2013	% of Total
DoD	\$ 861	47%	\$ 2,453	86%
Monsanto	283	16%	-	0%
BMS	-	0%	323	11%
Other RNAi collaborations	-	0%	68	2%
<b>Total collaborations and contracts revenue</b>	<b>1,144</b>	<b>63%</b>	<b>2,844</b>	<b>100%</b>
Monsanto licensing fee and milestone payments	626	35%	-	0%
Acuitas milestone payment	-	0%	-	0%
Spectrum milestone and royalty payments	41	2%	-	0%
<b>Total revenue</b>	<b>\$ 1,811</b>		<b>\$ 2,844</b>	

  

	Six months ended June 30,			
	2014	% of Total	2013	% of Total
DoD	\$ 4,101	66%	\$ 4,353	87%
Monsanto	526	9%	-	0%
BMS	206	3%	554	11%
Other RNAi collaborators	-	0%	68	1%
<b>Total collaborations and contracts revenue</b>	<b>4,833</b>	<b>78%</b>	<b>4,975</b>	<b>100%</b>
Monsanto licensing fee and milestone payments	1,171	19%	-	0%
Acuitas milestone payment	150	2%	-	0%
Spectrum milestone and royalty payments	87	1%	-	0%
<b>Total revenue</b>	<b>\$ 6,241</b>		<b>\$ 4,975</b>	

#### **DoD revenue**

On July 14, 2010, we signed a contract with the United States Government Department of Defense (“DoD”) to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection (see Overview for further discussion). The initial phase of the contract, which is funded under a Transformational Medical Technologies program, was budgeted at \$34.7 million. This stage one funding is for the development of TKM-Ebola including completion of preclinical development, filing an IND application with the FDA and completing a Phase I human safety clinical trial.

In November 2012, we submitted a modification request to the existing contract to the U.S. Government in order to integrate recent advancements in LNP formulation and manufacturing technology in the TKM-Ebola development program. The modification was approved and increased the stage one targeted funding from \$34.8 million to \$41.7 million. In April 2014, we signed a contract modification with the DoD to increase the stage one targeted funding by a further \$2.1 million to \$43.8 million. The additional funding is to compensate us for unrecovered costs incurred in 2012 and to provide additional funding should it be required.

Under the contract, we are being reimbursed for costs incurred, including an allocation of overheads, and we are being paid an incentive fee. DoD revenues and related contract expenses were lower in Q2 2014, as compared to Q2 2013, due to a decrease in activity. In July 2014, we received notice from the FDA that our TKM-Ebola clinical study has been placed on clinical hold. In August 2014, we received written notice from the FDA modifying the clinical hold to a “partial clinical hold,” allowing for the potential use of TKM-Ebola in individuals who have a confirmed or suspected Ebola infection. The program remains on clinical hold as it relates to the multiple-ascending dose portion of the Phase I clinical study in healthy volunteers with TKM-Ebola. We expect this matter to be resolved by Q4 2014.

### ***Monsanto revenue***

On January 13, 2014, we signed an Option Agreement and a Services Agreement (together, the “Agreements”) with Monsanto. Under the Agreements, Monsanto has an option to acquire a license to use our proprietary delivery technology and related intellectual property for use in agriculture. Over the option period, which is expected to be approximately four years, we will provide lipid formulations for Monsanto’s research and development activities, and Monsanto will make certain payments to us to maintain their option rights (see Overview for further discussion).

In January 2014, we received \$14.5 million, of which \$4.5 million relates to research services and \$10.0 million for the use of our technology. We are recognizing this revenue on a straight-line basis over the option period, which is expected to be four years. In Q2 2014, we received a \$1.5 million payment following the completion of specified program developments. We recorded an aggregate of \$1.7 million in revenue for the use of our technology and for research activities.

### ***Alnylam revenue***

On November 12, 2012, the Company entered into a new licensing agreement with Alnylam that replaces all earlier licensing, cross-licensing, collaboration, and manufacturing agreements. The Company also entered into a separate cross license agreement with Acuitas which includes milestone and royalty payments and Acuitas has agreed not to compete in the RNAi field for five years.

