Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

TEKMIRA PHARMACEUTICALS CORPORATION

2008 – Q3

September 30, 2008

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

		September 30 2008 (Unaudited)		December 31 2007
Assets				
Current assets:				
Cash and cash equivalents	**$**	**28,496,086**	$	20,925,516
Short-term investments		**5,701,146**		-
Accounts receivable (note 4)		**2,067,016**		1,820,139
Investment tax credits receivable (note 9)		**275,695**		-
Inventory		**189,114**		213,019
Prepaid expenses and other assets		**170,981**		109,154
		36,900,038		23,067,828
Property and equipment		**2,394,794**		1,525,557
Intangible assets (note 5)		**15,913,417**		-
	$	**55,208,249**	$	24,593,385
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 13)	**$**	**4,313,484**	$	1,718,610
Current portion of obligations under capital leases		**9,776**		75,688
Deferred revenue (note 4)		**1,443,367**		4,607,016
		5,766,627		6,401,314
Deferred lease inducements		**69,254**		-
		5,835,881		6,401,314
Shareholders' equity:				
Share capital (note 7)		**229,412,230**		195,317,270
Contributed surplus (note 7)		**29,083,818**		20,700,522
Deficit		**(209,123,680)**		(197,825,721)
		49,372,368		18,192,071
	$	**55,208,249**	$	24,593,385

Business acquisition (note 3)
Commitments and contingencies (notes 10 and 11)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
Revenue (note 4)				
Research and development collaborations	**$ 2,945,782**	$ 3,410,296	**$ 4,834,665**	$ 4,749,346
Licensing fees and milestone payments	**1,270,576**	2,301,308	**3,811,727**	6,812,774
	4,216,358	5,711,604	**8,646,392**	11,562,120
Expenses				
Research, development and collaborations (note 9)	**5,446,927**	3,167,423	**13,074,221**	5,341,548
General and administrative	**1,103,983**	804,913	**3,586,283**	3,367,549
Amortization of intangible assets (notes 3 and 5)	**253,937**	-	**338,583**	-
Depreciation of property and equipment	**217,504**	100,872	**534,524**	318,014
	7,022,351	4,073,208	**17,533,611**	9,027,111
Income (Loss) from operations	**(2,805,993)**	1,638,396	**(8,887,219)**	2,535,009
Other income and (losses)				
Interest income	**256,775**	267,782	**686,297**	740,787
Loss on purchase and settlement of exchangeable and development notes (note 1)	**-**	-	**-**	(5,179,000)
Impairment loss on goodwill (note 6)	**(3,890,749)**	-	**(3,890,749)**	-
Foreign exchange gains and (losses)	**417,929**	(401,579)	**793,712**	(1,016,049)
Net and comprehensive income (loss)	**$ (6,022,038)**	$ 1,504,599	**$ (11,297,959)**	$ (2,919,253)
Weighted average number of common shares				
Basic	**51,623,677**	24,564,051	**43,008,145**	23,606,503
Diluted	**51,623,677**	24,982,239	**43,008,145**	23,606,503
Income (Loss) per common share				
Basic	**$ (0.12)**	$ 0.06	**$ (0.26)**	$ (0.12)
Diluted	**$ (0.12)**	$ 0.06	**$ (0.26)**	$ (0.12)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Unaudited)
(Expressed in Canadian Dollars)
Year ended December 31, 2007 and nine months ended September 30, 2008

