Interim Financial Statements

(Expressed in Canadian dollars)

TEKMIRA PHARMACEUTICALS CORPORATION

2009 – Q3

September 30, 2009

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

		September 30 2009 (Unaudited)		December 31 2008
Assets				
Current assets:				
Cash and cash equivalents	**$**	**13,582,075**	$	26,218,342
Short-term investments		**13,340,133**		5,730,507
Accounts receivable		**1,211,520**		632,439
Investment tax credits receivable		**128,488**		404,453
Inventory		**115,443**		174,524
Prepaid expenses and other assets		**187,924**		100,360
		28,565,583		33,260,625
Property and equipment		**2,982,523**		2,610,192
Intangible assets		**14,897,667**		15,659,479
	$	**46,445,773**	$	51,530,296
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**3,728,252**	$	4,473,612
Deferred revenue (note 3)		**3,044,345**		459,094
		6,772,597		4,932,706
Shareholders' equity:				
Share capital		**229,415,771**		229,412,230
Contributed surplus		**29,501,162**		29,272,005
Deficit		**(219,243,757)**		(212,086,645)
		39,673,176		46,597,590
	$	**46,445,773**	$	51,530,296

Commitments and contingencies (note 6)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30 2009	September 30 2008	**September 30 2009**	September 30 2008
Revenue (note 3)				
Research and development collaborations	**$ 3,276,608**	$ 2,945,782	**$ 9,338,564**	$ 4,834,665
Licensing fees and milestone payments	**-**	1,270,576	**596,500**	3,811,727
	3,276,608	4,216,358	**9,935,064**	8,646,392
Expenses				
Research, development and collaborations (note 5)	**4,433,445**	5,446,927	**12,433,275**	13,074,221
General and administrative	**930,346**	1,103,983	**3,021,860**	3,586,283
Amortization of intangible assets	**253,937**	253,937	**761,812**	338,583
Depreciation of property and equipment	**247,422**	217,504	**742,271**	534,524
	5,865,150	7,022,351	**16,959,218**	17,533,611
Loss from operations	**(2,588,542)**	(2,805,993)	**(7,024,154)**	(8,887,219)
Other income (losses)				
Interest income	**19,512**	256,775	**133,971**	686,297
Impairment loss on goodwill	**-**	(3,890,749)	**-**	(3,890,749)
Foreign exchange gains (losses)	**(261,621)**	417,929	**(266,929)**	793,712
Net loss and comprehensive loss	**$ (2,830,651)**	$ (6,022,038)	**$ (7,157,112)**	$ (11,297,959)
Weighted average number of common shares				
Basic and diluted	**51,625,816**	51,623,677	**51,625,116**	43,008,145
Loss per common share				
Basic and diluted	**$ (0.05)**	$ (0.12)	**$ (0.14)**	$ (0.26)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
For the nine month period ended September 30, 2009 (unaudited) and the year ended December 31, 2008 (audited)

	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	-	-	1,772,351	-	1,772,351
Issuance of common shares pursuant to exercise of options	42,742	55,740	(25,623)	-	30,117
Issuance of common shares pursuant to acquisition of Protiva Biotherapeutics Inc.	22,848,588	28,789,221	-	-	28,789,221
Reservation of common shares for issue on the exercise of Protiva Biotherapeutics Inc. options	-	-	2,109,754	-	2,109,754
Issuance of common shares pursuant to private placement	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	**-**	**-**	**-**	**(7,157,112)**	**(7,157,112)**
Stock-based compensation (note 4)	**-**	**-**	**230,823**	**-**	**230,823**
Issuance of common shares pursuant to exercise of options	**6,250**	**3,541**	**(1,666)**	**-**	**1,875**
Balance, September 30, 2009	**51,629,927**	**$ 229,415,771**	**$ 29,501,162**	**$ (219,243,757)**	**$ 39,673,176**