In Q1 2014, we recognized \$0.15 million in milestone revenue from Acuitas following their receipt of a milestone from Alnylam with the initiation of a Phase III trial enabled by our LNP technology.

### ***BMS revenue***

In May 2010, we signed a formulation agreement with BMS under which BMS paid us \$3.0 million to make a certain number of LNP formulations over the following four year period. At the end of 2013, we decided to extend the agreement’s end date from May 10, 2014 to December 31, 2014. Extending the agreement will give BMS more time to order LNP batches. We did not receive any monetary consideration for extending the agreement.

### ***Spectrum revenue***

Spectrum began making sales of Marqibo in September 2013. We are earning royalties on sales of Marqibo which uses a license to our technology.

**Expenses** / Expenses are summarized in the following table, in thousands:

	<b>Three months ended June 30,</b>			
	<b>2014</b>	<b>% of Total</b>	<b>2013</b>	<b>% of Total</b>
Research, development, collaborations and contracts	\$ 9,298	83%	\$ 4,914	83%
General and administrative	1,787	16%	849	14%
Depreciation	149	1%	152	3%
<b>Total operating expenses</b>	<b>\$ 11,234</b>		<b>\$ 5,195</b>	

  

	<b>Six months ended June 30,</b>			
	<b>2014</b>	<b>% of Total</b>	<b>2013</b>	<b>% of Total</b>
Research, development, collaborations and contracts	\$ 17,502	81%	\$ 8,981	81%
General and administrative	3,837	18%	1,741	16%
Depreciation	283	1%	318	3%
<b>Total operating expenses</b>	<b>\$ 21,622</b>		<b>\$ 11,040</b>	

### ***Research, development, collaborations and contracts***

Research, development, collaborations and contracts expenses consist primarily of clinical and pre-clinical trial expenses, personnel expenses, consulting and third party expenses, consumables and materials, as well as a portion of stock-based compensation and general corporate costs.

In the first half of 2014, we increased our spending on our newer product candidates, TKM-HBV and TKM-ALDH2 – see Overview. In Q2 2014, we incurred incremental costs for our TKM-HBV program as we are preparing to file an IND (or equivalent) in the second half of 2014. Spending on our PLK1 program also increased in Q2 2014, as compared to Q2 2013, as we expanded the number of clinical trial sites for the ongoing trial to achieve an acceleration in patient accrual and incurred set up costs for our HCC trial. In addition, we increased research activities related to our collaboration with Monsanto in the agricultural field.

R&D compensation expense increased in Q2 and in the first half of 2014 as compared to Q2 and in the first half of 2013 due to an increase in the number of both employees and contractors in support of our expanded portfolio of product candidates. In addition, our R&D stock-based compensation increased significantly due largely to the increase in our share price.

A significant portion of our research, development, collaborations and contracts expenses are not tracked by project as they benefit multiple projects or our technology platform and because our most-advanced programs are not yet in late-stage clinical development. However, our collaboration agreements contain cost-sharing arrangements pursuant to which certain costs incurred under the project are reimbursed. Costs reimbursed under collaborations typically include certain direct external costs and hourly or full-time equivalent labor rates for the actual time worked on the project. In addition, we have been reimbursed under government contracts for certain allowable costs including direct internal and external costs. As a result, although a significant portion of our research, development, collaborations and contracts expenses are not tracked on a project-by-project basis, we do, however, track direct external costs attributable to, and the actual time our employees worked on, our collaborations and government contracts.

#### *General and administrative*

General and administrative expenses were higher in Q2 and in the first half of 2014 compared to Q2 and in the first half of 2013 due largely to an increase in compensation expense linked to our increase in employee base and a significant increase in stock-based compensation due largely to the increase in our share price.

#### *Depreciation of property and equipment*

Most of our recent property and equipment additions were related to our TKM-Ebola program and are not recorded as Company assets. As such, a large portion of our property and equipment is reaching full amortization.

