TEKMIRA PHARMACEUTICALS CORPORATION

2009 Annual Report

Dear Tekmira Shareholders:

In 2009, Tekmira's SNALP technology achieved global recognition as the leading RNAi delivery technology. It was, by any measure, a very productive and encouraging year for our company. On the strength of the SNALP platform we continued to advance our own RNAi product candidates, supported our growing list of partners as they advanced their own SNALP-based products, and firmly established Tekmira as a leader in the promising field of RNAi drug development.

We were reminded in 2009 that we are fortunate at Tekmira to employ some of the best and brightest minds in biotechnology. Their unparalleled experience and depth of knowledge has enabled us to overcome some of the RNAi industry's toughest challenges, including advances in the complex area of drug delivery. Our ability to aggressively execute on our strategy – advancing our pipeline and supporting our partners – is largely owed to this world-class team of professionals.

Continuing to advance our technology and product candidates

One of the key accomplishments for the company in 2009 was the completion of a 23 subject Phase 1 human clinical trial evaluating the safety, tolerability and pharmacokinetics of our lead RNAi therapeutic product candidate ApoB SNALP as a treatment for high LDL cholesterol, or "bad" cholesterol. We were generally pleased with the results of the Phase 1 trial and plan to re-enter the clinic with an improved second generation ApoB SNALP in the second half of 2010.

High cholesterol represents a large potential market – 60 million people alone in the United States – and there is a clear need for new, effective therapies. Over 10 million patients in the U.S. are unable to control their cholesterol. We believe ApoB SNALP is the most advanced RNAi drug targeting a metabolic condition like high cholesterol currently in development.

Additionally, we are on track to file an investigational new drug (IND) application and initiate a Phase 1 human clinical trial for our lead oncology product, PLK1 SNALP, in the second half of 2010. In 2009, we published data in the *Journal of Clinical Investigation* supporting the development of PLK1 SNALP to treat solid tumor cancers outside the liver.

In 2009, our team also made considerable improvements to the potency of SNALP formulations, broadening the potential utility of our leading RNAi drug delivery technology. In January, we published data in *Nature Biotechnology* describing new lipid components that provide a ten-fold improvement in SNALP potency over first generation formulations. As well, we recently presented data confirming advances in siRNA structures to eliminate stimulation of the human immune system, which is critical to the continued advancement of RNAi therapeutics.

Leading in delivery and supporting our growing list of partners

Beyond the advancements we continue to make with our internal programs, our SNALP technology played a central role in the success of our partners in 2009. In April, Alnylam Pharmaceuticals initiated a Phase 1 human clinical trial for ALN-VSP using SNALP as a treatment for advanced liver cancers and cancers with liver involvement. They expect to present preliminary data from this trial in mid-2010. Tekmira is also manufacturing ALN-VSP and other Alnylam product candidates under a manufacturing agreement that will provide Tekmira a minimum of $11.2 million over three years from 2009 to 2011.

Alnylam has also submitted its regulatory filings to initiate a Phase 1 human clinical trial of ALN-TTR01 to treat transthyretin (TTR)-mediated amyloidosis, a condition affecting the liver, in the first half of 2010. Tekmira will manufacture this drug for Alnylam.

In May, we entered into a new product development agreement with Roche to advance its first two RNAi product candidates using SNALP. Roche is a global pioneer in the development of new therapeutic products, and this agreement underscores Roche's confidence in the future of RNAi drug development and further validates the strength of Tekmira's RNAi delivery technology.

2009 also saw us expand our research collaboration with Bristol-Myers Squibb and initiate a new collaboration agreement with Takeda, the largest pharmaceutical company in Asia. More recently, we entered into a new research collaboration agreement with Pfizer. Both Pfizer and Takeda are evaluating Tekmira's SNALP technology to potentially deliver a number of different RNAi drug payloads.

Well positioned to execute our strategy and create value for our shareholders

With the revenue we earn by supporting our partners, we have been able to maintain a strong balance sheet and support the advancement of our own product candidates. We ended 2009 with a cash balance sufficient to fund an aggressive product development plan into mid-2011 without the need for additional financing. We will continue to manage our resources conservatively, keep a close eye on costs and focus on creating and delivering value for our shareholders.

Looking ahead, we believe 2010 will be a watershed year in establishing RNAi therapeutics as a new class of broadly applicable drugs, and we believe Tekmira is well positioned to build on its leadership position in this emerging field. Based on our internal projections and those of our partners, we expect to see five RNAi-based drugs in clinical development using our SNALP technology by the end of the year.

It promises to be an exciting year for RNAi drug development and for Tekmira. As always, we will provide regular updates on our progress and on major developments in the industry.

Thank you for your continued support.

Sincerely,

Mark J. Murray, Ph.D.
President and Chief Executive Officer

March 17, 2010

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

March 17, 2010 / *This discussion and analysis should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009 and related notes that are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless the context otherwise requires, all references to "Tekmira", the "Company", "we", "us", and "our" refer to Tekmira Pharmaceuticals Corporation, including all its subsidiaries. Additional information relating to Tekmira, including the Company's March 31, 2009 Annual Information Form is on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

This discussion and analysis, contains forward-looking statements that are not based on historical fact, including without limitation statements containing the words "believes", "may", "plan", "will", "estimate", "continue", "anticipates", "intends", "expects", and similar expressions, including the negative of such expressions. These statements are only predictions.

Forward-looking statements and information should be considered carefully. Undue reliance should not be placed on forward-looking statements and information as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements and information involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements and information will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information.

More particularly and without limitation, this discussion and analysis contains forward-looking statements, assumptions and information concerning the Company's potential, the potential of RNA interference ("RNAi") therapeutics as a treatment for disease, pre-clinical results, our product development plans, the number and timing of advancement of our products into clinical development, the plans of our collaborative partners and the impact of those collaborations on our product development activities and our financial resources. These statements are based upon our product expertise, our assessment of our research and development capabilities and resources, our understanding of the regulatory approval process and the public statements of our collaborative partners. There are circumstances and factors that may cause our assessments included in these forward-looking statements to materially change. Such circumstances and factors include the failure of RNAi therapies to become commercially viable, our inability or a collaborative partner's inability to develop commercially viable RNAi therapies, changes to the product development plans of our collaborative partners, clinical trials may not demonstrate safety and efficacy in humans and our inability to formulate products to meet efficacy needs within an acceptable toxicity level.

Also included in this discussion and analysis is an estimate of the length of time that our business will be funded by our anticipated financial resources (see Risks and uncertainties). This estimate is based upon our assessment of the time to complete our research and product development activities, the announced programs of our collaborative partners, and estimates of the timing of payments to be received under contracts. There are circumstances and factors that may cause actual cash usage to be materially different from our current estimate of the adequacy of our cash resources. Such circumstances and factors include the following: preclinical trials may not be completed, or clinical trials started, when anticipated; preclinical and clinical trials may be more costly or take longer to complete than currently anticipated; preclinical or clinical trials may not generate results that warrant future development of the tested drug candidate; funding and milestone payments from our research and product development partners may not be provided when required under our agreements with those partners; batches of drugs that we manufacture may fail to meet specifications resulting in delays and investigational and remanufacturing costs; decisions to in-license or acquire additional products for

development; we may become subject to product liability or other legal claims for which we have made no accrual on our financial statements; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services.

A more complete discussion of the risks and uncertainties facing Tekmira appears in our Annual Information Form dated March 31, 2009 available at www.sedar.com. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements or information contained herein to reflect future results, events or developments, except as required by law.

OVERVIEW

Tekmira is a biopharmaceutical company focused on advancing novel RNA interference therapeutics and providing its leading lipid nanoparticle delivery technology to pharmaceutical partners.

Business combination with Protiva on May 30, 2008

On May 30, 2008, we completed the acquisition of 100% of the outstanding shares of Protiva Biotherapeutics, Inc. ("Protiva"), a privately owned Canadian company developing lipid nanoparticle delivery technology for small interfering RNA ("siRNA") and combined our businesses. We believe the business combination gives us leading scientific capabilities and intellectual property to develop RNAi therapeutics using our lipid nanoparticle delivery technology which we refer to as SNALP (Stable Nucleic Acid Lipid-Particles).

The acquisition of Protiva was accounted for using the purchase method of accounting. Accordingly, the assets, liabilities, revenues and expenses of Protiva are consolidated with those of the Company from May 30, 2008.

Further information on the acquisition of Protiva is provided in the Company's 2009 Consolidated Financial Statements.

Technology, product development and licensing agreements

Our therapeutic product pipeline consists of products being developed internally with our research and development resources. We also support the development of our partners' products. Our focus is on advancing products that utilize our proprietary lipid nanoparticle technology, referred to as SNALP, for the delivery of siRNA. These products are intended to treat diseases through a process known as RNA interference which prevents the production of proteins that are associated with various diseases. We have rights under Alnylam Pharmaceuticals, Inc.'s ("Alnylam") fundamental RNAi intellectual property to develop seven RNAi therapeutic products.

Our lead internal product candidates are

- apolipoprotein B ("ApoB") SNALP, for the treatment of high cholesterol; and
- polo-like kinase 1 ("PLK1") SNALP for the treatment of cancer.

In the field of RNAi therapeutics, we have licensed our lipid nanoparticle delivery technology to Alnylam and Merck & Co., Inc. Alnylam has granted non-exclusive access to some of our intellectual property to certain of its partners, including F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (together "Roche"), Regulus Therapeutics, Inc. ("Regulus") (a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited. In addition, we have ongoing research relationships with Bristol-Myers Squibb Company, the US Army Medical Research Institute for Infectious Diseases and the United States National Cancer Institute. Outside the RNAi field, we have legacy licensing agreements with Hana Biosciences, Inc. and Aradigm Corporation.

ApoB SNALP

On July 2, 2009 we announced that we had initiated a Phase 1 human clinical trial for ApoB SNALP. ApoB SNALP, our lead RNAi therapeutic product candidate, is being developed as a treatment for patients with high levels of low-density lipoprotein ("LDL") cholesterol, or "bad" cholesterol, who are not well served by current therapy. ApoB SNALP is designed to reduce the production of apolipoprotein B 100 ("ApoB"), a protein produced in the liver that plays a central role in cholesterol metabolism.

Our therapeutic approach is to target ApoB, a protein synthesized in the liver that is essential to the assembly and secretion of very low density lipoprotein ("VLDL"), a precursor to LDL, both of which are required for the transport and metabolism of cholesterol. ApoB SNALP consists of small interfering RNA ("siRNA"), designed to silence ApoB, encapsulated in a SNALP formulation. ApoB SNALP is delivered with high efficiency into the liver hepatocytes, the cells which produce ApoB, where the siRNA acts to silence the mRNA coding for ApoB protein resulting in a decrease in circulating VLDL and LDL.

On January 7, 2010 we announced the completion of the Phase 1 ApoB SNALP clinical trial. We enrolled a total of 23 subjects in the trial. Of the 23 subjects enrolled, 17 subjects received a single dose of ApoB SNALP at one of seven different dosing levels and six subjects received a placebo.

The primary endpoints of the ApoB SNALP Phase 1 clinical trial were measures of safety and tolerability. ApoB SNALP was well tolerated overall in this study with no evidence of liver toxicity, which was the anticipated dose-limiting toxicity observed in preclinical studies. Of the two subjects treated at the highest dose level, one subject experienced flu-like symptoms consistent with stimulation of the immune system caused by the ApoB siRNA payload. The other subject treated at the highest dose level experienced no side effects. Based on the potential for the immune stimulation to interfere with further dose escalation, we decided to conclude the trial.