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Cash Flow
(Unaudited)
(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30 2009	September 30 2008	**September 30 2009**	September 30 2008
OPERATIONS				
Loss for the period	**$ (2,830,651)**	$ (6,022,038)	**$ (7,157,112)**	$ (11,297,959)
Items not involving cash:				
Amortization of intangible assets	**253,937**	253,937	**761,812**	338,583
Depreciation of property and equipment	**247,422**	217,504	**742,271**	534,524
Stock-based compensation expense	**34,686**	167,707	**230,823**	1,584,164
Impairment loss on goodwill	**-**	3,890,749	**-**	3,890,749
Foreign exchange (gains) losses				
arising on foreign currency cash balances	**30,496**	(86,944)	**199,446**	(309,637)
Net change in non-cash working capital	**1,007,487**	(1,896,609)	**1,508,292**	(1,771,765)
	(1,256,623)	(3,475,694)	**(3,714,468)**	(7,031,341)
INVESTMENTS				
Acquisition of property and equipment	**(227,394)**	(269,120)	**(1,114,602)**	(792,039)
Proceeds from (Acquisition of) short-term investments, net	**1,185,720**	2,610,317	**(7,609,626)**	2,636,013
Cash acquired through acquisition of Protiva				
Biotherapeutics Inc., net of acquisition costs	**-**	-	**-**	2,519,095
	958,326	2,341,197	**(8,724,228)**	4,363,069
FINANCING				
Issuance of common share pursuant to:				
Private placements	**-**	-	**-**	9,965,000
Exercise of options	**1,275**	-	**1,875**	30,117
Repayment of obligations under capital leases	**-**	(21,898)	**-**	(65,912)
	1,275	(21,898)	**1,875**	9,929,205
Foreign exchange gains (losses)				
arising on foreign currency cash balances	**(30,496)**	86,944	**(199,446)**	309,637
Increase in cash and cash equivalents	**(327,518)**	(1,069,451)	**(12,636,267)**	7,570,570
Cash and cash equivalents, beginning of period	**13,909,593**	29,565,537	**26,218,342**	20,925,516
Cash and cash equivalents, end of period	**$ 13,582,075**	$ 28,496,086	**$ 13,582,075**	$ 28,496,086
Supplemental cash flow information				
Interest paid	**$ -**	$ 1,497	**$ -**	$ 2,857
Investment tax credits received	**-**	-	**275,965**	-
Fair value of shares issued to Protiva Biotherapeutics Inc.				
shareholders pursuant to business acquisition	**-**	-	**-**	28,789,221
Fair value of shares reserved for the exercise				
of Protiva Biotherapeutics Inc. stock options	**-**	-	**-**	2,109,754

See accompanying notes to the consolidated financial statements.

1. Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly, do not include all disclosures required for annual financial statements.

The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at September 30, 2009 and for all periods presented.

The results of operations for the three and nine month periods ended September 30, 2009 and September 30, 2008 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2008 and included in the 2008 Annual Report.

These financial statements reflect the same significant accounting policies as those described in the notes to the audited consolidated financial statements of Tekmira Pharmaceuticals Corporation ("the Company") for the year ended December 31, 2008, except as described in note 2.

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, bringing its products to market and achieving profitable operations. The continuation of the research and development activities and the commercialization of its products are dependent on the Company's ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

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. All intercompany transactions and balances have been eliminated on consolidation.

2. Adoption of new accounting standards

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 new section did not impact the Company's consolidated financial statements.

(Expressed in Canadian dollars)

3. Collaborative Agreements

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

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Research and development collaborations				
Alnylam (a)	**$ 2,236,998**	$ 2,681,265	**$ 6,840,061**	$ 4,483,444
Roche (b)	**962,716**	66,143	**2,324,951**	101,832
Other RNAi collaborators (c)	**76,894**	198,374	**173,552**	198,374
Hana Biosciences, Inc. (d)	**-**	-	**-**	51,015
	3,276,608	2,945,782	**9,338,564**	4,834,665
Alnylam licensing fees and milestone payments (a)	**-**	1,270,576	**596,500**	3,811,727
Total revenue	**$ 3,276,608**	$ 4,216,358	**$ 9,935,064**	$ 8,646,392

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

Further information on the licensing and collaborative agreements with Alnylam is provided in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

License and Collaboration Agreement with Alnylam through Tekmira

On January 8, 2007, the Company entered into a licensing and collaboration agreement ("License and Collaboration Agreement" or "LCA") with Alnylam giving them an exclusive license to the Company's 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 ("Alnylam Cross-License") between Protiva and Alnylam dated August 14, 2007. 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.