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2006	19,283,397	$ 180,237,917	$ 15,211,567	$ (195,268,201)	$ 181,283
Net loss	-	-	-	(2,557,520)	(2,557,520)
Stock-based compensation	-	-	376,591	-	376,591
Issuance of common shares pursuant to exercise of options	107,284	162,203	(66,636)	-	95,567
Issuance of common shares pursuant to public offering (note 1)	5,175,000	16,042,500	-	-	16,042,500
Share issuance costs	-	(1,125,350)	-	-	(1,125,350)
Capital contribution from former parent company concurrent with Plan of Arrangement and paid to former noteholders (note 1)	-	-	5,179,000	-	5,179,000
Balance, December 31, 2007	24,565,681	$ 195,317,270	$ 20,700,522	$ (197,825,721)	$ 18,192,071
Net loss	-	-	-	(11,297,959)	(11,297,959)
Stock-based compensation (note 8)	-	-	1,584,164	-	1,584,164
Issuance of common shares pursuant to exercise of options	42,742	55,740	(25,623)	-	30,117
Issuance of common shares pursuant to acquisition of Protiva Biotherapeutics Inc. (note 3)	22,848,588	28,789,221	-	-	28,789,221
Reservation of common shares for issue on the exercise of Protiva Biotherapeutics Inc. options (note 3)	-	-	2,109,754	-	2,109,754
Issuance of common shares pursuant to private placement (notes 3 and 7)	4,166,666	5,249,999	4,715,001	-	9,965,000
Balance, September 30, 2008	**51,623,677**	**$ 229,412,230**	**$ 29,083,818**	**$ (209,123,680)**	**$ 49,372,368**

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
OPERATIONS				
Income (Loss) for the period	**$ (6,022,038)**	$ 1,504,599	**$ (11,297,959)**	$ (2,919,253)
Items not involving cash:				
Amortization of intangible assets	**253,937**	-	**338,583**	-
Depreciation of property and equipment	**217,504**	100,872	**534,524**	318,014
Change in deferred lease inducements	**124,154**	(35,185)	**130,254**	(105,553)
Stock-based compensation expense	**167,707**	236,373	**1,584,164**	333,449
Gain from sale of property and equipment	**-**	(1,217)	**-**	(1,217)
Impairment loss on goodwill	**3,890,749**	-	**3,890,749**	-
Unrealized foreign exchange (gains) losses arising on foreign currency cash balances	**(330,985)**	252,020	**(484,075)**	863,520
Change in deferred revenue	**(1,308,776)**	(2,208,418)	**(3,612,284)**	2,102,634
Net change in non-cash working capital	**(711,987)**	(873,239)	**1,710,265**	(3,454,067)
	(3,719,735)	(1,024,195)	**(7,205,779)**	(2,862,473)
INVESTMENTS				
Proceeds from sale of property and equipment	**-**	1,217	**-**	1,217
Acquisition of property and equipment	**(269,120)**	(189,358)	**(792,039)**	(1,114,144)
Proceeds on maturity of short-term investments, net	**2,610,317**	-	**2,636,013**	-
Cash acquired through acquisition of Protiva Biotherapeutics Inc., net of acquisition costs (note 3)	**-**	-	**2,519,095**	-
	2,341,197	(188,141)	**4,363,069**	(1,112,927)
FINANCING				
Issuance of common share pursuant to:				
Public offering, net of issue costs	**-**	-	**-**	14,917,150
Private placements	**-**	-	**9,965,000**	-
Exercise of options	**-**	-	**30,117**	94,576
Capital contribution from Inex Pharmaceuticals Corporation	**-**	-	**-**	5,179,000
Repayment of obligations under capital leases	**(21,898)**	(10,012)	**(65,912)**	(57,525)
	(21,898)	(10,012)	**9,929,205**	20,133,201
Unrealized foreign exchange gains (losses) arising on foreign currency cash balances	**330,985**	(252,020)	**484,075**	(863,520)
Increase (decrease) in cash and cash equivalents	**(1,069,451)**	(1,474,368)	**7,570,570**	15,294,281
Cash and cash equivalents, beginning of period	**29,565,537**	22,439,397	**20,925,516**	5,670,748
Cash and cash equivalents, end of period	**$ 28,496,086**	$ 20,965,029	**$ 28,496,086**	$ 20,965,029
Supplemental cash flow information				
Interest paid	**$ 1,497**	$ 912	**$ 2,857**	$ 6,933
Fair value of Alnylam Pharmaceuticals, Inc. shares received	**$ -**	$ -	**$ -**	$ 9,323,200
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 (note3)	**$ -**	$ -	**$ 2,109,754**	$ -

See accompanying notes to the consolidated financial statements.