Building on extensive preclinical work and the data obtained in our first ApoB SNALP clinical trial, we have now selected a second generation ApoB siRNA which we expect will enable us to resume clinical evaluation in the second half of 2010. The selection is based on experiments confirming the siRNA's ability to inhibit the expression of ApoB without stimulating the human immune system. The new ApoB SNALP will also use a second generation SNALP formulation, the result of improvements in SNALP formulation technology made since the first ApoB SNALP formulation was selected. We are targeting the second half of 2010 to initiate a Phase 1/2 clinical trial with our next generation ApoB SNALP.

The therapeutic activity of ApoB SNALP has been demonstrated in several preclinical studies with both first and second generation SNALP formulations. In one such study, rodents fed a high fat diet demonstrated a 50-100% increase in total cholesterol in the blood. A single ApoB SNALP treatment overcame diet-induced high cholesterol, returning blood cholesterol levels to normal within 24 hours of treatment. The suppressive effects of a single ApoB SNALP dose lasted for several weeks in preclinical animal studies.

PLK1 SNALP

Our second internal siRNA product candidate, PLK1 SNALP, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in healthy tissue. PLK1 SNALP is targeted against PLK1 (polo-like kinase 1), a protein involved in tumor cell proliferation and a validated oncology target. Inhibition of PLK1 prevents the tumor cell from completing cell division, resulting in cell cycle arrest and death of the cancer cell.

Our preclinical studies have demonstrated that a single, systemic intravenous administration of PLK1 SNALP blocked PLK1 expression in liver tumors causing extensive tumor cell death. After repeat dosing, this result translated into significant inhibition of tumor growth and prolonged survival without evidence of toxicities often associated with oncology drugs. The PLK1 SNALP anti-tumor efficacy results were confirmed to be the result of silencing PLK1 via RNA interference. Furthermore certain SNALP formulations also provided potent anti-tumor efficacy in preclinical models of distal tumors

outside the liver.

We have initiated formal preclinical safety studies and expect to initiate a Phase 1 human clinical trial in the second half of 2010 evaluating PLK1 SNALP as a treatment for cancer.

Alnylam collaboration and license

On January 8, 2007, we entered into a licensing and collaboration agreement with Alnylam giving them an exclusive license to certain historical lipid nanoparticle intellectual property owned by Tekmira for the discovery, development, and commercialization of RNAi therapeutics. This agreement only covered intellectual property owned before the business combination with Protiva.

As a result of the business combination with Protiva on May 30, 2008 we acquired a Cross-License Agreement ("Alnylam Cross-License") between Protiva and Alnylam, dated August 14, 2007. The Cross-License grants Alnylam non-exclusive access to Protiva's intellectual property and required Alnylam to fund a certain level of collaborative research for two years. The research collaboration element of the Alnylam Cross-License expired on August 13, 2009. We are, however, continuing to make SNALP research batches for Alnylam under a manufacturing agreement which is discussed below.

On August 21, 2007, under the Alnylam Cross-License, Alnylam made a payment of US$3.0 million that gives Alnylam the right to "opt-in" to the Tekmira PLK1 SNALP project and contribute 50% of product development costs and share equally in any future product revenues. Alnylam has until the start of a Phase 2 clinical trial of the PLK1 SNALP project to exercise their opt-in right. If Alnylam chooses to opt into the PLK1 SNALP project the US$3.0 million already paid will be credited towards Alnylam's 50% share of project costs to date.

We are eligible to receive from Alnylam up to US$16.0 million in milestones for each RNAi therapeutic advanced by Alnylam or its partners that utilizes our intellectual property, and royalties on product sales. The impact of the Alnylam agreements, including contract manufacturing services, on our results of operations is covered further in the Revenue section of this discussion.

The agreements with Alnylam grant us intellectual property rights to develop our own proprietary RNAi therapeutics. Alnylam has granted us a worldwide license for the discovery, development and commercialization of RNAi products directed to seven gene targets (three exclusive and four non-exclusive licenses). Licenses for two targets, ApoB and PLK1, have already been granted on a non-exclusive basis. Under the RNAi licenses granted to us, we may select five additional gene targets to develop RNAi therapeutic products, provided that the targets are not part of an ongoing or planned development program of Alnylam. In consideration for this license, we have agreed to pay royalties to Alnylam on product sales and have milestone obligations of up to US$8.5 million on each of the four non-exclusive licenses (with the exception of PLK1 SNALP if Alnylam opts–in to the development program) and no milestone obligations on the three exclusive licenses.

On April 3, 2009 Alnylam announced that they had initiated a Phase 1 human clinical trial for a product candidate that utilizes our SNALP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for liver cancer and other solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our SNALP technology. We are responsible for manufacturing the ALN-VSP drug product. The initiation of the ALN-VSP Phase 1 clinical trial triggered a milestone payment of $0.6 million (US$0.5 million) which we received in May 2009.

In August 2009 Alnylam announced ALN-TTR as their next siRNA product candidate for human clinical trials. Alnylam will be advancing two ALN-TTR formulations, ALN-TTR01 and ALN-TTR02. Both formulations are RNAi therapeutics targeting transthyretin ("TTR") for the treatment of TTR amyloidosis,

a systemic disease caused by mutations in the TTR gene. ALN-TTR01 and ALN-TTR02 utilize our SNALP technology and will be manufactured by us. Alnylam expects to initiate a clinical trial for ALN-TTR01 in the first half of 2010.

Under a manufacturing agreement (the "Alnylam Manufacturing Agreement") dated January 2, 2009, we continue to be the exclusive manufacturer of any products required by Alnylam through to the end of Phase 2 clinical trials that utilize our technology. Alnylam will pay for the provision of staff and for external costs incurred. Under the Alnylam Manufacturing Agreement there is a contractual minimum of $11.2 million payable by Alnylam for the three years from 2009 to 2011 for the provision of our staff.

Roche product development and research agreements

On May 30, 2008, we signed an initial research agreement with Roche. This initial research agreement expired at the end of 2008 and was replaced by a research agreement (the "Roche Research Agreement") dated February 11, 2009. We have now completed all of the work under the Roche Research Agreement.

On May 11, 2009 we announced a product development agreement with Roche (the "Roche Product Development Agreement") that provides for product development up to the filing of an Investigation New Drug application (an "IND") by Roche. The product development activities under this agreement expand the activities that were formerly covered by the Roche Research Agreement. Under the Roche Product Development Agreement, Roche will pay up to US$8.8 million for us to support the advancement of each Roche RNAi product candidate using our SNALP technology through to the filing of an IND application. We are also eligible to receive up to US$16.0 million in milestones plus royalties on product sales for each product advanced through development and commercialization based on Roche's access to our intellectual property through Alnylam.

We will develop and manufacture the drug product for use in all preclinical studies under the Roche Product Development Agreement and will collaborate with Roche to conduct the preclinical testing. The agreement also provides that we will manufacture one batch of clinical product for a Phase 1 human clinical trial.

Under the Roche Product Development Agreement Roche will pay for the provision of our staff and for external costs incurred. We are recognizing revenue from this agreement in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates will be recorded in the period that Roche is invoiced for those costs.

At December 31, 2009 there was one systemic RNAi product in development under the Roche Product Development Agreement. Roche expects to file an IND application for this product in 2010. Under the agreement, Roche may select a second product for development.

Merck & Co., Inc. ("Merck") license agreement

As a result of the business combination with Protiva we acquired a non-exclusive royalty-bearing world-wide license agreement with Merck. Under the license, Merck will pay up to US$17.0 million in milestones for each product they develop covered by Protiva's intellectual property, except for the first product for which Merck will pay up to US$15.0 million in milestones, and will pay royalties on product sales. Merck has also granted a license to the Company to certain of its patents. The license agreement with Merck was entered into as part of the settlement of litigation between Protiva and a Merck subsidiary.

Bristol-Myers Squibb Company ("Bristol-Myers Squibb") research agreement

We have an ongoing research collaboration agreement with Bristol-Myers Squibb to utilize SNALP technology for target validation.

US Army Medical Research Institute for Infectious Diseases ("USAMRIID") research agreement

In 2005, Protiva and the USAMRIID signed a five-year research agreement to collaborate on the development of siRNA-based therapy against filovirus infections, including Ebola, using SNALP. The grant under this collaboration was recently extended to March 31, 2011. Grants received from the USAMRIID are netted against research and development expenses when the grant is earned.

Takeda Pharmaceutical Company Limited ("Takeda") research agreement

We have an ongoing research agreement with Takeda signed on December 26, 2008.

Takeda has, through Alnylam, a non-exclusive sublicense to our intellectual property. Under our agreements with Alnylam we are eligible to receive up to US$16.0 million in milestones plus additional royalties on each Takeda product that uses our technology.

Hana Biosciences, Inc. ("Hana") license agreement

Hana is developing targeted chemotherapy products under a legacy license agreement entered into in May 2006. Marqibo® (Optisomal Vincristine), Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan), products originally developed by us, have been exclusively licensed to Hana. Hana has agreed to pay us milestones and royalties and is responsible for all future development and future expenses. On May 27, 2009, the license agreement with Hana was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. If received, certain of these contingent payments from Hana will be transferred to certain contingent creditors as covered further in the Off-Balance Sheet Arrangements – Debt retirement section of this discussion.

Aradigm Corporation ("Aradigm") license agreement

On December 8, 2004, we entered into a licensing agreement with Aradigm under which Aradigm exclusively licensed certain of our liposomal intellectual property. Under this agreement, we are entitled to milestone payments totaling US$4.75 million for each disease indication, to a maximum of two, pursued by Aradigm using our technology. In addition, we are entitled to royalties on any product revenue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies that we believe to be most critical in fully understanding and evaluating our financial results are revenue recognition, valuation and amortization of intangible assets, goodwill valuation and stock-based compensation. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable, based upon information available to us at the time that these estimates and assumptions are made. Actual results may differ from our estimates. Areas where critical accounting estimates are made include revenue recognition, the valuation and amortization of intangible assets, goodwill valuation and amounts recorded as stock-based compensation. Our critical accounting estimates affect our net loss calculation.

Revenue Recognition / Our primary sources of revenue have been derived from research and development collaborations services, and licensing fees comprised of initial fees and milestone payments. Payments received under collaborative research and development agreements, which are non-refundable, are recorded as revenue as services are performed and as the related expenditures are incurred pursuant to the agreement, provided collectability is reasonably assured. Revenue earned under research and development manufacturing collaborations where we bear some or all of the risk of a product manufacture failure is recognized when the purchaser accepts the product and there are no remaining rights of return. Revenue earned under research and development collaborations where we do not bear any risk of product manufacture failure is recognized in the period the work is performed. Initial fees and milestone payments which require our ongoing involvement are deferred and amortized into income over the estimated period of our involvement as we fulfill our obligations under our agreements. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured.

Our revenue recognition policy is in accordance with the guidelines provided in Emerging Issues Committee (EIC) -141, *Revenue Recognition, Non-Refundable Fees* and EIC-142, *Revenue Arrangements with Multiple Deliverables.*

The revenue that we recognize is a critical accounting estimate because of the volume and nature of the revenues we receive. Some of the research and development collaboration and licensing agreements that we have entered into contain multiple revenue elements that are to be recognized for accounting in accordance with our revenue recognition policy. We need to make estimates as to what period the services will be delivered with respect to up-front licensing fees and milestone payments received because these payments are deferred and amortized into income over the estimated period of our ongoing involvement. The actual period of our ongoing involvement may differ from the estimated period determined at the time the payment is initially received and recorded as deferred revenue. This may result in a different amount of revenue that should have been recorded in the period and a longer or shorter period of revenue amortization. When an estimated period changes we amortize the remaining deferred revenue over the estimated remaining time to completion. The rate at which we recognize revenue from payments received for services to be provided under collaborative research and development agreements depends on our estimate of work completed to date and total work to be provided. The actual total services provided to earn such payments may differ from our estimates.

