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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

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**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of March 2011

Commission File Number: 001-34949

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**Tekmira Pharmaceuticals Corporation**

(Translation of Registrant's Name Into English)

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100-8900 Glenlyon Parkway  
Burnaby, British Columbia  
Canada, V5J 5J8  
(Address of Principal Executive Offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F       Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes       No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): \_\_\_\_\_

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## EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
99.1	Annual Information Form, dated March 30, 2011
99.2	Management's Discussion and Analysis of Financial Condition and Operations for the year ended December 31, 2010
99.3	Consolidated Financial Statements for the year ended December 31, 2010
99.4	Form 52-109F1 – Certification of Annual Filings, dated March 30, 2011
99.5	Form 52-109F1 – Certification of Annual Filings, dated March 30, 2011

**SIGNATURES**

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

**TEKMIRA PHARMACEUTICALS CORPORATION**  
(Registrant)

Date: March 30, 2011

By:           /s/ Ian C. Mortimer            
Name: Ian C. Mortimer  
Title: Executive Vice President, Finance and  
Chief Financial Officer

**TEKMIRA PHARMACEUTICALS CORPORATION**

**ANNUAL INFORMATION FORM**

**March 30, 2011**

## TABLE OF CONTENTS

	Page
THE COMPANY	3
Business Strategy	3
Technology, product development and licensing agreements	3
Manufacturing	12
Competition	13
Facilities	13
Intellectual Property	13
Other Corporate Developments	14
Environmental Protection	14
Human Resources	14
Risk factors	14
SHARE CAPITAL	31
Common Shares	32
Share Options	32
MARKET FOR SECURITIES	33
DIVIDEND RECORD AND POLICY	33
DIRECTORS AND OFFICERS	34
Directors	34
Board of Directors	35
Audit Committee	35
External Auditor Service Fees	37
Executive Officers	38
Biographies of Directors and Executive Officers	38
Shareholdings of Directors and Executive Officers	41
TRANSFER AGENT AND REGISTRAR	41
LITIGATION	41
MATERIAL CONTRACTS	42
INTERESTS OF EXPERTS	43
ADDITIONAL INFORMATION	43

This Annual Information Form contains forward-looking statements that are not based on historical fact, including without limitation statements containing the words “believes”, “may”, “plans”, “will”, “estimate”, “continue”, “anticipates”, “intends”, “expects”, and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other 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. Such factors include, among others, those discussed in “Risk Factors”. These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements. Tekmira Pharmaceuticals Corporation disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments. In addition to the disclosure contained in this Annual Information Form, readers are encouraged to review the “Management’s Discussion and Analysis of Financial Condition and Operations” section of Tekmira’s 2010 Annual Report for an additional discussion of factors that could affect Tekmira’s future performance.

## THE COMPANY

Tekmira Pharmaceuticals Corporation is a biopharmaceutical business focused on developing its own internal RNA (Ribonucleic acid) interference (“RNAi”) therapeutic product candidates and supporting its pharmaceutical partners as they advance RNAi product candidates using Tekmira’s proprietary lipid nanoparticle delivery technology. Unless the context otherwise requires, all references to “we”, “our”, “us”, “the Company” or “Tekmira” refers to Tekmira Pharmaceuticals Corporation and its subsidiaries.

Tekmira was incorporated under the Business Corporations Act (*British Columbia*) (the “BCBCA”), on October 6, 2005 and commenced active business on April 30, 2007 when Tekmira and its parent company, Inex Pharmaceuticals Corporation, were reorganized under a statutory plan of arrangement completed under the provisions of the BCBCA. The Reorganization saw Inex’s entire business transferred to and continued by Tekmira.

On May 30, 2008, the Company combined its business with Protiva Biotherapeutics Inc. (“Protiva”). Protiva was incorporated pursuant to the Canada Business Corporations Act on September 14, 2000. The business combination with Protiva is described further in our 2010 Annual Report filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Our head office is located at 100-8900 Glenlyon Parkway, Burnaby, British Columbia, Canada, V5J 5J8. Our registered and records office is located at 700 West Georgia St, 25<sup>th</sup> Floor, Vancouver, British Columbia, Canada, V7Y 1B3.

Unless otherwise indicated, all currency amounts are stated in Canadian dollars. As at February 28, 2011, the closing rate of exchange of the Bank of Canada was 0.9714 Canadian dollars for each U.S. dollar.

### Business Strategy

Our business strategy is to develop our own internal RNAi therapeutic product candidates and to support our pharmaceutical partners as they advance RNAi product candidates using our lipid nanoparticle delivery technology.

### Technology, product development and licensing agreements

Our therapeutic product pipeline consists of product candidates being developed internally with our research and development resources. We also support the development of some of our partners’ product candidates and are developing an Ebola antiviral (TKM-Ebola) under a Transformational Medical Technologies contract with the U.S. Department of Defense. Our focus is on advancing product candidates that utilize our proprietary lipid nanoparticle (“LNP”) technology, for the delivery of RNAi drug products. We have previously referred to our LNP technology as SNALP for Stable Nucleic Acid

Lipid Particles. These product candidates are intended to treat diseases through a process known as RNAi which prevents the production of proteins that are associated with various diseases.

Our most advanced internal product candidates are:

- TKM-ApoB, for the treatment of high cholesterol;
- TKM-PLK1, for the treatment of cancer; and
- TKM-Ebola for the treatment of Ebola infection.

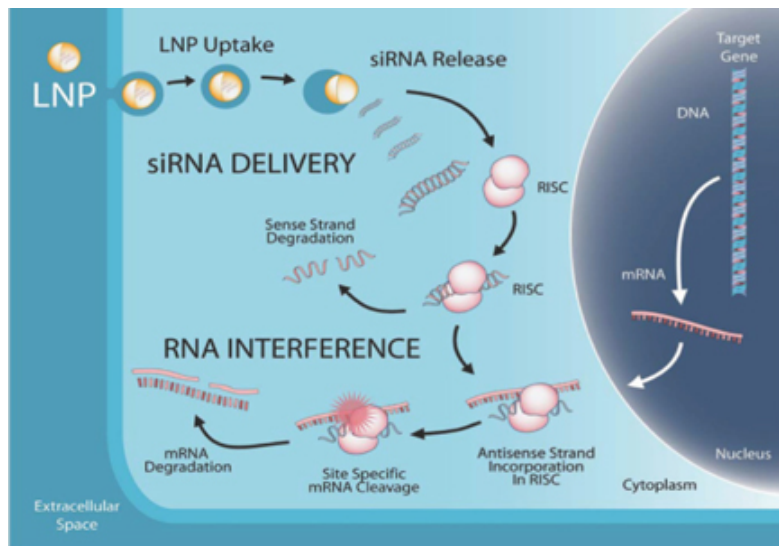
In the field of RNAi therapeutic products, we have licensed our lipid nanoparticle delivery technology to Alnylam Pharmaceuticals Inc. (“Alnylam”) and Merck & Co., Inc. (“Merck”). Alnylam has granted non-exclusive access to some of our intellectual property to certain of its partners, including F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (together “Roche”), Regulus Therapeutics, Inc. (which is a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited (“Takeda”). In addition, we have ongoing research relationships with Bristol-Myers Squibb Company (“BMS”) and the United States National Cancer Institute as well as other undisclosed pharmaceutical and biotechnology companies. Outside the RNAi field, we have legacy licensing agreements with Talon Therapeutics, Inc. (“Talon”, formerly Hana Biosciences, Inc.) and Aradigm Corporation (“Aradigm”).

### **RNA Interference Therapeutics**

RNAi is considered to be one of the most important discoveries in the field of biology in the last decade. The scientists who discovered the mechanism were awarded the 2006 Nobel Prize in Medicine for their discovery. RNAi is a naturally occurring process that takes place inside cells, and includes processes whereby small interfering RNA (“siRNA”), molecules can profoundly suppress the production of specific proteins. Scientists first noted this powerful effect while attempting to improve the purple color of petunias. Intense research activity has now uncovered a complex molecular mechanism responsible for RNAi that is transforming the method by which drug targets are discovered and validated. Furthermore, synthetic siRNA molecules are being developed as drug candidates to specifically suppress the production of disease-related proteins through RNAi.

In the cell, DNA carries the genetic information to make a specific protein. Genes are first copied or transcribed into messenger RNA (“mRNA”), which, in turn, gets translated into protein. The molecular origin of nearly all diseases results from either the absence of or over-production of a specific protein. If too much of a particular protein is the cause of disease then the therapeutic approach is to try to reduce its activity or amount. For example, a tumor can be caused by the over-production of a protein that stimulates cell growth.

Sequencing of the human genome has provided information needed to design siRNA molecules directed against a wide range of disease-causing proteins. Based on the mRNA sequence for the target protein, siRNA molecules can be designed relatively quickly compared to the time needed to synthesize and screen conventional drugs. siRNA-based therapeutics are short segments of synthetic double stranded RNA made up of a sense strand and an antisense strand. The sequence of the siRNA is designed so that the antisense strand will bind specifically to a complementary sequence on the mRNA coding for the target protein. When siRNA are introduced into the cell cytoplasm they are rapidly incorporated into an RNA-induced silencing complex (“RISC”). As illustrated in the diagram below, during this process the sense strand is unwound and discarded but the antisense strand remains in the RISC and guides the RISC complex to interact specifically with mRNA coding for the target protein, which mRNA is then cut and destroyed, preventing the subsequent production of the target protein. Importantly, this process is catalytic and RISC associated siRNA can remain stable inside the cell for weeks, destroying many more copies of the target mRNA and maintaining target protein suppression for long periods of time.



RNAi has the potential to generate a broad new class of therapeutic drugs that take advantage of certain of the body’s own natural processes to silence genes—or more specifically to eliminate specific gene-products, or proteins, from the cell. While there are no RNAi therapeutic products currently approved for commercial use, there are a number of RNAi therapeutic products in development and several in human clinical trials. RNAi therapeutic products have wide potential applicability as they can silence, or eliminate the production of disease causing proteins from cells, thus creating opportunities for therapeutic intervention that have not been achievable with conventional drugs. Development of RNAi therapeutic products is currently limited by the instability of the siRNA molecules in the bloodstream and the inability of these molecules to access target cells or organs, following intravenous, or systemic, administration, and their inability to gain entry into the cell cytoplasm, where they carry out their action. Delivery technology is necessary to protect these drugs in the blood stream following administration, allow efficient delivery to the target cells and facilitate cellular uptake and release into the cytoplasm of the cell. Our LNP technology has been shown in preclinical studies to enable RNAi therapeutic products by overcoming these limitations, allowing efficient and selective ‘silencing’ or reduction of certain target proteins. We believe that we are strongly positioned to take advantage of the need for delivery technology that can efficiently encapsulate siRNA molecules and deliver them to sites of disease. We and our partners are advancing RNAi therapeutic product candidates using our LNP technology as the delivery vehicle to access target tissues and cells.

#### Tekmira’s LNP Technology

Our LNP delivery technology allows siRNA to be encapsulated in a particle made of lipids or fats that can be administered intravenously and travel through the blood stream to target organs or sites of disease. The nanoparticles are designed to stay in the circulation for periods of time to allow the particle to efficiently accumulate at sites of disease such as the liver or cancerous tumors. As illustrated in the diagram above, once the nanoparticles have accumulated at the target or tissue site, the cells take up the particle by a process called endocytosis in which the cell’s membrane surrounds the particle. This envelope or endosome pinches off from the cell’s membrane and migrates to the inside of the cell. The lipid nanoparticles undergo an interaction with the endosomal membrane and in the process the siRNA are released inside the cell’s cytoplasm. The released siRNA molecules disperse throughout the cell and engage the RISC complex in the cytoplasm, mediating RNAi.



## Internal Product Development

Our most advanced RNAi product candidates are TKM-ApoB, TKM-PLK1 and TKM-Ebola. Alnylam has granted us a worldwide license to their core technology and intellectual property for the discovery, development and commercialization of RNAi products directed to eight RNAi gene targets—three exclusive and five non-exclusive licenses. Three of the targets, ApoB, PLK1 and Ebola, have already been selected on a non-exclusive basis, and we may select up to five additional targets in the future under the selection procedures described more fully below.

### *TKM-ApoB*

On July 2, 2009 we announced that we had initiated a Phase 1 human clinical trial for TKM-ApoB (formerly known as ApoB SNALP). TKM-ApoB, 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. TKM-ApoB 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. TKM-ApoB consists of siRNA, designed to silence ApoB, encapsulated in a LNP formulation. TKM-ApoB is delivered into the liver hepatocytes, the cells which produce ApoB, where the siRNA acts to silence the messenger RNA 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 TKM-ApoB clinical trial. We enrolled a total of 23 subjects in the trial. Of the 23 subjects enrolled, 17 subjects received a single dose of TKM-ApoB at one of seven different dosing levels and six subjects received a placebo.

The primary endpoints of the TKM-ApoB Phase 1 clinical trial were measures of safety and tolerability. TKM-ApoB 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 an adverse event comprised of flu-like symptoms, cytokine release and transient hypotension 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.

Based on a review of subsequent non-clinical data for TKM-ApoB, we have decided to delay the initiation of our next TKM-ApoB clinical trial. We had originally planned to initiate a Phase 1-2 clinical trial for TKM-ApoB by the end of 2010. In non-clinical studies, the performance characteristics of the specific lipid nanoparticle formulation used in the current TKM-ApoB product candidate have not met our expectations for the intended application. We tailor LNP formulations for each intended application. We continue to make significant advances in LNP formulation development and there are several alternative LNP formulations with improved characteristics that are currently being evaluated for TKM-ApoB development.

### **TKM-PLK1**

Our second internal siRNA product candidate, TKM-PLK1, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in healthy tissue. TKM-PLK1 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 TKM-PLK1 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 TKM-PLK1 anti-tumor efficacy results were confirmed to be the result of silencing PLK1 via RNA interference. Furthermore, certain LNP formulations also provided potent anti-tumor efficacy in preclinical models of tumors outside the liver.

On December 22, 2010 we announced the initiation of patient dosing in a Phase 1 human clinical trial for TKM-PLK1. The Phase 1 clinical trial, conducted at three medical centers in the United States, is an open label, multi-dose, dose escalation study designed to evaluate the safety, tolerability and pharmacokinetics of TKM-PLK1 as well as determining the maximum tolerated dose. The trial will enroll up to 52 patients with advanced solid tumors. Secondary objectives of the trial are to measure tumor response as well as the pharmacodynamic effects of TKM-PLK1 in patients providing biopsies.

In addition to the Phase 1 human clinical trial, we are continuing discussions with the United States National Cancer Institute to design a second clinical trial to directly measure PLK1 knockdown and RNAi activity.

### **TKM-Ebola**

On May 28, 2010 we announced the publication of a series of studies demonstrating the ability of an RNAi therapeutic utilizing our LNP technology to protect non-human primates from Ebola virus, a highly contagious and lethal human infectious disease.

We conducted the studies in collaboration with infectious disease researchers from Boston University and the USAMRIID and funded in part by the U.S. Government's Transformational Medical Technologies (TMT) program. The results, which were published in the medical journal, *The Lancet*, describe antiviral activity of siRNA in LNPs targeting the Ebola virus (TKM-Ebola). When used to treat infected non-human primates, TKM-Ebola resulted in complete protection from an otherwise lethal dose of Zaire Ebola virus. For many years, the Zaire species of Ebola virus ("ZEBOV") has been associated with periodic outbreaks of hemorrhagic fever in human populations with mortality rates reaching 90%. There are currently no treatments for Ebola or other hemorrhagic fever viruses.

In the published studies, non-human primates were infected with a lethal dose of ZEBOV and were then treated with seven daily doses of TKM-Ebola. The TKM-Ebola therapeutic delivered three different siRNAs targeting three separate viral gene products thereby inactivating the virus in three different parts of its life cycle. The three siRNAs were encapsulated in our proprietary LNP delivery technology engineered for delivery to the cells where the Ebola virus is known to replicate. All of the non-human primates treated with TKM-Ebola survived the infection and were shown to be free of ZEBOV virus infection within 14 days after inoculation with a lethal dose of ZEBOV virus.

On July 14, 2010, we signed a contract with the United States Government to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection. In the initial phase of the contract, which is expected to last approximately three years and is funded under the TMT program, we are eligible

to receive up to US\$34.7 million. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an IND application with the FDA and completing a Phase 1 human safety clinical trial. We expect to file an IND for TKM-Ebola in the second half of 2011.

The United States Government has the option of extending the contract beyond the initial funding period to support the advancement of TKM-Ebola through to the completion of clinical development and FDA approval. Based on the budget for the extended contract this would provide the Company with a total of up to US\$140.0 million in funding for the entire program.

Under the contract we will invoice the United States Government for direct labor and third party costs plus an apportionment of overheads plus a profit margin.

TKM-Ebola will be developed under specific regulatory guidelines to advance therapeutics that cannot meet the requirements for traditional approval because human efficacy studies are not feasible. We believe this could significantly accelerate the approval of TKM-Ebola.

## **Partnerships and Collaborations**

### ***Alnylam collaborations and licenses***

On January 8, 2007, we entered into a licensing and collaboration agreement with Alnylam, which was amended and restated in May 2008, giving them an exclusive license to certain lipid nanoparticle intellectual property for the discovery, development, and commercialization of RNAi therapeutic products.

Protiva, which is now a wholly owned subsidiary of ours, and Alnylam entered into a cross-license in August 2007, which was amended and restated in May 2008, granting Alnylam non-exclusive access to Protiva's intellectual property in the RNAi field and required Alnylam to fund a certain level of collaborative research for two years. The research collaboration element of the Alnylam agreement expired in August 2009. We are, however, continuing to make LNP research batches for Alnylam under a manufacturing agreement which is discussed below.

In August 2007, pursuant to the terms of the cross-license, Alnylam made a payment of US\$3.0 million that gives Alnylam the right to "opt-in" to our PLK1 project and share equally in any future product revenues, provided that Alnylam contributes 50% of the TKM-PLK1 product development costs. Alnylam has until the start of a TKM-PLK1 Phase 2 clinical trial to exercise their opt-in right. In the event that Alnylam chooses to exercise that right, the US\$3.0 million already paid will be credited towards Alnylam's 50% share of project costs to date.

In addition, 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 single-digit royalties on product sales.

The agreements with Alnylam grant us intellectual property rights to develop our own proprietary RNAi therapeutic products. Alnylam has granted us a worldwide license for the discovery, development and commercialization of RNAi products directed to eight gene targets—three exclusive and five non-exclusive licenses—provided that they have not been committed by Alnylam to a third party or are not otherwise unavailable as a result of the exercise of a right of first refusal held by a third party. Licenses for three targets, ApoB, PLK1 and Ebola, 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, or otherwise of strategic importance to, Alnylam. In consideration for this license, we have agreed to pay

single-digit 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 TKM-Ebola, which has no milestone obligations, and TKM-PLK1 if Alnylam opts-in to the development program). We will have no milestone obligation to Alnylam on the three exclusive licenses.

In April 2009, Alnylam announced that they had initiated a Phase 1 human clinical trial for a product candidate that utilizes our LNP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for liver cancer and cancers with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our LNP 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 CDN\$0.6 million (US\$0.5 million) which we received in May 2009. Interim ALN-VSP data were presented at the 2010 Annual Meeting of the American Society of Clinical Oncology (ASCO) in May 2010 and at the Chemotherapy Foundation Symposium in November 2010. Alnylam expects to report additional clinical data in the second quarter of 2011.

Alnylam are 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 LNP technology and are being manufactured by us. On July 7, 2010, Alnylam announced the initiation of a Phase 1 human clinical trial for ALN-TTR01 which triggered a US\$0.5 million milestone payment to us and Alnylam expects to report data from this trial in the third quarter of 2011.

Under a manufacturing agreement entered into in January 2009, we continue to be the exclusive manufacturer of any products that utilize our technology, as required by Alnylam through the end of Phase 2 clinical trials. Alnylam will pay for the provision of staff and for external costs incurred. Pursuant to the terms of this agreement, there is a contractual minimum of CDN\$11.2 million payable by Alnylam for the three years from 2009 to 2011.

On March 16, 2011, we announced the filing of a complaint against Alnylam for misappropriation and misuse of trade secrets, know-how and other confidential information, unfair and deceptive trade practices, unjust enrichment, unfair competition and false advertising. The suit, filed in the Business Litigation Session of the Massachusetts Superior Court, alleges Alnylam exploited its confidential relationship with us as a collaborator to engage in inappropriate and harmful conduct concerning our proprietary LNP technology, resulting in damage to our intellectual property and business interests. See the "*Litigation*" section of this Annual Information Form for more information.

### ***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 ("Roche Research Agreement") dated February 11, 2009. Work under the Roche Research Agreement was completed in the first half of 2009.

On May 11, 2009 we announced a product development agreement with Roche (Roche Product Development Agreement) that provides for product development up to the filing of 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 is paying for the provision of our staff and for external costs incurred up to US\$8.8 million, for us to support the advancement of a Roche RNAi product candidate using our LNP technology through to the filing of an IND application.

On November 17, 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira.

### ***Merck license agreement***

Protiva, our wholly owned subsidiary, is party to 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 single-digit royalties on product sales. Merck has also granted a license to us for some 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 research agreement***

On May 10, 2010 we announced the expansion of our research collaboration with Bristol-Myers Squibb. Under the new agreement, Bristol-Myers Squibb will use siRNA molecules formulated by us in lipid nanoparticles to silence target genes of interest. Bristol-Myers Squibb will conduct the preclinical work to validate the function of certain genes and share the data with us. We can use the preclinical data to develop RNAi therapeutic products against the therapeutic targets of interest. Bristol-Myers Squibb paid us US\$3.0 million concurrent with the signing of the agreement. We are required to provide a pre-determined number of lipid nanoparticle batches over the four-year agreement. Bristol-Myers Squibb will have a first right to negotiate a licensing agreement on certain RNAi products developed by us that evolve from Bristol-Myers Squibb validated gene targets.

### ***USAMRIID research agreement***

In 2005 we signed a five-year research agreement with the USAMRIID to collaborate on the development of siRNA-based therapy against filovirus infections, including Ebola, using LNPs. In 2010 we received the final payment under this grant. Further development of our TKM-Ebola product is being funded by the U.S. Government under the TMT program as discussed above.

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

On October 13, 2010 we announced that together with collaborators at The University of Texas Medical Branch (UTMB), we were awarded a new NIH grant to support research to develop RNAi therapeutics to

treat Ebola and Marburg hemorrhagic fever viral infections using our LNP delivery technology. The grant, worth US\$2.4 million, will support work at Tekmira and the UTMB.

#### **Takeda research agreement**

We have a research agreement with Takeda entered into in December 2008. In the first quarter of 2010, we expanded our agreement with Takeda to provide additional LNP batches as Takeda continues to evaluate our technology.

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

#### **Legacy Agreements**

##### ***Talon Therapeutics, Inc. (Talon, formerly Hana Biosciences, Inc.) license agreement***

Talon 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 Talon. Talon has agreed to pay us milestones and single-digit royalties and is responsible for all future development and future expenses. In May 2009, the license agreement with Talon was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the license agreement with Talon was amended a second time such that Talon paid \$5.9 million (US\$5.75 million) in consideration for reducing certain future payments associated with the product candidates. The payment of \$5.9 million (US\$5.75 million) from Talon has been paid to our contingent creditors in full settlement of a contingent obligation. See *“Other Corporate Developments – Purchase and settlement of the exchangeable and development notes (the “Notes”)*”. We are now eligible to receive milestone payments from Talon of up to US\$19.0 million upon achievement of further development and regulatory milestones and we are also eligible to receive single-digit royalties on product sales. The milestone payments can be made in common shares of Talon. If Talon sublicenses any of the product candidates, Tekmira is eligible to receive a percentage of any upfront fees or milestone payments received by Talon. Depending on the royalty rates Talon receives from its sublicensees, our royalty rate may be lower on product sales by the sublicensees. The royalty rate will be reduced to low single digits if there is generic competition.

Marqibo is a proprietary sphingosomal formulation of the widely used, off-patent cancer chemotherapeutic vincristine. The FDA has granted Talon orphan drug and fast track designations for the use of Marqibo in adult acute lymphoblastic leukemia, or ALL. In August 2007, Talon initiated a Phase 2 Marqibo registration-enabling clinical trial in relapsed ALL and in November 2007 initiated a Phase 2 clinical trial investigating Marqibo as a treatment for uveal melanoma. In December 2009, Talon announced the results of its Phase 2 relapsed ALL clinical trial. Talon intends to submit a New Drug Application for Marqibo in the first half of 2011. Talon has announced that it is planning to commence Phase 3 randomized trials for Marqibo in elderly patients with ALL and patients with non-Hodgkin’s lymphoma.

Alocrest is an extended delivery formulation of the commercially available anticancer drug vinorelbine. Vinorelbine is an approved chemotherapeutic drug that is off-patent in the United States. Talon initiated a Phase 1 clinical trial for Alocrest in August 2006 and released preliminary data in October 2007. Talon is currently seeking a partner to continue the advancement of Alocrest through clinical trials.

Brakiva is a lipid encapsulated formulation of the approved anti-cancer drug topotecan. Talon initiated a Phase 1 clinical trial for Brakiva in November 2008 in patients with advanced solid tumors.

#### ***Aradigm Corporation license agreement***

In December 2004, we entered into a licensing agreement with Aradigm under which Aradigm exclusively licensed certain of our liposomal intellectual property for the pulmonary delivery of Ciprofloxacin. As amended, this agreement calls for milestone payments totalling US\$4.5 and US\$4.75 million, respectively, for the first two disease indications pursued by Aradigm using our technology, and for single-digit royalties on sales revenue from products using our technology. Aradigm has asserted that it is not using our technology in its current products.