1. Basis of presentation:

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

The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at September 30, 2008 and for all periods presented.

The results of operations for the three month and nine month periods ended September 30, 2008 and September 30, 2007 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the Company's audited annual financial statements and notes thereto for the year ended December 31, 2007 and included in the 2007 Annual Report.

These financial statements reflect the same significant accounting policies as those described in the notes to the audited financial statements of Tekmira Pharmaceuticals Corporation ("the Company") for the year ended December 31, 2007, except as described in note 2.

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

Pursuant to the Plan of Arrangement referred to above, substantially all of Inex's business and transferable assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology, partnership arrangements and Inex's contingent obligation related to certain debt (note 10) were transferred to the Company. The losses of Inex for income tax purposes remained with Inex. Inex's management team and employees became employees of the Company and assumed the same positions they occupied in Inex. The record holders of Inex's common shares immediately before the Plan of Arrangement received 100% of the shares of the Company as a result of the reorganization.

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

1. Basis of presentation (continued):

On April 30, 2007, concurrent with and as part of the Plan of Arrangement, Inex, having no remaining pharmaceutical assets, issued convertible debentures to a group of Investors (the "Inex Investors") for $5,300,000 cash. As at April 30, 2007, the Inex Investors, through their interest in the convertible debentures, held the ability to convert the debentures into 100% of the non-voting shares of Inex and 80% of Inex's common shares. The balance of Inex's common shares immediately following issuance of these convertible debentures continued to be held by the record holders of Inex's shares immediately before the Plan of Arrangement.

Pursuant to the Plan of Arrangement, Inex distributed $5,179,000 (US$4,664,345) of the cash received from the convertible debentures to certain contingent debtors of the Company (the "Former Noteholders") pursuant to the June 20, 2006 Purchase and Settlement Agreement (note 10). The cash distributed by Inex was recorded by the Company as an increase in contributed surplus and the amount distributed to the Former Noteholders was recorded by the Company as loss on purchase and settlement of exchangeable and development notes.

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

These consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries, Protiva Biotherapeutics Inc. and Protiva Biotherapeutics (USA), Inc., which were acquired on May 30, 2008 (note 3). All intercompany transactions and balances have been eliminated on consolidation.

(Expressed in Canadian dollars)

2. Adoption of new accounting standards:

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These standards were adopted to conform current period disclosures with the requirements of the standards, including comparative information.

(a) Capital Disclosures (Section 1535):

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any policies covering capital requirements and, if it has not complied, the consequences of such noncompliance.

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. The Company has not yet attained sustainable profitable operations, therefore the Board does not establish quantitative return on capital criteria for management.

As of September 30, 2008 and December 31, 2007, the Company's capital structure was as follows:

	September 30 2008	December 31 2007	Change
Total equity	**$ 49,372,368**	$ 18,192,071	171%

In the nine month period ended September 30, 2008, total equity increased 171% compared to December 31, 2007 due to an increase in share capital and contributed surplus partially offset by an increase in deficit (note 7).

There were no changes in the Company's approach to capital management during the period.

The Company is not subject to externally imposed capital requirements.

(b) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863):

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation and increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

(Expressed in Canadian dollars)

2. Changes in accounting policies:

(b) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863) (continued):

Credit Risk

Credit risk is defined by the Company as an unexpected loss in cash and earnings if a collaborative partner is unable to pay its obligations in due time. The Company's main source of credit risk is related to its accounts receivable balance which principally represents temporary financing provided to collaborative partners in the normal course of operations. The account receivable from Alnylam Pharmaceuticals, Inc. ("Alnylam") as at September 30, 2008 was $1,797,277 and represents 88% of total accounts receivable as at that date (December 31, 2007 - $1,345,543 and 74%).