3. Collaborative Agreements (continued)

(a) License and collaboration with Alnylam Pharmaceuticals, Inc. ("Alnylam") (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 to be 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 - Up-front payment under the LCA

Under the LCA, 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 has 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 LCA.

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 three month period ended June 30, 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 subsequently made a milestone payment of $58,700 (US$50,000) to UBC.

3. Collaborative Agreements (continued)

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

Alnylam deferred revenue

At September 30, 2009, the Company had deferred research and development collaboration revenue in respect of Alnylam of $405,331 (December 31, 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 may pay the Company up to US$17,600,000 to support the advancement of Roche's first two RNAi product candidates using the Company's SNALP technology through to the filing of Investigational New Drug (IND) applications. Roche has selected its first product candidate and the Company began its support work in May 2009. The Company is also eligible to receive up to US$32,000,000 in milestones plus royalties on product sales if the first two products are 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 products for use in all preclinical studies related to the two products 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 project 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 September 30, 2009 there was $2,305,147 of deferred revenue.

Under a separate February 11, 2009 research agreement with Roche the Company received $835,150 (US$765,000) during the three month period ended June 30, 2009. Work under this agreement was completed in the six month period ended June 30, 2009 and was recognized as research and development collaborations revenue during that period.

(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 September 30, 2009 there is a deferred revenue balance of $333,867 in respect of other RNAi collaborators (December 31, 2008 - $149,844).

(Expressed in Canadian dollars)

3. Collaborative Agreements (continued)

(d) Hana Biosciences, Inc. ("Hana")

On May 6, 2006, the Company signed a number of agreements with Hana including the grant of worldwide licenses (the "License Agreement") for three of the Company's targeted chemotherapy products, Marqibo®, Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan). Under the License Agreement the Company could have received up to US$29,500,000 in cash or Hana shares upon achievement of certain further development and regulatory milestones and is also eligible to receive royalties on product sales. On May 27, 2009, the License Agreement 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. The contingent obligation arose through a Purchase and Settlement Agreement dated June 20, 2006 whereby the Company retired certain debt in exchange for certain 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 certain 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 License Agreement and is US$22,835,476 as at September 30, 2009 (December 31, 2008 – US$22,835,476).

4. Stock options and stock-based compensation expense

(a) Stock options

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, 2008	4,588,426	$ 2.25
Options granted	13,200	0.97
Options exercised	(6,250)	0.30
Options forfeited	(145,292)	4.47
Balance, September 30, 2009	4,450,084	$ 2.18

The stock options expire at various dates from November 15, 2009 to August 30, 2019. A total of 1,995,671 options are available for future allocation under the 1996 Share Option Plan.

(Expressed in Canadian dollars)

4. Stock options and stock-based compensation expense (continued)

On May 30, 2008, as a condition of the acquisition of Protiva, 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 September 30, 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.

(b) Stock-based compensation expense

The Company has recorded compensation expense for stock-based compensation awarded to employees and calculated in accordance with the fair value method as follows:

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Stock-based compensation expense	**$ 34,686**	$ 167,707	**$ 230,823**	$ 1,584,164

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:

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Dividend yield	**0.0%**	0.0%	**0.0%**	0.0%
Expected volatility	**144.5%**	117.5%	**144.0%**	122.1%
Risk-free interest rate	**2.7%**	3.3%	**2.5%**	3.2%
Expected average option term	**5.0 years**	8.0 years	**5.0 years**	7.3 years
Fair value of options granted	**$ 0.99**	$ 0.82	**$ 0.87**	$ 0.97

5. Related party transactions

Research, development and collaborations expenses in the three month and nine month periods ended September 30, 2009 include $nil and $44,415 respectively 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 (three and nine months ended September 30, 2008 - $nil). There was no balance in accounts payable and accrued liabilities at September 30, 2009 in respect of this vendor (December 31, 2008 - $nil).