#### ***University of British Columbia***

Certain early work on lipid nanoparticle delivery systems and related inventions was done at the University of British Columbia (“UBC”). These inventions are exclusively licensed to us by UBC under a license agreement, initially entered in 1998 and thereafter restated and amended. This agreement calls for revenue sharing on payments received from sublicenses that range from 10% for intellectual property related to certain technology used for the delivery of oligonucleotides and up to approximately 20% for intellectual property covering certain legacy product candidates being advanced by Talon and Aradigm. The agreement calls for single-digit royalties on product sales made by us under the licensed patents. The patents licensed to us by UBC under this license agreement have been expanded over the years to include patents, if any, on additional inventions discovered by UBC and us in our prior collaborations with UBC or otherwise in the course of our prior collaboration with Alnylam. These collaborations with UBC and with Alnylam ended at the end of 2008. We have granted sublicenses under the UBC license both to our subsidiary Protiva, and to Alnylam as well as to Talon and Aradigm. While Alnylam’s sublicense is exclusive in the RNAi field, Alnylam has in turn sublicensed us and our subsidiary Protiva under the licensed UBC patents for discovery, development and commercialization of RNAi products directed to the same gene targets described above in our description of our Alnylam collaborations and licenses.

In mid-2009, we and our subsidiary Protiva entered into a supplemental agreement with UBC, Alnylam and AlCana Technologies, Inc., in relation to a separate research collaboration to be conducted among UBC, Alnylam and AlCana. We are licensed under the supplemental agreement to inventions discovered in this on-going collaboration. This license is on terms essentially similar to those of our license from UBC described above, and has similarly been sublicensed by us to Alnylam, and similarly sublicensed to us and Protiva by Alnylam for the same gene targets, except that we are to pay milestones of up to US\$1,325,000 and low single-digit royalties directly to UBC if we use any AlCana intellectual property generated under this supplemental agreement.

#### **Manufacturing**

We are developing scale-up and manufacturing technology, in-process controls, release testing and final product specifications for our products and our partners products with the aim of ensuring quality, potency, suitable shelf-life stability and ease of use. We have established in-house manufacturing capability for preclinical supplies and currently use our equipment in local third party clean room facilities for manufacturing clinical supplies. We recently completed upgrades to our own in-house clean room facility. We believe manufacturing in-house will give us more flexibility and more control over our manufacturing process.

While we have capabilities to manufacture clinical batches sufficient to complete Phase 2 clinical trials, we have no capability to produce quantities for larger Phase 3 clinical trials or for commercial scale

manufacturing. We plan to rely on third parties to manufacture commercial quantities of drug substance and finished product for any product candidate that we successfully develop.

## **Competition**

We face competition from a number of different companies utilizing similar therapeutic approaches or targeting similar diseases.

### ***RNAi Therapeutics***

Competition in the RNAi therapeutics area is discussed in the “*Risk factor – Risks related competition*” section of this Annual Information Form.

### ***Small Molecule Chemotherapy Drugs***

We expect the targeted chemotherapy products we have licensed to Talon will face competition both from currently used chemotherapeutics and from new therapeutics based on the use of novel compounds. As such, we expect that Talon may experience competition from established and emerging pharmaceutical and biotechnology companies that have other forms of treatment for the diseases targeted by Marqibo, Alocrest and Brakiva as well as from other drug delivery companies and companies operating in the same therapeutic fields. However, as an oncology regimen often uses a number of drugs in combination, the markets for Marqibo, Alocrest and Brakiva may not necessarily exclude the use of other treatments.

### ***Facilities***

Our head office and primary research and development facility is located in Burnaby, British Columbia. The lease for this approximately 51,000 square foot facility expires in July 2014, but can be further extended to 2017 and then to 2022 and then to 2027.

### ***Intellectual Property***

Our delivery technology is protected by a global intellectual property portfolio, including both issued patents and pending patent applications. This portfolio includes broad composition of matter, method of manufacture, and method of use claims. We also rely on trade secrets and contracts including nondisclosure provisions to protect know-how and non-patented proprietary information.

Patent applications are generally filed, at a minimum, in the United States, Canada, Europe, and Japan. In addition, further filings are pursued in additional countries, as considered appropriate for particular cases.

Pending applications covering TKM-ApoB and TKM-PLK1 product candidates, if issued as patents, would have expiry dates of 2026 to 2027. In the United States, patents issued or filed before June 8, 1995 have an expiry date of 17 years from issue date or 20 years from the earliest filing date, whichever is greater. Patents filed on or after June 8, 1995 have an expiry date 20 years from the earliest filing date. In the United States, patent term extensions may also be possible to recapture part of the time required for regulatory review of marketing applications by the FDA. In other countries patent expiry and/or patent term extensions will be determined based on the prevailing law. In most countries patent expiry is 20 years from the earliest filing date.

Patent applications that we've filed with the United States Patent and Trademark Office have not, to date, been the subject of interferences with the exception of one interference from an Alnylam patent filing – see “*Litigation*”. We have filed many patent applications with the European Patent Office that have been granted. In Europe, upon grant, a period of nine months is allowed for notification of opposition to such



granted patents. If our patents are subjected to interference or opposition proceedings we would incur significant costs to defend them. Further, our failure to prevail in any such proceedings could limit the patent protection available to our RNAi platform, including TKM-ApoB, TKM-PLK1 and TKM-Ebola. Our portfolio includes over 140 active cases, with about 35 issued/granted patents and allowed patent applications.

On March 16, 2011 we announced that we have filed a lawsuit against Alnylam for various actions that we contest have damaged our intellectual property – see “*Litigation*”.

### **Other Corporate Developments**

#### ***Purchase and settlement of the exchangeable and development notes (the “Notes”)***

On June 20, 2006, we signed a purchase and settlement agreement (the “Purchase and Settlement Agreement”) with the holders of certain exchangeable and development notes (the “Former Noteholders”). The Purchase and Settlement Agreement retired the exchangeable and development notes in exchange for US\$2.5 million in cash, 1,118,568 Talon shares received upon licensing our chemotherapy products to Talon and certain contingent consideration. Subsequent to the Purchase and Settlement Agreement, amounts owing to the Former Noteholders became contingent obligations.

On May 27, 2009, our license agreement with Talon was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the license agreement with Talon was amended a second time. Concurrent with signing the second amendment of the license agreement with Talon we signed a Waiver and Release with contingent creditors, the “Former Noteholders”. The balance of the contingent obligation related to the Talon milestones and royalties immediately prior to signing the Waiver and Release was US\$22.8 million. As per the terms of the Waiver and Release we paid the Former Noteholders \$5.9 million (US\$5.75 million) in full settlement of the contingent obligation. We have no further obligation to the Former Noteholders and we will retain any future milestones or royalties received from Talon.

### **Environmental Protection**

We seek to comply with all applicable statutory and administrative requirements concerning environmental protection. It is not anticipated that expenditures for environmental protection will have a material adverse effect on our capital expenditures, earnings or competitive position.

### **Human Resources**

As of February 28, 2011, Tekmira employed or retained 92 persons, of which 38 hold advanced degrees in science or business, including 17 who hold Ph.D. degrees. Of the combined total work force, 82 employees are expected to be engaged in or directly support research and development activities, and 10 are expected to be engaged in corporate support activities including business development, finance and administrative activities. See “*Directors and Management*” for further information on human resources.

### **Risk factors**

In addition to the other information contained in this Annual Information Form, the following factors should be considered in evaluating our business and prospects.

### **Risks Related to Being an Early Stage Company**

*We are in the early stages of our development and because we have a short development history with RNAi, there is a limited amount of information about us upon which you can evaluate our RNAi business and prospects.*

We have not begun to market or generate revenues from the commercialization of any products. We have only a limited history upon which one can evaluate our RNAi business and prospects as our RNAi therapeutic products are still at an early stage of development and thus we have limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. For example, to execute our business plan, we will need to successfully:

- execute product development activities using an unproven technology;
- build and maintain a strong intellectual property portfolio;
- gain acceptance for the development and commercialization of any product we develop;
- develop and maintain successful strategic relationships; and
- manage our spending as our expenses are expected to increase due to clinical trials, regulatory approvals, commercialization and our recently launched lawsuit against Alnylam.

If we are unsuccessful in accomplishing these objectives, we may not be able to develop products, raise capital, expand our business or continue our operations.

*The approach we are taking to discover and develop novel drug products is unproven and may never lead to marketable drug products.*

We intend to concentrate our internal research and development efforts in the future on RNAi technology, and our future success depends in part on the successful development of RNAi technology and products based on RNAi technology. While RNAi technology is based on a naturally occurring process that takes place inside cells, which can suppress the production of specific proteins, and has the potential to generate therapeutic drugs that take advantage of that process, neither we nor any other company has received regulatory approval to market a therapeutic product based on RNAi technology. The scientific discoveries that form the basis for our efforts to discover and develop new products are relatively new. While there are a number of RNAi therapeutics in development, very few product candidates based on these discoveries have ever been tested in humans and there can be no assurance that any RNAi therapeutic product will be approved for commercial use.

Further, our focus solely on RNAi technology for developing products, as opposed to multiple, more proven technologies for product development, increases our risks. If we are not successful in developing a product candidate using RNAi technology, we may be required to change the scope and direction of our product development activities. In that case, we may not be able to identify and implement successfully an alternative product development strategy.

#### ***Risks Related to Our Financial Results and Need for Financing***

*We will require substantial additional capital to fund our operations. If additional capital is not available, we may need to delay, limit or eliminate our research, development and commercialization processes and may need to undertake a restructuring.*

At December 31, 2010 we had \$7.6 million in working capital and \$11.8 million in working capital excluding deferred revenue. We believe that our current funds on hand plus expected income including

funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into 2012. 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:

- legal costs incurred in connection with our lawsuit against Alnylam;
- revenues earned from our collaborative partnerships, particularly Alnylam;
- revenues earned from our U.S. Government contract to develop TKM-Ebola;
- the extent to which we continue the development of our product candidates or form collaborative relationships to advance our products;
- our decisions to in-license or acquire additional products or technology for development, in particular for our RNAi therapeutics programs;
- our ability to attract and retain corporate partners, and their effectiveness in carrying out the development and ultimate commercialization of our product candidates;
- whether batches of drugs that we manufacture fail to meet specifications resulting in delays and investigational and remanufacturing costs;
- the decisions, and the timing of decisions, made by health regulatory agencies regarding our technology and products;
- competing technological and market developments; and
- prosecuting and enforcing our patent claims and other intellectual property rights.

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

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.

*We have incurred losses in nearly every year since our inception and we anticipate that we will not achieve sustained profits for the foreseeable future. To date, we have had no product revenues.*

With the exception of the year ended December 31, 2006, we have incurred losses since inception and have not received any revenues other than from research and development collaborations, license fees and milestone payments. From inception to December 31, 2010, we have an accumulated net deficit of \$248.9 million. As we continue our research and development and clinical trials and seek regulatory approval for the sale of our product candidates, we do not expect to attain sustained profitability for the foreseeable future. We do not expect to achieve sustained profits until such time as strategic alliance payments, product sales and royalty payments, if any, generate sufficient revenues to fund our continuing operations. We cannot predict if we will ever achieve profitability and, if we do, we may not be able to remain consistently profitable or increase our profitability.

### ***Risks Related to Our Dependence on Third Parties***

*We expect to depend on our existing and new collaborators for a significant portion of our revenues and to develop, conduct clinical trials with, obtain regulatory approvals for, and manufacture, market and sell some of our product candidates. If these collaborations are unsuccessful, our business could be adversely affected.*

We expect that we will depend in part on our Alnylam collaboration to fund our operations, especially in the near term. This collaboration represented 29% of our operating revenue for the fiscal year 2010. Furthermore, our strategy is to enter into various additional arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of our products. We may be unable to continue to establish such collaborations, and any collaborative arrangements we do establish may be unsuccessful.

Should any collaborative partner fail to develop or ultimately successfully commercialize any of the products to which it has obtained rights, our business may be adversely affected. In addition, once initiated, there can be no assurance that any of these collaborations will be continued or result in successfully commercialized products. In particular, there is now a risk that our collaboration with Alnylam could be adversely affected, following our initiation of a lawsuit against Alnylam. Failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of any products arising out of such program. In addition, there can be no assurance that the collaborative partners will not pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by our programs.

*We expect the U.S. Government to fund our TKM-Ebola program through to completion of a Phase 1 human safety clinical trial and possibly beyond that to FDA drug approval. The quantum and timing of funding may not be what we have projected and the U.S. Government could cancel this funding at any time.*

The contract we signed with the U.S. Government on July 14, 2010 is for funding of up to US\$34.7 million for our TKM-Ebola program through to the completion of a Phase 1 human safety clinical trial. The U.S. Government may later extend the contract to cover the entire TKM-Ebola program through to FDA drug approval.

This is our first U.S. Government contract of any notable size. Our lack of experience in dealing with the U.S. Government brings uncertainty into our cash flow projections and uncertainty into our ability to execute the contract within U.S. Government requirements. Furthermore, there is inherent risk in projecting cash flows years ahead for such a complex program.

The quantum and timing of funding for the TKM-Ebola program may not be what we have projected and under the terms of the contract the U.S. Government could cancel this funding, which is paid through monthly reimbursements, at any time.

*We rely on third parties to conduct our clinical trials, and if they fail to fulfill their obligations, our development plans may be adversely affected.*

We rely on independent clinical investigators, contract research organizations and other third-party service providers to assist us in managing, monitoring and otherwise carrying out our clinical trials. We have contracted with, and we plan to continue to contract with, certain third parties to provide certain services, including site selection, enrolment, monitoring and data management services. Although we

depend heavily on these parties, we do not control them and therefore, we cannot be assured that these third parties will adequately perform all of their contractual obligations to us. If our third-party service providers cannot adequately fulfill their obligations to us on a timely and satisfactory basis or if the quality or accuracy of our clinical trial data is compromised due to failure to adhere to our protocols or regulatory requirements, or if such third parties otherwise fail to meet deadlines, our development plans may be delayed or terminated.

*We have no sales, marketing or distribution experience and would have to invest significant financial and management resources to establish these capabilities.*

We have no sales, marketing or distribution experience. We currently expect to rely heavily on third parties to launch and market certain of our products, if approved. However, if we elect to develop internal sales, distribution and marketing capabilities, we will need to invest significant financial and management resources. For products where we decide to perform sales, marketing and distribution functions ourselves, we could face a number of additional risks, including:

- we may not be able to attract and build a significant marketing or sales force;
- the cost of establishing a marketing or sales force may not be justifiable in light of the revenues generated by any particular product; and
- our direct sales and marketing efforts may not be successful.

If we are unable to develop our own sales, marketing and distribution capabilities, we will not be able to successfully commercialize our products, if approved, without reliance on third parties.

*We will rely on third-party manufacturers to manufacture our products (if approved) in commercial quantities, which could delay, prevent or increase the costs associated with the future commercialization of our products.*

Our product candidates have not yet been manufactured for commercial use. If any of our product candidates becomes a product approved for commercial sale, in order to supply our or our collaborators' commercial requirements for such an approved product, we will need to establish third-party manufacturing capacity. Any third-party manufacturing partner may be required to fund capital improvements to support the scale-up of manufacturing and related activities. The third-party manufacturer may not be able to establish scaled manufacturing capacity for any an approved product in a timely or economic manner, if at all. If any manufacturer is unable to provide commercial quantities of such an approved product, we will have to successfully transfer manufacturing technology to a new manufacturer. Engaging a new manufacturer for such an approved product could require us to conduct comparative studies or utilize other means to determine bioequivalence of the new and prior manufacturers' products, which could delay or prevent our ability to commercialize such an approved product. If any of these manufacturers is unable or unwilling to increase its manufacturing capacity or if we are unable to establish alternative arrangements on a timely basis or on acceptable terms, the development and commercialization of such an approved product may be delayed or there may be a shortage in supply. Any inability to manufacture our products in sufficient quantities when needed would seriously harm our business.

Manufacturers of our approved products, if any, must comply with cGMP requirements enforced by the FDA and Health Canada through facilities inspection programs. These requirements include quality control, quality assurance, and the maintenance of records and documentation. Manufacturers of our approved products, if any, may be unable to comply with these cGMP requirements and with other FDA, Health Canada, state, and foreign regulatory requirements. We have little control over our manufacturers' compliance with these regulations and standards. A failure to comply with these requirements may result

in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of any quantities supplied is compromised due to our manufacturer's failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize our products, which would seriously harm our business.

### ***Risks Related to Managing Our Operations***

*We are dependent on certain members of our management and scientific staff. The loss of services of one or more of these staff members could adversely affect us.*

We depend on our senior executive officers as well as key scientific, management and other personnel. The competition for qualified personnel in the biotechnology field is intense. We rely heavily on our ability to attract and retain qualified managerial, scientific and technical personnel. While we currently have employment contracts with our key personnel and are not aware that any are planning to leave or retire, we may not be able to successfully attract and retain skilled and experienced personnel in the future. In particular, we rely on our President and Chief Executive Officer, Mark J. Murray, Ph.D., and our Executive Vice President and Chief Science Officer, Ian MacLachlan, Ph.D. Drs. Murray and MacLachlan both joined us in May 2008 concurrent with the closing the business combination between Tekmira and Protiva and were both founders of and occupied positions of senior leadership at Protiva. Dr. Murray has over 20 years of experience in both the R&D and business development and management facets of the biotechnology industry and Dr. MacLachlan has been active in molecular therapeutics for more than a decade. If we were to lose either of their services, our ability to develop our technology, add to our pipeline, advance our product candidates and our ability to manage our operations and relationships with third parties would be adversely affected.

*We may have difficulty managing our growth and expanding our operations successfully as we seek to evolve from a company primarily involved in discovery and pre-clinical testing into one that develops and commercializes products.*

As product candidates we develop enter and advance through clinical trials, we will need to expand our development, regulatory, manufacturing, clinical and medical capabilities or contract with other organizations to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various collaborators, suppliers and other organizations. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. We may not be able to implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems or controls.

*We could face liability from our controlled use of hazardous and radioactive materials in our research and development processes.*

We use certain radioactive materials, biological materials and chemicals, including organic solvents, acids and gases stored under pressure, in our research and development activities. Our use of radioactive materials is regulated by the Canadian Nuclear Safety Commission for the possession, transfer, import, export, use, storage, handling and disposal of radioactive materials. Our use of biological materials and chemicals, including the use, manufacture, storage, handling and disposal of such materials and certain waste products is regulated by a number of federal, provincial and local laws and regulations. Although we believe that our safety procedures for handling such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that

result and any such liability could exceed our resources. We are not specifically insured with respect to this liability.

*Our business and operations could suffer in the event of information technology system failures.*

Despite the implementation of security measures, our internal computer systems and those of our contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war, and telecommunication and electrical failures. Such events could cause interruption of our operations. For example, the loss of pre-clinical trial data or data from completed or ongoing clinical trials for our product candidates could result in delays in our regulatory filings and development efforts and significantly increase our costs. To the extent that any disruption or security breach were to result in a loss of or damage to our data, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of our product candidates could be delayed.

*Increased costs associated with corporate governance compliance may significantly affect our results of operations.*

Compliance with the Sarbanes-Oxley Act of 2002 will require changes in some of our corporate governance and securities disclosure and compliance practices, and will require thorough documentation and evaluation of our internal control procedures. We expect this to increase our legal compliance and financial reporting costs. This could also make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur higher costs to obtain coverage. In addition, this could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers.

*Our internal controls over financial reporting may not be adequate and our independent auditors may not be able to certify as to their adequacy, which could have a significant and adverse effect on our business and reputation.*

Our current reporting on internal controls over financial reporting (ICFR), complies with Canadian public company requirements under National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. Under National Instrument 52-109 our certifying officers can use whatever means they consider appropriate to satisfy themselves that disclosure of material weaknesses and changes in ICFR are appropriately disclosed in our Management's Discussion and Analysis. To date, we have not reported any material weaknesses or changes in our ICFR. Under the U.S. Securities Exchange Commission rules that apply to us since listing on NASDAQ, if our market capitalization, excluding affiliated stockholders, at June 30 of any fiscal year is greater than US\$75 million then we will be required to obtain independent registered public accounting firm certification on the adequacy of our internal controls over financial reporting for that fiscal year, as required by Section 404 of the Sarbanes Oxley Act of 2002 ("SOX Section 404"). Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. As an early-stage company, our internal controls may be weaker than those of more established corporations.

We have not tested our internal controls over financial reporting in accordance with SOX Section 404. If we were unable to implement the appropriate controls and procedures required by SOX Section 404 in a timely manner or otherwise to comply with SOX Section 404, management might not be able to certify, and our independent registered public accounting firm might not be able to report on, the adequacy of our internal controls over financial reporting. As a result, there could be an adverse reaction in the financial

markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel.

***Risks Related to Development, Clinical Testing and Regulatory Approval of Our Product Candidates***

*The manufacture and sale of human therapeutic products are governed by a variety of statutes and regulations. There can be no assurance that our product candidates will obtain regulatory approval.*

To obtain marketing approval, U.S. and Canadian laws require:

- controlled research and human clinical testing;
- establishment of the safety and efficacy of the product for each use sought;
- government review and approval of a submission containing manufacturing, preclinical and clinical data;
- adherence to Good Manufacturing Practice Regulations during production and storage; and
- control of marketing activities, including advertising and labelling.

The product candidates we currently have under development will require significant development, preclinical and clinical testing and investment of significant funds before their commercialization. Some of our product candidates, if approved, will require the completion of post-market studies. There can be no assurance that such products will be developed. The process of completing clinical testing and obtaining required approvals is likely to take a number of years and require the use of substantial resources. If we fail to obtain regulatory approvals, our operations will be adversely affected. Further, there can be no assurance that future product candidates will be shown to be safe and effective in clinical trials or receive applicable regulatory approvals.

Other markets have regulations and restrictions similar to those in the U.S. and Canada. Investors should be aware of the risks, problems, delays, expenses and difficulties which we may encounter in view of the extensive regulatory environment which affects our business.

*If testing of a particular product candidate does not yield successful results, then we will be unable to commercialize that product candidate.*

We must demonstrate our product candidates' safety and efficacy in humans through extensive clinical testing. Our research and development programs are at an early stage of development. We may experience numerous unforeseen events during, or as a result of, the testing process that could delay or prevent commercialization of any products, including the following:

- the results of preclinical studies may be inconclusive, or they may not be indicative of results that will be obtained in human clinical trials;
- safety and efficacy results attained in early human clinical trials may not be indicative of results that are obtained in later clinical trials;
- after reviewing test results, we or our collaborators may abandon projects that we might previously have believed to be promising;
- we, our collaborators or regulators, may suspend or terminate clinical trials because the participating subjects or patients are being exposed to unacceptable health risks; and



- our product candidates may not have the desired effects or may include undesirable side effects or other characteristics that preclude regulatory approval or limit their commercial use if approved.

Clinical testing is very expensive, can take many years, and the outcome is uncertain. The data collected from our clinical trials may not be sufficient to support approval of our product candidates by the regulatory authorities. The clinical trials of our product candidates may not be completed on schedule, and the regulatory authorities may not ultimately approve any of our product candidates for commercial sale. If we fail to adequately demonstrate the safety and efficacy of a product candidate, this would delay or prevent regulatory approval of the product candidate, which could prevent us from achieving profitability.

*It may take us longer than we are currently projecting to complete our clinical trials, and we may not be able to complete them at all.*

Although for planning purposes we project the commencement, continuation and completion of our clinical trials, a number of factors, including scheduling conflicts with participating clinicians and clinical institutions, and difficulties in identifying or enrolling patients who meet trial eligibility criteria, may cause significant delays. We may not commence or complete clinical trials involving any of our product candidates as projected or may not conduct them successfully.

We rely on academic institutions or clinical research organizations to conduct, supervise or monitor some or all aspects of clinical trials involving our product candidates. We will have less control over the timing and other aspects of these clinical trials than if we conducted them entirely on our own. If we fail to commence or complete, or if we experience delays in, any of our planned clinical trials, our ability to conduct business as currently planned could be harmed.

*Even if we achieve regulatory approval, future regulatory reviews or inspections may result in the suspension or withdrawal of one or more of our products, closure of a facility or enforcement of substantial fines.*

If regulatory approval to sell any of our product candidates is received, regulatory agencies may, nevertheless, limit the categories of patients who can use them. In addition, regulatory agencies subject a marketed product, its manufacture and the manufacturers' facilities to continual review and periodic inspection. If previously unknown problems with a product or manufacturing and laboratory facility are discovered or we fail to comply with applicable regulatory approval requirements, a regulatory agency may impose restrictions on that product or on us. The agency may require the withdrawal of the product from the market, closure of the facility or enforcement of substantial fines.

*Our ability to successfully commercialize human therapeutic products may depend in part on reimbursement for the cost of such products and related treatments from government health administration authorities, private health coverage insurers and other organizations.*

Third-party payers are increasingly challenging the price of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products, and adequate third-party coverage may not be available to establish price levels sufficient for us to realize an appropriate return on our investment in product development. When we partner our product candidates we will typically be relying on that partner to obtain cost reimbursement from third parties for the product candidate.

*Product candidates we develop, if approved for marketing, may be slow to achieve market acceptance or gain market acceptance at all.*

The product candidates that we are trying to develop will compete with a number of drugs and therapies currently on the market, as well as products currently under development. The rate and degree of market acceptance of our products will depend on a number of factors, including the establishment and demonstration in the medical community of the clinical efficacy and safety of our products and their potential advantage over alternative treatments. There is no assurance that physicians, patients or the medical community in general will accept and utilize any products that we may develop.