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	September 30 2008	December 31 2007
Accounts receivable	**$ 2,067,016**	$ 1,820,139
	$ 2,067,016	$ 1,820,139

The aging of accounts receivable at the reporting date was:

	September 30 2008	December 31 2007
Current	**$ 1,899,125**	$ 1,792,626
Past due 0-30 days	**-**	2,492
Past due more than 30 days	**167,891**	25,021
	$ 2,067,016	$ 1,820,139

2. Changes in accounting policies:

(b) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863) (continued):

Liquidity Risk

Liquidity risk results from the Company's potential inability to meet its financial liabilities, for example payment of suppliers and settlement of lease obligations. 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 and long term cash obligations. The Company's financial obligations include accounts payable and accrued liabilities which generally fall due within 45 days and the Company's capital lease obligations which fall due in the next three months.

The net liquidity of the Company is considered to be the cash funds available less all committed cash outflows.

	September 30 2008	December 31 2007
Cash, cash equivalents and short term investments	**$ 34,197,232**	$ 20,925,516
Less:		
Accounts payable and accrued liabilities	**(4,313,484)**	(1,718,610)
Capital lease obligations	**(9,776)**	(75,688)
	$ 29,873,972	$ 19,131,218

Foreign exchange risk

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

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

2. Changes in accounting policies:

(b) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863) (continued):

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 a maximum of 25% of the total amount of cash and cash equivalents. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company's exposure to US dollar exchange risk as at September 30, 2008 and expressed in Canadian dollars was as follows:

Cash and cash equivalents	$ 6,784,329
Accounts receivable	1,867,666
Accounts payable and accrued liabilities	(1,233,784)
	$ 7,418,211

Interest rate risk

The Company invests its cash reserves in a portfolio of liquid, high-grade (rated R1 middle or better by the Dominion Bond Rating Service) investment securities with varying terms to maturity (not exceeding two years), selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. The Company's audit committee approves a list of acceptable securities for investment on a quarterly basis. A 100 basis point decrease in the interest rate would result in an increase in net losses of $81,108 for the three months ended September 30, 2008 and $191,509 for the nine months ended September 30, 2008. A 100 basis point increase would have an equal but opposite effect.

Fair values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, capital leases and promissory notes.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable approximates their fair values due to the immediate or short-term maturity of these financial instruments. The estimated fair value of the Company's capital leases approximates the carrying value of these leases. Payment of the Company's promissory notes is contingent upon the receipt of certain milestones and royalties. As contingent receivables and payables neither the promissory notes nor the milestones and royalties are recorded on the Company's balance sheet.

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

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

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

(Expressed in Canadian dollars)

3. Business acquisition (continued):

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

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

Cost of acquisition

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

Allocation of fair values

A valuation of Protiva's property and equipment and medical technology has been completed, however, the allocation of the purchase price of the net assets acquired may vary if additional information becomes available on estimates made in the purchase price allocation. The Company used the income approach and considered potential cash flows from both internal and partnered products to determine the fair value of the medical technology. The excess purchase price over the fair value of the net identifiable assets acquired has been allocated to goodwill.

3. Business acquisition (continued):

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

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

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

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

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

(Expressed in Canadian dollars)

4. Collaborative Agreements:

(a) License and collaboration with Alnylam:

On January 8, 2007, the Company entered into a licensing and expanded collaboration agreement ("License and Collaboration Agreement") with Alnylam giving them a worldwide exclusive license to the Company's lipid-based nanoparticle technology for the discovery, development, and commercialization of ribonucleic acid interference ("RNAi") therapeutics, and expanding the existent research and manufacturing alliance.

As a result of the acquisition of Protiva on May 30, 2008, the Company acquired a Cross-License Agreement ("Cross-License") between Protiva and Alnylam dated August 14, 2007.

Under the Cross-License, Alnylam made a payment of US$3,000,000 that gives Alnylam the right to opt into Protiva's PLK1 SNALP project and contribute 50% of product development costs and share equally in any future product revenues. Alnylam have until the start of a Phase 2 clinical trial of the PLK1 SNALP project to exercise their opt-in right. If Alnylam chooses to opt into the PLK1 SNALP project the US$3,000,000 already paid will be credited towards Alnylam's 50% share of project costs to date.