Our revenue for 2009 was $14.4 million (2008 - $11.7 million) and deferred revenue at December 31, 2009 was $1.2 million (December 31, 2008 - $0.5 million).

Valuation and amortization of intangible assets / Our intangible assets are medical technology purchased or licensed from arm's length third parties and computer software. The costs incurred in establishing and maintaining patents for intellectual property developed internally are expensed in the period incurred.

The costs of our purchased medical technology are amortized on a straight-line basis over the

estimated useful life of the technology. Factors considered in estimating the valuation and useful life of medical technology include:

- our expected use of the asset
- legal, regulatory and contractual provisions that may limit the useful life
- the effects of obsolescence, demand, competition and other economic factors
- the level of expenditures required to obtain the expected future cash flows from the medical technology

We review the carrying value of our medical technology on an annual basis and when we undergo major changes in our business and if we determine that successful development of products to which medical technology costs relate is not sufficiently viable, or that deferred medical technology costs exceed the recoverable value based on future potential undiscounted cash flows, such costs are written down to fair value.

The valuation of medical technology is a critical accounting estimate because of the long-term nature of and risks and uncertainties related to the development of our medical technology. Significant judgment is exercised and assumptions are made when determining whether the carrying value of the medical technology may or may not be recoverable based on future potential undiscounted cash flows. Any significant changes to our assessment could possibly result in an impairment loss being charged against our medical technology. Also, the determination of the fair value of technology is highly dependent on estimated future cash flows that are subject to significant uncertainty.

The $16.3 million valuation of medical technology acquired through the business combination with Protiva is covered further in the Company's 2009 Consolidated Financial Statements. We have estimated that the life of the medical technology acquired from Protiva is 16 years. This estimate is based, amongst other things, on the remaining patent lives underlying the Protiva medical technology. The down-turn in financial markets led us to carry out an impairment test on the Protiva medical technology in the third quarter of 2008 and we determined that the undiscounted future cash-flows exceeded the carrying value of intangible assets thereby requiring no impairment. We carried out our annual intangible assets impairment indicators test in the third quarter of 2009 and did not find any changes in our intangible asset valuation assumptions to suggest any impairment in value.

Goodwill valuation / We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible assets and goodwill. The judgments made in the context of the purchase price allocation can materially impact our financial position and results of operations.

Goodwill is not amortized but is tested for possible impairment at least annually and whenever changes in circumstances occur that would indicate an impairment in the value of goodwill. When the carrying value of goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Circumstances that could trigger an impairment include adverse changes in legal or regulatory matters or the business climate, technological advances, decreases in anticipated demand for the technology, unanticipated competition and other market conditions.

The $3.9 million excess of the purchase price for Protiva over the estimated fair values of the net assets acquired was recorded as goodwill. Various factors contributed to the establishment of goodwill, including: the value of Protiva's highly skilled and knowledgeable work force as of the acquisition date; the expected revenue growth over time that is attributable to new and expanded collaborative partnerships; and the synergies expected to result from combining workforces and infrastructures.

The down-turn in financial markets led us to carry out a goodwill impairment test as at September 30,

2008. Based on Tekmira's market capitalization as at September 30, 2008 we determined that the fair value of goodwill arising from the acquisition of Protiva was nil and an impairment loss of $3.9 million, the full value of goodwill, was recorded in the Consolidated statement of operations and comprehensive (loss).

Stock-based compensation / The stock based compensation that we record is a critical accounting estimate due to the value of 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 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, be estimated at the time that the options are issued. This accounting estimate is reasonably likely to change from period to period as further stock options are issued and adjustments are made for stock option forfeitures and cancellations. We account for the forfeitures of unvested options in the period in which the forfeitures occur. We amortize the fair value using the straight-line method over the vesting period of the options, generally a period of three years for employees and immediate vesting for directors.

The Black-Scholes model is not the only permitted model to calculate the fair value of stock options issued pursuant to Handbook Section 3870. A different model, such as the binomial model, as well as any changes to the assumptions made may result in a different stock compensation expense calculation.

We recorded stock compensation expense in 2009 of $0.3 million (2008 - $1.8 million).

CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS

Goodwill and intangible assets (CICA 3064) and financial statement concepts (CICA 1000)

Effective January 1, 2009, CICA 3064, *Goodwill and Intangible Assets* replaced CICA 3062, *Goodwill and Other Intangible Assets*, and CICA 3450, *Research and Development Costs*. CICA 1000, *Financial Statement Concepts* was also amended to provide consistency with this new standard. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

The adoption of this standard did not have any impact on our net loss but did result in a reclassification of computer software costs from property and equipment to intangible assets in the amount of $1.5 million as at December 31, 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

Convergence with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will convert to IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS use a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged

with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The IASB will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

We will be required to changeover to IFRS for interim and annual financial statements beginning on January 1, 2011. As a result, we are developing a plan to convert our consolidated financial statements to IFRS. Individuals primarily responsible for the changeover have been identified and have begun training. The Company also held an IFRS information session with Audit Committee. During this session management provided the Audit Committee with a review of the timeline for implementation and a preliminary analysis of major differences between IFRS and the Company's current accounting policies. As a result of the information session, the Audit Committee members are considering how they will gain the necessary financial expertise of IFRS. The Audit Committee will continue to receive ongoing presentations and project status updates from management.

We have completed a preliminary analysis of the differences between IFRS and the Company's accounting policies and of the various accounting alternatives available at the changeover date. Through our preliminary analysis we expect our balance sheet and income statement to be impacted as at the time of conversion in the areas of stock-based compensation and provisions and contingent liabilities. Based on our preliminary analysis we do not expect to need to make major changes to our internal controls over financial reporting, disclosure controls and procedures, business activities or our accounting and information technology systems. A detailed analysis will be carried out mid-2010. Also, we continue to monitor changes that could result from the IASB's ongoing new accounting standards projects. Changes in accounting policies are likely and may materially impact our consolidated financial statements.

SELECTED FINANCIAL INFORMATION

The following is selected financial information for our 2009, 2008 and 2007 fiscal years:

(in millions of Cdn$ except per share date)	**2009**	2008	2007
Total revenues	$ 14.4	$ 11.7	$ 15.8
Research and development expenses	17.8	16.1	8.3
General and administrative expenses	4.2	4.4	4.4
Termination and restructuring expenses	-	3.2	-
Amortization of intangible assets	1.3	0.8	0.1
Depreciation of property and equipment	0.7	0.6	0.3
Other income and (losses)	(0.3)	(0.9)	(5.2)
Total (loss)	(9.8)	(14.3)	(2.6)
Basic and diluted (loss) per share	(0.19)	(0.35)	(0.11)
Total assets	43.9	51.5	24.6
Total liabilities	6.8	4.9	6.4
Deficit	(221.9)	(212.1)	(197.8)
Total shareholders' equity	$ 37.1	$ 46.6	$ 18.2

The factors that have caused period to period variations in our revenues, expenses and loss per year between 2009 and 2008 are explained in detail in Results of Operations. There were a number of factors contributing to changes in our results from 2007 to 2008 such as the inclusion of Protiva's results from May 30, 2008, the date Protiva was acquired, some additional expenses linked to the acquisition of Protiva and the impairment loss on goodwill.

The drop in revenue from 2007 to 2008 relates primarily to the amortization of a Hana up-front payment being complete at the end of 2007.

The increase in research and development expenses from 2007 to 2008 is largely due to the inclusion of Protiva expenses from May 30, 2008, including ApoB SNALP and PLK1 SNALP project expenses and salary and infrastructure costs. The majority of the increase in research and development external expenditures relate to our ApoB SNALP program, specifically preclinical toxicology costs and costs related to the purchase of materials for clinical trials. Stock based compensation for research and development staff was $1.3 million in 2008 as compared to $0.3 million in 2007 as our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva. Intellectual property legal expenses increased by $0.6 million over the prior year due to the expansion of our patent portfolio following the business combination with Protiva.

Total general and administrative expenses remained unchanged from 2007 to 2008 but there were some changes in the make up of expenses. There were some expense increases in 2008 as a result of the business combination with Protiva and 2007 expenses included some one time legal and professional fees related to Tekmira's April 30, 2007 corporate reorganization.

Salary and infrastructure costs increased as a result of the business combination with Protiva. Staff numbers initially increased by about 75% as a result of the business combination although there was a subsequent post-integration reorganization in October 2008. Our internal research and development staff numbers were 61 at December 31, 2008 (total staff 76) as compared to 39 (total staff 50) at December 31, 2007.

Termination and restructuring expenses in 2008 resulted from the integration of Tekmira and Protiva's operations.

The amortization of intangible assets expense increased in 2008 due to the addition of $16.3 million in medical technology acquired through the business combination with Protiva.

Depreciation charges increased from 2007 to 2008 with the addition of Protiva property and equipment on May 30, 2008.

Other income and (losses) include non-operational items such as interest income and foreign exchange gains (losses). Other income and (losses) in 2007 also include a loss of $5.2 million related to debt retirement. Other income and (losses) in 2008 also include a $3.9 million impairment loss on goodwill which is covered further in the Results of operations section of this discussion.

The increase in total assets from 2007 to 2008 was primarily due to increasing cash and intangible assets as a result of the business combination with Protiva.

SUMMARY OF QUARTERLY RESULTS

The following table presents our unaudited quarterly results of operations for each of our last eight quarters. This data has been derived from our unaudited 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.

The quarterly results shown below include the results of Protiva from date of acquisition, May 30, 2008.

(in millions Cdn$ except per share data)

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Revenue	$ 1.9	$ 2.5	$ 4.2	$ 3.1	$ 2.9	$ 3.8	$ 3.3	$ 4.5
Net (loss)	(0.4)	(4.8)	(6.0)	(3.1)	(2.1)	(2.3)	(2.8)	(2.6)
Basic and diluted net (loss) per share	$ (0.02)	$ (0.14)	$ (0.12)	$ (0.07)	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.05)

Quarterly Trends / Our revenue is derived from research and development collaborations, licensing fees and milestone payments. Over the past two years, our principal sources of revenue have been our Alnylam partnership entered into in March 2006 and more recently our Roche partnership. Revenue from our Roche collaboration increased throughout 2009 to $2.3 million in the fourth quarter when we manufactured a number of batches of drug. We expect revenue to continue to fluctuate particularly due to the variability in demand for our manufacturing services and timing of milestone receipts.

Net losses generally increased from the time of the business combination with Protiva on May 30, 2008 as this resulted in the expansion of our drug development pipeline and related expenses. More particularly, net loss in Q2 2008 increased due to:

- Stock based compensation non-cash expense for research and development staff of $1.0 million which is unusually high and is a result of accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva; and
- The accrual of $2.0 million for payments due to our former CEO.

Net loss in Q3 2008 includes a $3.9 million charge for the impairment of goodwill arising on the acquisition of Protiva and increased research and development expenses related to our ApoB SNALP program.

Net loss in Q4 2008 includes $1.2 million in restructuring costs as we reduced our workforce by 15 employees as part of the integration of the operations of Tekmira and Protiva. Q4 2008 also includes $1.3 million in foreign exchange gains largely due to the positive effect on our US denominated cash investments and accounts receivable from the strengthening of the US dollar as compared to the Canadian dollar.

Net loss in Q1 2009 was less than the Q4 2008 loss as our focus was on writing an IND application for our ApoB SNALP program. Net loss in Q2 2009 includes a bonus pay-out following the successful filing of our ApoB SNALP IND application and signing a product development agreement with Roche. Our compensation philosophy is to pay discretionary bonuses as and when we achieve major corporate goals.

Net losses in Q3 and Q4 2009 include increased spending on our ApoB SNALP and PLK1 SNALP programs.