*We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.*

The use of our product candidates in clinical trials and the sale of any products for which we obtain marketing approval expose us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health-care providers, pharmaceutical companies, or others selling our products. If we cannot successfully defend ourselves against these claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for our product candidates;
- impairment of our business reputation;
- withdrawal of clinical trial participants;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- loss of revenues; and
- the inability to commercialize our product candidates.

Although we currently have product liability insurance coverage for our clinical trials for expenses or losses, our insurance coverage is limited to US\$10 million per occurrence, and US\$10 million in the aggregate, and may not reimburse us or may not be sufficient to reimburse us for any or all expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, large judgments have been awarded in class action lawsuits based on products that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

#### ***Risks Related to Patents, Licenses and Trade Secrets***

*Other companies or organizations may assert patent rights that prevent us from developing or commercializing our products.*

RNA interference is a relatively new scientific field that has generated many different patent applications from organizations and individuals seeking to obtain patents in the field. These applications claim many

different methods, compositions and processes relating to the discovery, development and commercialization of RNAi therapeutic products. Because the field is so new, very few of these patent applications have been fully processed by government patent offices around the world, and there is a great deal of uncertainty about which patents will be issued, when, to whom, and with what claims. It is likely that there will be litigation and other proceedings, such as interference and opposition proceedings in various patent offices, relating to patent rights in the RNAi field.

In addition, there are many issued and pending patents that claim aspects of siRNA chemistry technology that we may need to apply to our product candidates. There are also many issued patents that claim genes or portions of genes that may be relevant for siRNA drug products we wish to develop. Thus, it is possible that one or more organizations will hold patent rights to which we will need a license. If those organizations refuse to grant us a license to such patent rights on reasonable terms, we will not be able to market products or perform research and development or other activities covered by these patents.

*Our patents and patent applications may be challenged and may be found to be invalid, which could adversely affect our business.*

Certain Canadian, U.S. and international patents and patent applications we own are uncertain and involve complex legal and factual questions for which important legal principles are largely unresolved. For example, no consistent policy has emerged for the breadth of biotechnology patent claims that are granted by the U.S. Patent and Trademark Office or enforced by the U.S. federal courts. In addition, the coverage claimed in a patent application can be significantly reduced before a patent is issued. Also, we face the following intellectual property risks:

- some or all patent applications may not result in the issuance of a patent;
- patents issued may not provide the holder with any competitive advantages;
- patents could be challenged by third parties;
- the patents of others, including Alnylam, could impede our ability to do business;
- competitors may find ways to design around our patents; and
- competitors could independently develop products which duplicate our products.

A number of industry competitors, including Alnylam, and institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to or affect our business. Some of these technologies, applications or patents may conflict with our technologies or patent applications. Such conflict could limit the scope of the patents, if any, that we may be able to obtain or result in the denial of our patent applications. In addition, if patents that cover our activities are issued to other companies, there can be no assurance that we would be able to obtain licenses to these patents at a reasonable cost or be able to develop or obtain alternative technology. If we do not obtain such licenses, we could encounter delays in the introduction of products, or could find that the development, manufacture or sale of products requiring such licenses is prohibited. In addition, we could incur substantial costs in defending patent infringement suits brought against us or in filing suits against others to have such patents declared invalid.

As publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain we or any licensor was the first creator of inventions covered by pending patent applications or that we or such licensor was the first to file patent applications for such inventions. If we were to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, this could result in substantial costs, even if the eventual outcome were

favourable. There can be no assurance that our patents, if issued, will be held valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

*Our business depends on our ability to use RNAi technology that we have licensed or will in the future license from third parties, including Alnylam, and, if these licenses were terminated or if we were unable to license additional technology we may need in the future, our business will be adversely affected.*

We currently hold licenses for certain technologies that are or may be applicable to our current and subsequent product candidates. These include licenses to core siRNA patents held or applied for by Alnylam and certain lipid nanoparticle delivery technologies from the University of British Columbia (UBC). The Alnylam licenses are subject to termination if we were to challenge the validity of Alnylam patents licensed to us or otherwise applicable to products Alnylam may develop or commercialize under licenses from us, or in the event of a breach by us of the licenses or of certain of our other agreements with Alnylam, if we fail to cure the breach following notice and the passage of a cure period. The UBC license is subject to termination with respect to one or more particular patents if we and Alnylam were to cease patent prosecution or maintenance activities with respect to such patent(s), or in the event of a breach by us of the license, if we fail to cure the breach following notice and the passage of a cure period. There can be no assurance that these licenses will not be terminated, especially in light of our recently filed lawsuit against Alnylam. We may also need to acquire additional licenses in the future to technologies developed by others, including Alnylam. For example, our agreement with Alnylam allows us to develop products on our own, using specified intellectual property held by Alnylam, with respect to up to eight gene targets. We have selected three of these gene targets, ApoB, PLK1 and Ebola, for which our licenses from Alnylam are non-exclusive. We have rights to select the gene targets for up to two more non-exclusive licenses from Alnylam, and, in addition, for up to three licenses that will be on an exclusive basis. These additional five gene targets will be available to us only if they have not been previously selected by Alnylam or one of its other partners. This will limit the targets available for selection by us, and we may never be able to select gene targets or may be required to make our selection from gene targets that have minimal commercial potential. Furthermore, future license agreements may require us to make substantial milestone payments. We will also be obligated to make royalty payments on the sales, if any, of products resulting from licensed RNAi technology. For some of our licensed RNAi technology, we are responsible for the costs of filing and prosecuting patent applications. The termination of a license or the inability to license future technologies on acceptable terms may adversely affect our ability to develop or sell our products.

*We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights which could have a material adverse effect on our business, financial condition and results of operations and could cause the market value of our common shares to decline.*

There has been significant litigation in the biotechnology industry over patents and other proprietary rights, and we are or may become involved in various types of litigation that arise from time to time. Involvement in litigation could consume a substantial portion of our resources, regardless of the outcome of the litigation. Counterparties in litigation may be better able to sustain the costs of litigation because they have substantially greater resources. If claims against us are successful, in addition to any potential liability for damages, we could be required to obtain a license, grant cross-licenses, and pay substantial royalties in order to continue to manufacture or market the affected products. Involvement and continuation of involvement in litigation may result in significant and unsustainable expense, and divert management's attention from ongoing business concerns and interfere with our normal operations. Litigation is also inherently uncertain with respect to the time and expenses associated therewith, and involves risks and uncertainties in the litigation process itself, such as discovery of new evidence or acceptance of unanticipated or novel legal theories, changes in interpretation of the law due to decisions in other cases, the inherent difficulty in predicting the decisions of judges and juries and the possibility of appeals. Ultimately we could be prevented from commercializing a product or be forced to cease some

aspect of our business operations as a result of claims of patent infringement or violation of other intellectual property rights and the costs associated with litigation, which could have a material adverse effect on our business, financial condition, and operating results and could cause the market value of our common shares to decline.

On March 16, 2011 we announced that we had filed a lawsuit against Alnylam. The final outcome of this litigation is not presently determinable or estimable and may result in an outcome that is unfavorable to Tekmira. There may be no basis for which Tekmira has any rights or entitlement to damages from Alnylam in the quantum anticipated by Tekmira, or at all. Additionally, we could be subject to counterclaim or other actions in Alnylam's defense strategy that may require us to respond or take action, which could require us to incur additional expense. Legal expenses and the outcome of the litigation with Alnylam are uncertain and may exceed current estimates, which may have a material adverse effect on our financial position and ongoing business strategy. See "*Litigation*" for more detail on the litigation with Alnylam.

*Confidentiality agreements with employees and others, including collaborators, may not adequately prevent disclosure of trade secrets and other proprietary information.*

Much of our know-how and RNAi technology may constitute trade secrets. There can be no assurance, however, that we will be able to meaningfully protect our trade secrets. In order to protect our proprietary RNAi technology and processes, we rely in part on confidentiality agreements with our collaborators, employees, vendors, consultants, outside scientific collaborators and sponsored researchers, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such party. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

### ***Risks Related to Competition***

*The pharmaceutical market is intensely competitive. If we are unable to compete effectively with existing drugs, new treatment methods and new technologies, we may be unable to successfully commercialize any product candidates that we develop.*

The pharmaceutical market is intensely competitive and rapidly changing. Many large pharmaceutical and biotechnology companies, academic institutions, governmental agencies and other public and private research organizations are pursuing the development of novel drugs for the same diseases that we are targeting or expect to target. Many of our competitors have:

- much greater financial, technical and human resources than we have at every stage of the discovery, development, manufacture and commercialization process;
- more extensive experience in pre-clinical testing, conducting clinical trials, obtaining regulatory approvals, and in manufacturing, marketing and selling pharmaceutical products;
- product candidates that are based on previously tested or accepted technologies;
- products that have been approved or are in late stages of development; and
- collaborative arrangements in our target markets with leading companies and research institutions.

We will face intense competition from products that have already been approved and accepted by the medical community for the treatment of the conditions for which we are currently developing products. We also expect to face competition from new products that enter the market. We believe a significant number of products are currently under development, and may become commercially available in the future, for the treatment of conditions for which we may try to develop products. These products, or other of our competitors' products, may be more effective, safer, less expensive or marketed and sold more effectively, than any products we develop.

We are aware of other companies developing drugs to treat high cholesterol, some with compounds at a later stage of development than our product candidate TKM-ApoB. There are several drugs currently approved for treatment of high cholesterol including the statins, such as Lipitor and Crestor, fibrates and bile acid sequestrant drugs. Many new agents are in development for the treatment of high cholesterol including an antisense drug targeting ApoB (mipomersen, ISIS 301012) which is being developed by Isis Pharmaceuticals, Inc. and Genzyme Corporation. Mipomersen has shown promising clinical activity in recently completed Phase 3 studies and according to Genzyme drug approval will be sought in 2011.

There are also a large number of companies that are developing new agents for use in cancer therapy including RNAi therapeutics, and there are other companies developing small molecule drugs designed to inhibit the PLK1 target, including Boehringer Ingelheim. These agents may be competitive with our product candidate TKM-PLK1.

If we successfully develop product candidates, and obtain approval for them, we will face competition based on many different factors, including:

- the safety and effectiveness of our products;
- the ease with which our products can be administered and the extent to which patients accept new routes of administration;
- the timing and scope of regulatory approvals for these products;
- the availability and cost of manufacturing, marketing and sales capabilities;
- price;
- reimbursement coverage; and
- patent position.

Our competitors may develop or commercialize products with significant advantages over any products we develop based on any of the factors listed above or on other factors. Our competitors may therefore be more successful in commercializing their products than we are, which could adversely affect our competitive position and business. Competitive products may make any products we develop obsolete or noncompetitive before we can recover the expenses of developing and commercializing our product candidates. Such competitors could also recruit our employees, which could negatively impact our level of expertise and the ability to execute on our business plan. Furthermore, we also face competition from existing and new treatment methods that reduce or eliminate the need for drugs, such as the use of advanced medical devices. The development of new medical devices or other treatment methods for the diseases we are targeting and may target could make our product candidates noncompetitive, obsolete or uneconomical.

*We face competition from other companies that are working to develop novel products using technology similar to ours. If these companies develop products more rapidly than we do or their technologies,*

*including delivery technologies, are more effective than ours, then our ability to successfully commercialize products will be adversely affected.*

In addition to the competition we face from competing products in general, we also face competition from other companies working to develop novel products using technology that competes more directly with our own. There are multiple companies that are working in the field of RNAi, including major pharmaceutical companies such as Novartis International AG, Takeda Pharmaceutical Company Limited, and Merck, and biotechnology companies such as Alnylam, Quark Pharmaceuticals, Inc., Silence Therapeutics plc, Calando Pharmaceuticals Inc., Marina Biotech, Inc., RXi Pharmaceuticals Corporation, Dicerna Pharmaceuticals, Inc. and Opko Health, Inc. Any of these companies may develop its RNAi technology more rapidly and more effectively than we do or may develop products against the same target or disease indication that we are pursuing.

We also compete with companies working to develop antisense-based drugs. Like RNAi therapeutic products, antisense drugs target messenger RNAs, or mRNAs, in order to suppress the activity of specific genes. Isis Pharmaceuticals, Inc. is the developer of a currently approved antisense drug and has several antisense product candidates in clinical trials. Isis has also licensed its antisense technology to a number of other companies that are developing antisense-based drugs. The development of antisense drugs is more advanced than that of RNAi therapeutic products, and antisense technology may become the preferred technology for products that target mRNAs to silence specific genes.

In addition to competition with respect to RNAi and with respect to specific products, we face substantial competition to discover and develop safe and effective means to deliver siRNAs to the relevant cell and tissue types. Our competitors may develop safer and more effective means to deliver siRNAs to the relevant cell and tissue types than our existing lipid nanoparticle delivery technology, and our ability to successfully commercialize our products would be adversely affected. In addition, substantial resources are being expended by third parties in the effort to discover and develop alternative means of delivering siRNAs into the relevant cell and tissue types, both in academic laboratories and in the corporate sector. Some of our competitors have substantially greater resources than we do, and if our competitors are able to negotiate exclusive access to those delivery solutions developed by third parties, we may be unable to successfully commercialize our product candidates.

#### ***Risks Related to the ownership of our stock***

*If our stock price fluctuates, our investors could incur substantial losses.*

The market price of our common shares may fluctuate significantly in response to factors that are beyond our control. The stock market in general has recently experienced extreme price and volume fluctuations. The market prices of securities of pharmaceutical and biotechnology companies have been extremely volatile, and have experienced fluctuations that often have been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could result in extreme fluctuations in the price of our common shares, which could cause our investors to incur substantial losses.

*We are incorporated in Canada and all of our assets, the majority of our officers and a significant number of our directors reside outside the United States, with the result that it may be difficult for investors to enforce any judgments obtained against us or some of our directors or officers.*

We and our wholly-owned subsidiary, Protiva, are each incorporated under the laws of the Province of British Columbia and all of our assets are located outside the United States. In addition, the majority of our officers and a significant number of our directors are nationals or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States.

While we have appointed National Registered Agents, Inc. as our agent for service of process to effect service of process within the United States upon us, it may not be possible for you to enforce against us or those persons in the United States, judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States. In addition, there is doubt as to whether original action could be brought in Canada against us or our directors or officers based solely upon U.S. federal or state securities laws and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of U.S. federal or state securities laws.

*As a foreign private issuer, we are subject to different United States securities laws and rules than a domestic United States issuer, which may limit the information publicly available to our shareholders.*

We are a “foreign private issuer” as defined under U.S. securities laws. As a result, even though we are subject to the informational requirements of the Exchange Act, as a foreign private issuer, we will be exempt from certain informational requirements of the Exchange Act which domestic U.S. issuers are subject to, including, the annual report on Form 10-K, quarterly report on Form 10-Q, current reports on Form 8-K upon the occurrence of certain material events and the proxy rules under Section 14 of the Exchange Act. In addition, as a foreign private issuer we are exempt from the proxy solicitation rules under the Exchange Act. Furthermore, the insider reporting and short-profit provisions under Section 16 of the Exchange Act will not be applicable to us, therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell our common shares, as the reporting periods under the corresponding Canadian insider reporting requirements are longer. We intend to fulfill all informational requirements that do apply to us as a foreign private issuer under the Exchange Act by filing the more limited version of the annual report for foreign private issuers on Form 20-F and current reports on Form 6-K with the SEC, which contains information disclosed in response to the informational requirements of the securities commissions in all provinces of Canada.

*We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.*

In order to maintain our current status as a foreign private issuer, a majority of our common shares must be either directly or indirectly owned by non-residents of the United States, unless we satisfy all of the additional requirements necessary to preserve this status. We may in the future lose our foreign private issuer status if a majority of our common shares are held in the United States and we fail to meet the additional requirements necessary to avoid loss of foreign private issuer status. If we are not a foreign private issuer, we would not be eligible to use certain foreign issuer forms and would be required to file periodic and current reports and registration statements on United States domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. In addition, we may lose the ability to rely upon exemptions from NASDAQ corporate governance requirements that are available to foreign private issuers. Further, if we engage in capital raising activities after losing our foreign private issuer status, there is a higher likelihood that investors may require us to file resale registration statements with the SEC as a condition to any such financing.

*We believe we were classified as a passive foreign investment company for United States tax purposes for the fiscal year ended December 31, 2008 and for certain prior years. This may have adverse tax consequences for U.S. holders of our shares.*

For the fiscal year ended December 31, 2008 and certain prior years we believe we were classified for United States income tax purposes as a passive foreign investment company (“PFIC”). We do not believe we are classified as a PFIC for the fiscal years ended December 31, 2009 and December 31, 2010. We could be classified as a PFIC in future fiscal years. If you are a U.S. holder of our shares and you purchased your shares in 2008 or certain prior years then any dividends we pay you may be taxed as



ordinary income and not at preferential qualifying dividend tax rates, and upon any sale of our common shares, any capital gain may be taxed as ordinary income and not at preferential capital gains rates. The U.S. federal income tax consequences to a U.S. holder on the acquisition, ownership and disposition of common shares will also depend on whether such U.S. holder makes an election to treat us as a qualified electing fund, or QEF, under Section 1295 of the U.S. internal revenue code or a mark-to-market election under Section 1296 of the U.S. internal revenue code.

*Our articles and certain Canadian laws could delay or deter a change of control.*

Our preferred shares are available for issuance from time to time at the discretion of our board of directors, without shareholder approval. Our articles allow our board, without shareholder approval, to determine the special rights to be attached to our preferred shares, and such rights may be superior to those of our common shares.

In addition, limitations on the ability to acquire and hold our common shares may be imposed by the Competition Act in Canada. This legislation permits the Commissioner of Competition of Canada to review any acquisition of a significant interest in us. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Canadian Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The Investment Canada Act subjects an acquisition of control of a company by a non-Canadian to government review if the value of our assets, as calculated pursuant to the legislation, exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to result in a net benefit to Canada. Any of the foregoing could prevent or delay a change of control and may deprive or limit strategic opportunities for our shareholders to sell their shares.

*The exercise of all or any number of outstanding stock options, the award of any additional options, bonus shares or other stock-based awards or any issuance of shares to raise funds or acquire a business may dilute your common shares.*

We have in the past and may in the future grant to some or all of our directors, officers and employees options to purchase our common shares and other stock-based awards as non-cash incentives to those persons. The issuance of any equity securities could, and the issuance of any additional shares will, cause our existing shareholders to experience dilution of their ownership interests.

Any additional issuance of shares or a decision to acquire other businesses through the sale of equity securities, may dilute our investors' interests, and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our common shares or a change in control.

*We do not expect to pay dividends for the foreseeable future.*

We have not paid any dividends to date and we do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest future earnings, if any, in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common shares, and shareholders may be unable to sell their shares on favourable terms or at all. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our common shares. Prospective investors seeking or needing dividend income or liquidity should not purchase our common shares.

*The value of our securities, including our common shares, might be affected by matters not related to our operating performance and could subject us to securities litigation.*

The value of our common shares may be reduced for a number of reasons, many of which are outside our control:

- developments in our lawsuit against Alnylam;
- general economic and political conditions in Canada, the United States and globally;
- governmental regulation of the health care and pharmaceutical industries;
- failure to achieve desired drug discovery outcomes by us or our collaborators;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, drug targets and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the health care and pharmaceutical industries;
- limited trading volume of our common shares;
- announcements relating to our business or the businesses of our competitors; and
- our ability or inability to raise additional funds.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. There can be no assurance that we will not become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources.

#### **SHARE CAPITAL**

On November 2, 2010 we completed a 5 -to- 1 consolidation of our Common Shares. Each 5 Common Shares were consolidated to represent 1 Common Share as of such date with fractional shares rounded down to the nearest whole share. Issued and outstanding stock options were consolidated on a 5 -to- 1 basis and exercise prices were adjusted to give effect to the consolidation. All Common Share, Common Share price, stock option, per share and exercise price data set forth in this prospectus have been adjusted to give retroactive effect to our 5 -to- 1 share consolidation. For the purpose of giving retroactive effect to the proposed Common Share Consolidation, we have rounded fractional shares to the nearest whole share and rounded fractional dollar information to the nearest whole number with fractions of 0.5 or greater rounded up and fractions less than 0.5 rounded down. Actual amounts may differ.

Our authorized share capital consists of an unlimited number of Common shares without par value, of which 10,338,703 were issued and outstanding as at February 28, 2011, and an unlimited number of Preferred shares without par value of which none were issued and outstanding as at February 28, 2011. In addition, we have outstanding certain incentive options to purchase Common shares as noted below.

## **Common Shares**

The holders of our Common shares are entitled to receive notice of any meeting of our shareholders and to attend and vote thereat, except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote. Each Common share entitles its holder to one vote. Subject to the rights of the holders of preferred shares, the holders of Common shares are entitled to receive on a pro-rata basis such dividends as our board of directors may declare out of funds legally available therefor. In the event of the dissolution, liquidation, winding-up or other distribution of our assets, such holders are entitled to receive on a pro-rata basis all of our assets remaining after payment of all of our liabilities, subject to the rights of holders of Preferred shares. Our Common shares carry no pre-emptive or conversion rights, but, except for certain contractual pre-emptive rights that have been granted to Alnylam and Roche.

## **Preferred Shares**

The Preferred shares of Tekmira may be issued from time to time in one or more series, each series comprising the number of shares, designation, rights, privileges, restrictions and conditions determined by the directors of Tekmira. The Tekmira Preferred shares are entitled to priority over the Common shares with respect to the payment of dividends and distributions in the event of the dissolution, liquidation or a winding-up. The holders of Preferred shares are entitled to receive notice of any meeting of shareholders and to attend and vote thereat, except as otherwise provided in the rights and restrictions attached to the shares by the directors of Tekmira.

As at February 28, 2011, Tekmira had no Preferred shares issued or outstanding.

## **Share Options**

Under Tekmira's stock option plan (the "Plan") the Board of Directors may grant options to employees and directors. The exercise price of the options is determined by the 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 are also subject to certain vesting provisions, but generally vest over three years for employees and immediately for directors.

On May 12, 2009, the shareholders of the Company approved an increase to the number of shares reserved for issuance under the Company's 1996 Stock Option Plan of 266,200, thereby increasing the maximum common shares available under the plan to 1,369,255 of which 211,213 common shares remain available for future allocation as at February 28, 2011.

On May 30, 2008, as a condition of the acquisition of Protiva, the Company reserved 350,457 common shares for issue on the exercise of Protiva share options ("Protiva Options"). These shares are reserved for the issue to those shareholders who did not exercise their Protiva share options and exchange the shares of Protiva issuable on exercise for common shares of Tekmira on the closing of the business combination with Protiva. The shares reserved for them are equal to the same number of Tekmira common shares they would have received if they had exercised their options and transferred the shares to Tekmira. The Protiva Options are not part of Tekmira's stock option Plan and the Company is not permitted to grant any further Protiva Options. As at February 28, 2011, 3,805 common shares had been issued following the exercise of Protiva options.

Though a majority of the options may be allocated for issue to insiders, the Plan restricts the aggregate limit that may be issued to insiders to 10% and to one insider to 5%, of the issued and outstanding Common shares as at the time of grant.

## MARKET FOR SECURITIES

On November 15, 2010, our common shares began to trade on the NASDAQ Capital Market under the symbol "TKMR". This listing is in addition to our listing on the Toronto Stock Exchange under the symbol "TKM". We believe a U.S. listing broadens our exposure to leading North American health care investors and many of our collaborators and partners are listed in the United States.

The following table sets forth the reported high and low prices and the average volume of trading of our common shares on the TSX for the months shown. The figures provided are after adjusting for a 5 –to- 1 share consolidation of Tekmira's shares that occurred on November 2, 2010. See "Explanatory Note Related to Share Consolidation":

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Average Volume</u>
January, 2010	\$4.80	\$3.55	15,460
February, 2010	\$4.05	\$3.45	6,320
March, 2010	\$4.70	\$3.45	9,820
April, 2010	\$4.80	\$4.30	8,260
May, 2010	\$7.25	\$4.50	28,260
June, 2010	\$9.20	\$5.50	24,240
July, 2010	\$9.75	\$6.25	32,340
August, 2010	\$8.75	\$7.30	8,520
September, 2010	\$8.50	\$6.30	9,560
October, 2010	\$6.90	\$5.80	12,356
November, 2010	\$8.75	\$5.60	11,700
December, 2010	\$5.26	\$4.39	7,300
January, 2011	\$7.64	\$4.50	14,100
February, 2011	\$6.15	\$4.80	8,900

The following table sets forth the reported high and low prices in US dollars and the average volume of trading of our common shares on the NASDAQ for the months shown:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Average Volume</u>
November, 2010	\$8.74	\$5.60	12,400
December, 2010	\$6.25	\$4.48	9,500
January, 2011	\$7.94	\$4.50	30,300
February, 2011	\$6.26	\$4.50	16,900

## DIVIDEND RECORD AND POLICY

We have not paid any dividends since our incorporation. We will consider paying dividends in future as our operational circumstances may permit having regard to, among other things, our earnings, cash flow and financial requirements. It is the current policy of the board of directors to retain all earnings to finance our business plan.

## DIRECTORS AND OFFICERS

### Directors

The following table sets out the name, position with the Company, municipality of residence, principal occupation for the past five years and period of time served as a director of each of our directors as at February 28, 2011. A biography of each director follows under “Biographies of Directors and Executive Officers”. The term of office of each director will expire at the conclusion of our annual meeting.