Under both the above Agreements with Alnylam the Company is being reimbursed for external costs and the provision of staff.

The following table sets forth revenue recognized from the Company's agreements with Alnylam:

	Three months ended		**Nine months ended**	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
Research and development collaborations	**$ 2,681,265**	$ 3,268,151	$ **4,483,444**	$ 4,307,714
Licensing fees and milestone payments:				
2006 Licensing Options	**82,359**	82,359	**247,076**	247,076
Up-front payment	**1,188,217**	1,188,217	**3,564,651**	3,473,501
	$ 3,951,841	$ 4,538,727	**$ 8,295,171**	$ 8,028,291

In accordance with the Company's revenue recognition policy, the 2006 licensing options and the up-front payment were deferred and are being amortized to revenue on a straight line basis to December 31, 2008, the period over which the Company expects to provide research support under the License and Collaboration Agreement. Effective January 1, 2009, the Company expects to provide all its Alnylam collaborative services under the Alnylam LCA.

(Expressed in Canadian dollars)

4. Collaborative Agreements (continued):

(a) License and collaboration with Alnylam (continued):

The following table sets forth deferred revenue from the Company's agreements with Alnylam and the related deferred milestone payment from the Company's license agreement with University of British Columbia ("UBC"):

	September 30 2008	December 31 2007
Licensing fees and milestone payments:		
2006 licensing options	**82,359**	329,434
Up-front payment	**1,188,217**	4,752,869
Less: Milestone payment to UBC	**(118,822)**	(475,287)
	$ 1,151,754	$ 4,607,016

Alnylam has provided access to the Company's lipid nanoparticle delivery technology to Roche, Regulus Therapeutics, LLC (a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited. The Company is eligible to receive up to US$16,000,000 in milestones for each RNAi therapeutic advanced by Alnylam or its partners. The Company is also eligible for royalties on product sales. These milestones and royalties will pass through Alnylam. Of these potential milestone payments, US$11,500,000 are due upon regulatory approval and cumulative product sales of over US$500,000,000.

(b) Agreements with Hana Biosciences, Inc. ("Hana"):

On May 6, 2006, the Company signed a number of agreements with Hana including the grant of worldwide licenses for three of its targeted chemotherapy products, Marqibo®, Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan). The Company also signed a Service Agreement under which Hana has been reimbursing the Company for expenses and time spent in maintaining and transferring the technology and product expertise related to the three products. Transfer of technology to Hana was completed by June 30, 2008 so the Service Agreement was terminated effective that date.

The following table sets forth revenue recognized from the Company's agreements with Hana:

	Three months ended		**Nine months ended**	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
Research and development collaborations	**$ -**	$ 142,145	**$ 51,015**	$ 441,632
Licensing fees and milestone payments	**-**	1,030,732	**-**	3,092,197
	$ -	$ 1,172,877	**$ 51,015**	$ 3,533,829

4. Collaborative Agreements (continued):

(b) Agreements with Hana Biosciences, Inc. ("Hana") (continued):

The Company could receive up to an additional US$29,500,000 in cash or Hana shares upon achievement of certain further development and regulatory milestones and will also be eligible to receive royalties on product sales. If received, certain of these contingent payments from Hana will be transferred to certain contingent debtors (note 10).

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

As a result of the acquisition of Protiva the Company has acquired a non-exclusive royalty-bearing world-wide license, of certain of the acquired technology, with Merck. Under the license, Merck will pay up to US$17,000,000 in milestones for each product it develops using the acquired technology, 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.

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

(d) Research agreement with Bristol-Myers Squibb:

As a result of the acquisition of Protiva the Company has a technology evaluation agreement with Bristol-Myers Squibb dated June 1, 2005 (note 3). Under an amendment to this agreement Bristol-Myers Squibb has paid the Company $448,635 (US$450,000) for certain collaborative research to be undertaken. As at September 30, 2008, work on this agreement was approximately 35% complete. Under a separate agreement Bristol-Myers Squibb will also pay the Company $41,352 for some additional research undertaken in the three months ended September 30, 2008. Accordingly, for the three months ended September 30, 2008, $198,374 has been recognized as research and development collaboration revenue and as at September 30, 2008 a balance of $291,613 remains as deferred revenue.