(Expressed in Canadian dollars)

6. Commitments and contingencies

Facility lease commitment

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
Three month period to December 31, 2009	$ 353,000	$ (61,000)	$ 292,000
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
	$ 6,816,000	$ (783,000)	$ 6,033,000

The Company has netted sub-lease income against lease expense in the following amounts:

	Three months ended		**Nine months ended**	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Sub-lease income	**$ 24,345**	$ -	**$ 147,638**	$ 223,711

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

November 12, 2009 / *This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the period ended September 30, 2009, and the audited consolidated financial statements and related notes for the year ended December 31, 2008, both of which are prepared in accordance with Canadian generally accepted accounting principles, and management's discussion and analysis of financial condition and operations for the year ended December 31, 2008. 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, 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. 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 and changes to the product development plans of our collaboration partners.

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). 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.

Our business is also subject to other risks and factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements and information. Such factors include, among others, the stage of development of Tekmira, lack of product revenues, additional capital requirements, the impact of the global economic downturn, the need to obtain regulatory approval to commence clinical trials, risks associated with the completion of clinical trials and obtaining regulatory approval to market our products, the safety and efficacy of our products, our ability to protect our intellectual property and dependence on collaborative partners.

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 deliver 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 2008 Annual Report.

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.

The Phase 1 clinical trial will evaluate the safety, tolerability and pharmacokinetics of escalating single doses of ApoB SNALP in approximately 30 patients with high LDL cholesterol. Each dosing cohort will include four patients; three patients will receive ApoB SNALP and one patient will receive a placebo. The trial may also provide preliminary data on the ability of ApoB SNALP to lower serum LDL cholesterol levels. Patients whose LDL cholesterol is reduced by greater than 15% from baseline will be followed until their LDL cholesterol levels return to baseline.

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.

The therapeutic activity of ApoB SNALP has been demonstrated in several preclinical studies. 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.

We expect to complete the Phase 1 ApoB SNALP trial in the first quarter of 2010.

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 an important 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 mitotic disruption and 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 inference and were not the result of non-specific immune stimulation. Furthermore our formulations provided potent anti-tumor efficacy in preclinical models of distal tumors outside the liver.

We expect to initiate formal safety studies for PLK1 SNALP before the end of 2009, to submit an IND application in mid 2010 and then to initiate a human clinical trial.

Alnylam collaboration and license

On January 8, 2007, we entered into a licensing and collaboration agreement with Alnylam giving them an exclusive license to the 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. ALN-TTR is an RNAi therapeutic targeting transthyretin ("TTR") for the treatment of TTR amyloidosis, a systemic disease caused by mutations in the TTR gene. ALN-TTR utilizes our SNALP technology and we are responsible for manufacturing the ALN-TTR drug product. Alnylam expects to file an application to commence a Phase 1 clinical trial for ALN-TTR by the end of 2009 with a goal of initiating the Phase 1 clinical trial early in 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 may advance two RNAi product candidates into human clinical testing. Each of the product candidates will be comprised of Roche proprietary siRNAs encapsulated in our proprietary SNALP technology.

Under the Roche Research Agreement and Product Development Agreement, Roche will pay us up to US$18.4 million to support the advancement of two product candidates through to the filing of IND applications. Recognition of revenue from these agreements is covered in the Revenue section of this discussion.

We are also eligible to receive up to US$32.0 million in milestones plus royalties on product sales if the first two products are advanced through development and commercialization based on Roche's access to Tekmira's intellectual property through Alnylam. Roche and Tekmira began work on the first product candidate in May 2009 and expect to file an IND for this product candidate before the end of 2010.

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

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.