**Other income (losses)** / Other income (losses) are summarized in the following table, in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	\$ 257	\$ 146	\$ 404	\$ 290
Foreign exchange gains (losses)	(2,728)	(61)	(1,285)	(65)
(Increase) decrease in fair value of warrant liability	5,813	(28)	(7,803)	280
<b>Total other income (losses)</b>	<b>\$ 3,342</b>	<b>\$ 57</b>	<b>\$ (8,684)</b>	<b>\$ 504</b>

#### *Foreign exchange gains*

For the three months ended June 30, 2014 and in the first half of 2014, we recorded foreign exchange losses of \$2.7 million and \$1.3 million respectively, which are primarily unrealized losses related to a depreciation in the value of our U.S. dollar funds when converted to our functional currency of Canadian dollars. Our policy is to maintain U.S. and Canadian dollar cash and investment balances based on our forecast of currency needs over the long term thereby creating a natural currency hedge. Holding non-functional currency balances, such as US dollars, will continue to result in the recording of unrealized foreign exchange gains and losses.

#### *Increase in fair value of warrant liability*

In conjunction with equity and debt financing transactions in 2011 and an equity private placement that closed on February 29, 2012, we issued warrants to purchase our common share. We are accounting for the warrants under the authoritative guidance on accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, on the understanding that in compliance with applicable securities laws, the registered warrants require the issuance of registered securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. At each balance sheet date the warrants are revalued using the Black-Scholes model and the change in value is recorded in the consolidated statement of operations and comprehensive income (loss).

Generally, a decrease in our share price from the previous reporting date results in a decrease in the fair value of our warrant liability and vice versa.

We expect to see future changes in the fair value of our warrant liability and these changes will largely depend on the change in the Company's share price, any change in our assumed rate of share price volatility, our assumptions for the expected lives of the warrants and warrant issuances or exercises.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our cash flow activities for the periods indicated, in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss) for the period	\$ (6,081)	\$ (3,014)	\$ (24,065)	\$ (5,560)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	(3,192)	295	11,687	290
Changes in operating assets and liabilities	1,263	(75)	13,523	(364)
Net cash provided by (used in) operating activities	(8,010)	(2,794)	1,145	(5,634)
Net cash used in investing activities	(43,238)	(210)	(43,573)	(411)
Net cash provided by financing activities	234	68	59,523	206
Effect of foreign exchange rate changes on cash & cash equivalents	1,924	(1,454)	(545)	(2,453)
Net increase (decrease) in cash and cash equivalents	(49,090)	(4,390)	16,550	(8,292)
Cash and cash equivalents, beginning of period	134,357	43,122	68,717	47,024
<b>Cash and cash equivalents, end of period</b>	<b>85,267</b>	<b>38,732</b>	<b>85,267</b>	<b>38,732</b>

Since our incorporation, we have financed our operations through the sales of shares, units, debt, revenues from research and development collaborations and licenses with corporate partners, interest income on funds available for investment, and government contracts, grants and tax credits.

At June 30, 2014, we had cash and cash equivalents of \$85.3 million and investments of \$44.2 million as compared to cash and cash equivalents of \$68.7 million at December 31, 2013.

For the six months ended June 30, 2014, operating activities provided \$1.0 million in cash as compared to \$5.6 million of cash used for the six months ended June 30, 2013. The increase in cash from operating activities is primarily related to cash received from Monsanto in 2014. Non-cash items to reconcile net loss to net cash used or provided by operating activities primarily consist of unrealized foreign exchange gains and losses and change in fair value of warrant liability.

Financing activities used \$44.8 million for the six months ended June 30, 2014 was largely due to guaranteed investment certificates acquired in April 2014.

On March 18, 2014, we completed an underwritten public offering of 2,125,000 common shares, at a price of \$28.50 per share, representing gross proceeds of \$60.6 million. The cost of financing, including commissions and professional fees, was \$4.1 million, which gave us net proceeds of \$56.5 million. For the six months ended June 30, 2014, we also received \$3.0 million in finance funding from the exercise of warrants and options. We plan to use these proceeds to develop and advance product candidates through clinical trials, as well as for working capital and general corporate purposes.