(e) License agreement with Aradigm Corporation ("Aradigm"):

On December 8, 2004, the Company entered into a licensing agreement with Aradigm under which Aradigm licensed certain liposomal technology for delivery of the antibiotic ciprofloxacin to treat infections associated with cystic fibrosis and to meet requirements of the Canadian Department of National Defence to treat anthrax. Under this agreement, the Company is entitled to milestone payments aggregating US$4,750,000 for each disease indication, to a maximum of two, pursued by Aradigm using liposomal ciprofloxacin. In addition, the Company is entitled to royalties on any product revenue.

(Expressed in Canadian dollars)

4. Collaborative Agreements (continued):

(f) Research agreement with Roche

Roche has paid the Company $79,650 (US$75,000) to evaluate the Company's technology under an initial research agreement (note 3) and owes the Company a further $79,650 (US$75,000). As at September 30, 2008 the evaluation work was approximately 64% complete so research and development collaboration revenue of $66,143 was recognized for the three months ended September 30, 2008 and $101,832 was recognized for the nine months ended September 30, 2008.

Through Alnylam, Roche has a sublicense to the Company's technology and the Company is eligible to receive up to US$16,000,000 in milestones plus royalties on each Roche product that uses the Company's technology.

5. Intangible assets:

September 30, 2008	Cost	Accumulated amortization	Net book value
Protiva medical technology (note 3)	$ 16,252,000	$ (338,583)	$ 15,913,417

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

6. Goodwill:

The changes in the carrying amount of goodwill are as follows:

Balance as at December 31, 2007	$ –
Acquisition of Protiva (note 3)	3,890,749
Impairment loss	(3,890,749)
Balance as at September 30, 2008	$ –

Based on the Company's market capitalization as at September 30, 2008 the Company determined that the fair value of goodwill is nil and an impairment loss of $3,890,749 has been recorded in the statement of operations and comprehensive income (loss) for the three month and nine month periods ended September 30, 2008.

(Expressed in Canadian dollars)

7. Common share capital:

Issuance of common shares pursuant to the acquisition of Protiva Biotherapeutics Inc. ("Protiva")

On May 30, 2008, the Company issued 22,848,588 common shares in exchange for 100% of Protiva's share capital (see Note 3).

Financing

On May 30, 2008, the Company completed a private placement investment of 2,083,333 newly issued common shares for $4,965,000 (US$5,000,000, US$2.40 per share) with Alnylam and a private placement investment of 2,083,333 newly issued common shares for $5,000,000 ($2.40 per share) with a Roche affiliate (see Note 3).

Stock options

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

On May 28, 2008, 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 1,487,000 thereby increasing the maximum common shares available under the plan to 5,515,276 of which 740,952 common shares remain available for future allocation as at September 30, 2008.

On May 30, 2008, as a condition of the acquisition of Protiva, the Company reserved 1,752,294 common shares for the exercise of 519,073 Protiva share options ("Protiva Options") (see note 3). The Protiva Options have an exercise price of $0.30, are fully vested, expire at various dates from November 19, 2010 to March 1, 2018 and upon exercise each option will be converted into approximately 3.3758 shares of the Company. To September 30, 2008, none of the Protiva Options had been exercised or cancelled. The Protiva Options are not part of the Company's 1996 Stock Option Plan and the Company is not permitted to grant any further Protiva Options.

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

	Number of optioned common shares	Weighted average exercise price
Balance, December 31, 2007	2,613,495	$ 3.48
Options granted	1,835,950	1.07
Options exercised	(42,742)	0.70
Options forfeited	(26,650)	9.12
Balance, September 30, 2008	4,380,053	$ 2.46

(Expressed in Canadian dollars)

8. Stock-based compensation:

Options under the 1996 Stock Option Plan expire at various dates from October 19, 2008 to September 14, 2018.