RESULTS OF OPERATIONS

For the fiscal year ended December 31, 2009, our net loss was $9.8 million ($0.19 per common share, basic and fully diluted) as compared to a net loss of $14.3 million ($0.35 per common share, basic and fully diluted) for 2008.

There are a number of factors contributing to changes in our results including some one time 2008 expenses linked to the acquisition of Protiva and a loss due to the impairment of goodwill.

Revenue / Revenue from research and development collaborations, licensing fees and milestone payments was $14.4 million in 2009 as compared to $11.7 million in 2008. Looking at collaborations revenue, the expiration of our research collaboration with Alnylam in August 2009 has been offset by expansion of manufacturing services provided to Alnylam and the expansion of our collaboration with Roche. Licensing fees and milestone payments revenue is lower in 2009 as compared to 2008 as up-front payments from Alnylam were fully amortized into revenue by the end of 2008 and the only 2009 receipt was an Alnylam milestone payment of $0.6 million.

Revenue is detailed in the following table:

(in millions Cdn$)	**2009**	2008
Research and development collaborations		
Alnylam	**$ 8.8**	$ 6.1
Roche	**4.8**	0.1
Other RNAi collaborators	**0.2**	0.3
Hana	**-**	0.1
Total research and development collaborations	**13.8**	6.6
Licensing fees and milestone payments from Alnylam	**0.6**	5.1
Total revenue	**$ 14.4**	$ 11.7

Alnylam revenue / Under an agreement with Alnylam they were required to make collaborative research payments at a minimum rate of US$2.0 million per annum for the provision of our research staff. This agreement expired on August 13, 2009 and we no longer receive research funding from Alnylam. We are, however, continuing to make SNALP research and clinical trial batches for Alnylam under the Alnylam Manufacturing Agreement.

Under the Alnylam Manufacturing Agreement we are the exclusive manufacturer of any products required by Alnylam that utilize our technology through to the end of Phase 2 clinical trials. Under the Alnylam Manufacturing Agreement there is a contractual minimum payment for the provision of staff in each of the three years from 2009 to 2011 and Alnylam is reimbursing us for any external costs incurred. Revenue from external costs related to the Alnylam Manufacturing Agreement is being recorded in the period that Alnylam is invoiced for those costs except where we bear the risk of batch failure in which case revenue is recognized only once Alnylam accepts the batch. The total payment for the provision of staff from 2009 to 2011 is a minimum of $11.2 million. We are recognizing revenue for the provision of staff under the Alnylam Manufacturing Agreement based on actual staff hours provided.

We are eligible to receive up to US$16.0 million in milestones for each RNAi therapeutic advanced by Alnylam or its partners that utilizes our intellectual property, and royalties on product sales. On April 3, 2009 Alnylam announced that they had initiated a Phase 1 human clinical trial for ALN-VSP, a product candidate that utilizes our SNALP technology. The initiation of the ALN-VSP Phase 1 clinical trial

triggered a milestone payment of $0.6 million (US$0.5 million) that we received and recorded as revenue in 2009.

Roche revenue / Under the Roche Product Development Agreement dated May 2009 they are paying us for the provision of staff and for certain external costs incurred. We are recognizing revenue from the Roche Product Development Agreement in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total project hours. Revenue from external costs incurred under the Roche Product Development Agreement is recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received is being recorded in the balance sheet as accrued or deferred revenue, as appropriate, and as at December 31, 2009 there was $0.8 million of deferred revenue in this respect.

We earned $0.9 million (US$0.8 million) in research and development collaborations revenue during the first half of 2009 for work completed under a separate Roche Research Agreement.

Under the Roche Product Development Agreement we are currently developing one product with Roche. Roche may select a second product for development.

Other RNAi collaborators / We have active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb and Takeda.

Expenses / Research, development and collaborations / Research and development expenses increased to $17.8 million in 2009 as compared to $16.1 million in 2008 due, in part, to the following factors:

- As a result of the business combination with Protiva completed on May 30, 2008, the level and cost of our research and development activities generally increased.
- With the business combination our intellectual property portfolio and related expenses expanded.
- Spending on our ApoB SNALP program was significantly higher in 2008 as compared to 2009. In 2008 we took ApoB SNALP through preclinical toxicology studies and the manufacture of drug product for human clinical trials. In 2009 our ApoB SNALP program moved into Phase 1 of clinical trials.
- In 2009 PLK1 SNALP spending increased significantly over 2008 as we commenced preclinical toxicology studies and the manufacture of human clinical trial drug product.
- Costs marked up and passed through to our collaborators were higher in 2009 as we supported a number of Alnylam products that utilize our SNALP technology and in May 2009 our collaboration with Roche expanded into product development.
- Research and development wage expenses increased significantly following the business combination on May 30, 2008 and continued to be higher in 2009 as staffing levels were maintained to support our two lead internal programs and two major collaborative partners, Alnylam and Roche. However, research and development total compensation expenses in 2008 were unusually high as stock based compensation was $0.3 million in 2009 as compared to $1.8 million in 2008. In 2008 our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva.

Our research, development and collaboration expenses and laboratory equipment costs are reported net of funding from USAMRIID of $0.8 million in 2009 and $0.2 million in 2008.

Our research and development staff numbers have increased to 64 at December 31, 2009 (total staff 78) as compared to 61 (total staff 76) at December 31, 2008.

Research, development and collaborations expenses guidance for 2010 / Research and development expenses are expected to increase in 2010 as we progress PLK1 SNALP and a new ApoB SNALP formulation into the clinic. Also, effective January 1, 2010, in line with our organizational structure, we will be classifying our information systems department costs and related overheads as research and development expenses instead of their former classification of general and administrative expenses.

General and administrative / General and administrative expenses decreased to $4.2 million in 2009 as compared to $4.4 million in 2008. General and administrative expenses increased with the addition of Protiva expenses following the business combination on May 30, 2008. This increase in expenses fell off as the two businesses were integrated.

General and administrative expenses guidance for 2010 / General and administrative expenses are expected to decrease in 2010 largely as a result of the reclassification of information systems costs discussed above.

Termination and restructuring expenses / Termination and restructuring expenses were $nil in 2009 and $3.2 million in 2008. In May 2008, as a condition of closing the business combination with Protiva, the employment contract of Tekmira's Chief Executive Officer was terminated and an expense of $2.0 million was recorded. In October 2008, as part of the integration of the operations of Tekmira and Protiva, we completed a restructuring that resulted in a reduction in workforce of 15 employees and recorded an expense of $1.2 million.

Amortization of intangible assets / Amortization of intangible assets expense was $1.3 million in 2009 as compared to $0.8 million in 2008. Of the 2009 amortization charge $1.0 million relates to the $16.3 million in medical technology acquired through the business combination with Protiva on May 30, 2008 that is being amortized over 16 years (2008 - $0.6 million). The balance of the amortization on intangible assets relates to software.

Depreciation of property and equipment / Depreciation of property and equipment was $0.7 million in 2009 as compared to $0.6 million in 2008. Our results from May 30, 2008 onwards include Protiva's depreciation charges. Also, capital asset purchases and depreciation thereof has increased steadily in line with growth in the manufacturing side of our business.

Other income (losses) / Interest income / Interest income was $0.2 million in 2009 as compared to $0.9 million in 2008. Our average cash, cash equivalent and short-term investment balances were at similar levels in 2009 and 2008 but average interest rates were significantly lower in 2009 as compared to 2008. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Impairment loss on goodwill / A down-turn in financial markets led us to carry out a goodwill impairment test as at September 30, 2008. Based on Tekmira's market capitalization as at September 30, 2008 we determined that the fair value of goodwill arising from the acquisition of Protiva was nil and an impairment loss of $3.9 million, the full value of goodwill, was recorded in the Consolidated statement of operations and comprehensive loss. See Critical accounting polices and estimates for further discussion of goodwill valuation.

Foreign exchange gains (losses) / Foreign exchange gains (losses) showed losses of $0.4 million in 2009 as compared to gains of $2.1 million in 2008. The foreign exchange gains in 2008 relate largely to the positive effect on our US denominated cash investments and accounts receivable from the strengthening of the US dollar as compared to the Canadian dollar. Conversely, foreign exchange losses in 2009 relate to the weakening of the US dollar as compared to the Canadian dollar.

Towards the end of 2008 we converted the majority of our US dollar cash and cash equivalent holdings

into Canadian dollars which reduced our exposure to foreign exchange rate fluctuations in 2009. We will continue to hold only working capital levels of US dollars. However, as a large portion of our revenues and expenses are in US dollars, exchange rate fluctuations will continue to create gains or losses as we continue holding US denominated cash, cash investments, accounts receivable and accounts payable.

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2009, we had cash, cash equivalents and short-term investments of approximately $24.4 million as compared to $31.9 million at December 31, 2008.

Operating activities used cash of $5.5 million in 2009 as compared to cash used of $10.3 million in 2008. The $1.6 million increase in non-cash working capital for 2009 relates largely to an increase in accounts payable and accrued liabilities as there was a particularly high level of materials and contract purchases ongoing as at December 31, 2009. Excluding changes in non-cash working capital, cash used in operating activities in 2009 was $7.1 million as compared to $9.0 million in 2008. Our loss in 2008 was $4.5 million higher than in 2009 but included a $3.9 million non-cash impairment of goodwill charge.

Net cash provided by investing activities was $4.0 million in 2009 as compared to net cash provided by investing activities of $3.9 million in 2008. Proceeds from short-term investments were $5.7 million in 2009 as we moved maturing short-term investments into a high interest savings account with a major Canadian bank. The high-interest savings account is classified as "cash and cash equivalents" in our balance sheet. Property and equipment spending of $1.6 million in 2009 relates largely to facility improvements and manufacturing equipment.

Net cash provided by financing activities was $0.01 million in 2009 as compared to $9.9 million 2008. The only financing activity in 2009 was from the exercise of stock options. In 2008, concurrent with the business combination with Protiva on May 30, 2008, we completed a private placement investment of 2,083,333 newly issued common shares for $5.0 million with Alnylam and a private placement investment of 2,083,333 newly issued common shares for $5.0 million with a Roche affiliate.

We believe that our current funds on hand plus expected interest income and the contractually payable further funds from Alnylam, Roche and our other collaborators will be sufficient to continue our product development until mid-2011 (see Risks and uncertainties).

Contractual obligations

Effective July 29, 2009 we signed an amendment to our operating lease for our laboratory and office premises. The amended lease expires in July 2014 but we have the option to extend the lease to 2017 and then to 2022 and then to 2027. The amended lease includes a signing incentive payment. In accordance with our accounting policy the signing incentive payment will be amortized on a straight-line basis over the term of the amended lease.

Our minimum lease commitment, contracted sub-lease income and net commitment for lease and estimated operating costs, are as follows:

(in millions Cdn$)	Lease commitment	Sub-lease income	Net commitment
Year ended December 31, 2010	$ 1.4	$ (0.2)	$ 1.2
Year ended December 31, 2011	1.4	(0.2)	1.2
Year ended December 31, 2012	1.4	(0.2)	1.2
Year ended December 31, 2013	1.4	-	1.4
Year ended December 31, 2014	0.8	-	0.8
	$ 6.4	$ (0.6)	$ 5.8

We also have collaborative arrangements that require us to undertake certain research and development work as further explained elsewhere in this discussion.

OFF-BALANCE SHEET ARRANGEMENTS

Debt retirement / On June 20, 2006 we signed an agreement whereby we retired certain debt in exchange for contingent consideration including certain future potential milestone and royalty payments from Hana. The contingent creditors have no recourse to any of Tekmira's assets other than certain milestone and royalty payments that we receive from Hana. As off-setting contingent assets and liabilities neither the potential milestones nor the contingent obligation are shown on our balance sheet. The balance of the contingent obligation related to the Hana milestones and royalties is not affected by the May 27, 2009 amendment to the license agreement with Hana (see Overview) and is US$22.8 million as at December 31, 2009 (December 31, 2008 – US$22.8 million).