**Cash requirements** / At December 31, 2013 we held \$68.7 million in cash and cash equivalents. On March 18, 2014, we raised net proceeds of \$56.5 million from a public offering. Our cash and cash equivalents and investments balance as at June 30, 2014 was \$129.5 million. We believe we have sufficient cash resources for at least the next 12 months. In the future, substantial additional funds will be required to continue with the active development of our pipeline products and technologies. In particular, our funding needs may vary depending on a number of factors including:

- revenues earned from our Agreements with Monsanto;
- revenues earned from our DoD contract to develop TKM-Ebola;
- revenues earned from our collaborative partnerships and licensing agreements, including milestone payments from Alnylam and royalties from Spectrum's sales of Marqibo;
- the extent to which we continue the development of our product candidates, add new product candidates to our pipeline, or form collaborative relationships to advance our products;
- our decisions to in-license or acquire additional products or technology for development, in particular for our RNAi therapeutics programs;
- our ability to attract and retain corporate partners, and their effectiveness in carrying out the development and ultimate commercialization of our product candidates;
- whether batches of drugs that we manufacture fail to meet specifications resulting in delays and investigational and remanufacturing costs;
- the decisions, and the timing of decisions, made by health regulatory agencies regarding our technology and products;
- competing technological and market developments; and
- prosecuting and enforcing our patent claims and other intellectual property rights.

We will seek to obtain funding to maintain and advance our business from a variety of sources including public or private equity or debt financing, collaborative arrangements with pharmaceutical companies and government grants and contracts. There can be no assurance that funding will be available at all or on acceptable terms to permit further development of our products.

If adequate funding is not available, we may be required to delay, reduce or eliminate one or more of our research or development programs or reduce expenses associated with non-core activities. We may need to obtain funds through arrangements with collaborators or others that may require us to relinquish most or all of our rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise seek if we were better funded. Insufficient financing may also mean failing to prosecute our patents or relinquishing rights to some of our technologies that we would otherwise develop or commercialize.

**Material commitments for capital expenditures** / As at the date of this discussion we do not have any material commitments for capital expenditure.

## CONTRACTUAL OBLIGATIONS

On June 23, 2014, we signed an agreement to renew the lease for our Burnaby office and lab facility. The lease term is for five years, commencing August 1, 2014 with three additional renew terms of five years each. The following table summarizes our contractual obligations as at June 30, 2014:

(in millions \$)

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>
<b>Contractual Obligations</b>					
Facility lease	5.9	1.0	3.6	1.3	—
Technology license obligations <sup>(1)</sup>	0.5	0.5	—	—	—
<b>Total contractual obligations</b>	<b>6.4</b>	<b>1.5</b>	<b>3.6</b>	<b>1.3</b>	<b>—</b>

<sup>1</sup>Relates to our expected fixed payment obligations under in-license agreements.

## IMPACT OF INFLATION

Inflation has not had a material impact on our operations.

## RELATED PARTY TRANSACTIONS

We have not entered into any related party transactions in the periods covered by this discussion.

## OUTSTANDING SHARE DATA

At August 12, 2014, we had 22,105,977 common shares issued and outstanding, outstanding options to purchase an additional 1,926,675 common shares and outstanding warrants to purchase an additional 606,000 common shares.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2014, an evaluation of the effectiveness of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) was carried out by our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based upon that evaluation, the CEO and CFO have concluded that as of June 30, 2014, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (the “Commission”) rules and forms and (ii) accumulated and communicated to the management of the registrant, including the CEO and CFO, to allow timely decisions regarding required disclosure.

It should be noted that while the CEO and CFO believe that our disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved with various legal matters arising in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our consolidated results of operations, cash flows, or financial condition.

#### **Alnylam Pharmaceuticals Inc. (“Alnylam”)**

On June 21, 2013, we transferred manufacturing process technology to Ascleptis Pharmaceuticals (Hangzhou) Co., Ltd. (“Ascleptis”) to enable them to produce ALN-VSP, a product candidate licensed to them by Alnylam. We believe that under a licensing agreement with Alnylam, the technology transfer to Ascleptis triggers a \$5,000,000 milestone obligation from Alnylam to the Company. However, Alnylam has demanded a declaration that we have not yet met our milestone obligations. We dispute Alnylam’s position. To remedy this dispute, we have commenced arbitration proceedings with Alnylam, as provided for under the agreement.