<u>Nominee Name, Position with the Company and Residency<sup>(1)</sup></u>	<u>Principal Occupation for the Past Five Years</u>	<u>Period as a Director of the Company</u>
MICHAEL J. ABRAMS <sup>(3)</sup> Director Washington, U.S.A	Since November 2009, President and CEO of Inimex Pharmaceuticals; since 2008 Chairman of Indel Therapeutics Inc.; President, Chief Executive Officer and director of AnorMED Inc. until May, 2006; director of Migenix Inc. until August 2008; Director for the Centre for Drug Research and Development; Adjunct Professor at the University of British Columbia	Since May 30, 2008
ARTHUR M. BRUSKIN, PH.D <sup>(4)</sup> Director New York, U.S.A.	Since 2006 independent consultant; from 2009 to 2010 part-time Chief Scientific Officer at America Stem Cell, Inc.; from 2006 to 2008 Chief Operating Officer of Eutropics Pharmaceuticals Inc.; from 2005 to 2006 Chief Scientific Officer of Interpath Pharmaceuticals Inc.	Since May 1, 2008
KEN GALBRAITH <sup>(2),(4)</sup> Director British Columbia, Canada	Since 2007 General Partner at Ventures West; in 2006 Chairman and Interim CEO of AnorMED Inc.; from 2001 to 2006 independent consultant.	Since January 28, 2010
DON JEWELL <sup>(2)</sup> Director British Columbia, Canada	Managing Partner, RIO Industrial (financial management services)	Since May 30, 2008
FRANK KARBE <sup>(2)</sup> Director California, U.S.A.	Since 2004 Chief Financial Officer of Exelixis, Inc.	Since January 28, 2010
DANIEL KISNER <sup>(3),(4)</sup> Director and Board Chair California, U.S.A.	Since 2011 independent consultant; from 2003 to 2010 Venture Partner at Aberdare Ventures.	Since January 28, 2010
R. IAN LENNOX <sup>(3),(5)</sup> Director Florida, U.S.A.	Since 2006 Executive Chairman of Ricerca Biosciences, LLC and also Chief Executive Officer since 2008; since 2004 independent consultant and director of a number of biotechnology companies.	Since May 30, 2008

Nominee Name, Position with the Company and Residency <sup>(1)</sup>	Principal Occupation for the Past Five Years	Period as a Director of the Company
MARK J. MURRAY President, Chief Executive Officer and Director Washington, U.S.A.	Since May, 2008, President, Chief Executive Officer and Director; since 2000, President and Chief Executive Officer of Protiva Biotherapeutics Inc.	Since May 30, 2008

- (1) The information as to municipality of residence, principal occupation, business or employment of, and shares beneficially owned or, controlled by, a director is not within the knowledge of management of the Company and has been furnished by the director.
- (2) Member of the Audit Committee.
- (3) Member of the Executive Compensation and Human Resources Committee.
- (4) Member of the Corporate Governance and Nominating Committee.
- (5) Mr. Ian Lennox entered into a settlement agreement with the Ontario Securities Commission, or OSC, in March 2006 with regard to his purchase in the market of 25,000 shares of Labopharm Inc. while he was a director of Labopharm. The purchase was made outside a Labopharm imposed blackout period and Mr. Lennox properly filed all insider trading reports. Subsequent to the share purchase, Labopharm entered into a licensing agreement. The possibility of entering into such agreement had been discussed with the Labopharm board before Mr. Lennox made his share purchases. Mr. Lennox initiated contact with the OSC on the matter and cooperated fully with OSC staff.

### Board of Directors

The Board of Directors is responsible for supervising the management of the business and affairs of the Company. The Board establishes the overall policies and standards for the Company and monitors and evaluates the Company's strategic direction and retains plenary power for those functions not specifically delegated by it to management. The Board approves plans as well as major transactions such as strategic alliances, acquisitions and financings.

The directors are kept informed of the Company's operations at meetings of the Board and its committees and through reports and analyses by management. At Board meetings the directors are given an opportunity to meet privately without the presence of Dr. Murray, a management director. The Board meets on a quarterly, regularly scheduled basis and more frequently as required. During 2010, the Board met formally nine times. In addition, informal communications between management and directors occur apart from regularly scheduled Board and committee meetings.

Certain of the directors are employed by or affiliated with organizations which have entered into research agreements with Tekmira. As disputes may arise between these organizations and Tekmira, or certain of these organizations may undertake or have undertaken research with competitors of Tekmira, there exists the possibility for such persons to be in a position of conflict. However, these persons have a duty to deal fairly and in good faith with Tekmira and such other organizations in making any decision or recommendation involving Tekmira. In addition, as applicable, such directors, officers and advisory board members will refrain from voting on any matter in which they have a conflict of interest.

### Audit Committee

The Audit Committee meets with the financial officers of the Company and the independent auditors to review and inquire into matters affecting financial reporting matters, the system of internal accounting and financial controls and procedures, and the audit procedures and plans. The committee also makes

recommendations to the Board regarding the appointment of independent auditors. In addition, the committee reviews and recommends to the Board for approval the annual financial statements and the annual report and certain other documents including the interim financial statements required by the regulatory authorities. The committee is also responsible for approving the policies under which the financial officers of the Company may invest the funds in excess of those required for current operations. In 2010, the Audit Committee charter was revised to reflect our upcoming listing on the NASDAQ. In its August 11, 2010 meeting, the Board of Directors approved the revised Audit Committee charter. The charter, in its most recently approved form, is attached as an appendix to this Annual Information Form.

The committee has also adopted a policy that requires its approval of non-audit services to be provided by the Company's auditors. See "*Pre-Approval Policies and Procedures of Non-Audit Services*".

The committee is currently composed of Messrs. Jewell, Galbraith and Karbe (the committee chairman), none of whom are current or former executive officers of the Company. All three members of the Audit Committee are independent and financially literate, based on either their training as a professional accountant or experience as a chief executive officer or chief financial officer. See "*Biographies of Directors and Executive Officers*" for a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

#### **Pre-Approval Policies and Procedures of Non-Audit Services**

The Company has complied with the Canadian Institute of Chartered Accountants' Rules of Professional Conduct on auditor independence (the Rules) by adopting pre-approval policies and procedures for non-audit services to be provided by the Company's auditors, KPMG LLP (KPMG). As they relate to public companies these Rules are very similar to the revised independence rules of the Securities and Exchange Commission (SEC) that became effective on May 6, 2003. They include prohibitions or restrictions on services that may be provided to audit clients and require that all services provided to a listed entity audit client, including its subsidiaries, be pre-approved by the client's audit committee.

The Rules identify the following ten types of non-audit services that are deemed inconsistent with an auditors' independence ("Prohibited Services"): bookkeeping or other services related to the audit client's accounting records or financial statements; financial information systems design and implementation; appraisal or valuation services for financial reporting purposes; actuarial services for items recorded in the financial statements; internal audit outsourcing services; management functions; human resources; certain corporate finance and other services; legal services; certain expert services unrelated to the audit.

The Rules provide further details as to the specific nature of services within these categories that are prohibited. The Company and its subsidiaries will not engage KPMG to carry out any Prohibited Service. For services that are not prohibited the following pre-approval policies will apply:

- The Audit Committee will pre-approve all audit services provided by KPMG through their recommendation of KPMG as shareholders' auditors at the Company's annual meeting and through the Audit Committee's review of KPMG's annual audit plan.
- Annually, the Audit Committee will review a list of audit, audit-related, tax and other non-audit services and recommend pre-approval of these services for the upcoming year. Any additional requests will be addressed on a case-by-case specific engagement basis as described below. The Audit Committee will be informed quarterly of the services on the pre-approved list for which the auditor has been engaged.

- All requests to engage KPMG for other services will be addressed on a case-by-case specific engagement basis. The Company employee making the request is to submit the request for service to the Company's Executive Vice President, Finance. The request for service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason KPMG is being engaged.

For services where the aggregate fees are estimated to be less than or equal to \$20,000, recommendations, in respect of each engagement, will be submitted by Executive Vice President, Finance, the official responsible for coordinating services with KPMG to the chairman of the Audit Committee for consideration and approval. The full Audit Committee will subsequently be informed of the service, at its next meeting. The engagement may commence upon approval of the chairman of the Audit Committee. For services where the aggregate fees are estimated to be greater than \$20,000, recommendations, in respect of each engagement, will be submitted by the Company's Executive Vice President, Finance to the full Audit Committee for consideration and approval, generally at its next meeting. The engagement may commence upon approval of the Committee.

#### External Auditor Service Fees

The aggregate fees billed for professional services rendered by KPMG for the years ended December 31, 2010 and December 31, 2009 are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Audit Fees <sup>(1)</sup>	\$ 288,600	\$ 130,848
Tax Fees <sup>(2)</sup>	\$ 53,941	\$ 66,755
<b>Total fees</b>	<b>\$ 342,541</b>	<b>\$ 197,603</b>

- (1) Quarterly reviews, audit of March 31, 2010 consolidated financial statements including U.S. GAAP reconciliation and disclosure, review of SEC listing documents, review of prospectus, consultations on the accounting or disclosure treatment of transactions reflected in the financial statements.
- (2) Tax compliance and tax planning.



## Executive Officers

As at February 28, 2011, the Company has five executive officers. The following table includes name and municipality of residence of each of our executive officers, the offices held and each officer's principal occupation. A biography of each executive officer, which includes a five year history of employment, follows under "Biographies of Directors and Executive Officers".

<u>Name and Municipality of Residence</u>	<u>Position</u>	<u>Principal Occupation</u>
MARK J. MURRAY, PH.D. Seattle, Washington, U.S.A.	President, Chief Executive Officer and Director	Executive of the Company
IAN C. MORTIMER, M.B.A. North Vancouver, BC, Canada	Executive Vice President, Finance and Chief Financial Officer	Executive of the Company
IAN MACLACHLAN, PH.D. Mission, BC, Canada	Executive Vice President and Chief Scientific Officer	Executive of the Company
PETER LUTWYCHE, PH.D. Vancouver, BC, Canada	Senior Vice President, Pharmaceutical Development	Executive of the Company
PAUL A. BRENNAN, Vancouver, BC, Canada	Senior Vice President, Business Development	Executive of the Company

## Biographies of Directors and Executive Officers

The following are brief biographies of our directors and executive officers.

**Mark J. Murray, Ph.D., President, Chief Executive Officer and Director.** Dr. Murray joined Tekmira in May 2008 concurrent with the closing of the business combination between Tekmira and Protiva. He previously was the President and CEO and founder of Protiva since its inception in the summer of 2000. Dr. Murray has over 20 years of experience in both the R&D and business development and management facets of the biotechnology industry. Dr. Murray has held senior management positions at ZymoGenetics and Xcyte Therapies prior to joining Protiva. Since entering the biotechnology industry Dr. Murray has successfully completed numerous and varied partnering deals, directed successful product development programs, been responsible for strategic planning programs, raised over \$30 million in venture capital and executed extensive business development initiatives in the U.S., Europe and Asia. During his R&D career, Dr. Murray worked extensively on three programs that resulted in FDA approved drugs, including the first growth factor protein approved for human use, a program he led for several years following his discovery. Dr. Murray obtained his Ph.D. in Biochemistry from the University of Oregon Health Sciences University and was a Damon Runyon-Walter Winchell post-doctoral research fellow for three years at the Massachusetts Institute of Technology.

**Daniel Kisner, M.D., Chairman.** Dr. Kisner is currently an independent consultant. From 2003 until December 2010, Dr. Kisner was a Venture Partner at Aberdare Ventures. Prior to Aberdare, Dr. Kisner served as President and CEO of Caliper Technologies, a leader in microfluidic lab-on-a-chip technology. He led Caliper from a technology-focused start up to a publicly traded, commercially oriented organization. Prior to Caliper, he was President and COO of Isis Pharmaceuticals, Inc. Previously, Dr. Kisner was Division VP of Pharmaceutical Development for Abbott Laboratories and VP of Clinical Research and Development at SmithKline Beckman Pharmaceuticals. In addition, he held a tenured

position in the Division of Oncology at the University of Texas, San Antonio School of Medicine and is certified by the American Board of Internal Medicine in Internal Medicine and Medical Oncology. Dr. Kisner holds a B.A. from Rutgers University and an M.D. from Georgetown University.

**Michael J. Abrams, Ph.D., Director.** Dr. Abrams has been active in the research, discovery and development of pharmaceuticals for over 20 years. In 1984, Dr. Abrams joined Johnson Matthey plc and in 1991, was promoted to Manager, Biomedical Research, worldwide for Johnson Matthey. In June 1996 Dr. Abrams initiated the Canadian venture-backed financing of AnorMED Inc. He is an inventor on the patents that led to the development of the Lantheus technetium-99m heart imaging agent, Cardiolite® and is a co-inventor on several products currently in clinical trials. He is also a named inventor on an additional 15 patents and has authored over 60 scientific articles. Dr. Abrams served as CEO and a director of AnorMED Inc. until May 2006 and as a director of Migenix Inc. until August 2008 and is currently a director for the Centre for Drug and Research Development and viDA Therapeutics Inc. and Chairman for Indel Therapeutics Inc. In 2009, Dr. Abrams joined Inimex Pharmaceuticals as President and CEO. He is also an Adjunct Professor at the University of British Columbia.

**Arthur M. Bruskin, Ph.D., Director.** Dr. Bruskin is currently an independent consultant in the biotechnology and pharmaceutical industry. He earned his BA and MA (Microbiology) at the University of Connecticut and his Ph.D. (Biology) at Indiana University. Following his postdoctoral training at the University of California, San Francisco, Dr. Bruksin took a position at Applied Biotechnology (ABT), a Cambridge, MA biotechnology company where he was responsible for their cancer therapeutic program from 1987 to 1991. Following the merger of ABT with Oncogene Science in 1991 (now OSI Pharmaceuticals (NASDAQ:OSIP)), Dr. Bruksin held a variety of positions at OSI including Executive Vice President, Global Research. Dr. Bruskin was responsible for all of OSI's preclinical research in the areas of Oncology and Diabetes and was involved in the discovery and development of Tarceva. After leaving OSI in 2002, Dr. Bruskin has been the Chief Scientific Officer of Interpath Pharmaceuticals Inc. (2005-2006) and the Chief Operating Officer of Eutropics Pharmaceuticals Inc. (2006-2008) and part-time Chief Scientific Officer at America Stem Cell, Inc., a privately held biotechnology company (2009-2010).

**Ken Galbraith, C.A., Director.** Mr. Galbraith is currently a General Partner at Ventures West. He joined Ventures West in 2007 and leads the firm's biotechnology practice. Prior to joining Ventures West, Mr. Galbraith was Chairman and Interim CEO of AnorMED, a biopharmaceutical company focused on new therapeutic products in hematology, HIV and oncology, until its sale to Genzyme Corp. in a cash transaction worth almost US\$600 million. Previously, Mr. Galbraith spent 13 years in senior management with QLT Inc., a global biopharmaceutical company specializing in developing treatments for eye diseases, retiring in 2000 from his position as Executive VP and CFO. Mr. Galbraith was a founding Director of the BC Biotechnology Alliance and served as Chairman of the Canadian Bacterial Diseases Network, one of Canada's federally-funded Networks for Centers of Excellence (NCE). He was also a Director of the Michael Smith Foundation for Health Research and the Fraser Health Authority. He currently serves on the Board of Directors of a number of private biotechnology companies as well as the Vancouver Aquarium Marine Science Centre, one of the world's leading aquariums and Genome BC and has previously served on the Board of Directors of a number of Nasdaq-listed biotechnology companies, including Cardiome Pharma and Angiotech Pharmaceuticals. Mr. Galbraith earned a Bachelor of Commerce (Honours) degree from the University of British Columbia and is a Chartered Accountant.

**Donald Jewell, C.A., Director.** Mr. Jewell is a Chartered Accountant with over 30 years of business experience. Mr. Jewell spent 20 years with KPMG and at the time of his departure, he was the managing partner in charge of KPMG's management consulting practice in British Columbia. Until March 2010 Mr. Jewell was Chairman of Cal Investments Limited, a London based hedge fund. Mr. Jewell is currently the managing director of a private Canadian holding company; Trustee of a two substantial Canadian private

trusts; and on the Board of the trusts' major operating companies. He is also on the Board of Directors of Lantic Inc.

**Frank Karbe, Director.** Mr. Karbe is currently the Executive Vice President and Chief Financial Officer of Exelixis, Inc., a Nasdaq-listed biotechnology company. Prior to joining Exelixis in 2004, Mr. Karbe worked as an investment banker for Goldman Sachs & Co., where he served most recently as Vice President in the healthcare group focusing on corporate finance and mergers and acquisitions in the biotechnology industry. Prior to joining Goldman Sachs in 1997, Mr. Karbe held various positions in the finance department of The Royal Dutch/Shell Group in Europe. Mr. Karbe holds a Diplom-Kaufmann from the WHU—Otto Beisheim Graduate School of Management, Koblenz, Germany (equivalent to a U.S. Masters of Business Administration).

**R. Ian Lennox, M.B.A., Director.** Mr. Lennox is currently Chairman and CEO of Ricerca Biosciences, LLC, a contract research organization for the pharmaceutical industry and he is also director of several life sciences companies in North America. From 2000 to 2004, Mr. Lennox held leadership positions at MDS Inc. ("MDS"), first as president and chief executive officer, drug discovery and development, and later as president and chief executive officer, pharmaceutical and biotechnology markets. Prior to joining MDS, Mr. Lennox was president and chief executive officer of Phoenix International Life Sciences, a NASDAQ Stock Exchange company, and chairman and chief executive officer of Drug Royalty Corporation, a Toronto Stock Exchange listed company. From 1978 to 1997, Mr. Lennox held progressively senior managerial positions at Monsanto Company in the U.S., Europe and Latin America, including six years as president and chief executive officer of Monsanto (Canada), based in Toronto. Mr. Lennox has also served as director of a number of life sciences companies and charitable foundations in North America. Mr. Lennox holds an Honours B.S. degree in physiology and pharmacology and an M.B.A. from the University of Western Ontario. He has also completed the executive management program in finance at the Columbia School of Business.

**Ian C. Mortimer, M.B.A., Executive Vice President, Finance and Chief Financial Officer.** Mr. Mortimer became the Chief Financial Officer of Tekmira after its spin-out from Inex Pharmaceuticals Corporation in 2007 and has responsibilities for Finance, Investor Relations, Human Resources and Information Technology. From 2004 to 2007, Mr. Mortimer was Chief Financial Officer of Inex. From 1997 to 2004, Mr. Mortimer held positions of increasing responsibility at Inex including leading Inex's investor relations efforts and evaluation of product in-licensing opportunities. He has a B.Sc. in Microbiology from the University of British Columbia, an M.B.A. from Queen's University and is a Certified Management Accountant.

**Ian MacLachlan, Ph.D., Executive Vice President, Chief Scientific Officer.** Dr. MacLachlan joined Tekmira in 2008 concurrent with the closing of the business combination between Tekmira and Protiva. Dr. MacLachlan was a founder of Protiva in 2000 and led Protiva's R&D program since the company's inception. A graduate of the University of Alberta, where he received both his B.Sc. and Ph.D. in Biochemistry, Dr. MacLachlan spent two years at the Vienna Bio-Center where some of the first experiments in systemic gene delivery were performed. Following this, Dr. MacLachlan conducted postdoctoral research at the Howard Hughes Medical Institute at the University of Michigan in the laboratory of Dr. Gary Nabel, a pioneer in the development of DNA-based therapeutics. Active in molecular therapeutics for more than a decade, he joined Protiva after five years leading the development of the gene transfer technology at Inex Pharmaceuticals. Dr. MacLachlan has been an invited speaker on nucleic acid delivery at the National Institutes of Health, the National Cancer Institute, numerous academic institutions and most major scientific meetings dealing with molecular therapy. He is a member of the New York Academy of Sciences, the Oligonucleotide Therapeutics Society and the American Society of Gene Therapy and serves on the Editorial Board of the journals Molecular Therapy and Oligonucleotides.

**Peter Lutwyche, Ph.D., Senior Vice President, Pharmaceutical Development.** Dr. Lutwyche joined Tekmira after the completion of the business combination between Tekmira and Protiva. Dr. Lutwyche joined Protiva in February 2008. His responsibilities at Tekmira include manufacturing, process development and quality control for all Tekmira product candidates as well as supporting Tekmira's collaborative partners as they advance products that utilize Tekmira's technology. Dr. Lutwyche joined Protiva from QLT Inc., where he was employed for ten years, most recently as Director, Pharmaceutical Development. During his tenure at QLT, Dr. Lutwyche contributed to the development and commercialization of Visudyne as well as leading manufacturing and chemistry efforts for numerous preclinical and clinical stage products. Prior to QLT, he was a research scientist at Inex Pharmaceuticals Corporation working with lipid-based formulations of nucleic acids and antibiotics. Dr. Lutwyche holds a Ph.D. in Chemistry from the University of British Columbia.

**Paul A. Brennan, Senior Vice President, Business Development.** Mr. Brennan joined Tekmira in September 2010. Mr. Brennan has over 20 years of experience working for pharmaceutical and biotechnology companies in general management, business development, marketing and regulatory affairs. Prior to joining Tekmira, Mr. Brennan was a principal at Pacific BioPartners, a consulting company focused on supporting biotechnology companies with general management and business development expertise. Prior to that he served as CEO of Altair Therapeutics, an emerging biopharmaceutical company based in San Diego, which focused on developing inhaled oligonucleotides for respiratory diseases. Prior to Altair, Mr. Brennan was Senior Vice President, Business Development at Aspreva Pharmaceuticals and was involved in the sale of Aspreva to Vifor Pharma for \$915 million. Prior to Aspreva, Mr. Brennan was at AnorMED where he held a number of roles including Acting President during which time he was involved in the sale of AnorMED to Genzyme for \$580 million. Mr. Brennan has also held senior positions in business development and regulatory affairs at AstraZeneca, where he worked in Sweden, the United Kingdom and Canada. Mr. Brennan has a MSc and BSc from Queen's University in Kingston, Ontario.

#### **Shareholdings of Directors and Executive Officers**

As at February 28, 2011, the directors and executive officers of the Company, as a group, owned or exercised control or direction over an aggregate of 518,017 Common shares (1,251,147 on a fully diluted basis), representing 5.0% (10.4% fully diluted) of the issued and outstanding Common shares of the Company.

#### **TRANSFER AGENT AND REGISTRAR**

Our registrar and transfer agent is CIBC Mellon Trust Company at its offices in Vancouver, British Columbia.

#### **LITIGATION**

On March 16, 2011, we announced the filing of a complaint against Alnylam for misappropriation and misuse of trade secrets, know-how and other confidential information, unfair and deceptive trade practices, unjust enrichment, unfair competition and false advertising. The suit, filed in the Business Litigation Session of the Massachusetts Superior Court, alleges Alnylam exploited its confidential relationship with us as a collaborator to engage in inappropriate and harmful conduct concerning our proprietary LNP technology, resulting in damage to our intellectual property and business interests.

A full copy of the legal complaint can be accessed through our website at [www.tekmirapharm.com](http://www.tekmirapharm.com). In summary, the complaint states that Alnylam has harmed Tekmira and its shareholders by:

- misappropriating confidential information, including trade secrets and other commercially valuable information from Tekmira;
- disclosing our step-by-step LNP formulation manufacturing instructions to at least one third-party collaborator;
- incorporating our confidential information into Alnylam’s patent filings and claiming ownership in direct violation of a licensing agreement between the two companies;
- willfully and knowingly misusing our confidential information for Alnylam’s own enrichment; and,
- engaging in other unfairly competitive, deceptive and misleading actions in their public disclosures such as claiming our technology as their own.

The damages that we will be seeking are substantial. Damages will be subject to what we learn in discovery in prosecuting this case, but even at this early stage, we believe that we are entitled to very significant damages by reason of Alnylam’s illegal conduct as alleged in the complaint.

#### **MATERIAL CONTRACTS**

The following contracts were entered into other than in the ordinary course of business, are material to the Company and were entered into in the most recent financial year or prior to the most recently completed financial year but remain in effect:

- The licensing agreement with Aradigm described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations*”
- The licensing agreement with Talon described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations – Legacy Agreements – Talon Biosciences, Inc. license agreement*”
- The License and Collaboration Agreement and Cross-License with Alnylam described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations*”
- The licensing agreement with Merck described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations*”
- The Manufacturing Agreement with Alnylam described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations*”
- The Product Selection and IND Enabling Agreement with Roche described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations*”
- A first amendment to our licensing agreement with Talon described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations – Legacy Agreements – Talon Biosciences, Inc. license agreement*”
- The contract with the United States Government to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection described under “*Our Business – Technology, product development and licensing agreements – TKM - Ebola*”

- A second amendment to our licensing agreement with Talon described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations – Legacy Agreements – Talon Biosciences, Inc. license agreement*”
- A waiver and release agreement with certain of our contingent creditors described under “*Our Business – Technology, product development and licensing agreements – Partnerships and Collaborations – Legacy Agreements – Talon Biosciences, Inc. license agreement*”

The interests of directors and officers of Tekmira in the May 30, 2008 acquisition of Protiva are described in the Company’s Management Information Circular dated May 1, 2008 and filed at [www.sedar.com](http://www.sedar.com).

#### **INTERESTS OF EXPERTS**

Our consolidated financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 have been audited by KPMG LLP, Chartered Accountants, our external auditors. KPMG LLP has confirmed to us that it is independent within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of British Columbia. These rules are equivalent or similar to Rules of Professional Conduct applicable to chartered accountants in the other provinces of Canada.