Protiva promissory notes / On March 25, 2008, Protiva declared dividends totaling US$12.0 million. The dividend was paid by Protiva issuing promissory notes on May 23, 2008. Recourse against Protiva for payment of the promissory notes will be limited to Protiva's receipt, if any, of up to US$12.0 million in payments from a third party. Protiva will pay these funds, if and when it receives them, to the former Protiva shareholders in satisfaction of the promissory notes. As contingent obligations that would not need to be funded by the Company, the US$12.0 million receivable and the related promissory notes payable are not included in our consolidated balance sheet.

RELATED PARTY TRANSACTIONS

Research, development and collaborations expenses in 2009 include $0.04 million of contract research costs, measured at the cash amount and incurred in the normal course of operations with Ricerca Biosciences, LLC ("Ricerca") whose Chief Executive Officer, Mr. Ian Lennox, is also a director of the Company (2008 - $nil). We do not have any current contracts with Ricerca.

OUTSTANDING SHARE DATA

As of February 28, 2010, we had 51,643,605 common shares outstanding and we had outstanding options to purchase 5,172,240 common shares.

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our Annual Information Form dated March 31, 2009 which can be found at www.sedar.com.

Within the next several years, 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 collaborative partnerships, particularly Alnylam and Roche;
- our decisions to in-license or acquire additional products or technology for development, in particular for our RNAi therapeutics program;
- the extent to which we continue the development of our product candidates or form collaborative relationships to advance our products;
- 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. There can be no assurance that funding will be available at all or on acceptable terms to permit further development of our products especially in light of the current economic downturn. In addition, we have not established bank financing arrangements and there can be no assurance that we will be able to establish such arrangements or that bank financing can be arranged on satisfactory terms.

If adequate funding is not available, we may be required to delay, reduce or eliminate one or more of our research or development programs. 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.

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in a high interest savings account and in bankers' acceptances with varying terms to maturity (not exceeding two years) issued by major Canadian banks, selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. Investments with a maturity greater than three months are classified in our Balance Sheet as held-for-trading short-term investments and are recorded at cost plus accrued interest. The fair value of our cash investments as at December 31, 2009 is at least equal to the face value of those investments and the value reported in our Balance Sheet. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. We purchase goods and services in both Canadian and US dollars and earn a significant portion of our revenues in US dollars. We manage our US dollar currency risk by using cash received from US dollar revenues to pay US dollar expenses and by limiting holdings of US dollar cash and cash equivalent balances to working capital levels. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

CONTROLS AND PROCEDURES

Our Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures for the year ending December 31, 2009 and have concluded that our disclosure controls and procedures provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

Our Chief Executive Officer and the Chief Financial Officer are also responsible for the design and effectiveness of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. They have evaluated our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings and believe them to provide such reasonable assurance. They also concluded that there were no changes during 2009 that materially affected the Company's internal control over financial reporting and disclosure controls and procedures.

TEKMIRA PHARMACEUTICALS CORPORATION

2009 Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safe-guarding of assets. The consolidated financial statements include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and meets independently with the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with accounting principles generally accepted in Canada. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

(signed)

Dr. Mark J. Murray
President and
Chief Executive Officer

(signed)

Ian C. Mortimer
Executive Vice President, Finance and
Chief Financial Officer

March 17, 2010

KPMG LLP
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Tekmira Pharmaceuticals Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
March 15, 2010

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	December 31 2009	December 31 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 24,397,740**	$ 26,218,342
Short-term investments	**-**	5,730,507
Accounts receivable	**1,052,895**	632,439
Investment tax credits receivable (note 9)	**280,132**	404,453
Inventory	**-**	174,524
Prepaid expenses and other assets	**226,981**	100,360
	25,957,748	33,260,625
Intangible assets (notes 4 and 6)	**15,152,430**	16,306,980
Property and equipment (note 7)	**2,812,340**	1,962,691
	$ 43,922,518	$ 51,530,296
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 17)	**$ 5,653,827**	$ 4,473,612
Deferred revenue (note 5)	**1,162,437**	459,094
	6,816,264	4,932,706
Shareholders' equity:		
Share capital (note 8)	**229,426,757**	229,412,230
Contributed surplus (note 4)	**29,531,049**	29,272,005
Deficit	**(221,851,552)**	(212,086,645)
	37,106,254	46,597,590
	$ 43,922,518	$ 51,530,296

Future operations (note 1)
Business acquisition (note 4)
Commitments and contingencies (notes 5(d) and 12)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

(signed)	(signed)
Daniel Kisner - Chairman	James Hudson - Director

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended	
	December 31 2009	December 31 2008
Revenue (note 5)		
Research and development collaborations	**$ 13,831,916**	$ 6,649,273
Licensing fees and milestone payments	**596,500**	5,082,303
	14,428,416	11,731,576
Expenses		
Research, development and collaborations (note 9)	**17,764,379**	16,123,203
General and administrative	**4,152,540**	4,404,028
Termination and restructuring expenses (note 10)	**-**	3,172,544
Amortization of intangible assets (notes 4 and 7)	**1,275,515**	768,887
Depreciation of property and equipment	**728,894**	587,881
	23,921,328	25,056,543
(Loss) Income from operations	**(9,492,912)**	(13,324,967)
Other income and (losses)		
Interest income	**163,696**	898,600
Impairment loss on goodwill (note 4)	**-**	(3,890,749)
Foreign exchange gains (losses)	**(435,691)**	2,056,192
Net loss and comprehensive loss	**$ (9,764,907)**	$ (14,260,924)
Weighted average number of common shares		
Basic and diluted	**51,629,038**	40,581,748
Loss per common share		
Basic and diluted	**$ (0.19)**	$ (0.35)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
Years ended December 31, 2009 and 2008

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2007	24,565,681	$ 195,317,270	$ 20,700,522	$ (197,825,721)	18,192,071
Net loss	-	-	-	(14,260,924)	(14,260,924)
Stock-based compensation (note 8)	-	-	1,772,351	-	1,772,351
Issuance of common shares pursuant to exercise of options (note 8)	42,742	55,740	(25,623)	-	30,117
Issuance of common shares pursuant to acquisition of Protiva Biotherapeutics Inc. (note 4)	22,848,588	28,789,221	-	-	28,789,221
Reservation of common shares for issue on the exercise of Protiva Biotherapeutics Inc. options (note 4)	-	-	2,109,754	-	2,109,754
Issuance of common shares pursuant to private placement (note 4)	4,166,666	5,249,999	4,715,001	-	9,965,000
Balance, December 31, 2008	51,623,677	$ 229,412,230	$ 29,272,005	$ (212,086,645)	$ 46,597,590
Net loss	**-**	**-**	**-**	**(9,764,907)**	**(9,764,907)**
Stock-based compensation (note 8)	**-**	**-**	**265,685**	**-**	**265,685**
Issuance of common shares pursuant to exercise of options (note 8)	**19,261**	**14,527**	**(6,641)**	**-**	**7,886**
Balance, December 31, 2009	**51,642,938**	**$ 229,426,757**	**$ 29,531,049**	**$ (221,851,552)**	**$ 37,106,254**

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Cash Flow

(Expressed in Canadian Dollars)

	Year ended December 31 2009	December 31 2008
OPERATIONS		
(Loss) for the period	**$ (9,764,907)**	$ (14,260,924)
Items not involving cash:		
Amortization of intangible assets	**1,275,515**	768,887
Depreciation of property and equipment	**728,894**	587,881
Stock-based compensation expense (note 8(d))	**265,685**	1,772,351
Impairment loss on goodwill (note 4)	**-**	3,890,749
Foreign exchange (gains) losses arising on foreign currency cash balances	**373,726**	(1,749,237)
Net change in non-cash working capital (note 16)	**1,635,326**	(1,335,134)
	(5,485,761)	(10,325,427)
INVESTMENTS		
Proceeds from (Acquisition of) short-term investments, net	**5,730,507**	2,606,652
Acquisition of intangible assets	**(120,964)**	(97,609)
Acquisition of property and equipment	**(1,578,544)**	(1,078,551)
Cash acquired through acquisition of Protiva Biotherapeutics Inc., net of acquisition costs (note 4)	**-**	2,519,095
	4,030,999	3,949,587
FINANCING		
Issuance of common share pursuant to:		
Private placements (note 4)	**-**	9,965,000
Exercise of options	**7,886**	30,117
Repayment of obligations under capital leases	**-**	(75,688)
	7,886	9,919,429
Foreign exchange gains (losses) arising on foreign currency cash balances	**(373,726)**	1,749,237
Increase in cash and cash equivalents	**(1,820,602)**	5,292,826
Cash and cash equivalents, beginning of year	**26,218,342**	20,925,516
Cash and cash equivalents, end of year	**$ 24,397,740**	$ 26,218,342
Supplemental cash flow information		
Interest paid	**$ -**	$ 3,668
Fair value of shares issued to Protiva Biotherapeutics Inc. shareholders pursuant to business acquisition (note 4)	**-**	28,789,221
Fair value of shares reserved for the exercise of Protiva Biotherapeutics Inc. stock options (note 4)	**-**	2,109,754

See accompanying notes to the consolidated financial statements.

1. Basis of presentation and future operations

Tekmira Pharmaceuticals Corporation (the "Company") 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. As a non-recurring related party transaction between the Company and Inex, companies under common control at the time of the Plan of Arrangement, the assets and liabilities were transferred at their carrying values using the continuity-of-interests method of accounting. For accounting purposes, the Company is considered to have continued Inex's biopharmaceutical business; accordingly, these consolidated financial statements include the historical operations and changes in financial position of Inex to April 30, 2007 and those of the Company thereafter. Reference in these consolidated financial statements to "the Company" means "Inex" for the time prior to May 1, 2007.

The Company is a Canadian biopharmaceutical business focused on advancing novel RNA interference therapeutics and providing its leading lipid nanoparticle delivery technology to pharmaceutical partners.

These consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries, Protiva Biotherapeutics Inc. and Protiva Biotherapeutics (USA), Inc., which were acquired on May 30, 2008 (note 4). All intercompany transactions and balances have been eliminated on consolidation.

Future operations

The success of the Company and its ability to realize the value of its non-monetary assets is dependent on obtaining the necessary regulatory approval to bring its products to market and to 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 collaborative partner funding. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

2. Significant accounting policies

These consolidated financial statements are presented in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses, contingent assets and contingent liabilities as at the end or during the reporting period. Management believes that the estimates used are reasonable and prudent, however, actual results could significantly differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of goodwill and intangible assets, the useful lives of property and equipment and intangible assets for the purpose of amortization, recognition of revenue, stock-based compensation, and the amounts recorded as accrued liabilities.

(b) Cash and cash equivalents

Cash and cash equivalents are all highly liquid instruments with an original maturity of three months or less when purchased. Cash and cash equivalents are recorded at fair value.

(c) Financial instrument measurement bases

The following table shows the measurement basis adopted by the Company for its financial instrument categories:

Financial instrument category	Measurement basis
Cash and cash equivalents	Held for trading
Short-term investments	Held for trading
Accounts receivable	Loans and receivables
Investment tax credits receivable	Loans and receivables
Accounts payable	Other financial liabilities

(d) Inventory

Inventory includes materials assigned for the manufacture of products for our collaborative partners and manufacturing costs for products awaiting acceptance by our collaborative partners. Inventory is carried at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, costs of manufacturing and other costs incurred in bringing the inventories to their present location and condition.