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

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
Stock-based compensation expense	**$167,707**	$236,373	**$1,584,164**	$333,449

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

	Three months ended		Nine months ended	
	September 30 2008	September 30 2007	**September 30 2008**	September 30 2007
Dividend yield	**0.0%**	0.0%	**0.0%**	0.0%
Expected volatility	**117.5%**	120.1%	**122.1%**	124.0%
Risk-free interest rate	**3.3%**	4.3%	**3.2%**	4.3%
Expected average option term	**8.0 years**	7.9 years	**7.3 years**	7.3 years
Fair value of options granted	**$0.82**	$1.20	**$0.97**	$1.17

9. Government grants:

Government grants have been netted against research and development expenses. Government grants include funding from Protiva's agreement with the US Army Medical Research Institute for Infectious Diseases ("USAMRIID") of $54,584 for the three months ending September 30, 2008 and $164,775 for the period from May 30, 2008, the date Protiva was acquired, to September 30, 2008.

The Company has $285,333 of refundable Scientific Research and Experimental Development income tax credits included in accounts receivable as at September 30, 2008 (December 31, 2007 - $26,184) of which $275,695 is in respect of its subsidiary, Protiva (note 3).

(Expressed in Canadian dollars)

10. Purchase and settlement of the exchangeable and development notes:

On June 20, 2006, the Company and the holders of the exchangeable and development notes (the "Former Noteholders") signed a purchase and settlement agreement (the "Purchase and Settlement Agreement"). The Purchase and Settlement Agreement retired the exchangeable and development notes in exchange for US$2,500,000 in cash, 1,118,568 Hana shares received upon licensing our chemotherapy products to Hana and certain contingent consideration.

On April 30, 2007, the Company completed a corporate reorganization and, as required under the Purchase and Settlement Agreement, paid the proceeds from the reorganization of $5,179,000 (US$4,665,345) to the Former Noteholders. This payment has been recorded in the three month period ended June 30, 2007 as a Loss on purchase and settlement of exchangeable and development notes.

There have been no payments under the Purchase and Settlement Agreement since the corporate reorganization. The balance of the contingent obligation under the Purchase and Settlement Agreement as at September 30, 2008 of US$22,835,476 (December 31, 2007 – US$22,835,476) will only be paid down with milestone and royalty payments which the Company may receive from Hana. The Former Noteholders have no recourse to any of the Company's other assets.

11. Commitments

On September 24, 2008 the Company signed an amendment to the operating lease for its principal laboratory and office premises. The amended lease expires in December 2012 but the Company has the option to extend the lease to 2017 and then to 2022. The amended lease includes a lower rent period, a free rent period and a tenant improvement allowance. In accordance with the Company's accounting policy these lease inducements will be amortized on a straight-line basis over the five year term of the lease.

As a result of the acquisition of Protiva the Company also has an operating lease obligation for Protiva's facility. This lease expires in January 2009.

The minimum annual rent and operating cost commitment, net of committed sub-lease income, is as follows:

For the three months ended December 31, 2008	$ 225,000
2009	1,419,620
2010	1,422,386
2011	1,422,386
2012	1,363,120
	$ 5,852,512

(Expressed in Canadian dollars)

12. Segmented information:

The Company is focused on advancing novel RNA interference products and providing its leading lipid nanoparticle delivery technology to pharmaceutical partners.

The Company's revenue from research and development collaborations, licensing fees and milestone payments was earned from collaborators based in the United States.

All of the Company's assets are owned and located in Canada.