#### **ADDITIONAL INFORMATION**

Additional information relating to our Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities and shares authorized for issuance under compensation plans will be contained in our Information Circular for the annual meeting of shareholders to be held later in the year. Additional financial information is provided in our audited comparative financial statements, and related management’s discussion and analysis, as at and for the year ended December 31, 2010.

Copies of this Annual Information Form and the documents incorporated by reference therein, the comparative financial statements of the Company (including the auditors’ report by the Company’s auditors, KPMG) for the year ended December 31, 2010, each interim financial statement issued after December 31, 2009, the Information Circular and the Annual Report may be obtained upon request from our Chief Financial Officer, 100 – 8900 Glenlyon Parkway, Burnaby, British Columbia, V5J 5J8.

CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS

I. PURPOSE

The purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Tekmira Pharmaceuticals Corporation (the “Company”) shall be to act on behalf of the Board in fulfilling the Board’s oversight responsibilities with respect to: (i) the Company’s corporate accounting, financial reporting practices and audits of financial statements, (ii) the Company’s systems of internal accounting and financial controls; (iii) the quality and integrity of the Company’s financial statements and reports; and (iv) the qualifications, independence and performance of any firm or firms of certified public accountants or independent chartered accountants engaged as the Company’s independent outside auditors (the “Auditors”).

II. COMPOSITION AND MEETINGS

A. Composition. The Committee shall consist of at least three members of the Board, all of whom shall be non-executive directors of the Company and free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgement as a member of the Committee. Each member shall meet the independence and financial literacy and experience requirements of the Nasdaq Global Market or similar requirements of such other securities exchange or quotation system or regulatory agency as may from time to time apply to the Company, including the Toronto Stock Exchange, the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and the rules and regulations of the Canadian provincial and federal securities regulatory authorities, in all cases as may be modified or supplemented (collectively, the “Rules”), subject to any exceptions or exemptions permitted by the Rules. Each member shall meet such other qualifications for membership on an audit committee as are established from time to time by the Rules. At least one member shall, unless the Board determines otherwise, be an audit committee financial expert as defined by the rules of the Nasdaq Global Market. The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board. The Committee’s Chair shall be designated by the Board, or if it does not do so, the Committee members shall elect a Chair by vote of a majority of the full Committee.

B. Meetings. The Committee will hold at least four regular meetings per year and additional meetings as the Committee deems appropriate. Meetings will be conducted, in whole or in part, without the presence of members of management. Meetings may be called by the Chair of the Committee or the Chair of the Board. Meetings may also be convened at the request of the Auditors where, as determined by the Auditors, certain matters should be brought to the attention of the Committee, the Board or the Company’s shareholders.

III. MINUTES AND REPORTS

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chair of the Committee will report to the Board from time to time, or whenever so requested by the Board.

IV. AUTHORITY

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder.

The Committee shall have authority to retain, and set and pay the compensation for, at the Company’s expense, advice and assistance from internal and external legal, accounting or other advisors or consultants as it deems necessary or appropriate in the performance of its duties. The Company shall make available to the Committee all funding necessary for the Committee to carry out its duties, as determined by the Committee, for payment of (i) compensation to any registered public accounting firm

engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; and (ii) compensation to any advisors employed by the Committee. The Committee shall recommend to the Board for its approval expenditures for external resources that are expected to be material and outside the ordinary course of the Committee's practices.

The Committee shall have authority to require that any of the Company's personnel, counsel, Auditors or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants.

## V. RESPONSIBILITIES

The operation of the Committee shall be subject to and in compliance with the provisions of the articles of the Company and the Rules, each as in effect from time to time, subject to any permitted exceptions or exemptions thereunder. Any action by the Board with respect to any of the matters set forth below shall not be deemed to limit or restrict the authority of the Committee to act under this Charter, unless the Board specifically limits such authority.

The Auditors shall report directly to the Committee. The Committee shall oversee the Company's financial reporting process on behalf of the Board.

To implement the Committee's purpose, the Committee shall, to the extent the Committee deems necessary or appropriate, be charged with the following duties and responsibilities. The Committee may supplement and, except as otherwise required by the Rules, deviate from these activities as appropriate under the circumstances:

1. Oversight, Evaluation and Recommendation to the Board. The Committee shall be directly responsible for overseeing the work of the Auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company. The Committee shall evaluate the performance of the Auditors, assess their qualifications (including their internal quality-control procedures and any material issues raised by the Auditor's most recent internal quality-control or peer review or any investigations by regulatory authorities) and recommend to the Board: (a) the Auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; (b) replacement of the Auditors, if necessary, as so determined by the Committee; and (c) the compensation of the Auditor.

2. Approval of Audit Engagements. Subject to applicable corporate law as to the appointment formalities of the Company's Auditors, the Committee shall determine and approve engagements of the Auditors, prior to commencement of such engagement, to perform all proposed audit, review and attest services, including the scope of and plans for the audit, and the compensation to be paid to the Auditors, which approval may be pursuant to pre-approval policies and procedures, including the delegation of pre-approval authority to one or more Committee members so long as any such pre-approval decisions are presented to the full Committee at the next scheduled meeting.

3. Approval of Non-Audit Services. The Committee shall determine and approve engagements of the Auditors, prior to commencement of such engagement (unless in compliance with exceptions or exemptions available under applicable laws and rules related to immaterial aggregate amounts of services), to perform any proposed permissible non-audit services, including the scope of the service and the compensation to be paid therefore, which approval may be pursuant to pre-approval policies and procedures established by the Committee consistent with the Rules, including the delegation of pre-approval authority to one or more Committee members so long as any such pre-approval decisions are presented to the full Committee at the next scheduled meeting.

4. Audit Partner Rotation. The Committee shall monitor the rotation of the partners of the Auditors on the Company's audit engagement team as required by applicable laws and rules.



5. Hiring Practices. The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former Auditors. The Committee shall ensure that no individual who is, or in the past 12 months has been, affiliated with or employed by a present or former Auditor or an affiliate, is hired by the Company as a senior officer until at least 12 months after the end of either the affiliation or the auditing relationship.

6. Auditor Conflicts. At least annually, the Committee shall receive and review written statements from the Auditors delineating all relationships between the Auditors and the Company, shall consider and discuss with the Auditors any disclosed relationships and any compensation or services that could affect the Auditors' objectivity and independence, and shall assess and otherwise take appropriate action to oversee the independence of the Auditors.

7. Audited Financial Statement Review. The Committee shall review, upon completion of the audit, the Company's financial statements, including the related notes and the management's discussion and analysis of financial condition and results of operations, prior to the same being publicly disclosed, and shall recommend whether or not such financial statements and management's discussion and analysis of financial condition and results of operations should be approved by the Board and whether the financial statements should be included in the Company's annual report.

8. Annual Audit Results. The Committee shall discuss with management and the Auditors the results of the annual audit, including the Auditors' assessment of the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and estimates (including material changes in estimates), any material audit adjustments proposed by the Auditors and immaterial adjustments not recorded, the adequacy of the disclosures in the financial statements and any other matters required to be communicated to the Committee by the Auditors under promulgated auditing standards.

9. Quarterly Results. The Committee shall discuss with management and the Auditors the results of the Auditors' review of the Company's quarterly financial statements, including the related notes and the management's discussion and analysis of financial condition and results of operations prior to the same being filed with applicable regulatory authorities, any material audit adjustments proposed by the Auditors and immaterial adjustments not recorded, the adequacy of the disclosures in the financial statements and any other matters required to be communicated to the Committee by the Auditors under promulgated auditing standards and shall recommend whether or not such financial statements and management's discussion and analysis of financial condition and results of operations should be approved by the Board.

10. Annual and Interim Financial Press Releases. The Committee shall review with management annual and interim financial press releases before the Company publicly discloses this information.

11. Financial Information Extracted From Financial Statements. The Committee shall ensure that adequate procedures are in place for review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements (for clarity, financial information other than the Company's financial statements and management's discussion and analysis of financial condition and results of operations referred to in Section 7 and annual and interim earnings press releases referred to in Section 10) and the Committee shall periodically assess the adequacy of those procedures.

12. Accounting Principles and Policies. The Committee shall review with management and the Auditors significant issues that arise regarding accounting principles and financial statement presentation, including critical accounting policies and practices, alternative accounting policies available under GAAP related to material items discussed with management and any other significant reporting issues and judgments.

13. Management Cooperation with Audit. The Committee shall review with the Auditors any significant difficulties with the audit or any restrictions on the scope of their activities or access to

required records, data and information, significant disagreements with management and management's response, if any.

14. Management Letters. The Committee shall review with the Auditors and, if appropriate, management, any management or internal control letters issued or, to the extent practicable, proposed to be issued by the Auditors and management's response, if any, to such letter, as well as any additional material written communications between the Auditors and management.

15. Disagreements Between Auditors and Management. The Committee shall review with the Auditors and management, and shall be directly responsible for the resolution of, any conflicts or disagreements between management and the Auditors regarding financial reporting, accounting practices or policies.

16. Internal Financial Reporting Controls. The Committee shall confer with the Auditors and with the management of the Company regarding the scope, adequacy and effectiveness of internal financial reporting controls in effect including any special audit steps taken in the event of material control deficiencies. The Committee shall review with the Auditors and with the management of the Company the progress and findings of their efforts related to any documentation, assessment and testing of internal financial reporting controls required to comply with the Rules.

17. Separate Sessions. At least once each fiscal quarter, the Committee shall meet in separate sessions with the Auditors and management to discuss any matters that the Committee, the Auditors or management believe should be discussed privately with the Committee.

18. Complaint Procedures. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Such procedures shall be reviewed annually by the Committee and any suggested changes shall be submitted to the Board for its approval.

19. Regulatory and Accounting Initiatives. The Committee shall review with counsel, the Auditors and management, as appropriate, any significant regulatory or other legal or accounting initiatives or matters that may have a material impact on the Company's financial statements, compliance programs and policies if, in the judgment of the Committee, such review is necessary or appropriate.

20. Material Issues Regarding Financial Statements or Accounting Policies. The Committee shall review with the Auditors and management any legal matters, tax assessments, correspondence with regulators or Governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies and the manner in which these matters have been disclosed in public filings, if applicable.

21. Correction of Financial Statements. The Committee shall review with Auditors and management management's process for identifying, communicating and correcting misstatements, understanding management tolerance for unadjusted misstatements, and assess the affect of corrected and uncorrected misstatements, if any, on the Company's financial statements.

22. Officer's Certifications Regarding Financial Statements. The Committee shall receive and review the Chief Executive Officer and Chief Financial Officer certifications of quarterly and annual financial statements.

23. Related Party Transactions. The Committee shall review and approve, in advance, related-party transactions and review other issues arising under the Company's Code of Business Conduct for Directors, Officers and Employees or similar policies.

24. Investigations. The Committee shall investigate any matter brought to the attention of the Committee within the scope of its duties if, in the judgment of the Committee, such investigation is necessary or appropriate.

25. Legal Matters. The Committee shall review with the Company's external counsel and/or internal legal personnel any legal matters that may have a material impact on the Company's financial statements, compliance policies or internal accounting or financial reporting controls and shall review any material reports or inquiries received from securities regulatory authorities, any securities exchange or quotation system or any other governmental agency.

26. Code of Business Conduct. The Committee shall ensure that the Company has a published code of business conduct that covers financial matters, and shall monitor the application of the code of business conduct. Any waivers from the code of business conduct that are granted for the benefit of the Company's Board members or executive officers should be granted by the Board or the Committee only.

27. Proxy Report. The Committee shall prepare any report or other disclosure required by the Rules to be prepared by it and included in the Company's annual proxy statement, information circular or other regulatory filing.

28. Charter. The Committee shall review, discuss and assess annually its own performance as well as the Committee's role and responsibilities as outlined in this Charter. The Committee shall submit any suggested changes to the Board for its approval.

29. Report to Board. The Committee shall report to the Board with respect to material issues that arise regarding the quality or integrity of the Company's financial statements, the performance or independence of the Auditors or such other matters as the Committee deems appropriate from time to time or whenever it shall be called upon to do so.

30. Investment Risk Assessment and Management. The Committee shall review and discuss with management and the Auditors, as appropriate, the Company's guidelines and policies with respect to investment risk assessment and management, including the Company's major financial risk exposures, the Company's investment and hedging policies, and the steps taken by management to monitor and control these exposures.

31. Other Responsibilities. The Committee shall perform such other functions as may be assigned to the Committee by law, by the Company's articles or bylaws or by the Board.

32. General Authority. The Committee shall perform such other functions and have such other powers as may be necessary or convenient in the efficient discharge of the forgoing.

It shall be management's responsibility to prepare the Company's financial statements and periodic reports and the responsibility of the Auditors to audit those financial statements. It is not the duty of the Committee to (1) plan or conduct audits; (2) determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles; or (3) to assure compliance with laws and regulations and the Company's policies generally. Furthermore, it is the responsibility of the Chief Executive Officer, Chief Financial Officer and other senior management to avoid and minimize the Company's exposure to risk, and while the Committee is responsible for reviewing with management the guidelines and policies to govern the process by which risk assessment and management is undertaken, the Committee is not the sole body responsible. The Auditors shall be accountable to the Committee as representatives of the shareholders.

**TEKMIRA PHARMACEUTICALS CORPORATION****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS**

**March 30, 2011** / *This management discussion and analysis (MD&A) for the year ended December 31, 2010 should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2010 and the related notes thereto. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the United States/Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A and our consolidated financial statements are prepared in accordance with generally accepted accounting principles used in the United States of America ("U.S. GAAP"). These principles differ in certain respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The differences as they affect the financial statements are described below in the section "Differences between U.S. and Canadian GAAP". All amounts are expressed in Canadian dollars unless otherwise indicated. Unless the context otherwise requires, all references to "Tekmira", the "Company", "we", "us", and "our" refer to Tekmira Pharmaceuticals Corporation, including all of its subsidiaries. Additional information relating to Tekmira, including the Company's March 30, 2011 Annual Information Form and Short Form Base Shelf Prospectus dated November 4, 2010 is available at the SEDAR website at [www.sedar.com](http://www.sedar.com) or the EDGAR website at [www.sec.gov/edgar](http://www.sec.gov/edgar).*

**FORWARD-LOOKING STATEMENTS**

This discussion and analysis contains "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). Forward-looking statements are generally identifiable by use of the words "believes," "may," "plans," "will," "anticipates," "intends," "budgets", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions. Forward-looking statements in this MD&A include statements about Tekmira's strategy, future operations, clinical trials, prospects and the plans of management; RNAi (ribonucleic acid interference) product development programs; estimates of the number of clinical development programs to be undertaken by Tekmira and its product development partners; selection of additional product candidates; timing of release of clinical data; the quantum and timing of potential funding; use of lipid nanoparticle (LNP) technology by Tekmira's licensees (we have previously referred to our LNP technology as SNALP for Stable Nucleic Acid Lipid Particles); the effects of Tekmira's products on the treatment of elevated low-density lipoprotein (LDL) cholesterol, cancer and infectious disease; Tekmira's expectations with respect to existing and future agreements with third parties; estimates that the reduction in Roche revenue to be replaced by increased revenue from the TKM-Ebola contract and formulations made for BMS; statements about the nature, prospects and anticipated timing to resolve the complaint filed by Tekmira against Alnylam; the nature, scope and quantum of damages sought by Tekmira from Alnylam; measures taken to ensure that Tekmira can pursue the litigation with Alnylam without interruption to Tekmira's core business activities; estimates and scope of Tekmira's financial guidance and expected cash runway in light of the litigation with Alnylam; and estimates of the length of time Tekmira's business will be funded by its anticipated financial resources.

With respect to the forward-looking statements contained in this MD&A, Tekmira has made numerous assumptions regarding, among other things: LNP's status as a leading RNAi delivery technology; the effectiveness of Tekmira's products as a treatment for high LDL cholesterol, cancer and infectious disease; the developmental milestones and approvals required to trigger funding for TKM-Ebola from the Transformational Medical Technologies program; results in non-human primates are indicative of the potential effect in humans; Tekmira's research and development capabilities and resources; FDA approval with respect to commencing clinical trials; FDA approval of Tekmira's products; the timing and obtaining of regulatory approvals for Tekmira's products; the timing and results of clinical data releases and use of LNP technology by Tekmira's development partners and licensees; the time required to complete research and product development activities; the timing and quantum of payments to be received under contracts with Tekmira's collaborative partners including the U.S. Government and the manufacturing agreement with Alnylam; the nature and prospects of the litigation with Alnylam; based on the conduct of Alnylam, the nature, scope and quantum of damages that Tekmira is entitled to; costs and timing of the litigation with Alnylam and the effects of such on Tekmira's financial position and execution of Tekmira's business strategy; the sufficiency of budgeted capital expenditures

in carrying out planned activities; Tekmira's ability to protect its intellectual property rights and not to infringe on the intellectual property rights of others; the ability to succeed at establishing a successful commercialization program for any of Tekmira's products; and the availability and cost of labour and services. While Tekmira considers these assumptions to be reasonable, these assumptions are inherently subject to significant business, economic, competitive, market and social uncertainties and contingencies.

Additionally, there are known and unknown risk factors which could cause Tekmira's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements contained herein. Known risk factors include, among others: the possibility that other organizations have made advancements in RNAi delivery technology that Tekmira is not aware of; the FDA will not approve the commencement of Tekmira's planned clinical trials or approve the use of Tekmira's products and generally, difficulties or delays in the progress, timing and results of clinical trials and studies; the FDA may determine that the design and planned analysis of Tekmira's clinical trials do not adequately address the trial objectives in support of Tekmira's regulatory submissions; future operating results are uncertain and likely to fluctuate; Tekmira may not be able to develop and obtain regulatory approval for its products; competition from other pharmaceutical or biotechnology companies; Tekmira's ability to raise additional financing required to fund further research and development, clinical studies, and obtain regulatory approvals, on commercially acceptable terms or at all; economic and capital market conditions; Tekmira's ability to obtain and protect intellectual property rights, and operate without infringing on the intellectual property rights of others; Tekmira's research and development capabilities and resources will not meet current or expected demand; Tekmira's development partners and licensees conducting clinical trial and development programs will not result in expected results on a timely basis, or at all; anticipated payments under contracts with Tekmira's collaborative partners including the U.S. Government will not be received by Tekmira on a timely basis, or at all, or in the quantum expected by Tekmira; pre-clinical trials may not be completed, or clinical trials started, when anticipated or at all; pre-clinical and clinical trials may be more costly or take longer to complete than anticipated; pre-clinical or clinical trials may not generate results that warrant future development of the tested drug candidate; Tekmira may become subject to product liability or other legal claims for which the Company has made no accrual in its financial statements; the reduction in Roche revenue may not be replaced in the quantity anticipated or at all; the final outcome of the litigation with Alnylam is not presently determinable or estimable and may result in an outcome that is unfavorable to Tekmira; there may be no basis for which Tekmira has any rights or entitlement to damages from Alnylam in the quantum anticipated by Tekmira, or at all; legal expenses associated with litigation are uncertain and may exceed current estimates, which may have a material adverse effect on Tekmira's financial position and ongoing business strategy; the uncertainty of litigation, including the time and expenses associated therewith; risks and uncertainties involved in the litigation process, such as discovery of new evidence or acceptance of unanticipated or novel legal theories, changes in interpretation of the law due to decisions in other cases, the inherent difficulty in predicting the decisions of judges and juries and the possibility of appeals; Tekmira has not sufficiently budgeted for capital expenditures necessary to carry out planned activities.

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's Annual Information Form dated March 30, 2011 and available at [www.sedar.com](http://www.sedar.com). All forward-looking statements herein are qualified in their entirety by this cautionary statement, and Tekmira disclaims any obligation to revise or update any such forward-looking statements or to publicly announce the result of any revisions to any of the forward-looking statements 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.

### **United States share listing**

On November 15, 2010, Tekmira's common shares began to trade on the NASDAQ Capital Market. This listing is in addition to the Company's listing on the Toronto Stock Exchange.

We believe a U.S. listing broadens Tekmira's exposure to leading North American health care investors and many of our collaborators and partners are listed in the United States.

In order to meet the NASDAQ's share listing requirement of a US\$4.00 minimum share price, on November 4, 2010, Tekmira completed a consolidation of its common shares whereby five old common shares of Tekmira were exchanged for one new common share of Tekmira. All references to common shares, average number of common shares outstanding, per share amounts and options in this MD&A have been restated to reflect the common share consolidation on a retroactive basis.

### **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 collaboration partners' products and are developing an Ebola antiviral product (TKM-Ebola) under a Transformational Medical Technologies (TMT) contract with the U.S. Government. Our focus is on advancing products that utilize our proprietary lipid nanoparticle (LNP) technology for the delivery of small interfering RNA (siRNA). We have previously referred to our LNP technology as SNALP for Stable Nucleic Acid Lipid Particles. 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) RNAi intellectual property to develop eight RNAi therapeutic products.

Our most advanced internal product candidates are

- TKM-ApoB (formerly ApoB SNALP), for the treatment of high cholesterol;
- TKM-PLK1 (formerly PLK1 SNALP), for the treatment of cancer; and
- TKM-Ebola (formerly Ebola SNALP), for the treatment of Ebola infection.

In the field of RNAi therapeutics, we have licensed our LNP 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. (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 United States National Cancer Institute, the U.S. Government through their TMT program and other undisclosed pharmaceutical and biotechnology companies. Outside the RNAi field, we have legacy licensing agreements with Talon Therapeutics, Inc. (Talon, formerly Hana Biosciences, Inc.) and Aradigm Corporation.

### **TKM-ApoB**

On July 2, 2009 we announced that we had initiated a Phase 1 human clinical trial for TKM-ApoB (formerly known as ApoB SNALP). TKM-ApoB 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. TKM-ApoB 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. TKM-ApoB consists of siRNA, designed to silence ApoB, encapsulated in a LNP formulation. TKM-ApoB is delivered into the liver hepatocytes, the cells which produce ApoB, where the siRNA acts to silence the messenger RNA 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 TKM-ApoB clinical trial. We enrolled a total of 23 subjects in the trial. Of the 23 subjects enrolled, 17 subjects received a single dose of TKM-ApoB at one of seven different dosing levels and six subjects received a placebo.

The primary endpoints of the TKM-ApoB Phase 1 clinical trial were measures of safety and tolerability. TKM-ApoB 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 an adverse event comprised of flu-like symptoms, cytokine release and transient hypotension 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.

Based on a review of subsequent non-clinical data for TKM-ApoB, we have decided to delay the initiation of our next TKM-ApoB clinical trial. We had originally planned to initiate a Phase 1-2 clinical trial for TKM-ApoB by the end of 2010. In non-clinical studies, the performance characteristics of the specific lipid nanoparticle formulation used in the current TKM-ApoB product candidate have not met our expectations for the intended application. We tailor LNP formulations for each intended application. We continue to make significant advances in LNP formulation development and there are several alternative LNP formulations with improved characteristics that are currently being evaluated for TKM-ApoB development.

#### **TKM-PLK1**

Our second internal siRNA product candidate, TKM-PLK1, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in healthy tissue. TKM-PLK1 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 TKM-PLK1 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 TKM-PLK1 anti-tumor efficacy results were confirmed to be the result of silencing PLK1 via RNA interference. Furthermore, certain LNP formulations also provided potent anti-tumor efficacy in preclinical models of tumors outside the liver.

On December 22, 2010 we announced the initiation of patient dosing in a Phase 1 human clinical trial for TKM-PLK1. The Phase 1 clinical trial, conducted at three medical centers in the United States, is an open label, multi-dose, dose escalation study designed to evaluate the safety, tolerability and pharmacokinetics of TKM-PLK1 as well as determining the maximum tolerated dose. The trial will enroll up to 52 patients with advanced solid tumors. Secondary objectives of the trial are to measure tumor response as well as the pharmacodynamic effects of TKM-PLK1 in patients providing biopsies.

#### **TKM-Ebola**

On May 28, 2010 we announced the publication of a series of studies demonstrating the ability of an RNAi therapeutic utilizing our LNP technology to protect non-human primates from Ebola virus, a highly contagious and lethal human infectious disease.

We conducted the studies in collaboration with leading infectious disease researchers from the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) and funded in part by the U.S. Government's Transformational Medical Technologies (TMT) program. The results, which were published in the prominent medical journal, *The Lancet*, describe antiviral activity of siRNA in LNPs targeting the Ebola virus (TKM-Ebola). When used to treat infected non-human primates, TKM-Ebola resulted in complete protection from an otherwise lethal dose of Zaire Ebola virus. For many years, the Zaire species of Ebola virus (ZEBOV) has been associated with periodic outbreaks of hemorrhagic fever in human populations with mortality rates reaching 90%. There are currently no treatments for Ebola or other hemorrhagic fever viruses.

In the published studies, non-human primates were infected with a lethal dose of ZEBOV and were then treated with seven daily doses of TKM-Ebola. The TKM-Ebola therapeutic delivered three different siRNAs targeting three separate viral gene products thereby inactivating the virus in three different parts of its life cycle. The three siRNAs were encapsulated in our proprietary LNP delivery technology engineered for delivery to the cells where the Ebola virus is known to replicate. All of the non-human primates treated with TKM-Ebola survived the infection and were shown to be free of ZEBOV virus infection within 14 days after inoculation with a lethal dose of ZEBOV virus.

On July 14, 2010, we signed a contract with the U.S. Government to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection. The initial phase of the contract, which is funded under a TMT program, is budgeted at US\$34.7 million and is expected to last approximately three years. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an IND application with the FDA and completing a Phase 1 human safety clinical trial. We expect to file an IND for TKM-Ebola in the second half of 2011.