2. Significant accounting policies (continued)

(e) Property and equipment

Property and equipment is recorded at cost less impairment losses, accumulated amortization, related government grants and investment tax credits. The Company records amortization using the straight-line method over the estimated useful lives of the capital assets as follows:

	Rate
Laboratory equipment	5 years
Computer networks	5 years
Office equipment	2 years
Furniture and fixtures	5 years

Leasehold improvements are amortized over the lesser of their estimated useful lives or the lease term. Assets held under capital leases that do not allow for ownership to pass to the Company are amortized using the straight-line method over the lease term.

(f) Intangible assets

Intangible assets consist of medical technology and computer software.

The costs of acquiring or licensing medical technology from arm's length third parties are capitalized. Costs are amortized on a straight-line basis over the estimated useful life of the technology.

The costs incurred in establishing and maintaining patents for intellectual property developed internally are expensed in the period incurred.

Costs incurred in purchasing or developing computer software are recorded as intangible assets and are amortized over 2 to 5 years.

(g) Impairment of long-lived assets

If management determines that the carrying value of property and equipment or medical technology exceeds the recoverable value based on undiscounted future cash flows, such assets are written down to their fair values.

2. Significant accounting policies (continued)

(h) Leases and lease inducements

Leases entered into are classified as either capital or operating leases. Leases which substantially transfer all benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the purchase and financing.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Lease inducements represent leasehold improvement allowances and reduced or free rent periods and are amortized on a straight-line basis over the term of the lease and are recorded as a reduction of rent expense.

(i) Revenue recognition

The Company earns revenue from research and development collaboration services, licensing fees and milestone payments. Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair values or are recognized as a single unit of accounting when relative fair values are not determinable. Non-refundable payments received under collaborative research and development agreements are recorded as revenue as services are performed and related expenditures are incurred. Non-refundable upfront license fees from collaborative licensing and development arrangements are recognized as the Company fulfills its obligations related to the various elements within the agreements, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit is being conferred. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured. Revenue earned under research and development manufacturing collaborations where the Company bears some or all of the risk of a product manufacturing failure is recognized when the purchaser accepts the product and there are no remaining rights of return. Revenue earned under research and development collaborations where the Company does not bear any risk of product manufacturing failure is recognized in the period the work is performed.

Cash or other compensation received in advance of meeting the revenue recognition criteria is recorded on the balance sheet as deferred revenue. Revenue meeting recognition criteria but not yet received or receivable is recorded on the balance sheet as accrued revenue and classified in accounts receivable.

(j) Research and development expenditures

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets specified criteria for deferral and amortization. No development costs have been deferred to date.

2. Significant accounting policies (continued)

(k) 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 are antidilutive. Diluted income per share is based on the diluted weighted average number of common shares outstanding resulting from in-the-money stock options based on the average trading price of the Company's shares in that period.

(l) Government assistance

Government assistance provided for current expenses is included in the determination of income for the year, as a reduction of the expenses to which it relates. Government assistance towards the acquisition of property and equipment is deducted from the cost of the related property and equipment.

(m) Foreign currency translation

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 closing rate of exchange is used to translate revenue and expense transactions. Exchange gains and losses are included in income or loss for the year.

(n) Future income taxes

Income taxes are accounted for using the asset and liability method of accounting. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases and for loss carry-forwards. Future income tax assets and liabilities are measured using substantively enacted or enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax laws or rates is included in earnings in the period that includes the substantive enactment date. When realization of future income tax assets does not meet the more-likely-than-not criterion for recognition, a valuation allowance is provided.

(o) Economic dependence

The Company is dependent on collaborative partners for both funding and access to intellectual property. Funding from collaborative partners and credit risk associated with accounts receivable from these partners is described in notes 5 and 15 respectively.

2. Significant accounting policies (continued)

(p) Stock-based compensation

The Company grants stock options to employees and directors pursuant to a share incentive plan described in note 8. Compensation expense is recorded for issued stock options using the fair value method with a corresponding increase in contributed surplus. Forfeitures of unvested options are recorded in the period in which the forfeitures occur. Any consideration received on the exercise of stock options is credited to share capital.

The fair value of stock options is typically measured at the grant date and amortized on a straight-line basis over the vesting period.

3. Recent accounting pronouncements

(a) Goodwill and intangible assets and financial statement concepts

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards updates for goodwill and intangible assets (CICA 3064) and for financial statement concepts (CICA 1000). CICA 3064, *Goodwill and Intangible Assets* replaced CICA 3062, *Goodwill and Other Intangible Assets*, and CICA 3450, *Research and Development Costs*. CICA 1000, *Financial Statement Concepts* was also amended to provide consistency with this new standard. The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets.

The adoption of this standard did not have any impact on the Company's net loss but did result in a reclassification of computer software costs from property and equipment to intangible assets in the amount of $1,511,232 as at December 31, 2008.

(b) International financial reporting standards

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company has conducted a preliminary assessment of the impact of these new accounting standards on its consolidated financial statements. A detailed assessment will be conducted in 2010. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements.

4. Business acquisition

On May 30, 2008, the Company completed the acquisition of 100% of the outstanding shares of Protiva Biotherapeutics, Inc. ("Protiva"), a privately owned Canadian company developing lipid nanoparticle delivery technology for small interfering RNA ("siRNA"), for $31,761,255. Concurrent with the acquisition, the Company entered into initial research agreements with F. Hoffman-La Roche Ltd and Hoffman La-Roche Inc. (collectively "Roche"). Also concurrent with the acquisition, the Company completed a private placement investment of 2,083,333 newly issued common shares for $4,965,000 (US$5,000,000, US$2.40 per share) with Alnylam Pharmaceuticals, Inc. ("Alnylam") and a private placement investment of 2,083,333 newly issued common shares for $5,000,000 (CAD$2.40 per share) with a Roche affiliate for an aggregate investment of $9,965,000. The fair value of the Company's shares issued to Alnylam and the Roche affiliate of $5,249,999 was determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange from March 27, 2008 to April 2, 2008, being $1.26 per share and has been recorded as share capital. Based on this fair value, the share premium paid by Alnylam and the Roche affiliate was an aggregate of $4,715,001 and has been recorded as contributed surplus.

The acquisition of Protiva and related financing and other transactions were first announced by the Company on March 30, 2008 and the acquisition closed on May 30, 2008.

The primary purpose of the Protiva acquisition is to give the Company broader technology and intellectual property in the field of lipid nanoparticle delivery, including the delivery of siRNA as well as RNAi product candidates.

(Expressed in Canadian dollars)

4. Business acquisition (continued)

The acquisition was accounted for under the purchase method of accounting. Accordingly, the assets, liabilities, revenues and expenses of Protiva are consolidated with those of the Company from May 30, 2008. Total fair value of the consideration given was allocated to the assets acquired and liabilities assumed based upon their estimated fair values, as follows:

Cost of acquisition:		
Common shares issued	$	28,789,221
Common shares issuable upon exercise of Protiva stock options		2,109,754
Direct acquisition costs		862,280
	$	31,761,255
Allocated at estimated fair values:		
Cash	$	3,381,375
Short-term investments		8,337,159
Accounts receivable		1,148,928
Prepaid expenses and other assets		82,573
Investment tax credit receivable		275,695
Property and equipment		635,911
Medical technology		16,252,000
Goodwill		3,890,749
Accounts payable and accrued liabilities		(1,794,500)
Deferred revenue		(448,635)
	$	31,761,255

Cost of acquisition

The Company issued 22,848,588 common shares to acquire 100% of the outstanding shares of Protiva. The fair value of the Company's shares has been determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange from March 27, 2008 to April 2, 2008, being $1.26 per share. The Company used the Black-Scholes option pricing model to estimate the fair value of the 1,752,294 shares reserved at the acquisition date for the exercise of assumed Protiva stock options using the following weighted average assumptions: dividend yield of 0%; risk free interest rate of 3.03%; volatility factor of the expected market price of the Company's common stock of 131%; and a weighted average expected life of the options of six years.

Allocation of fair values

A valuation of Protiva's property and equipment and medical technology has been completed.

4. Business acquisition (continued)

Allocation of fair values (continued)

The Company used the income approach and considered potential cash flows from both internal and partnered products to determine the fair value of the medical technology. The excess purchase price over the fair value of the net identifiable assets acquired has been allocated to goodwill.

Various factors contributed to the establishment of goodwill, including: the value of Protiva's highly skilled and knowledgeable work force as of the acquisition date; the expected revenue growth over time that is attributable to new and expanded collaborative partnerships; and the synergies expected to result from combining workforces and infrastructures.

At September 30, 2008 the Company carried out a goodwill impairment test. Based on the Company's market capitalization as at September 30, 2008 the Company determined that the fair value of goodwill was nil and an impairment loss of $3,890,749 was recorded in the statement of operations and comprehensive income (loss).

The medical technology acquired includes licenses and intellectual property. The medical technology is being amortized on a straight-line basis over its useful life, estimated to be 16 years (note 6).

Deferred revenue of $448,635 (US$450,000) is in respect of payments received from Bristol-Myers Squibb Company ("Bristol-Myers Squibb") for research work not begun as at May 30, 2008.

The Company does not anticipate a future tax liability as a result of the differences between the tax values and allocated fair values of the assets, based on available tax deductions. At the time of the acquisition, Protiva had approximately $19,000,000 of unused non-capital losses available to reduce taxable income of future years and expiring between 2008 and 2027 and approximately $1,000,000 of investment tax credits available to reduce income taxes of future years expiring between 2011 and 2027. Furthermore, Protiva had Scientific Research and Experimental Development expenditures of approximately $11,500,000 available for carry-forward indefinitely against future taxable income. The potential income tax benefits relating to these future tax assets have not been recognized in the purchase price allocation as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation.

On March 25, 2008, Protiva declared dividends totaling US$12,000,000. The dividend was paid by Protiva issuing promissory notes on May 23, 2008. Recourse against Protiva for payment of the promissory notes will be limited to Protiva's receipt, if any, of up to US$12,000,000 in payments from a certain third party. Protiva will pay these funds if and when it receives them, to the former Protiva shareholders in satisfaction of the promissory notes. As contingent obligations that would not need to be funded by the Company at the acquisition, the US$12,000,000 receivable and the related promissory notes payable are not included in the purchase equation above and are not recorded in the Company's consolidated balance sheet.

(Expressed in Canadian dollars)

5. Collaborative and Licensing Agreements

The following table sets forth revenue recognized under the licensing, collaborative and evaluation agreements:

	2009	2008
Research and development collaborations		
Alnylam (a)	**$ 8,831,250**	$ 6,079,681
Roche (b)	**4,757,842**	159,465
Other RNAi collaborators (c)	**242,824**	359,112
Hana (d)	-	51,015
Total research and development collaborations	**13,831,916**	6,649,273
Alnylam licensing fees and milestone payments (a)	**596,500**	5,082,303
Total revenue	**$ 14,428,416**	$ 11,731,576

(a) License and collaboration with Alnylam Pharmaceuticals, Inc. ("Alnylam")

License and Collaboration Agreement with Alnylam through Tekmira

On January 8, 2007, the Company entered into a licensing and collaboration agreement with Alnylam ("Alnylam License and Collaboration") giving them an exclusive license to certain of the Company's historical lipid nanoparticle intellectual property for the discovery, development, and commercialization of ribonucleic acid interference ("RNAi") therapeutics.

Cross-License with Alnylam acquired through Protiva

As a result of the acquisition of Protiva on May 30, 2008, the Company acquired a Cross-License Agreement between Protiva and Alnylam dated August 14, 2007 (the "Alnylam Cross-License"). Alnylam was granted a non-exclusive license to the Protiva intellectual property. Under the Alnylam Cross-License, Alnylam was required to make collaborative research payments at a minimum rate of US$2,000,000 per annum for the provision of the Company's research staff. The research collaboration under the Alnylam Cross-License expired on August 13, 2009.