As provided under the agreement with Merck, an arbitration proceeding may be used to determine the inventorship of certain intellectual property. We do not expect the outcome of an arbitration, should it occur, to have a material effect on our operations or the value of our intellectual property.

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

As a result of the business combination with Protiva we acquired a research collaboration agreement with Bristol-Myers Squibb to utilize SNALP technology for target validation. The impact of this agreement on our results of operations is covered in the Revenue section of this discussion.

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. Grants received from the USAMRIID are netted against research and development expenses when the grant is earned.

Takeda Pharmaceutical Company Limited ("Takeda") research agreement

On December 26, 2008, we signed an initial research agreement with Takeda. Recognition of revenue from this agreement is covered in the Revenue section of this discussion.

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 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. The contingent obligation arose through a Purchase and Settlement Agreement dated June 20, 2006 whereby we retired certain debt in exchange for certain 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 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 the Company's balance sheet (see note 14(c) of our audited consolidated financial statements for the year ended December 31, 2008 for further details). 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 and is US$22.8 million as at September 30, 2009 (December 31, 2008 – US$22.8 million).

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

Our critical accounting policies and estimates are disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and the notes to our audited annual consolidated financial statements contained in our 2008 Annual Report.

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 new section did not impact the Company's consolidated financial statements.

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.

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. A detailed analysis is underway and we are monitoring 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.

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)

	Dec 31 2007	Mar 31 2008	June 30 2008	Sept 30 2008	Dec 31 2008	Mar 31 2009	June 30 2009	Sept 30 2009
Revenue	$ 4.2	$ 1.9	$ 2.5	$ 4.2	$ 3.1	$ 2.9	$ 3.8	$ 3.3
Net income (loss)	0.4	(0.4)	(4.8)	(6.0)	(3.0)	(2.1)	(2.3)	(2.8)
Basic and diluted net income (loss) per share	$ 0.01	$ (0.02)	$ (0.14)	$ (0.12)	$ (0.06)	$ (0.04)	$ (0.04)	$ (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 in the fourth quarter of 2007 includes approximately $1.0 million relating to the amortization of a Hana up-front payment but Hana revenue has been insignificant thereafter. Revenue from our expanding Roche collaboration was $0.4 million and $1.0 million in the first and second quarters of 2009, respectively. 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 the second quarter of 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 the third quarter of 2008 includes a $3.9 million impairment of goodwill arising on the acquisition of Protiva and increased research and development expenses related to our ApoB SNALP program.

Net loss in the fourth quarter of 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. The fourth quarter loss 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. Ordinarily in our fourth quarter we incur an employee and executive cash bonus expense reflecting the level of success in meeting our business objectives. In response to the global economic downturn bonuses paid for 2008 were only a nominal amount and a fraction of recent years' bonuses with executives receiving no cash bonuses in 2008.

Our results for the first nine months and third quarter of 2009 are discussed below.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2009, our net loss was $7.2 million ($0.14 per common share) as compared to a net loss of $11.3 million ($0.26 per common share) for the comparative period of 2008. For the three months ended September 30, 2009, our net loss was $2.8 million ($0.05 per common share) as compared to a net loss of $6.0 million ($0.12 per common share) for the third quarter of 2008.

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

Revenue / Revenue from research and development collaborations, licensing fees and milestone payments was $3.3 million for the third quarter of 2009 as compared to $4.2 million for the third quarter of 2008 and was $9.9 million for the first nine months of 2009 as compared to $8.6 million for the first nine months of 2008. Looking at collaborations revenue, the expiration of our research collaboration with Alnylam in the current quarter 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:

	Three months ended		**Nine months ended**	
(in millions Cdn$)	**Sept 30, 2009**	Sept 30, 2008	**Sept 30, 2009**	Sept 30, 2008
Research and development collaborations				
Alnylam	**$ 2.2**	$ 2.7	**$ 6.8**	$ 4.5
Roche	**1.0**	0.1	**2.3**	0.1
Other RNAi collaborators	**0.1**	0.2	**0.2**	0.2
Hana	**-**	-	**-**	0.1
Total research and development collaborations	**3.3**	2.9	**9.3**	4.8
Licensing fees and milestone payments from Alnylam	**-**	1.3	**0.6**	3.8
Total revenue	**$ 3.3**	$ 4.2	**$ 9.9**	$ 8.6

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 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

and our estimate of total staff hours to be provided in the year. In the third quarter of 2009 we reduced our estimate of total hours to be provided in the year to below the minimum that Alnylam must pay for resulting in additional revenue being recognized in the third quarter.