The U.S. Government has the option of extending the contract beyond the initial funding period to support the

advancement of TKM-Ebola through to the completion of clinical development and FDA approval. Based on the budget for the extended contract this would provide us with up to US\$140.0 million in funding for the entire program.

Under the contract we are being reimbursed for costs incurred, including an allocation of overheads, and we are being paid an incentive fee.

### **Expansion of intellectual property portfolio**

On November 22, 2010 we announced that the United States Patent & Trademark Office (USPTO) and the European Patent Office (EPO) had issued key patents covering elements of our leading lipid nanoparticle technology.

The EPO granted claims (European Patent No. 1 519 714 B1) covering our proprietary manufacturing process and apparatus for the production of lipid nanoparticles. Our manufacturing process is a proprietary method that is robust, scalable and highly reproducible. This process has been reviewed by multiple international regulatory agencies for the production of LNPs used in several ongoing human clinical trials.

The USPTO granted claims (U.S. Patent No. 7,807,815) covering the identification and modification of siRNA sequence motifs responsible for immune stimulation. This case is the first in a series of patent filings we have made covering methods of mitigating siRNA immune stimulation through chemical modification. This intellectual property is based on research by our scientists on the sequence-dependent stimulation of the innate immune response by nucleic acids, including siRNA.

### **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 Tekmira's business combination with Protiva Biotherapeutics, Inc. (Protiva) on May 30, 2008.

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 LNP 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 TKM-PLK1 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 TKM-PLK1 project to exercise their opt-in right. If Alnylam chooses to opt into the TKM-PLK1 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 up to US\$16.0 million in milestones from Alnylam 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 MD&A.

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 eight gene targets (three exclusive and five non-exclusive licenses). Licenses for three targets, ApoB, PLK1 and Ebola, 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 four of the non-exclusive licenses (with the exception of TKM-Ebola, which has no milestone obligations, and TKM-PLK1 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 LNP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for advanced solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our LNP 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. Interim ALN-VSP data were presented at the 2010 Annual Meeting of the American Society of Clinical Oncology (ASCO) in May 2010 and at the Chemotherapy Foundation Symposium in November 2010. Alnylam expects to report additional clinical data in the second quarter of 2011.

Alnylam are 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 LNP technology and are being manufactured by us. On July 7, 2010, Alnylam announced the initiation of a Phase 1 human clinical trial for ALN-TTR01 which triggered a US\$0.5 million milestone payment to us and Alnylam expects to report data from this trial in the third quarter of 2011.

Under a manufacturing agreement (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 are paying 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.

On March 16, 2011, we announced the filing of a complaint against Alnylam for misappropriation and misuse of trade secrets, know-how and other confidential information, unfair and deceptive trade practices, unjust enrichment, unfair competition and false advertising. The suit, filed in the Business Litigation Session of the Massachusetts Superior Court, alleges Alnylam exploited its confidential relationship with us as a collaborator to engage in inappropriate and harmful conduct concerning our proprietary LNP technology, resulting in damage to our intellectual property and business interests.

### **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 (Roche Research Agreement) dated February 11, 2009. Work under the Roche Research Agreement was completed in the first half of 2009.

On May 11, 2009 we announced a product development agreement with Roche (Roche Product Development Agreement) that provides for product development up to the filing of 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 is paying for the provision of our staff and for external costs incurred up to US\$8.8 million, for us to support the advancement of a Roche RNAi product candidate using our LNP technology through to the filing of an IND application. 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 is being recorded in the period that Roche is invoiced for those costs.

On November 17, 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. Recognition of revenue from the Roche Product Development Agreement is covered in the Revenue section of this MD&A.

### **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 (BMS) research agreement**

On May 10, 2010 we announced the expansion of our research collaboration with BMS. Under the new agreement, BMS will use siRNA molecules formulated by us in LNPs to silence target genes of interest. BMS will conduct the preclinical work to validate the function of certain genes and share the data with us. We can use the preclinical data to develop RNAi therapeutic drugs against the therapeutic targets of interest. BMS paid us US\$3.0 million concurrent with the signing of the agreement. We are required to provide a predetermined number of LNP batches over the four-year agreement. BMS will have a first right to negotiate a licensing agreement on certain RNAi products developed by us that evolve from BMS validated gene targets. Recognition of revenue from agreements with BMS is covered in the Revenue section of this MD&A.

**U.S. Army Medical Research Institute for Infectious Diseases (USAMRIID) research agreement**

In 2005 we signed a five-year research agreement with the USAMRIID to collaborate on the development of siRNA-based therapy against filovirus infections, including Ebola, using LNPs. In 2010 we received the final payment under this grant. Further development of our TKM-Ebola product is being funded by the U.S. Government under the TMT program as discussed above.

**U.S. National Institutes of Health (NIH) grant**

On October 13, 2010 we announced that together with collaborators at The University of Texas Medical Branch (UTMB), we were awarded a new NIH grant to support research to develop RNAi therapeutics to treat Ebola and Marburg hemorrhagic fever viral infections using our LNP delivery technology. The grant, worth US\$2.4 million, will support work at Tekmira and the UTMB.

**Takeda Pharmaceutical Company Limited (Takeda) research agreement**

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

In the first quarter of 2010, we expanded our agreement with Takeda to provide additional LNP batches as Takeda continues to evaluate our technology.

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.

**Legacy Agreements****Talon Therapeutics, Inc. (Talon, formerly Hana Biosciences, Inc.) license agreement**

Talon 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 Talon. Talon has agreed to pay us milestones and royalties and is responsible for all future development and future expenses. In May 2009, the license agreement with Talon was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the license agreement with Talon was amended a second time such that Talon paid \$5.9 million (US\$5.75 million) in consideration for reducing certain future payments associated with the product candidates. The payment of \$5.9 million (US\$5.75 million) from Talon has been paid to certain of our contingent creditors in full settlement of a contingent obligation - see "Off-Balance Sheet Arrangements." We are now eligible to receive milestone payments from Talon of up to US\$19.0 million upon achievement of further development and regulatory milestones and we are also eligible to receive single-digit royalties on product sales. The milestone payments can be made in common shares of Talon. If Talon sublicenses any of the product candidates, Tekmira is eligible to receive a percentage of any upfront fees or milestone payments received by Talon.

In December 2009, Talon announced the results of its Phase 2 relapsed ALL clinical trial. Talon intends to submit a New Drug Application for Marqibo in the first half of 2011.

**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 and stock-based compensation. These accounting policies 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 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 and contracts, and licensing fees comprised of initial fees and milestone payments. Payments received under research and development agreements and contracts, 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 and contracts 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.

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, development 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 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 2010 was \$21.4 million (2009 - \$14.4 million) and deferred revenue at December 31, 2010 was \$4.1 million (December 31, 2009 - \$1.2 million).

**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 make an estimate for stock option forfeitures at the time of grant and revise this estimate in subsequent periods if actual forfeitures differ. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock option. We amortize the fair value of stock options 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.

We recorded stock compensation expense in 2010 of \$0.7 million (2009 - \$0.3 million).

#### DIFFERENCES BETWEEN UNITED STATES OF AMERICA AND CANADIAN GAAP

Historically we prepared our consolidated financial statements in conformity with Canadian generally accepted accounting principles (GAAP) and for fiscal 2010 interim periods we provided a supplemental reconciliation to United States (U.S.) GAAP. The Canadian Securities Administrators' National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, permits Canadian public companies who are also U.S. Securities and Exchange Commission (SEC) registrants the option of preparing their financial statements under U.S. GAAP. Based on a number of our peers and collaborators reporting under U.S. GAAP we concluded that U.S. GAAP is more relevant to the users of our financial statements than Canadian GAAP. Therefore, effective December 31, 2010, we adopted U.S. GAAP as the reporting standard for our consolidated financial statements. All comparative financial information contained in our December 31, 2010 consolidated financial statements and in this MD&A has been recast to reflect our results as if we had historically reported in accordance with U.S. GAAP. These policies are consistent with Canadian GAAP in all material respects for Tekmira except, under Canadian GAAP, the in-process research and development acquired from Protiva on May 30, 2008 would be recorded on our Balance Sheet as intangible assets and would be amortized over its estimated useful life of 16 years. Under U.S. GAAP, the in-process research and development acquired from Protiva was expensed at the time of acquisition as it has no alternative future use. The impact of this difference for years ended and as at December 31, 2008, 2009 and 2010 is described in note 14 to the consolidated financial statements. The impact of this difference on our 2010 and 2009 quarterly results is as follows:

(in millions Cdn\$ except per share data) - unaudited

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Net loss, U.S. GAAP	\$ (4.2)	\$ (4.0)	\$ (2.4)	\$ (1.9)
Adjustment for in-process research and development	(0.3)	(0.3)	(0.3)	(0.3)
Net loss, Canadian GAAP	(4.4)	(4.2)	(2.7)	(2.1)
Basic and diluted loss per common share, Canadian GAAP	\$(0.43)	\$(0.41)	\$(0.26)	\$(0.20)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net loss, U.S. GAAP	\$ (1.8)	\$ (2.0)	\$ (2.6)	\$ (2.4)
Adjustment for in-process research and development	(0.3)	(0.3)	(0.3)	(0.3)
Net loss, Canadian GAAP	(2.1)	(2.3)	(2.8)	(2.6)
Basic and diluted loss per common share, Canadian GAAP	\$(0.20)	\$(0.22)	\$(0.27)	\$(0.25)

#### RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued EITF 08-01, *Revenue Arrangements with Multiple Deliverables* (currently within the scope of FASB Accounting Standards Codification (ASC) Subtopic 605-25). This statement provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The EITF introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We do not expect the adoption of this pronouncement to have a material impact on our financial condition, results of operations or cash flows.

In March 2010, the FASB ratified the EITF final consensus on Issue ASC 2010-17, *Milestone Method of Revenue*

*Recognition.* The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of a substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. We are currently evaluating this new consensus.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The enhanced disclosure will provide financial statement users with an improved understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. This standard is effective on a prospective basis for the first interim or annual period beginning after December 15, 2010. We do not expect the adoption of this pronouncement to have a material impact on our financial condition, results of operations or cash flows.

## SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected financial information for our 2010, 2009 and 2008 fiscal years:

<u>(in millions of Cdn\$ except per share date)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total revenue	\$ 21.4	\$ 14.4	\$ 11.7
Research, development, collaborations and contracts expenses	22.1	17.8	16.1
General and administrative expenses	4.8	4.2	4.4
Termination and restructuring expenses	—	—	3.2
Depreciation of property and equipment	1.0	1.0	0.8
In-process research and development acquired from Protiva	—	—	16.3
Loss on purchase and settlement of exchangeable and development notes	6.0	—	—
Other income (losses)	0.1	(0.3)	(0.9)
Total (loss)	(12.4)	(8.8)	(29.9)
Basic and diluted (loss) per share	(1.20)	(0.85)	(3.69)
Total assets	21.0	29.3	36.9
Total liabilities	10.3	6.8	4.9
Deficit	(248.9)	(236.5)	(226.7)
Total stockholders' equity	\$ 10.7	\$ 22.5	\$ 32.0

The factors that have caused period to period variations in our revenues, expenses and loss per year between 2010 and 2009 are explained in detail in Results of Operations. There were a number of factors contributing to changes in our results from 2008 to 2009 such as one time 2008 expenses linked to the acquisition of Protiva and a loss due to the impairment of goodwill.

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 was 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.

Research, development, collaborations and contracts 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 TKM-ApoB program was significantly higher in 2008 as compared to 2009. In 2008 we took TKM-ApoB through preclinical toxicology studies and the manufacture of drug product for human clinical trials. In 2009 our TKM-ApoB program moved into a Phase 1 clinical trial.
- In 2009 TKM-PLK1 spending increased significantly over 2008 as we commenced preclinical toxicology studies and the manufacture of human clinical trial drug product.
- Costs incurred in support of our collaborators were higher in 2009 as we manufactured a number of Alnylam products that utilize our LNP 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 2008 termination and restructuring expenses were \$3.2 million. 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.

The in-process research and development acquired through the business combination with Protiva in May 2008 was expensed at the time of acquisition as it has no alternative future use.

**SUMMARY OF QUARTERLY RESULTS**

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

(in millions Cdn\$ except per share data) - unaudited

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
<b>Revenue</b>								
Collaborations and contracts:								
Alnylam	\$ 2.4	\$ 2.2	\$ 2.2	\$ 2.0	\$ 0.9	\$ 1.4	\$ 1.8	\$ 2.1
U.S. Government	—	—	—	—	—	—	1.2	2.4
Roche	0.4	1.0	1.0	2.4	1.3	0.9	0.7	1.7
Other	0.1	—	0.1	0.1	0.3	—	0.3	—
	2.9	3.2	3.3	4.5	2.5	2.3	3.9	6.2
Alnylam licensing fees and milestone payments	—	0.6	—	—	—	—	0.5	—
Talon license amendment payment	—	—	—	—	—	—	5.9	—
<b>Total revenue</b>	<b>2.9</b>	<b>3.8</b>	<b>3.3</b>	<b>4.5</b>	<b>2.5</b>	<b>2.3</b>	<b>10.4</b>	<b>6.2</b>
<b>Net loss</b>	<b>(1.8)</b>	<b>(2.0)</b>	<b>(2.6)</b>	<b>(2.4)</b>	<b>(4.2)</b>	<b>(4.0)</b>	<b>(2.4)</b>	<b>(1.9)</b>
<b>Basic and diluted net loss per share</b>	<b>\$(0.18)</b>	<b>\$(0.19)</b>	<b>\$(0.25)</b>	<b>\$(0.23)</b>	<b>\$(0.40)</b>	<b>\$(0.38)</b>	<b>\$(0.24)</b>	<b>\$(0.18)</b>

**Quarterly Trends** / Our revenue is derived from research and development collaborations and contracts, licensing fees and milestone payments. Over the past two years, our principal sources of ongoing revenue have been our Alnylam partnership entered into in March 2006, our Roche partnership which was expanded in May 2009 and our contract with the U.S. Government to advance TKM-Ebola which began in July 2010.

We had a collaborative research agreement with Alnylam that was completed in August 2009. In January 2009 we signed a Manufacturing Agreement with Alnylam. Revenue from the Alnylam Manufacturing Agreement was higher than usual in Q3 2009, Q4 2009, Q3 2010 and Q4 2010 when deferred revenue related to minimum FTE payments was recognized based on our estimate of percentage of completion of the annual commitment. In Q1 2010 Alnylam revenue was relatively low as fewer batches were requested for manufacture.

In Q3 2010 we began to earn revenue under a contract with the U.S. Government to develop TKM-Ebola.

Revenue from our Roche collaboration increased throughout 2009 to \$2.4 million in Q4 2009 when we manufactured a number of drug batches. In November 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. The balance of Roche deferred revenue, except for a provision for the stability study work, was brought into income in Q4 2010.

In Q2 2009 and in Q3 2010 we received US\$0.5 million milestone payments from Alnylam following their initiation of phase 1 human clinical trials for two separate products enabled by our LNP delivery technology.

Also in Q3 2010 we received a \$5.9 million license amendment payment from Talon. The \$5.9 million was then paid to contingent creditors (see Off-balance sheet arrangements – Debt retirement) so is also included as an “other loss” in our Q3 2010 income statement.

We expect revenue to continue to fluctuate particularly due to the variability in demand for our manufacturing

services, the development stage of the TKM-Ebola contract and the timing of licensing payments and milestone receipts.

Net losses from Q3 2009 to Q2 2010 generally increased due to increased spending on our TKM-ApoB and TKM-PLK1 programs. In particular, in Q1 and Q2 2010, we were manufacturing materials for preclinical and clinical trials and conducting toxicology studies in preparation for clinical development of both programs.

Net losses in the second half of 2010 are generally lower than the first half of 2010 as revenues increased significantly.

**Fourth quarter of 2010** / Our Q4 2010 net loss was \$1.9 million (\$0.18 per common share) as compared to a net loss of \$2.4 million (\$0.23 per common share) for Q4 2009. The primary reason for the decrease in net losses is a greater increase in revenues than expenses. Quarterly revenue trends are discussed above.

Research, development, collaborations and contracts expenses increased to \$6.6 million in Q4 2010 as compared to \$5.3 million in Q4 2009. In Q3 2010 we signed a contract with the U.S. Government to develop TKM-Ebola and incurred significant program costs such as materials and preclinical studies that have been included in research, development, collaborations and contracts expenses. These costs are being reimbursed by the U.S. Government who is also paying for TKM-Ebola related labour costs and overheads and an incentive fee. Research, development, collaborations and contracts expenses also increased as we hired more research and development staff to support our internal and partnered programs.

General and administrative expenses increased to \$1.2 million in Q4 2010 from \$1.1 million in Q4 2009. The increase largely relates to professional and listing fees for our NASDAQ share listing.

## RESULTS OF OPERATIONS

### Year ended December 31, 2010 compared to the year ended December 31, 2009

For the fiscal year ended December 31, 2010, our net loss was \$12.4 million (\$1.20 per common share) as compared to a net loss of \$8.7 million (\$0.85 per common share) for 2009.

The primary reason for the increase in net losses is increased research, development, collaborations and contracts spending across our internal and partnered programs. Also, in 2010, we have incurred professional and listing fees for our NASDAQ listing.

**Revenue** / Revenue was \$21.4 million in 2010 as compared to \$14.4 million in 2009. In Q3 2010 we received a \$5.9 million license fee amendment payment from Talon which was subsequently paid on to contingent creditors and is further explained in Off-Balance Sheet Arrangements below. Revenue streams from our ongoing collaborations and contracts changed significantly in 2010 as discussed below.

Revenue is detailed in the following table:

<u>(in millions Cdn\$)</u>	<u>2010</u>	<u>2009</u>
<b>Collaborations and contracts</b>		
Alnylam	\$ 6.3	\$ 8.8
U.S. Government	3.6	—
Roche	4.5	4.8
BMS	0.2	0.2
Other RNAi collaborators	0.4	—
<b>Total collaborations and contracts</b>	<b>14.9</b>	<b>13.8</b>
Alnylam milestone payments	0.5	0.6
Talon license amendment payment	5.9	—
<b>Total revenue</b>	<b>\$21.4</b>	<b>\$14.4</b>

**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 LNP 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.

In Q2 2009 and in Q3 2010 we received US\$0.5 million milestone payments from Alnylam following their initiation of Phase 1 human clinical trials for two separate products enabled by our LNP delivery technology.

**U.S. Government revenue** / On July 14, 2010, we signed a contract with the United States Government to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection (see Overview for further discussion). The initial phase of the contract, which is funded under a Transformational Medical Technologies program, is budgeted at US\$34.7 million and is expected to last approximately three years. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an IND application with the FDA and completing a Phase 1 human safety clinical trial.

Under the contract we are being reimbursed for costs incurred, including an allocation of overheads, and we are being paid an incentive fee. The cost of equipment purchased for the contract, and revenue from the reimbursement of that cost, is initially recorded as deferred costs and revenue and is then amortized to the income statement over the expected contract period.

**Roche revenue** / Under the Roche Product Development Agreement dated May 2009 Roche 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. In November 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. As at December 31, 2010, we have retained a deferred revenue balance of \$0.04 million to cover a small amount of stability study work to be completed for Roche. The balance of Roche deferred revenue was brought into income in 2010.

We earned \$0.8 million in collaborations revenue during the first half of 2009 for work under a separate Roche Research Agreement that ended in June 2009.

**BMS revenue** / BMS revenue in 2009 and 2010 relates to a research collaboration agreement. In May 2010 we signed a formulation agreement with BMS under which BMS paid us \$3.2 million (US\$3.0 million) to make a certain number of LNP formulations over the next four years. Revenue from this agreement will be recognized as batches are produced. No batches have yet been produced under the new BMS agreement so deferred revenue as at December 31, 2010 includes \$3.2 million in this respect.

**Other RNAi collaborators revenue** / We have active research agreements with a number of other RNAi collaborators.

**Talon license amendment payment** / On September 20, 2010, the license agreement with Talon was amended such that Talon paid \$5.9 million (US\$5.75 million) in consideration for reducing certain future payments associated with the product candidates. The payment of \$5.9 million from Talon has been paid on to contingent creditors in full settlement of a contingent obligation - see "Off-Balance Sheet Arrangements." We are now eligible to receive milestone payments from Talon of up to US\$19.0 million upon achievement of further development and regulatory milestones and we are also eligible to receive single-digit royalties on product sales. If Talon sublicenses any of the product candidates, Tekmira is eligible to receive a percentage of any upfront fees or milestone payments received by Talon.

**Revenue guidance for 2011** / Total collaborations and contracts revenues are expected to be higher in 2011 than

2010 levels. We expect the reduction in Roche revenue to be replaced by increased revenue from the TKM-Ebola contract and formulations made for BMS.

**Expenses / Research, development, collaborations and contracts** / Research, development, collaborations and contracts expenses increased to \$22.1 million in 2010 as compared to \$17.8 million in 2009.

In Q3 2010 we signed a contract with the U.S. Government to develop TKM-Ebola and incurred significant program costs such as materials and preclinical studies that have been included in research, development, collaborations and contracts expenses. These costs are being reimbursed by the U.S. Government who is also paying for TKM-Ebola related labour costs and overheads and an incentive fee.

In 2010 we also incurred more reimbursable costs on our Alnylam collaboration as compared to 2009. Overall costs incurred on our TKM-PLK1, TKM-ApoB and other research and formulation development are at similar levels in 2009 and 2010.

Research, development, collaborations and contracts compensation expenses increased in 2010 as compared to 2009. This was due to increasing staff numbers and an increase in stock option expense in 2010. Our research and development staff numbers have increased to 82 at December 31, 2010 (total staff 92) as compared to 64 (total staff 78) at December 31, 2009. Ordinarily, we issue an annual grant of stock options to all staff and directors at the end of our fiscal year but due to a stock trading black-out our annual grant was delayed until Q1 2010. Our 2010 annual grant of stock options occurred as planned in December 2010. Typically, a portion of our stock options vest immediately so there is a peak in stock option expense in the period when options are granted.

**Research, development, collaborations and contracts expenses guidance for 2011** / Total research, development, collaborations and contracts expenses are expected to increase in 2011 over the 2010 level as we incur more third party costs on the TKM-Ebola contract.

**General and administrative** / General and administrative expenses increased to \$4.8 million in 2010 from \$4.2 million in 2009. The increase in 2010 generally relates to professional and listing fees for our NASDAQ share listing.

**General and administrative expenses guidance for 2011** / Total general and administrative expenses are expected to increase in 2011 over 2010 levels depending on expenses associated with our lawsuit against Alnylam.

**Depreciation of property and equipment** / Depreciation of property and equipment was steady at \$1.0 million in 2010 and \$1.0 million in 2009.

**Loss on purchase and settlement of exchangeable and development notes** / The \$5.9 million license amendment payment and related \$5.9 million loss on the purchase and settlement of exchangeable and development notes is discussed in the Overview and Off-balance sheet arrangements sections of this MD&A.

**Other income (losses) / Interest income** / Interest income was \$0.1 million in 2010 and \$0.2 million in 2009. The decrease is due to lower cash investment balances in 2010 as compared to 2009. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

**Other income (losses) / Foreign exchange gains (losses)** / Foreign exchange losses were \$0.01 million in 2010 as compared to \$0.44 million in 2009. Our foreign exchange gains and losses relate almost entirely to changes in the US dollar to Canadian dollar exchange rate. The US dollar to Canadian dollar exchange saw greater fluctuations in 2009 than in 2010. We have some US dollar denominated cash and receivables which provide a natural exchange rate hedge against our US dollar denominated payables and we keep our US dollar cash and investment balances to a working capital level to avoid exchange rate risk.

## RESULTS OF OPERATIONS

### Year ended December 31, 2009 compared to the year ended December 31, 2008

For the fiscal year ended December 31, 2009, our net loss was \$8.7 million (\$0.85 per common share, basic and fully diluted) as compared to a net loss of \$29.9 million (\$3.69 per common share, basic and fully diluted) for 2008.

There are a number of factors contributing to changes in our results in 2009 as compared to 2008 the largest of which was the expensing of in-process research and development acquired through the business combination with Protiva.

**Revenue** / Revenue was \$14.4 million in 2009 as compared to \$11.7 million in 2008. Looking at collaborations and contracts 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:

<u>(in millions Cdn\$)</u>	<u>2009</u>	<u>2008</u>
<b>Collaborations and contracts</b>		
Alnylam	\$ 8.8	\$ 6.1
Roche	4.8	0.1
Other RNAi collaborators	0.2	0.3
Talon	—	0.1
<b>Total collaborations and contracts</b>	<b>13.8</b>	<b>6.6</b>
Licensing fees and milestone payments from Alnylam	0.6	5.1
<b>Total revenue</b>	<b>\$14.4</b>	<b>\$11.7</b>

**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 LNP research and clinical trial batches for Alnylam under the Alnylam Manufacturing Agreement.

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 LNP 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.

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.

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

**Expenses / Research, development, collaborations and contracts** / 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 TKM-ApoB program was significantly higher in 2008 as compared to 2009. In 2008 we took TKM-ApoB through preclinical toxicology studies and the manufacture of drug product for human clinical trials. In 2009 our TKM-ApoB program moved into Phase 1 of clinical trials.
- In 2009 TKM-PLK1 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 LNP 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 increased to 64 at December 31, 2009 (total staff 78) as compared to 61 (total staff 76) at December 31, 2008.