5. Collaborative and Licensing Agreements (continued)

Research and development collaboration with Alnylam

Up until December 31, 2008, Alnylam was making collaborative agreement payments to both Tekmira and Protiva. Effective January 1, 2009, all collaborative research with Alnylam is performed under the Alnylam Cross-License and manufacturing is performed under a manufacturing agreement (the "Alnylam Manufacturing Agreement") dated January 2, 2009. Under the Alnylam Manufacturing Agreement the Company continues to be the exclusive manufacturer of any products required by Alnylam through to the end of phase 2 clinical trials that utilize the Company's technology. Alnylam pays the Company for the provision of staff and for external costs incurred. Time charged to Alnylam is at a fixed rate and under the Alnylam Manufacturing Agreement there is a contractual minimum for the provision of staff of $11,200,000 for the three years from 2009 to 2011.

Licensing fees and milestone payments

Under the Alnylam License and Collaboration, the Company received 361,990 newly issued shares of Alnylam common stock which the Company sold for the net amount of $8,938,867 (US$7,594,619) and a subsequent cash payment of $475,720 (US$405,381) to bring the total up-front payment to $9,414,587 (US$8,000,000). Under a license agreement with the University of British Columbia ("UBC"), the Company made a milestone payment of $941,459, in respect of the up-front payment from Alnylam. In accordance with the Company's revenue recognition policy, the up-front payment of $9,414,587 and the milestone payment to UBC of $941,459, were deferred and were amortized on a straight-line basis to revenue and expense respectively to December 31, 2008, the period over which the Company provided research support under the Alnylam License and Collaboration.

Alnylam has provided non-exclusive access to the Company's lipid nanoparticle intellectual property to F. Hoffman-La Roche Ltd ("Roche"), Regulus Therapeutics, Inc. (a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited ("Takeda"). The Company is eligible to receive up to US$16,000,000 in milestones for each RNAi therapeutic advanced by Alnylam or its partners. The Company is also eligible for royalties on product sales. These milestones and royalties will pass through Alnylam. Of the US$16,000,000 potential milestone payments, US$4,500,000 relate to pre-regulatory approval milestones and US$11,500,000 relate to the milestones of regulatory approval and cumulative product sales of over US$500,000,000.

In the year ended December 31, 2009 the Company received a $596,500 (US$500,000) milestone payment from Alnylam in respect of the initiation of Alnylam's ALN-VSP Phase 1 human clinical trial and made a related milestone payment of $58,700 (US$50,000) to UBC.

5. Collaborative and Licensing Agreements (continued)

Alnylam deferred revenue

At December 31, 2009, the Company had deferred research and development collaboration revenue in respect of Alnylam of $35,987 (2008 - $309,250).

(b) Roche

On May 11, 2009 the Company announced a product development agreement with Roche (the "Roche Product Development Agreement"). Under the Roche Product Development Agreement Roche will pay the Company up to US$8,800,000 to support the advancement of each Roche RNAi product candidate using the Company's SNALP technology through to the filing of an Investigational New Drug ("IND") application. The Company is also eligible to receive up to US$16,000,000 in milestones plus royalties on product sales for each product advanced through development and commercialization based on Roche's access to the Company's intellectual property through Alnylam.

The Company will develop and manufacture the drug product for use in all preclinical studies under the Roche Product Development Agreement and will collaborate with Roche to conduct the preclinical testing. The agreement also provides that the Company will manufacture one batch of clinical product for a Phase 1 clinical trial.

Under the Roche Product Development Agreement Roche will pay the Company for the provision of staff and for external costs incurred. The Company is recognizing revenue in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates will be recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received will be recorded in the Company's balance sheet as accrued revenue or deferred revenue, as appropriate, and as at December 31, 2009 the deferred revenue balance was $792,583.

At December 31, 2009 there was one product in development under the Roche Product Development Agreement. Under the agreement, Roche may select a second product for development.

Under a separate February 11, 2009 research agreement with Roche the Company received $923,151 (US$765,000) and recognized this amount as revenue during the year ended December 31, 2009 (2008 - $nil).

(c) Other RNAi collaborators

The Company has active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb Company and Takeda. As at December 31, 2009 other RNAi collaborator deferred revenue was $333,867 (2008 - $149,844).

5. Collaborative Agreements (continued)

(d) Agreements with Hana Biosciences, Inc. ("Hana") and related contingent obligation

On May 6, 2006, the Company signed a number of agreements with Hana including the grant of worldwide licenses (the "Hana License Agreement") for three of the Company's chemotherapy products, Marqibo®, Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan). Under the Hana License Agreement the Company could have received up to US$29,500,000 in cash or Hana shares upon achievement of further development and regulatory milestones and is also eligible to receive royalties on product sales. On May 27, 2009, the Hana License Agreement was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. If received, these contingent payments from Hana will be transferred to contingent creditors. The contingent obligation arose through a Purchase and Settlement Agreement dated June 20, 2006 whereby the Company retired debt in exchange for contingent consideration including certain future milestone and royalty payments from Hana. The contingent creditors have no recourse to any of the Company's assets other than milestone and royalty payments that the Company receives from Hana. As off-setting contingent assets and liabilities neither the potential milestones and royalties nor the contingent obligation are shown on the Company's balance sheet. The balance of the contingent obligation related to the Hana milestones and royalties is not effected by the May 27, 2009 amendment to the Hana License Agreement and is US$22,835,476 as at December 31, 2009 (December 31, 2008 – US$22,835,476).

(e) License agreement with Merck & Co., Inc. ("Merck")

As a result of the acquisition of Protiva the Company received a non-exclusive royalty-bearing world-wide license, of certain intellectual property acquired by Merck. Under the license Merck will pay up to US$17,000,000 in milestones for each product it develops using the acquired intellectual property except for the first product for which Merck will pay up to US$15,000,000 in milestones. Merck will also pay royalties on product sales. The license agreement with Merck was entered into as part of a settlement of litigation between Protiva and a Merck subsidiary.

Merck has granted a license to the Company to certain of its intellectual property.

(f) Aradigm Corporation ("Aradigm")

The Company entered into a licensing agreement with Aradigm on December 8, 2004 under which Aradigm licensed certain of the Company's technology. Under this agreement, the Company is eligible to receive up to US$4,750,000 in milestone payments for each disease indication, to a maximum of two, pursued by Aradigm as well as royalties on product revenue resulting from products utilizing the licensed technology. The milestone payments are only payable twice regardless of the number of disease indications pursued.

The Company did not receive any milestone payments from Aradigm during the year ended December 31, 2009 (2008 – nil).

(Expressed in Canadian dollars)

6. Intangible assets

December 31, 2009	Cost	Accumulated amortization	Net book value
Medical technology (note 4)	$ 16,252,000	$ (1,608,271)	$ 14,643,729
Computer software	1,632,196	(1,123,495)	508,701
	$ 17,884,196	$ (2,731,766)	$ 15,152,430

December 31, 2008	Cost	Accumulated amortization	Net book value
Medical technology (note 4)	$ 16,252,000	$ (592,521)	$ 15,659,479
Computer software	1,511,232	(863,731)	647,501
	$ 17,763,232	$ (1,456,252)	$ 16,306,980

The medical technology acquired from Protiva (note 4) is being amortized on a straight-line basis over its useful life, estimated to be 16 years.

7. Property and equipment

2009	Cost	Accumulated depreciation and impairment	Net book value
Laboratory equipment	$ 7,352,191	$ 6,116,631	$ 1,235,560
Leasehold improvements	5,671,752	4,377,986	1,293,766
Computer networks	1,055,145	814,435	240,710
Office equipment	561,338	540,758	20,580
Furniture and fixtures	662,242	640,518	21,724
	$ 15,302,668	$12,490,328	$ 2,812,340

2008	Cost	Accumulated depreciation and impairment	Net book value
Laboratory equipment	$ 6,966,852	$ 5,703,814	$ 1,263,038
Leasehold improvements	5,699,816	5,473,402	226,414
Computer networks	1,301,727	939,516	362,211
Office equipment	558,274	479,156	79,118
Furniture and fixtures	662,242	630,332	31,910
	$ 15,188,911	$13,226,220	$ 1,962,691

8. Share capital

(a) Authorized

The Company's authorized share capital consists of an unlimited number of common and preferred shares without par value.

(b) Stock-based compensation

Under the Company's stock option plan the Board of Directors may grant options to employees and directors. The exercise price of the options is determined by the Company's Board of Directors but will be at least equal to the closing market price of the common shares on the day preceding the date of grant and the term may not exceed 10 years. Options granted generally vest over three years for employees and immediately for directors.

Concurrent with the announcement of the acquisition of Protiva on March 28, 2008, the Company's Board approved the accelerated vesting of all options outstanding under the Company's 1996 Share Option Plan such that all options outstanding at that date became fully vested and exercisable. Any stock based compensation expense not yet recognized with respect to the options with accelerated vesting was recognized on May 30, 2008, the date that Protiva was acquired.

On May 28, 2008 and on May 12, 2009, the shareholders of the Company approved increases to the number of shares reserved for issuance under the Company's 1996 Stock Option Plan of 1,487,000 and 1,331,000, respectively, thereby increasing the maximum common shares available under the plan to 5,846,276 of which 2,104,604 common shares remain available for future allocation as at December 31, 2009.

On May 30, 2008, as a condition of the acquisition of Protiva (note 4), the Company reserved 1,752,294 common shares for the exercise of 519,073 Protiva share options ("Protiva Options"). The Protiva Options have an exercise price of $0.30, are fully vested, expire at various dates from November 19, 2010 to March 1, 2018 and upon exercise each option will be converted into approximately 3.3758 shares of the Company (the same ratio at which Protiva common shares were exchanged for Company common shares at completion of the acquisition of Protiva). To December 31, 2009, none of the Protiva Options had been exercised, forfeited or cancelled. The Protiva Options are not part of the Company's 1996 Stock Option Plan and the Company is not permitted to grant any further Protiva Options.

(Expressed in Canadian dollars)

8. Share capital (continued)

(b) Stock-based compensation (continued)

The following table sets forth outstanding options under the Company's 1996 Stock Option Plan:

	Number of optioned common shares	Weighted average exercise price
Balance, December 31, 2007	2,613,495	$ 3.48
Options granted	2,634,950	0.85
Options exercised	(42,742)	0.70
Options forfeited, cancelled or expired	(617,277)	1.59
Balance, December 31, 2008	4,588,426	2.25
Options granted	13,200	0.97
Options exercised	(19,261)	0.41
Options forfeited, cancelled or expired	(254,225)	6.18
Balance, December 31, 2009	4,328,140	$ 2.02

Options under the 1996 Stock Option Plan expire at various dates from May 28, 2010 to August 30, 2019.

The following table summarizes information pertaining to stock options outstanding at December 31, 2009 under the Company's 1996 Stock Option Plan:

	Options outstanding December 31, 2009			Options exercisable December 31, 2009	
Range of Exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.30 to $0.56	797,900	8.9	$ 0.34	451,678	$ 0.35
$0.60 to $0.95	1,101,077	7.1	0.71	897,890	0.67
$1.07 to $1.12	1,446,496	7.9	1.11	1,438,143	1.11
$1.18 to $1.78	474,679	6.5	1.34	474,679	1.34
$2.08 to $4.00	26,650	7.2	2.28	26,650	2.28
$7.60 to $14.10	481,338	2.3	11.18	481,338	11.18
$0.30 to $14.10	4,328,140	7.1	$ 2.02	3,770,378	$ 2.24

(Expressed in Canadian dollars)

8. Share capital (continued)

(b) Stock-based compensation (continued)

The fair value of each option is estimated as at the date of grant using the Black-Scholes option pricing model. The weighted average option pricing assumptions and the resultant fair values are as follows:

	2009	2008
Dividend yield	**0.0%**	0.0%
Expected volatility	**144.0%**	123.2%
Risk-free interest rate	**2.5%**	2.8%
Expected average option term	**5.0 years**	7.2 years
Fair value of options granted	**$ 0.87**	$ 0.77

The Company has recorded compensation expense for stock-based compensation awarded to employees and calculated in accordance with the fair value method of $265,685 (2008 - $1,772,351).