### ITEM 1A. RISK FACTORS

Other than as described below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

*The FDA may place holds on our clinical trial programs which may prevent or delay us from completing our clinical trial programs or lead to the imposition of further clinical holds or the failure of our product candidates to obtain marketing approval.*

In July 2014, we received notice from the FDA that the TKM-Ebola IND had been placed on clinical hold. The FDA is seeking data to elucidate the mechanism of potential cytokine release and a modification to the protocol for the multiple ascending dose portion of the trial to ensure the safety of healthy volunteers. In August 2014, the FDA modified its clinical hold to a “partial clinical hold,” allowing for the potential use of TKM-Ebola in individuals who have confirmed or suspected Ebola infection. The company remains on clinical hold as it relates to the multi-ascending dose portion of the Phase I clinical study in healthy volunteers with TKM-Ebola.

There can be no assurance that the FDA will lift the partial hold on the TKM-Ebola IND on a timely basis, or at all. Additionally, the FDA could impose additional requirements that may significantly increase the time and expense of obtaining FDA approval, which could delay or prevent marketing.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Exhibit Number	Description
10.1 ††**	Amendment No. 1 to the Option Agreement by and among Tekmira Pharmaceuticals Corporation, Protiva Biotherapeutics Inc., Protiva Agricultural Development Company Inc. and Monsanto Canada Inc. dated January 12, 2014.
10.2**	Renewal and Modification of Lease Agreement with Canada Lands Company CLC Limited dated December 15, 1997, as amended.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files

\*\* Filed herewith.

†† Confidential treatment has been requested as to portions of this exhibit.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 14, 2014.

**TEKMIRA PHARMACEUTICALS CORPORATION**

By: /s/ Mark Murray  
Mark Murray  
President and Chief Executive Officer

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [\*\*\*]. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

**AMENDMENT NO. 1 to PROTIVA AGRICULTURAL DEVELOPMENT COMPANY INC. OPTION AGREEMENT**

**THIS AMENDMENT NO. 1 to PROTIVA AGRICULTURAL DEVELOPMENT**

**COMPANY INC. OPTION AGREEMENT** ("Amendment No. 1") effective as of the last date of signature hereto ("Effective Date"), is by and among **Monsanto Canada, Inc.**, a Canadian corporation ("**Monsanto Canada**"), **Tekmira Pharmaceuticals Corporation**, a British Columbia corporation ("**Tekmira**"), **Protiva Biotherapeutics Inc.**, a British Columbia corporation ("**Protiva**"), and **Protiva Agricultural Development Company Inc.**, a British Columbia corporation (the "**Company**").

**WHEREAS**, Monsanto Canada, Tekmira, Protiva, and Company (collectively the "Parties") are parties to an option agreement effective January 12, 2014 (the "Agreement"); and

**WHEREAS**, Parties desire to amend Exhibit B-5(i), OPTION SET-UP COMPLETION CRITERIA;

**NOW, THEREFORE**, in consideration of the above, the Parties hereby agree to amend the Agreement as follows:

1. Exhibit B-5(i), OPTION SET-UP COMPLETION CRITERIA in the Agreement shall be replaced in its entirety by the amended and restated OPTION SET-UP COMPLETION CRITERIA attached hereto and incorporated herein by reference.

Upon execution, this Amendment No. 1 shall be made a part of the Agreement. Except as provided herein, all other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF,  
the parties hereto have executed or caused this Amendment No. 1 to be executed by their respective officers or other representatives duly authorized.

PROTIVA BIOTHERAPEUTICS INC.

PROTIVA AGRICULTURAL DEVELOPMENT COMPANY, INC.

By: /s/ Bruce Cousins  
Name: Bruce Cousins  
Title: Executive Vice President & CFO  
Address: June 26, 2014

By: /s/ Bruce Cousins  
Name: Bruce Cousins  
Title: Executive  
Address: June 26, 2014

TEKMIRA PHARMACEUTICALS CORPORATION

MONSANTO CANADA, INC.