**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.

**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.

**Depreciation of property and equipment** / Depreciation of property and equipment was \$1.0 million in 2009 as compared to \$0.8 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.

**In-process research and development acquired from Protiva** / In-process research and development acquired through the business combination with Protiva in May 2008 was expensed at the time of acquisition as it has no alternative future use.

**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.

**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.

## 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 contracts, grants and tax credits.

At December 31, 2010, we had cash and cash equivalents of approximately \$12.3 million as compared to \$24.4 million at December 31, 2009.

Operating activities used cash of \$11.2 million in 2010 as compared to \$5.5 million in 2009. Excluding changes in non-cash operations items, cash used in operating activities in 2010 was \$10.7 million as compared to \$7.2 million in 2009 due, largely, to increasing expenses as discussed earlier. Accounts receivable increased by \$2.3 million in 2010 as a great deal of work was undertaken and invoiced for the TKM-Ebola U.S. Government contract towards the end of 2010. Deferred revenue increased by \$3.0 million in 2010 primarily due to the \$3.2 million May 2010 payment from BMS related to the signing of a new collaborative agreement as discussed earlier.

Investing activities used \$0.8 million in cash in 2010 as compared to investing activities providing \$4.0 million in cash in 2009. Proceeds from short-term investments were \$5.7 million in 2009 as we moved maturing short-term investments into high interest saving accounts with a major Canadian bank. The high-interest savings account is classified as "cash and cash equivalents" in our balance sheet. Property and equipment cash outflows in both 2009 and 2010 relate largely to facility improvements and manufacturing equipment. In Q3 2010 we completed upgrades to our in-house clean room facility. Manufacturing in-house gives us more flexibility and more control over our manufacturing process and timelines. Net cash provided by financing activities was \$0.03 million in 2010 as compared to \$0.01 million 2009. The only financing activity in 2010 and 2009 was from the exercise of stock options.

We believe that our current funds on hand plus expected income including funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into the first quarter of 2012 (see Risks and uncertainties).

### Contractual obligations

Our laboratory and office premises operating 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 lease includes a signing incentive payment. In accordance with our accounting policy the signing incentive payment is being amortized on a straight-line basis over the term of the lease.

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

<u>(in millions Cdn\$)</u>	<u>Lease commitment</u>	<u>Sub-lease income</u>	<u>Net commitment</u>
Year ended December 31, 2011	1.3	(0.2)	1.1
Year ended December 31, 2012	1.3	(0.2)	1.1
Year ended December 31, 2013	1.3	—	1.3
Year ended December 31, 2014	0.7	—	0.7
	<u>\$ 4.6</u>	<u>\$ (0.4)</u>	<u>\$ 4.2</u>

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** / We had a contingent obligation that arose through a Purchase and Settlement Agreement dated June 20, 2006 whereby we retired exchangeable and development notes in exchange for contingent consideration including certain future milestone and royalty payments from Talon. Concurrent with signing the second amendment of the license agreement with Talon we signed a Waiver and Release with contingent creditors, the "Former Noteholders". The balance of the contingent obligation related to the Talon milestones and royalties immediately prior to signing the Waiver and Release was US\$22.8 million. As per the terms of the Waiver and Release we paid the Former Noteholders \$5.9 million (US\$5.75 million) in full settlement of the contingent obligation and we included this in our 2010 other income (losses) as loss on purchase and settlement of exchangeable and development notes. We now have no further obligation to the Former Noteholders and we will retain any future milestones or royalties received from Talon.

**Protiva promissory notes** / On March 25, 2008, our subsidiary, Protiva, declared dividends totaling US\$12.0 million. The dividend was paid by issuing promissory notes on May 23, 2008. Recourse for payment of the

promissory notes will be limited to our receipt, if any, of up to US\$12.0 million in payments from a third party. We will pay these funds, if and when we receive 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, collaborations and contracts 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. We do not have any current contracts with Ricerca.

#### **OUTSTANDING SHARE DATA**

As of February 28, 2011, after effecting the five-old-for-one-new share consolidation, we had 10,338,704 common shares outstanding and we had outstanding options to purchase 1,422,388 common shares.

#### **RISKS AND UNCERTAINTIES**

Our risks and uncertainties are discussed in further detail in our Annual Information Form dated March 30, 2011 which can be found at [www.sedar.com](http://www.sedar.com).

We believe that our current funds on hand plus expected income including funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into the first quarter of 2012. 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:

- legal costs incurred on our lawsuit against Alnylam;
- revenues earned from our collaborative partnerships, particularly Alnylam;
- revenues earned from our U.S. Government contract to develop TKM-Ebola;
- the extent to which we continue the development of our product candidates or form collaborative relationships to advance our products;
- our decisions to in-license or acquire additional products or technology for development, in particular for our RNAi therapeutics programs;
- our ability to attract and retain corporate partners, and their effectiveness in carrying out the development and ultimate commercialization of our product candidates;
- whether batches of drugs that we manufacture fail to meet specifications resulting in delays and investigational and remanufacturing costs;
- the decisions, and the timing of decisions, made by health regulatory agencies regarding our technology and products;
- competing technological and market developments; and
- prosecuting and enforcing our patent claims and other intellectual property rights.

We will seek to obtain funding to maintain and advance our business from a variety of sources including public or private equity or debt financing, collaborative arrangements with pharmaceutical companies and government grants and contracts. There can be no assurance that funding will be available at all or on acceptable terms to permit further development of our products 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 high interest saving accounts and 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. The fair value of our cash investments as at December 31, 2010 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 U.S. dollars and earn a significant portion of our revenues in U.S. dollars. We manage our U.S. dollar currency risk by using cash received from U.S. dollar revenues to pay U.S. dollar expenses and by limiting holdings of U.S. 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, 2010 and have concluded that our disclosure controls and procedures are effective.

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 U.S. 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 be effective. They also concluded that there were no changes during 2010 that materially affected the Company's internal control over financial reporting and disclosure controls and procedures.

**TEKMIRA PHARMACEUTICALS  
CORPORATION**

Consolidated Financial Statements (expressed in Canadian dollars)

(Prepared in accordance with generally accepted accounting principles used in the United States of America (U.S. GAAP))

December 31, 2010



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this report have been prepared by management in accordance with generally accepted accounting principles in the United States of America and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management.

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 Canadian generally accepted auditing standards and the public company accounting oversight board (United States), 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 the United States of America. 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.

/s/ Dr. Mark J. Murray

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Dr. Mark J. Murray  
President and  
Chief Executive Officer

March 30, 2011

/s/ Ian C. Mortimer

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

## AUDITORS' REPORT TO THE DIRECTORS

To the Shareholders and Board of Directors

We have audited the accompanying consolidated financial statements of Tekmira Pharmaceuticals Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tekmira Pharmaceuticals Corporation as at December 31, 2010 and December 31, 2009 and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with generally accepted accounting principles in the United States of America.

Chartered Accountants

/s/ KPMG LLP

Vancouver, Canada

**TEKMIRA PHARMACEUTICALS CORPORATION**

**Consolidated Balance Sheets**

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	December 31 2010	December 31 2009 As adjusted (note 2)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,346,010	\$ 24,397,740
Accounts receivable	3,318,729	1,052,895
Accrued revenue	817,464	—
Deferred expenses	557,256	—
Investment tax credits receivable	403,580	280,132
Finished goods inventory	150,731	—
Prepaid expenses and other assets	315,057	226,981
Total current assets	<u>17,908,827</u>	<u>25,957,748</u>
Property and equipment (note 5)	3,113,416	3,321,041
Total assets	<u>\$ 21,022,243</u>	<u>\$ 29,278,789</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 13)	\$ 6,151,923	\$ 5,653,827
Deferred revenue current portion (note 4)	1,982,264	1,162,437
Total current liabilities	<u>8,134,187</u>	<u>6,816,264</u>
Deferred revenue, net of current portion (note 4)	2,155,478	—
Total liabilities	<u>10,289,665</u>	<u>6,816,264</u>
Commitments and contingencies (note 10)		
<b>Stockholders' equity:</b>		
Common shares (note 6)		
Authorized - unlimited number with no par value		
Issued and outstanding - 10,338,703 (2009 - 10,328,588)	229,491,529	229,426,757
Additional paid-in capital	30,151,810	29,531,049
Deficit	<u>(248,910,761)</u>	<u>(236,495,281)</u>
Total stockholders' equity	<u>10,732,578</u>	<u>22,462,525</u>
Total liabilities and stockholders' equity	<u>\$ 21,022,243</u>	<u>\$ 29,278,789</u>

Basis of presentation and future operations (note 1)

Business acquisition (note 3)

Subsequent event (note 14)

See accompanying notes to the consolidated financial statements.

**TEKMIRA PHARMACEUTICALS CORPORATION**
**Consolidated Statements of Operations and Comprehensive Loss**

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	Year ended December 31		
	2010	2009 As adjusted (note 2)	2008 As adjusted (note 2)
<b>Revenue (note 4)</b>			
Collaborations and contracts	\$ 14,923,860	\$ 13,831,916	\$ 6,649,273
Licensing fees and milestone payments	514,129	596,500	5,082,303
License amendment payment (note 4(f))	5,916,750	—	—
	<u>21,354,739</u>	<u>14,428,416</u>	<u>11,731,576</u>
<b>Expenses</b>			
Research, development, collaborations and contracts	22,133,983	17,764,379	16,123,203
General and administrative	4,780,745	4,152,540	4,404,028
Termination and restructuring expenses (note 8)	—	—	3,172,544
Depreciation of property and equipment	1,038,573	988,659	764,247
In-process research and development acquired from Protiva (note 3)	—	—	16,252,000
Loss on purchase and settlement of exchangeable and development notes (note 4(f))	5,916,750	—	—
	<u>33,870,051</u>	<u>22,905,578</u>	<u>40,716,022</u>
<b>Loss from operations</b>	<b>(12,515,312)</b>	<b>(8,477,162)</b>	<b>(28,984,446)</b>
<b>Other income (losses)</b>			
Interest income	106,957	163,696	898,600
Impairment loss on goodwill (note 3)	—	—	(3,890,749)
Foreign exchange gains (losses)	(7,125)	(435,691)	2,056,192
<b>Net loss and comprehensive loss</b>	<b><u>\$(12,415,480)</u></b>	<b><u>\$ (8,749,157)</u></b>	<b><u>\$ (29,920,403)</u></b>
Weighted average number of common shares			
Basic and diluted	10,332,941	10,325,023	8,116,350
Loss per common share			
Basic and diluted	\$ (1.20)	\$ (0.85)	\$ (3.69)

See accompanying notes to the consolidated financial statements.

**TEKMIRA PHARMACEUTICALS CORPORATION**
**Consolidated Statements of Stockholders' Equity**

For the years ended December 31, 2010, 2009 and 2008

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	Number of shares	Share capital	Additional paid-in capital	Deficit	Total stockholders' equity
Balance, December 31, 2007 as adjusted (note 2)	4,913,136	\$195,317,270	\$20,700,522	\$(197,825,721)	\$18,192,071
Stock-based compensation (note 6)	—	—	1,772,351	—	1,772,351
Issuance of common shares pursuant to exercise of options (note 6)	8,548	55,740	(25,623)	—	30,117
Issuance of common shares pursuant to acquisition of Protiva Biotherapeutics Inc. (note 3)	4,569,718	28,789,221	—	—	28,789,221
Common shares issuable upon exercise of Protiva Biotherapeutics Inc. stock options (note 3)	—	—	2,109,754	—	2,109,754
Issuance of common shares pursuant to private placement (note 3)	833,333	5,249,999	4,715,001	—	9,965,000
Net loss	—	—	—	(29,920,403)	(29,920,403)
Balance, December 31, 2008 as adjusted (note 2)	10,324,735	\$229,412,230	\$29,272,005	\$ (227,746,124)	\$30,938,111
Stock-based compensation (note 6)	—	—	265,685	—	265,685
Issuance of common shares pursuant to exercise of options (note 6)	3,852	14,527	(6,641)	—	7,886
Net loss	—	—	—	(8,749,157)	(8,749,157)
Balance, December 31, 2009 as adjusted (note 2)	10,328,588	\$229,426,757	\$29,531,049	\$ (236,495,281)	\$22,462,525
Stock-based compensation (note 6)	—	—	650,620	—	650,620
Issuance of common shares pursuant to exercise of options (note 6)	10,115	64,772	(29,859)	—	34,913
Net loss	—	—	—	(12,415,480)	(12,415,480)
<b>Balance, December 31, 2010</b>	<b><u>10,338,703</u></b>	<b><u>\$229,491,529</u></b>	<b><u>\$30,151,810</u></b>	<b><u>\$ (248,910,761)</u></b>	<b><u>\$10,732,578</u></b>

See accompanying notes to the consolidated financial statements.

**TEKMIRA PHARMACEUTICALS CORPORATION**
**Consolidated Statements of Cash Flow**

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	Year ended December 31		
	2010	2009	2008
		As adjusted (note 2)	As adjusted (note 2)
<b>OPERATIONS</b>			
Loss for the year	<b>\$(12,415,480)</b>	\$ (8,749,157)	\$ (29,920,403)
Items not involving cash:			
Depreciation of property and equipment	1,038,573	988,659	764,247
Stock-based compensation expense (note 6)	650,620	265,685	1,772,351
Impairment loss on goodwill	—	—	3,890,749
Foreign exchange (gains) losses arising on foreign currency cash balances	7,187	325,742	(1,501,722)
Net change in non-cash operating items:			
Accounts receivable	(2,265,834)	(420,456)	2,310,444
Accrued revenue	(817,464)	—	—
Deferred expenses	(557,256)	—	—
Investment tax credits receivable	(123,448)	124,321	(102,574)
Inventory	(150,731)	174,524	38,495
Prepaid expenses and other assets	(88,076)	(126,621)	91,367
Accounts payable and accrued liabilities	498,096	1,180,215	923,691
Deferred revenue	2,975,305	703,343	(4,596,557)
	<b>(11,248,508)</b>	<b>(5,533,745)</b>	<b>(26,329,912)</b>
<b>INVESTMENTS</b>			
Proceeds from (acquisition of) short-term investments, net	—	5,730,507	2,606,652
Acquisition of property and equipment	(830,948)	(1,699,508)	(1,176,160)
In-process research and development acquired through acquisition of Protiva (note 3)	—	—	16,252,000
Cash acquired through acquisition of Protiva Biotherapeutics Inc., net of acquisition costs (note 3)	—	—	2,519,095
	<b>(830,948)</b>	<b>4,030,999</b>	<b>20,201,587</b>
<b>FINANCING</b>			
Issuance of common shares pursuant to private placements (note 3)	—	—	9,965,000
Issuance of common shares pursuant to exercise of options	34,913	7,886	30,117
Repayment of obligations under capital leases	—	—	(75,688)
	<b>34,913</b>	<b>7,886</b>	<b>9,919,429</b>
Foreign exchange gains (losses) arising on foreign currency cash balances	(7,187)	(325,742)	1,501,722
<b>Decrease in cash and cash equivalents</b>	<b>(12,051,730)</b>	<b>(1,820,602)</b>	<b>5,292,826</b>
Cash and cash equivalents, beginning of year	24,397,740	26,218,342	20,925,516
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,346,010</b>	<b>\$ 24,397,740</b>	<b>\$ 26,218,342</b>
<b>Supplemental cash flow information</b>			
Interest paid	\$ —	\$ —	\$ 3,668
Investment tax credits received	\$ 36,613	\$ 275,965	\$ —
Fair value of shares issued to Protiva Biotherapeutics Inc. shareholders pursuant to business acquisition (note 3)	\$ —	\$ —	\$ 28,789,221
Fair value of shares reserved for the exercise of Protiva Biotherapeutics Inc. stock options (note 3)	\$ —	\$ —	\$ 2,109,754

See accompanying notes to the consolidated financial statements.

## TEKMIRA PHARMACEUTICALS CORPORATION

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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### 1. Nature of business and future operations

Tekmira Pharmaceuticals Corporation (the "Company") is a Canadian biopharmaceutical business focused on advancing novel RNA interference therapeutics and providing its leading lipid nanoparticle delivery technology to pharmaceutical partners.

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

### 2. Significant accounting policies

#### *Basis of presentation*

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

These 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 3). All intercompany transactions and balances have been eliminated on consolidation.

The Company previously prepared its consolidated financial statements in conformity with Canadian generally accepted accounting principles (GAAP) and provided a supplemental reconciliation to United States of America GAAP (U.S. GAAP). Effective December 31, 2010, the Company prepared its consolidated financial statements under U.S. GAAP. These audited consolidated financial statements have been prepared by management in accordance with U.S. GAAP and are presented in Canadian dollars. All comparative financial information contained herein has been recast to reflect the Company's results as if the Company had historically reported in accordance with U.S. GAAP. These policies are consistent with Canadian GAAP in all material respects for the Company, except as described and reconciled in note 15.

On November 4, 2010 the Company's common shares were consolidated on a basis of five current common shares for one new common share. All references to common stock, common shares outstanding, average number of common shares outstanding, per share amounts and options in these financial statements and notes thereto have been restated to reflect the common stock consolidation on a retroactive basis.

#### *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. Actual results could significantly differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of goodwill, the valuation of acquired in-process research and development, the useful lives of property and equipment for the purpose of amortization, recognition of revenue, stock-based compensation, and the amounts recorded as accrued liabilities.

#### *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 equivalents are recorded at cost plus accrued interest. The carrying value of these cash equivalents approximates their fair value.

***Fair value of financial instruments***

We measure certain financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option have been elected are reported in earnings. Upon adoption of this policy on January 1, 2008, we did not elect to apply the fair value option to any of our eligible instruments; therefore there was no impact on our consolidated financial statements.

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

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities and promissory notes.

The carrying values of cash and cash equivalents are recorded at fair value based on quoted prices in active markets. The carrying values of accounts receivable, investment tax credits receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

***Inventory***

Inventory includes materials assigned for the manufacture of products for collaborative partners and manufacturing costs for products awaiting acceptance by 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.

***Property and equipment***

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

Laboratory equipment	<u>Rate</u> 5 years
Computer and office equipment	2-5 years
Furniture and fixtures	5 years

Leasehold improvements are depreciated over their estimated useful lives but in no case longer than the lease term, except where lease renewal is reasonably assured. Assets held under capital leases that do not allow for



ownership to pass to the Company are depreciated using the straight-line method over their useful life, not exceeding the lease term.

***Intangible assets***

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

***Impairment of long-lived assets***

If there is a major event indicating that the carrying value of property and equipment may be impaired then management will perform an impairment test and if the recoverable value, based on undiscounted future cash flows, exceeds carrying value then such assets are written down to their fair values.

***Revenue recognition***

The Company earns revenue from research and development collaboration and contract 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.

Revenue and expenses under the contract with the United States Government are being recorded using the percentage-of-completion method. Contract progress is based on costs incurred to date. Expenses under the contract are recorded in the Company's consolidated statement of operations and comprehensive loss as they are incurred. Government contract revenues related to expenses incurred under the contract are recorded in the same period as those expenses. Expenses accrued under the contract but not yet invoiced are recorded in the Company's balance sheet as accrued liabilities and accrued revenues. Equipment purchased under the contract is recorded to the Company's balance sheet as deferred expense and deferred revenue and amortized, on a straight-line basis, over the life of the contract.

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.

***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.

**Research and development costs**

Research and development costs, including acquired in-process research and development expenses for which there is no alternative future use, are charged as an expense in the period in which they are incurred.

**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 anti-dilutive. Diluted income per share is calculated using the treasury stock method which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding stock options.

**Government assistance**

Government assistance provided for current expenses is included in the determination of income or loss 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.

**Foreign currency translation**

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

**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 enacted income tax rates expected to apply to taxable income in the periods 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 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.

**Stock-based compensation**

The Company grants stock options to employees and directors pursuant to a share incentive plan described in note 6. Compensation expense is recorded for issued stock options using the fair value method with a corresponding increase in additional paid-in capital. 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.

**Segment information**

The Company operates in a single reporting segment, the research and development of RNA interference therapeutics. Substantially all of the Company's revenues to date were earned in the United States. Substantially of the Company's premises, property and equipment is located in Canada.

**Recent accounting pronouncements**

In October 2009, the Financial Accounting Standards Board (FASB) issued EITF 08-01, *Revenue Arrangements with Multiple Deliverables* (currently within the scope of FASB Accounting Standards Codification (ASC) Subtopic 605-25). This statement provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The EITF introduces an estimated selling price method for valuing the elements of a bundled

arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. It is not expected the adoption of this pronouncement will have a material impact on the Company's financial condition, results of operations or cash flows.

In March 2010, the FASB ratified the EITF final consensus on Issue ASC 2010-17, *Milestone Method of Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of a substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. The Company is currently evaluating this new consensus.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The enhanced disclosure will provide financial statement users with an improved understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. This standard is effective on a prospective basis for the first interim or annual period beginning after December 15, 2010. The Company does not expect the adoption of this pronouncement to have a material impact on its financial condition, results of operations or cash flows.

### **3. 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").

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.

#### **Cost of acquisition**

The Company issued 4,569,718 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 \$6.30 per share. The Company used the Black-Scholes option pricing model to estimate the fair value of the 350,459 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.

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

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

value of the consideration given was allocated to the assets acquired and liabilities assumed based upon their estimated fair values, as follows:

<b>Cost of acquisition:</b>	
Common shares issued	\$28,789,221
Common shares issuable upon exercise of Protiva stock options	2,109,754
Direct acquisition costs	862,280
	<u>\$31,761,255</u>
<b>Allocated at estimated fair values:</b>	
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
In-process research and development	16,252,000
Goodwill	3,890,749
Accounts payable and accrued liabilities	(1,794,500)
Deferred revenue	(448,635)
	<u>\$31,761,255</u>

**Allocation of fair values**

A valuation of Protiva's property and equipment and in-process research and development was completed.

The Company used the income approach and considered potential cash flows from both internal and partnered products to determine the fair value of the in-process research and development. 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 evaluation, including its 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 loss.

The in-process research and development acquired includes licenses and intellectual property. The in-process research and development was expensed in the Company's consolidated statement of operations and comprehensive loss at the time of acquisition as it has no alternative future use.

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 tax value of goodwill arising on the acquisition is approximately \$2,918,000. 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.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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.

**Private placement investment**

Concurrent with the acquisition, the Company completed a private placement investment of 416,667 newly issued common shares for \$4,965,000 (US\$5,000,000, US\$12.00 per share) with Alnylam Pharmaceuticals, Inc. ("Alnylam") and a private placement investment of 416,667 newly issued common shares for \$5,000,000 (CAD\$12.00 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 (\$6.30 per share) was determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange on the five days around the March 30, 2008 acquisition and investment announcement being March 27, 2008 to April 2, 2008 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 additional paid-in capital.

**Pro forma information**

The following pro forma information presents the Company's operating results by giving effect to the purchase price allocations set out above as if the acquisition had been completed as of January 1, 2008. The pro forma amounts are not intended to be indicative of the results that would have actually been obtained if the acquisition occurred as of January 1, 2008 or that may be obtained in the future. If the acquisition of Protiva had occurred as of January 1, 2008, the pro forma operating results would have been as follows:

	2008
Revenue	\$ 12,905,944
Net loss and comprehensive loss	(40,072,388)
Loss per common share, basic and diluted	\$ (4.94)

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

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

	Year ended December 31		
	2010	2009	2008
<b>Collaborations and contracts</b>			
Alnylam (a)	\$ 6,258,535	\$ 8,831,250	\$ 6,079,681
U.S. Government (b)	3,560,711	—	—
Roche (c)	4,499,689	4,757,842	159,465
BMS (d)	227,995	165,776	359,112
Other RNAi collaborators (e)	376,930	77,048	—
Talon (f)	—	—	51,015
Total research and development collaborations and contracts	<u>14,923,860</u>	<u>13,831,916</u>	<u>6,649,273</u>
Alnylam licensing fees and milestone payments (a)	514,129	596,500	5,082,303
Talon license amendment payment (f)	5,916,750	—	—
<b>Total revenue</b>	<u>\$21,354,739</u>	<u>\$14,428,416</u>	<u>\$11,731,576</u>

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

The following table sets forth deferred collaborations and contracts revenue:

	December 31	
	2010	2009
Alnylam (a)	\$ —	\$ 35,987
U.S. Government (b)	760,924	—
Roche (c)	40,232	792,583
BMS current portion (d)	1,181,108	333,867
Deferred revenue, current portion	1,982,264	1,162,437
BMS long-term portion(d)	2,155,478	—
<b>Total deferred revenue</b>	<b>\$4,137,742</b>	<b>\$1,162,437</b>

**(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.

**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”). 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 over the three years commencing January 1, 2009.

**Licensing fees and milestone payments**

In 2007, 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 licensing fee 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”) and Takeda Pharmaceutical Company Limited (“Takeda”). The Company is eligible to receive up to US\$16,000,000 in milestone payments for each RNAi therapeutic advanced by

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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, 2010 the Company received a \$514,129 (US\$500,000) milestone payment from Alnylam in respect of the initiation of Alnylam's ALN-TTR01 Phase 1 human clinical trial. 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.

**(b) Contract with U.S. Government to develop TKM-Ebola**

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

In the initial phase of the contract, which is expected to last approximately three years and is funded as part of the Transformational Medical Technologies program, the Company is eligible to receive up to US\$34.7 million. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an Investigational New Drug application with the United States Food and Drug Administration ("FDA") and completing a Phase 1 human safety clinical trial.