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 the second quarter of 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 hours for each project under the contract. Revenue from external costs incurred on Roche product candidates is being 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 September 30, 2009 there was $2.3 million of deferred revenue in this respect.

We received $0.8 million (US$0.8 million) during the second quarter of 2009 under a separate Roche Research Agreement. Work under the Roche Research Agreement was completed in the first half of 2009 and the payment was recognized as research and development collaborations revenue during that period.

Expenses / Research, development and collaborations / Research and development expenses decreased to $4.4 million for the third quarter of 2009 as compared to $5.4 million for the third quarter of 2008 and decreased to $12.4 million for the first nine months of 2009 as compared to $13.1 million for the first nine months of 2008. As a result of the business combination with Protiva completed on May 30, 2008, the level and cost of our research and development activities increased. Also, our intellectual property portfolio and related expenses expanded. However, in the first nine months of 2008 research and development expenses were unusually high due to two compensation related charges. Firstly, stock based compensation for research and development staff was $0.2 million for the first nine months of 2009 as compared to $1.6 million for the first nine months of 2008 as early in 2008 our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva. Secondly, when we combined with Protiva we accrued $2.0 million for payments due to our former CEO and this was allocated in the second quarter of 2008 as 75% research and development expenses and 25% general and administrative expenses. There is no equivalent expense in 2009.

Our research and development staff numbers have decreased to 64 at September 30, 2009 (total staff 75) as compared to 78 (total staff 94) at September 30, 2008. In October 2008 we reduced our workforce by 15 employees as part of the integration of the operations of Tekmira and Protiva.

General and administrative / General and administrative expenses decreased to $0.9 million for the third quarter of 2009 as compared to $1.1 million for third quarter of 2008 and decreased to $3.0 million for the first nine months of 2009 as compared to $3.6 million for the first nine months of 2008. Base line general and administrative costs have increased due to the greater size of our organization following the business combination. However, general and administrative expenses were unusually high in the first nine months of 2008 due to the two compensation related charges discussed in the research, development and collaborations expenses section above.

Amortization of intangible assets / Amortization of intangible assets expense was $0.3 million for the third quarter of 2009 as compared to $0.3 million for third quarter of 2008 and $0.8 million for the first nine months of 2009 as compared to $0.3 million for the first nine months of 2008. The amortization relates to $16.3 million in medical technology acquired through the business combination with Protiva on May 30, 2008 that is being amortized over 16 years.

Depreciation of property and equipment / Depreciation of property and equipment was $0.2 million for the third quarter of 2009 as compared to $0.2 million for third quarter of 2008 and $0.7 million for the first nine months of 2009 as compared to $0.5 million for the first nine months of 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 $0.02 million for the third quarter of 2009 as compared to $0.26 million for third quarter of 2008 and $0.13 million for the first nine months of 2009 as compared to $0.69 million for the first nine months of 2008. Our average cash, cash equivalent and short-term investment balances were at similar levels in the first nine months of 2009 and 2008 but average interest rates were significantly lower in the first nine months of 2009 as compared to the first nine months of 2008. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Foreign exchange gains (losses) / Foreign exchange gains (losses) showed losses of $0.3 million in the third quarter of 2009 as compared to gains of $0.4 million in the third quarter of 2008 and losses of $0.3 million in the first nine months of 2009 as compared to gains of $0.8 million in the first nine months of 2008. Our foreign exchange gains and losses relate almost entirely to changes in the US dollar to Canadian dollar exchange rate.