By: /s/ Bruce Cousins  
Name: Bruce Cousins  
Title: Executive Vice President & CFO  
Address: June 26, 2014

By: /s/ Robert M. McCarroll  
Name: Robert M. McCarroll, Ph. D.  
Title: Authorized Signatory  
Address: June 26, 2014

EXHIBIT B-5(i)

OPTION SET-UP COMPLETION CRITERIA

\*\*\*]

LEASE RENEWAL AND MODIFICATION AGREEMENT

This Agreement is dated 23 June, 2014

Between:

GLENLYON DEVELOPMENTS INC.  
 10C-19926-96<sup>th</sup> Ave  
 Langley, BC, V1M 3C2

(the "Landlord")

And:

TEKMIRA PHARMACEUTICALS CORPORATION  
 100-8900 Glenlyon Pky  
 Burnaby, B.C. V5J 5JB

(the "Tenant")

Whereas:

- A. By a lease dated December 15, 1997 (the "Original Lease"), a Lease of Additional Space dated December 19, 2003 and a Modification Agreement dated September 24, 2008 (collectively, the "Lease") Canadian Urban Limited as agents for CUE Real Property (2) Ltd. ("CUE") leased to Inex Pharmaceuticals Corporation ("INEX") for a term expiring on December 14, 2012 (the "Term") premises (the "Leased Premises") consisting of an area containing 51,494 square feet in the building known as 8900 Glenlyon Parkway, Burnaby, BC.
- B. INEX assigned its interest in the Lease to the Tenant on April 25, 2007.
- C. The Tenant entered into a lease extension agreement dated June 15, 2009 with the Landlord's predecessor, 632499 B.C. Ltd. or Nominee, extending the term of the Leased Premises from December 14, 2012 to July 31, 2014.
- D. The Landlord and the Tenant wish to extend the term of the Lease to July 31, 2019 and modify the Lease on the terms and conditions set out in this Agreement.

NOW THEREFORE in consideration of the grants, rents, and mutual covenants hereinafter reserved and contained, the parties covenant and agree as follows:

- 1. **Extension Term:** The parties agree to extend the Term of the lease for a period of five (5) years commencing August 1, 2014 and ending on July 31, 2019 (the "Extension Term") on the same terms, conditions, and covenants as are contained in the Lease, except as modified in this Lease Extension Agreement.
- 2. **Annual Rent:** The Basic Rent during the Extension Term will be:
 

Rate/sq. ft	\$/Per Month	\$/Per Annum
\$19.00	\$81,532.17	\$978,386.00.
- 3. **Free Basic Rent:** The Landlord will grant the Tenant possession of the Leased Premises for four (4) months free of Basic Rent, which will be based on \$19.00 per square foot of Basic Rent

The free Basic Rent will be applied as a credit to the Basic Rent owing by the Tenant to the Landlord for the period of August 1<sup>st</sup>, 2014 to November 30, 2014.



During this free rent period, the Tenant will continue to pay its proportionate share of operating costs, realty taxes and any other amounts owing in accordance with the Lease.