The U.S. Government has the option of extending the contract beyond the initial funding period to support the advancement of TKM-Ebola through to the completion of clinical development and FDA approval. Based on the contract's budget this would provide the Company with up to US\$140.0 million in funding for the entire program.

Under the contract the Company is reimbursed for costs incurred, including an allocation of overhead costs, and is paid an incentive fee. If the contract is not completed as originally budgeted then the incentive fee may be increased or decreased.

**(c) Roche collaboration**

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 was to pay the Company up to US\$8,800,000 to support the advancement of each Roche RNAi product candidate using the Company's lipid nanoparticle technology through to the filing of an Investigational New Drug ("IND") application.

Under the Roche Product Development Agreement Roche is paying 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 is recorded in the period that Roche was invoiced for those costs. The difference between service revenue recognized and cash received is recorded in the Company's balance sheet as deferred revenue.

On November 17, 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with the Company. As at December 31, 2010, the Company retained a deferred revenue balance sufficient to cover the cost of completing those stability studies.

Under a separate February 11, 2009 research agreement with Roche the Company received \$923,151 (US\$765,000) that was recorded as revenue in 2009.

**(d) Bristol-Myers Squibb collaboration**

On May 10, 2010 the Company announced the expansion of its research collaboration with Bristol-Myers Squibb Company ("Bristol-Myers Squibb"). Under the new agreement, Bristol-Myers Squibb will use small interfering RNA ("siRNA") molecules formulated by the Company in lipid nanoparticles ("LNPs") to silence target genes of interest. Bristol-Myers Squibb will conduct the preclinical work to validate the function of certain genes and share the data with the Company. The Company can use the preclinical data to develop RNAi

therapeutic drugs against the therapeutic targets of interest. The Company received \$3,233,400 (US\$3,000,000) from Bristol-Myers Squibb concurrent with the signing of the agreement and recorded the amount as deferred revenue. The Company will be required to provide a pre-determined number of LNP batches over the four-year agreement. Bristol-Myers Squibb will have a first right to negotiate a licensing agreement on certain RNAi products developed by the Company that evolve from Bristol-Myers Squibb validated gene targets.

Revenue from the May 10, 2010 agreement with Bristol-Myers Squibb is being recognized as the Company produces the related LNP batches.

**(e) Other RNAi collaborators**

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

**(f) Agreements with Talon Therapeutics, Inc. (“Talon”, formerly Hana Biosciences, Inc.) and related contingent obligation**

On May 6, 2006, the Company signed a number of agreements with Talon including the grant of worldwide licenses (the “Talon License Agreement”) for three of the Company’s chemotherapy products, Marqibo<sup>®</sup>, Alocrest<sup>™</sup> (formerly INX-0125, Optisomal Vinorelbine) and Brakiva<sup>™</sup> (formerly INX-0076, Optisomal Topotecan).

On May 27, 2009, the Talon License Agreement was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the Talon License Agreement was amended a second time such that Talon paid \$5,916,750 (US\$5,750,000) in consideration for reducing certain future payments associated with the product candidates. The payment of \$5,916,750 has been recorded as license amendment revenue. The Company is now eligible for future Talon milestones of up to US\$19,000,000 upon achievement of further development and regulatory milestones and is also eligible to receive royalties on product sales. If Talon sublicenses any of the product candidates, Tekmira is eligible to receive a percentage of any upfront fees or milestone payments received by Talon.

The Company had a contingent obligation that arose through a Purchase and Settlement Agreement dated June 20, 2006 whereby the Company retired exchangeable and development notes in exchange for contingent consideration including certain future milestone and royalty payments from Talon. Concurrent with signing the second amendment of the Talon License Agreement the Company signed a Waiver and Release with certain contingent creditors, the “Former Noteholders”. The balance of the contingent obligation related to the Talon milestones and royalties immediately prior to signing the Waiver and Release was US\$22,835,476. As per the terms of the Waiver and Release the Company paid the Former Noteholders \$5,916,750 (US\$5,750,000) in full settlement of the contingent obligation and recorded the payment as a loss on the purchase and settlement of the exchangeable and development notes. The Company has no further obligation to the Former Noteholders and will retain any future milestones or royalties received from Talon.

**(g) 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.

In 2007 the Company recorded a US\$250,000 payment from Aradigm. The Company has not received any subsequent payments from Aradigm.

**(h) 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.



**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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

**5. Property and equipment**

	Cost	Accumulated depreciation and impairment	Net book value
<b>December 31, 2010</b>			
Laboratory equipment	\$ 7,668,582	\$ (6,554,699)	\$ 1,113,883
Leasehold improvements	7,256,186	(5,730,396)	1,525,790
Computer and office equipment	3,080,100	(2,621,522)	458,578
Furniture and fixtures	664,029	(648,864)	15,165
	<u>\$ 18,668,897</u>	<u>\$(15,555,481)</u>	<u>\$ 3,113,416</u>
<b>December 31, 2009</b>			
Laboratory equipment	\$ 7,352,191	\$ (6,116,631)	\$ 1,235,560
Leasehold improvements	5,671,752	(4,377,986)	1,293,766
Computer and office equipment	3,248,679	(2,478,688)	769,991
Furniture and fixtures	662,242	(640,518)	21,724
	<u>\$ 16,934,864</u>	<u>\$(13,613,823)</u>	<u>\$ 3,321,041</u>

**6. Share capital****(a) Authorized**

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

**(b) Consolidation of common shares**

On November 4, 2010 the Company's common shares were consolidated on a basis of five current common shares for one new common share. All references to common stock, common shares outstanding, average number of common shares outstanding, per share amounts and options in these financial statements and notes thereto have been restated to reflect the common stock consolidation on a retroactive basis.

**(c) Stock-based compensation**

The Company has two stock option plans, the 1996 Stock Option Plan and a Protiva Option Plan.

**1996 Stock Option Plan**

Under the Company's 1996 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

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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 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 297,400 and 266,200, respectively, thereby increasing the maximum common shares available under the plan to 1,369,255 of which 193,965 common shares remain available for future allocation as at December 31, 2010.

**Stock option activity for the Company's 1996 Stock Option Plan**

	Number of optioned common shares	Weighted average exercise price	Aggregate intrinsic value
Balance, December 31, 2007	522,699	\$ 17.40	\$1,205,332
Options granted	526,990	4.25	
Options exercised	(8,548)	3.50	25,550
Options forfeited, cancelled or expired	<u>(123,456)</u>	7.95	
Balance, December 31, 2008	917,685	11.25	32,546
Options granted	2,640	4.85	
Options exercised	(3,852)	2.05	11,515
Options forfeited, cancelled or expired	<u>(50,845)</u>	30.90	
Balance, December 31, 2009	865,628	10.10	705,885
Options granted	275,225	4.40	
Options exercised	(9,548)	3.63	29,320
Options forfeited, cancelled or expired	<u>(47,873)</u>	27.38	
Balance, December 31, 2010	<u>1,083,432</u>	<u>\$ 7.95</u>	<u>\$ 756,628</u>

Options under the 1996 Stock Option Plan expire at various dates from January 7, 2011 to December 16, 2020.

The following table summarizes information pertaining to stock options outstanding at December 31, 2010 under the Company's 1996 Stock Option Plan:

Range of Exercise prices	Number of options outstanding	Options outstanding December 31, 2010		Options exercisable December 31, 2010	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$1.50 to \$2.80	156,236	7.9	\$ 1.72	114,189	\$ 1.73
\$3.00 to \$3.85	323,970	7.5	3.51	223,760	3.35
\$4.05 to \$4.67	121,213	8.8	4.67	60,786	4.66
\$5.35 to \$5.90	285,292	6.8	5.56	284,595	5.56
\$6.45 to \$8.90	118,586	6.4	6.96	100,084	6.77
\$10.40 to \$70.50	<u>78,135</u>	<u>2.0</u>	<u>54.16</u>	<u>78,135</u>	<u>54.16</u>
\$1.50 to \$70.50	<u>1,083,432</u>	<u>7.0</u>	<u>\$ 7.95</u>	<u>861,549</u>	<u>\$ 8.96</u>

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

A summary of the Company's non-vested stock option activity and related information for the year ended December 31, 2010 is as follows:

	Number of optioned common shares	Weighted average fair value
Non-vested at December 31, 2009	111,552	\$ 2.05
Options granted	275,225	3.82
Options vested	(153,982)	3.04
Options forfeited	(10,912)	3.73
<b>Non-vested at December 31, 2010</b>	<b><u>221,883</u></b>	<b><u>\$ 3.47</u></b>

The weighted average remaining contractual life for options expected to vest at December 31, 2010 was 9.0 years and the weighted average exercise price for these options was \$4.02 per share.

The aggregate intrinsic value of options expected to vest as at December 31, 2010 was \$175,905 (December 31, 2009 - \$197,827; December 31, 2008 - \$24,369).

The total fair value of options that vested during the year ended December 31, 2010 was \$468,105 (2009 - \$496,263; 2008 - \$1,621,341).

At December 31, 2010, there were 861,549 options exercisable (December 31, 2009 - 754,076; December 31, 2008 - 681,692) with a weighted average exercise price of \$1.79. The weighted average remaining contractual life of exercisable options as at December 31, 2010 was 6.5 years. The aggregate intrinsic value of options exercisable at December 31, 2010 was \$573,008.

**Valuation assumptions for the Company's 1996 Stock Option Plan**

The fair value of stock options at date of grant, based on the following assumptions, was estimated using the Black-Scholes option-pricing model. Assumptions on the dividend yield are based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Assumptions about the Company's expected stock-price volatility are based on the historical volatility of the Company's publicly traded stock. The risk-free interest rate used for each grant is equal to the zero coupon rate for instruments with a similar expected life. Expected life assumptions are based on the Company's historical data. The Company currently expects, based on an analysis of its historical forfeitures, that no options will be forfeited by senior employees and that approximately 94% of its options issued to non-senior employees will ultimately vest, and based on a three year vesting period has applied an annual forfeiture rate of 2.0% to all unvested options held by non-senior employees as of December 31, 2010. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeitures are higher than estimated. The weighted average option pricing assumptions and the resultant fair values are as follows:

	Year ended December 31		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	116.9%	144.0%	123.2%
Risk-free interest rate	2.6%	2.5%	2.8%
Expected average option term	6.6 years	5.0 years	7.2 years
Fair value of options granted	<b><u>\$ 3.82</u></b>	<b><u>\$ 4.35</u></b>	<b><u>\$ 3.85</u></b>

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

**Stock-based compensation expense for the Company's 1996 Stock Option Plan**

An expense for stock-based compensation for options awarded to employees and calculated in accordance with the fair value method has been recorded in the consolidated statements of operations and comprehensive loss as follows:

	Year ended December 31		
	2010	2009	2008
Research, development, collaborations and contracts expenses	\$533,508	\$207,234	\$1,329,263
General and administrative expenses	117,112	58,451	443,088
<b>Total</b>	<b>\$650,620</b>	<b>\$265,685</b>	<b>\$1,772,351</b>

At December 31, 2010, there remains \$611,076 of unearned compensation expense related to unvested employee stock options to be recognized as expense over a weighted-average period of approximately 12 months.

**Protiva Option Plan**

On May 30, 2008, as a condition of the acquisition of Protiva Biotherapeutics Inc., a total of 350,457 common shares of the Company were reserved for the exercise of 519,073 Protiva share options ("Protiva Options"). The Protiva Options have an exercise price of \$0.30, were fully vested as of May 30, 2008, expire at various dates from January 22, 2011 to March 1, 2018 and upon exercise each option will be converted into approximately 0.6752 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). 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. To December 31, 2009, none of the Protiva Options had been exercised, forfeited or cancelled.

The following table sets forth outstanding options under the Protiva Option Plan:

	Number of Protiva Options	Equivalent number of Company common shares	Weighted average exercise price
Balance, December 31, 2008 and 2009	519,073	350,457	\$ 0.30
Options exercised	(850)	(574)	0.30
Options forfeited, cancelled or expired	—	—	0.30
Balance, December 31, 2010	<u>518,223</u>	<u>349,883</u>	<u>\$ 0.30</u>

The weighted average remaining contractual life of exercisable Protiva Options as at December 31, 2010 was 4.7 years.

The aggregate intrinsic value of Protiva Options outstanding at December 31, 2010 was \$1,469,509. The intrinsic value of Protiva Options exercised in the year ended December 31, 2010 was \$2,688 (2009 - \$nil; 2008 - \$nil).

**7. 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, 2010 include \$191,194 in funding from the US Army Medical Research Institute for Infectious Diseases (2009 - \$775,292; 2008 - \$239,031).

The Company's estimated claim for refundable Scientific Research and Experimental Development investment tax credits for the year ended December 31, 2010 is \$196,556 (2009 - \$139,502; 2008 - \$128,758).

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

**8. Termination and restructuring expenses**

In May 2008, as a condition of closing the business combination with Protiva (note 3) 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 was paid out as salary continuance until August 31, 2010. There was no remaining unpaid balance as at December 31, 2010 (December 31, 2009 - \$608,550; 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. As at December 31, 2010 there was no remaining unpaid balance (December 31, 2009 - \$5,284; December 31, 2008 - \$235,393).

**9. 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 28.5% (year ended December 31, 2009 – 30.0%; 2008 – 31.0%) to the loss before income taxes as shown in the following tables:

	<b>Year ended December 31</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Computed taxes (recoveries) at Canadian federal and provincial tax rates	<b>\$(3,538,412)</b>	<b>\$(2,624,747)</b>	<b>\$(9,275,325)</b>
Difference due to change in enacted tax rates	—	635,462	237,731
Permanent and other differences	<b>1,409,918</b>	927,938	(200,276)
Change in valuation allowance	<b>2,880,000</b>	1,061,347	9,237,870
Utilization of non-capital loss carryforwards	<b>(751,506)</b>	—	—
Income tax (recovery) expense	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

As at December 31, 2010, the Company has investment tax credits available to reduce Canadian federal income taxes of \$9,277,707 (December 31, 2009 - \$5,304,810) and provincial income taxes of \$4,470,380 (December 31, 2009 - \$2,781,784) and expiring between 2011 and 2030.

At December 31, 2010, the Company has scientific research and experimental development expenditures of \$44,061,609 (December 31, 2009 - \$27,483,678) available for indefinite carry-forward and \$18,991,636 (December 31, 2009 - \$23,758,157) of net operating losses due to expire between 2015 and 2030 and which can be used to offset future taxable income in Canada.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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

	December 31	
	2010	2009
Future tax assets:		
Non-capital loss carry-forwards	\$ 4,088,000	\$ 5,940,000
Research and development deductions	11,015,000	6,871,000
Book amortization in excess of tax	2,938,000	3,436,000
Share issue costs	146,000	213,000
Revenue recognized for tax purposes in excess of revenue recognized for accounting purposes	1,034,000	291,000
Tax value in excess of accounting value in lease inducements	87,000	124,000
Provincial investment tax credits	1,082,000	629,000
Accounting value in excess of tax value in intangible assets	75,000	81,000
Total future tax assets	20,465,000	17,585,000
Valuation allowance	(20,465,000)	(17,585,000)
Net future tax assets	\$ —	\$ —

Under a Plan of Arrangement (Note 2) 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, 2010 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, 2010 and December 31, 2009.

**10. Commitments and contingencies****Property lease**

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 included a signing incentive payment. In accordance with the Company's accounting policy the signing incentive payment is being 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, 2011	\$1,285,000	\$(194,000)	\$1,091,000
Year ended December 31, 2012	1,285,000	(186,000)	1,099,000
Year ended December 31, 2013	1,285,000	—	1,285,000
Year ended December 31, 2014	750,000	—	750,000
	<u>\$4,605,000</u>	<u>\$(380,000)</u>	<u>\$4,225,000</u>

## TEKMIRA PHARMACEUTICALS CORPORATION

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

The Company's lease expense, net of sub-lease income, for the year ended December 31, 2010 of \$931,606 has been recorded in the consolidated statements of operations and comprehensive loss in research, development, collaborations and contracts and general and administrative expenses (2009 - \$1,008,290; 2008 - \$1,447,850).

The Company has netted \$194,281 of sub-lease income against lease expense in the year ended December 31, 2010 (year ended December 31, 2009 - \$191,376; 2008 - \$208,518).

### Product development partnership with the Canadian Government

The Company entered into a Technology Partnerships Canada ("TPC") agreement with the Canadian Federal Government on November 12, 1999. Under this agreement, TPC agreed to fund 27% of the costs incurred by the Company, prior to March 31, 2004, in the development of certain oligonucleotide product candidates up to a maximum contribution from TPC of \$9,329,912. As at December 31, 2010, a cumulative contribution of \$3,701,571 has been received and the Company does not expect any further funding under this agreement. In return for the funding provided by TPC, the Company agreed to pay royalties on the share of future licensing and product revenue, if any, that is received by the Company on certain non-siRNA oligonucleotide product candidates covered by the funding under the agreement. These royalties are payable until a certain cumulative payment amount is achieved or until a pre-specified date. In addition, until a cumulative amount equal to the funding actually received under the agreement has been paid to TPC, the Company agreed to pay royalties of between 0.375% and 5% on the share of future product revenue, if any, for Marqibo that is received by the Company. To December 31, 2010 the Company has not made any royalty payments to TPC.

### Contingently payable promissory notes

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 3.

### 11. Related party transactions

Research, development, collaborations and contracts expenses in the year December 31, 2009 include \$44,415 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 is also a director of the Company (year ended December 31, 2010 - \$nil; year ended December 31, 2008 - \$nil). There was no balance in accounts payable and accrued liabilities at December 31, 2010 in respect of Ricerca (December 31, 2009 - \$nil). There were no related party transactions in the year ended December 31, 2010.

### 12. Concentrations of business 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. Accounts receivable from the U.S. Government as at December 31, 2010 were \$2,031,980 and represent 61% of total accounts receivable as at that date (December 31, 2009 - \$nil). Accounts receivable from Alynlym as at December 31, 2010 were \$836,655 and represent 20% of total accounts receivable as at that date (December 31, 2009 - \$398,658 and 38%).

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 December 31, 2010 was the accounts receivable balance of \$3,318,729 (December 31, 2009 - \$1,052,895).

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

The aging of accounts receivable at the reporting date was:

	December 31	
	2010	2009
Current	<b>\$3,318,729</b>	\$ 898,859
Past due 0-30 days	—	154,036
	<b><u>\$3,318,729</u></b>	<b><u>\$1,052,895</u></b>

**Significant collaborators and customers risk**

We depend on a small number of collaborators and customers for a significant portion of our revenues (see note 4).

**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	
	2010	2009
Cash, cash equivalents and short term investments	<b>\$12,346,010</b>	\$24,397,740
Less: Accounts payable and accrued liabilities	<b>(6,151,923)</b>	(5,653,827)
	<b><u>\$ 6,194,087</u></b>	<b><u>\$18,743,913</u></b>

**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 and 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.



**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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

	December 31	
	2010	2009
Cash and cash equivalents	<b>\$1,067,205</b>	\$293,027
Accounts receivable	<b>2,042,065</b>	520,892
Accounts payable and accrued liabilities	<b>(3,485,715)</b>	(1,765,874)
	<b>\$ (376,445)</b>	\$ (951,955)

An analysis of the Company's sensitivity to foreign currency exchange rate movements is not provided in these financial statements as a large proportion of the Company's foreign currency purchases are reimbursed by collaborators and customers so mitigates the Company's foreign currency risk.

**13. Supplementary information**

Accounts payable and accrued liabilities is comprised of the following:

	December 31	
	2010	2009
Trade accounts payable	<b>\$3,035,273</b>	\$2,090,672
Research and development accruals	<b>1,241,630</b>	1,246,053
Professional fee accruals	<b>1,030,405</b>	548,551
Executive termination cost accrual	—	608,550
Restructuring cost accruals	<b>34,999</b>	40,283
Deferred lease inducements	<b>346,098</b>	495,229
Other accrued liabilities	<b>463,518</b>	624,489
	<b>\$6,151,923</b>	\$5,653,827

**14. Subsequent event**

On March 16, 2011, the Company announced that it had filed a complaint against Alnylam Pharmaceuticals, Inc. for misappropriation and misuse of trade secrets, know-how and other confidential information, unfair and deceptive trade practices, unjust enrichment, unfair competition and false advertising. The suit, filed in the Business Litigation Session of the Massachusetts Superior Court, alleges Alnylam exploited its confidential relationship as a collaborator with the Company to engage in inappropriate and harmful conduct concerning the Company's proprietary lipid nanoparticle siRNA delivery technology, resulting in damage to the Company's intellectual property and business interests.

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

**15. Reconciliation of Generally Accepted Accounting Principles (GAAP)**

The Company prepares its consolidated financial statements in accordance with U.S. GAAP, which, as applied in these consolidated financial statements, conform in all material respects to Canadian GAAP, except as summarized below:

**Reconciliation of net loss and comprehensive loss**

The application of Canadian GAAP would have the following effects on the net loss and comprehensive loss as reported:

	Year ended December 31		
	2010	2009	2008
Net loss and comprehensive loss for the period, U.S. GAAP	<b>\$(12,415,480)</b>	<b>\$(8,749,157)</b>	<b>\$(29,920,403)</b>
Adjustment for in-process research and development	<b>(1,015,750)</b>	<b>(1,015,750)</b>	<b>15,659,479</b>
Net loss and comprehensive loss for the period, Canadian GAAP	<b>\$(13,431,230)</b>	<b>\$(9,764,907)</b>	<b>\$(14,260,924)</b>
Basic and diluted loss per common share, Canadian GAAP	<b>\$ (1.30)</b>	<b>\$ (0.95)</b>	<b>\$ (1.76)</b>

The application of Canadian GAAP would have the following effects on the balance sheet as reported:

**Intangible assets**

	December 31		
	2010	2009	2008
Intangible assets, U.S. GAAP	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Adjustments for in-process research and development	<b>13,627,979</b>	<b>14,643,729</b>	<b>15,659,479</b>
Intangible assets, Canadian GAAP	<b>\$ 13,627,979</b>	<b>\$ 14,643,729</b>	<b>\$ 15,659,479</b>

**Deficit**

	December 31		
	2010	2009	2008
Deficit, U.S. GAAP	<b>\$(248,910,761)</b>	<b>\$(236,495,281)</b>	<b>\$(227,746,124)</b>
Adjustment for in-process research and development	<b>13,627,979</b>	<b>14,643,729</b>	<b>15,659,479</b>
Deficit, Canadian GAAP	<b>\$(235,282,782)</b>	<b>\$(221,851,552)</b>	<b>\$(212,086,645)</b>

Under Canadian GAAP, the in-process research and development acquired from Protiva on May 30, 2008 would be recorded on the Company's Balance Sheet as intangible assets and would be amortized over its estimated useful life of 16 years. Under U.S. GAAP, the in-process research and development acquired from Protiva was expensed at the time of acquisition as it has no alternative future use.

**Other disclosures require by Canadian GAAP****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

**TEKMIRA PHARMACEUTICALS CORPORATION**

Notes to Consolidated financial statements

(Expressed in Canadian dollars)

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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 has not established quantitative return on capital criteria for management.

As of December 31, 2010 the Company's total equity was \$10,732,578 (2009 - \$22,462,525).

In the year ended December 31, 2010, total equity decreased 52% and in the year ended December 31, 2009, total equity decreased 27%, in both cases due to an increase in deficit. There were no changes in the Company's approach to capital management during the year ended December 31, 2010 or the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

**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 \$151,973 for the year ended December 31, 2010. A 100 basis point increase in interest rates would have resulted in a decrease in net losses of \$151,973. This analysis assumes that all other variables, in particular interest rates, remain constant.

At December 31, 2010, the Company's cash equivalents held in bankers' acceptances and high interest savings accounts bore a weighted average interest rate of 1.2% (December 31, 2009 – 0.4%).

## Form 52-109F1—Certification of Annual Filings

I, Mark Murray, President and Chief Executive Officer of Tekmira Pharmaceuticals Corporation, certify that:

1. I have reviewed the AIF, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of Tekmira Pharmaceuticals Corporation (the “issuer”) for the financial year ended December 31, 2010.
2. Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. The issuer’s other certifying officer and I have, as at the financial year end
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

The control framework the issuer’s other certifying officer and I used to design the issuer’s ICFR is the Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (“COSO”).
6. The issuer’s other certifying officer and I have
  - (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer’s DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer’s ICFR at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation.
7. The issuer has disclosed in its annual MD&A any change in the issuer’s ICFR that occurred during the period beginning on October 1, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.
8. The issuer’s other certifying officer and I have disclosed, based on our most recent evaluation of ICFR, to the issuer’s auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer’s ICFR.

By: /s/ Dr. Mark J. Murray

Signature

March 30, 2011

Date

President and CEO

Title or Position

## Form 52-109F1—Certification of Annual Filings

I, Ian Mortimer, Executive Vice President and Chief Financial Officer of Tekmira Pharmaceuticals Corporation, certify that:

1. I have reviewed the AIF, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of Tekmira Pharmaceuticals Corporation (the “issuer”) for the financial year ended December 31, 2010.
2. Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. The issuer’s other certifying officer and I have, as at the financial year end
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

The control framework the issuer’s other certifying officer and I used to design the issuer’s ICFR is the Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (“COSO”).
6. The issuer’s other certifying officer and I have
  - (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer’s DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer’s ICFR at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation.
7. The issuer has disclosed in its annual MD&A any change in the issuer’s ICFR that occurred during the period beginning on October 1, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.
8. The issuer’s other certifying officer and I have disclosed, based on our most recent evaluation of ICFR, to the issuer’s auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer’s ICFR.

By: /s/ Ian C. Mortimer

Signature

March 30, 2011

Date

EVP and CFO

Title or Position