9. Government grants and refundable investment tax credits

Government grants and refundable investment tax credits have been netted against research and development expenses.

Government grants for the year ended December 31, 2009 include $775,292 in funding from the US Army Medical Research Institute for Infectious Diseases (2008 - $239,031).

The Company's estimated claim for refundable Scientific Research and Experimental Development investment tax credits for the year ended December 31, 2009 is $139,502 (claim for year ended December 31, 2008 - $128,758). Investment tax credits receivable as at December 31, 2008 of $404,453 include $275,695 earned by Protiva prior to being acquired by the Company and losing its Canadian Controlled Private Corporation tax status.

10. Termination and restructuring expenses

In May 2008, as a condition of closing the business combination with Protiva (note 4) the employment contract of the Company's previous Chief Executive Officer was terminated and an expense of $1,984,266 was recorded. The termination sum is being paid out as salary continuance and $608,550 remained unpaid as at December 31, 2009 (December 31, 2008 - $1,484,757).

In October 2008, as part of the integration of the operations of Tekmira and Protiva, the Company completed a restructuring that resulted in a reduction in workforce of 15 employees. The Company recorded an expense of $1,188,278 in respect of these 15 employees in accordance with EIC 134 – *Accounting for Severance and Termination Benefits*. As at December 31, 2009 a balance of $5,284 remained unpaid (December 31, 2008 - $235,393).

(Expressed in Canadian dollars)

11. Income taxes

Income tax (recovery) expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate of 30.0% (2008 – 31.0%) to loss before income taxes as shown in the following table:

		2009		2008
Computed taxes (recoveries) at Canadian federal and provincial tax rates	**$**	**(2,929,472)**	$	(4,420,886)
Difference due to change in enacted tax rates		**635,462**		237,731
Permanent and other differences		**927,938**		(200,276)
Change in valuation allowance		**1,366,072**		4,383,431
Income tax (recovery) expense	**$**	**-**	$	-

As at December 31, 2009, the Company has investment tax credits available to reduce Canadian federal income taxes of $5,304,810 (2008 - $3,193,999) and provincial income taxes of $2,781,784 (2008 - $1,425,686) and expiring between 2011 and 2029. At December 31, 2009, the Company has scientific research and experimental development expenditures of $27,483,678 (2008 - $20,301,032) available for indefinite carry-forward and $23,758,157 (23,868,051) of net operating losses due to expire between 2015 and 2029 and which can be used to offset future taxable income in Canada.

Significant components of the Company's future tax assets as of December 31 are shown below:

		2009		2008
Future tax assets:				
Non-capital loss carry-forwards	**$**	**5,940,000**	$	6,206,000
Research and development deductions		**6,871,000**		5,278,000
Book amortization in excess of tax		**3,436,000**		4,217,000
Share issue costs		**213,000**		292,000
Tax value in excess of accounting value in investment		**-**		24,000
Revenue recognized for tax purposes in excess of revenue recognized for accounting purposes		**291,000**		113,000
Tax value in excess of accounting value in lease inducements		**124,000**		-
Provincial investment tax credits		**629,000**		301,000
Total future tax assets		**17,504,000**		16,431,000
Future tax liability:				
Accounting value in excess of tax value in intangible assets		**(3,580,000)**		(3,981,000)
		13,924,000		12,450,000
Valuation allowance		**(13,924,000)**		(12,450,000)
Net future tax assets	**$**	**-**	$	-

(Expressed in Canadian dollars)

11. Income taxes (continued)

Under a Plan of Arrangement (Note 1) completed on April 30, 2007, Inex's non-capital losses and scientific research and experimental development pool of undeducted expenditures as well as the federal non-refundable investment tax credits generated from the business through April 30, 2007 are not available to the Company. The balances at December 31, 2009 represent the balances available to the Company.

The potential income tax benefits relating to the future tax assets shown in the table have not been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation. Accordingly, no future tax assets have been recognized as at December 31, 2009 and 2008.

12. Commitments and contingencies

(a) Effective July 29, 2009 the Company signed an amendment to the operating lease for its laboratory and office premises. The amended lease expires in July 2014 but the Company has the option to extend the lease to 2017 and then to 2022 and then to 2027. The amended lease includes a signing incentive payment. In accordance with the Company's accounting policy the signing incentive payment will be amortized on a straight-line basis over the term of the amended lease.

Following the lease amendment the minimum commitment, contracted sub-lease income and net commitment for rent and estimated operating costs, are as follows:

	Lease commitment	Sub-lease income	Net commitment
Year ended December 31, 2010	$ 1,410,000	$ (244,000)	$ 1,166,000
Year ended December 31, 2011	1,410,000	(244,000)	1,166,000
Year ended December 31, 2012	1,410,000	(234,000)	1,176,000
Year ended December 31, 2013	1,410,000	-	1,410,000
Year ended December 31, 2014	823,000	-	823,000
	$ 6,463,000	$ (722,000)	$ 5,741,000

The Company has netted $191,376 of sub-lease income against lease expense in the year ended December 31, 2009 (2008 - $208,518).

12. Commitments and contingencies (continued)

(b) 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 $9,329,912. As at December 31, 2009, a cumulative contribution of $3,701,571 (2008 - $3,701,571) has been received under this agreement. 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 royalties on the share of future product revenue, if any, for Marqibo that is received by the Company. To December 31, 2009, the Company has not made any royalty payments to TPC.

(c) The Company has a contingent liability of US$12,000,000 in regard to certain promissory notes and has a related, equal and offsetting contingent asset receivable from a third party as described in note 4.

13. Related party transactions

Research, development and collaborations expenses in the year ended December 31, 2009 include $44,415 of contract research costs, measured at the cash amount and incurred in the normal course of operations with a vendor whose Chief Executive Officer is also a director of the Company (December 31, 2008 - $nil). There was no balance in accounts payable and accrued liabilities at December 31, 2009 in respect of this vendor (December 31, 2008 - $nil).

14. Capital Disclosures

The Company's board of directors' ("Board") policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's total shareholders' equity. To maintain the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or structure collaborative and license agreements in a particular way. The Company has not yet attained sustainable profitable operations, therefore the Board does not establish quantitative return on capital criteria for management.

(Expressed in Canadian dollars)

14. Capital Disclosures (continued)

As of December 31, 2009 and December 31, 2008, the Company's capital structure was as follows:

	December 31 2009	December 31 2008	Change
Total equity	**$ 37,106,254**	$ 46,597,590	(20)%

In the year ended December 31, 2009, total equity decreased 20% compared to December 31, 2008 due to an increase in deficit. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

15. Financial Instruments and Financial Risk

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 account receivable from Alnylam Pharmaceuticals, Inc. ("Alnylam") as at December 31, 2009 was $398,658 and represents 38% of total accounts receivable as at that date (December 31, 2008 - $393,830 and 62%).

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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was the accounts receivable balance of $1,052,895 (December 31, 2008 - $632,439).

The aging of accounts receivable at the reporting date was:

	December 31 2009	December 31 2008
Current	**$ 898,859**	$ 632,439
Past due 0-30 days	**154,036**	-
Past due more than 30 days	**-**	-
	$ 1,052,895	$ 632,439

15. Financial Instruments and Financial Risk (continued)

Liquidity Risk

Liquidity risk results from the Company's potential inability to meet its financial liabilities, for example payments to suppliers. The Company ensures sufficient liquidity through the management of net working capital and cash balances.

The Company's liquidity risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to liquidity risk on its liquid assets through maintaining its cash and cash equivalent deposits with high-credit quality financial institutions. Due to the nature of these investments, the funds are available on demand to provide optimal financial flexibility.

The Company believes that its current sources of liquidity are sufficient to cover its likely applicable short term cash obligations. The Company's financial obligations include accounts payable and accrued liabilities which generally fall due within 45 days.

The net liquidity of the Company is considered to be the cash, cash equivalents and short-term investments funds available less accounts payable and accrued liabilities.

	December 31 2009	December 31 2008
Cash, cash equivalents and short term investments	**$ 24,397,740**	$ 31,948,849
Less: Accounts payable and accrued liabilities	**(5,653,827)**	(4,473,612)
	$ 18,743,913	$ 27,475,237

Foreign currency risk

The Company's revenues and operating expenses are denominated in both Canadian and US dollars so the results of the Company's operations are subject to currency transaction risk and currency translation risk.

The operating results and financial position of the Company are reported in Canadian dollars in the Company's financial statements. The fluctuation of the US dollar in relation to the Canadian dollar will consequently have an impact upon the Company's income or loss and may also affect the value of the Company's assets and the amount of shareholders' equity.

The Company manages its US dollar exchange rate risk by using cash received from US dollar revenues to pay US dollar expenses and by limiting its holdings of US dollar cash and cash equivalent balances to working capital levels. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

15. Financial Instruments and Financial Risk (continued)

Foreign currency risk (continued)

The Company's exposure to US dollar currency risk expressed in Canadian dollars was as follows:

	December 31 2009	December 31 2008
Cash and cash equivalents	**$ 293,027**	$ 1,649,187
Accounts receivable	**520,892**	540,527
Accounts payable and accrued liabilities	**(1,765,874)**	(1,006,854)
	$ (951,955)	$ 1,182,860

A 10% strengthening of the Canadian dollar against the US dollar at December 31, 2009 would have decreased losses for the year ending December 31, 2009 by $121,996. A 10% weakening of the Canadian dollar against the US dollar at December 31, 2009 would have increased losses for the same period by $121,996. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

The Company invests its cash reserves in bankers' acceptances and high interest savings accounts issued by major Canadian banks. The Company's audit committee approves a list of acceptable investments on a quarterly basis. A 100 basis point decrease in the interest rate would have resulted in the Company earning no interest and an increase in net losses of $163,696 for the year ended December 31, 2009. A 100 basis point increase in interest rates would have resulted in a decrease in net losses of $241,232.

At December 31, 2009, the Company's cash equivalents held in bankers' acceptances and high interest savings accounts bore a weighted average interest rate of 0.4% (2008 – 1.7%).

Fair values

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, investment tax credits receivable, accounts payable and promissory notes.

The carrying values of cash and cash equivalents and short-term investments are recorded at fair value. The carrying values of accounts receivable, investment tax credits receivable and accounts payable approximate their fair values due to the immediate or short-term maturity of these financial instruments.

(Expressed in Canadian dollars)

16. Net change in non-cash working capital items

	2009	2008
Accounts receivable	**$ (420,456)**	$ 2,310,444
Investment tax credits receivable	**124,321**	(102,574)
Inventory	**174,524**	38,495
Prepaid expenses and other assets	**(126,621)**	91,367
Accounts payable and accrued liabilities	**1,180,215**	923,691
Deferred revenue	**703,343**	(4,596,557)
	$ 1,635,326	$ (1,335,134)

17. Supplementary information

Accounts payable and accrued liabilities is comprised of the following:

	2009	2008
Trade accounts payable	**$ 2,090,672**	$ 619,912
Research and development accruals	**1,246,053**	485,145
Professional fee accruals	**548,551**	551,972
Executive termination cost accrual	**608,550**	1,484,757
Restructuring cost accruals	**40,283**	235,393
Executive bonus accrual	**-**	80,357
Deferred lease inducements	**495,229**	283,334
Other accrued liabilities	**624,489**	732,742
	$ 5,653,827	$ 4,473,612