4. **Tenant improvement allowance:** The Landlord shall contribute a Tenant improvement allowance of (\$5.82) dollars per square foot of the Leased Premises, plus GST for a total maximum contribution of \$315,000.00 dollars inclusive of GST and shall be paid upon the following conditions:
- a) The Tenant and Landlord will agree on allocations of the Tenant improvements allowance to specific aspects of the building with the goal of improving and maintaining the premise to a stand in keeping with the appearance and character of other well maintained commercial buildings in Glenlyon Business Park, with such Tenant improvements as described in schedule A attached hereto.
  - b) The Tenant will coordinate the design, supervision and construction of the improvements (individually and collectively, the "Improvements") to the Leased Premises;
  - c) The Tenant will be responsible for making and withholding contractor payments in accordance with the Builder's Lien Act, S.B.C. 1997, c.45 and shall indemnify the Landlord for any Builder's Lien claims against the Leased Premises. The Landlord will pay this contribution to the Tenant in tranches of no less than \$50,000.00 dollars per trench upon the delivery by the Tenant to the Landlord of the applicable paid invoices reflecting such sum. For clarity, the aggregate value of Tenant's paid invoices shall be no less than \$50,000.00 dollars per submission, save and except the last submission, which may fall below \$50,000.00. Each trench of paid invoices submitted by Tenant shall fall due and payable within thirty (30) days of the date of Tenant's delivery;
  - d) If the total cost of the Improvements exceeds the Landlord's maximum contribution, the Tenant will be obligated to pay the excess directly to the contractors in a timely manner;
  - e) Throughout the planning stage, the Tenant will consult with the Landlord on all material aspects of the Improvements and will obtain the Landlord's consent not to be unreasonably withheld or delayed, to all material aspects of the Improvements prior to commencing construction; and
  - f) The Tenant will carry out the Improvements in accordance with the requirements of the Landlord and government bodies having jurisdiction, as per the Tenant's obligations under the Lease.
5. **Right of Renewal:** In addition to the Extended Term, the Landlord agrees to grant the Tenant three (3) additional renewal terms of five (5) years each, commencing on August 1, 2019, August 1, 2024 and August 1, 2029, on the terms and conditions set out in the Lease.
6. **Parking Stalls:** The Landlord will provide the Tenant the same number of parking stalls set forth in Section 1.13 of the Original Lease at no cost through the Extended Term and any renewals thereto.
7. **Incorporation into Lease:** This Agreement is expressly made a part of the Lease to the same extent as if incorporated in the Lease, and the parties agree that all agreements, covenants, conditions, and provisos contained in the Lease, except as amended or altered in this Agreement, will be and remain unaltered and in full force and effect during the Extension Term. The Landlord and the Tenant acknowledge and agree to perform and observe, respectively, the obligations of the Landlord and the Tenant under the Lease as extended and modified hereby. The Landlord and the Tenant hereby confirm and ratify the Lease and the extension of the original Term.
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- 8        Definitions: All terms capitalized in this Agreement and not otherwise defined in this Agreement will have the same meaning as in the Lease.
- 9        Binding Effect: This Agreement will enure to the benefit of and be binding upon the parties and their respective successors and assigns.
- 10       Counterparts and Delivery: This Agreement may be executed by the parties in any number of counterparts, each of which when executed and delivered is deemed to be an original, but all of which when taken together will constitute one and the same instrument.

IN WITNESS WHEREOF the Landlord and the Tenant have executed this Agreement as of the day and year first above mentioned.

Landlord: Glenlyon Developments Inc

Tenant: Tekmira Pharmaceuticals Corporation

Per:  /s/ Gordie Gill  
Authorized Signatory

Per:  /s/ Bruce Cousins  
Authorized Signatory

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SCHEDULE A  
 TO LEASE RENEWAL AND MODIFICATION AGREEMENT  
 BETWEEN GLENLYON DEVELOPMENTS INC.  
 AND TEKIRA PHARMACEUTICALS CORPORATION

Location	Description of Work	Budget
2 <sup>nd</sup> floor north wing	New walls, inner glass, paint, carpet & base, lighting, diffusers, ceiling tiles, doors, electrical, HVAC changes, sprinkler changes, data	\$405,000
Washrooms	Option 1	\$10,000 - \$15,000
	Option 2: new counters, sinks, plumbing fixtures, partitions, lighting, painting, door hardware, added shower(s), exhaust upgrade	\$20,000 - \$25,000
Atrium 1st & 2nd Floor	paint, carpet, possible new treatment to the staircase, atrium doors	\$105,000
Cabling / Data		\$20,000 - \$30,000

\*The parties agree and acknowledge that the Tenant shall be responsible for any renovation costs which exceed the amount allocated at Section 4 of the Lease Renewal And Modification Agreement.



**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES  
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Mark Murray, certify that:

1. I have reviewed this Form 10-Q Tekmira Pharmaceuticals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2014

/s/ Mark Murray

Name: Mark Murray

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES  
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Bruce Cousins, certify that:

1. I have reviewed this Form 10-Q of Tekmira Pharmaceuticals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2014

/s/ Bruce Cousins

Name: Bruce Cousins  
Title: Executive Vice President, Finance and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Tekmira Pharmaceuticals Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark Murray, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of the operations of the Company.

Date: August 14, 2014

/s/ Mark Murray

Name: Mark Murray

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Tekmira Pharmaceuticals Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Bruce Cousins, Executive Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of the operations of the Company.

Date: August 14, 2014

/s/ Bruce Cousins

Name: Bruce Cousins  
Title: Executive Vice President, Finance and  
Chief Financial Officer