Towards the end of 2008 we converted the majority of our US dollar cash and cash equivalent holdings into Canadian dollars to reduce our future exposure to foreign exchange rate fluctuations. 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. Generally our US dollar assets exceed our US dollar liabilities so a strengthening of the Canadian dollar against the US dollar will result in us recording foreign exchange losses and vice versa.

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 September 30, 2009, we had cash, cash equivalents and short-term investments of approximately $26.9 million as compared to $31.9 million at December 31, 2008.

Operating activities used cash of $1.3 million in the third quarter of 2009 as compared to cash used of $3.5 million in the third quarter of 2008. Operating activities used cash of $3.7 million in the first nine months of 2009 as compared to cash used in operating activities of $7.0 million in the first nine months of 2008. The $1.5 million increase in non-cash working capital for the first nine months of 2009 relates largely to an increase in deferred revenue under the Alnylam Manufacturing Agreement whereby they are prepaying for a guaranteed level of personnel for fiscal 2009 and deferred revenue under the Roche Product Development Agreement. Excluding changes non-cash working capital, cash used in operating activities in the first nine months of 2009 was $5.2 million as compared to $5.3 million in the first nine months of 2008. Loss in the first nine months of 2008 was $4.1 million higher than in the first nine months of 2009 but included a $3.9 million non-cash impairment of goodwill charge.

Net cash provided by investing activities was $1.0 million in the third quarter of 2009 as compared to $2.3 million in the third quarter of 2008. Net cash used in investing activities was $8.7 million in the first nine months of 2009 as compared to net cash provided by investing activities of $4.4 million in the first nine months of 2008. Earlier in 2009 we made some investments in bankers' acceptances that have a maturity of greater than three months and are therefore classified as short-term investments in our financial statements. These short-term investments offer a better interest rate than bankers' acceptances with shorter than three month maturity. At the end of the third quarter of 2009 we began moving maturing investments into new high interest savings accounts with a major Canadian bank. Capital spending of $1.1 million in first nine months of 2009 relates largely to facility improvements and manufacturing equipment.

In our 2008 Annual Report we provided guidance that we had sufficient funds on hand to continue our product development until some time in the second half of 2010. As a result of signing the Roche Product Development Agreement we now believe that our current funds on hand plus expected interest income and the contractually payable further funds from our collaborations will be sufficient to continue our product development until the second half of 2011 (see Forward-looking statements and Risks and uncertainties).

Contractual obligations

There have been two material changes to our contractual obligations from those disclosed in our 2008 Annual Report. Firstly, our obligation to undertake certain research and development work under agreements signed with Roche in 2009 (see Overview). Secondly, 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.

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

(in millions Cdn$)	Lease commitment	Sub-lease income	Net commitment
Three month period to December 31, 2009	$ 0.4	$ (0.1)	$ 0.3
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
	$ 6.8	$ (0.7)	$ 6.1

OFF-BALANCE SHEET ARRANGEMENTS

There have not been any material changes in our off-balance sheet arrangements from those disclosed in our 2008 Annual Report.

RELATED PARTY TRANSACTIONS

Research, development and collaborations expenses in the third quarter of 2009 and first nine months

of 2009 include $nil and $44,415 respectively 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 (third quarter and first nine months of 2008 - $nil). We do not have any current contracts with Ricerca.

OUTSTANDING SHARE DATA

As of October 31, 2009, we had 51,642,438 common shares outstanding and we had outstanding options to purchase 6,176,867 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 for development, in particular for our RNAi therapeutics program;
- the extent to which we continue development or can extract significant value from our technologies;
- 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 portfolio of liquid, high-grade investment securities with varying terms to maturity (not exceeding two years), 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. In response to recent liquidity problems in asset backed commercial paper we have now moved all of our cash investments into bankers' acceptances and high interest savings accounts issued by major Canadian banks. The fair value of our cash investments as at September 30, 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, 2008 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. To the date of this interim discussion, they also concluded that there were no changes that materially affected the Company's internal control over financial reporting and disclosure controls and procedures.