13. Supplementary information:

Accounts payable and accrued liabilities is comprised of the following:

	September 30 2008	December 31, 2007
Trade accounts payable	**$ 1,231,049**	$ 310,523
Research and development accruals	**646,652**	310,728
Professional fee accruals	**201,244**	148,000
Executive termination cost accrual	**1,701,381**	15,402
Executive bonus accrual	**53,571**	366,750
Other accrued liabilities	**479,587**	567,207
	$ 4,313,484	$ 1,718,610

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

2008 – Q3

November 13, 2008 / *This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the period ended September 30, 2008, and the audited financial statements and related notes for the year ended December 31, 2007, both of which are prepared in accordance with Canadian generally accepted accounting principles, and management's discussion and analysis of financial condition and operations for the year ended December 31, 2007. Additional information relating to Tekmira Pharmaceuticals Corporation ("Tekmira" or the "Company"), including the Company's May 1, 2008 Management Information Circular is on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements and information should be considered carefully. Undue reliance should not be placed on forward-looking statements and information as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements and information involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements and information will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The assumptions made by Tekmira include the estimate of the length of time that Tekmira's development plan will be funded by its anticipated financial resources (see Risks and uncertainties); the development of products; the actions of collaborative partners; the timing of receipt of regulatory approvals; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services.

More particularly and without limitation, this discussion and analysis contains forward-looking statements and information concerning the potential of Tekmira; the potential of RNAi therapeutics as a treatment for disease; and the number and timing of advancement of its products into clinical development.

There are also 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 and information. Such factors include, among others, the stage of development of Tekmira, lack of product revenues, additional capital requirements, the need to obtain regulatory approval to commence clinical trials, risks associated with the completion of clinical trials and obtaining regulatory approval to market Tekmira's products, the safety and efficacy of Tekmira's products, the ability to protect Tekmira's intellectual property and dependence on collaborative partners. In addition, the actual results expressed or implied by certain forward-looking statements contained in this discussion and analysis may be affected by the business combination with Protiva Biotherapeutics Inc. ("Protiva") which we completed on May 30, 2008, and the related transactions. There can be no assurance that the potential for future licensing transactions, collaborative partnerships or product development activities, all related to the Protiva transaction, will be realized in the amounts or times contemplated.

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's management information circular dated May 1, 2008 available at www.sedar.com. Tekmira disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements or information contained herein to reflect future results, events or developments, except as required by law.

OVERVIEW

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

On May 30, 2008, we completed the acquisition of 100% of the outstanding shares of Protiva Biotherapeutics, Inc. ("Protiva"), a privately owned Canadian company developing new delivery technologies for small interfering RNA ("siRNA") and combined our businesses. Concurrent with the business combination with Protiva, we entered into initial research agreements with F. Hoffman-La Roche Ltd and Hoffman La-Roche Inc. (collectively "Roche"). Also concurrent with the business combination, we completed a private placement investment of 2,083,333 newly issued common shares for $5.0 million (US$5.0 million, US$2.40 per share) with Alnylam Pharmaceuticals, Inc. ("Alnylam") and a private placement investment of 2,083,333 newly issued common shares for $5.0 million ($2.40 per share) with a Roche affiliate. We believe the business combination gives us leading technology capabilities and intellectual property to deliver RNAi therapeutics using our lipid nanoparticle delivery technology which we refer to as SNALP (Stable Nucleic Acid Lipid-Particles). The business combination and related transactions and the Company's strategy are discussed further below.

The Protiva acquisition was accounted for using the purchase method of accounting. The assets and liabilities of Protiva were included in our consolidated financial statements from May 30, 2008, the date of acquisition. Total consideration of $31.8 million, including acquisition costs, was allocated to the assets acquired and liabilities assumed based on preliminary fair values at the date of acquisition resulting in medical technology assets of $16.3 million and goodwill of $3.9 million. In valuing Protiva's medical technology we have assumed certain future net positive cash flows from products, both internal and from collaborative relationships, based on this technology. If any of the assumptions underlying our valuation of Protiva's medical technology should change then we will conduct an asset impairment test and may be required to write down the value of this asset. Valuation of medical technology and goodwill is covered further in the Critical accounting policies and estimates section of this discussion.

The business combination with Protiva resulted in a number of changes to our executive management team. The executive management team is now led by Dr. Mark J. Murray as President and CEO; Ian Mortimer as Executive Vice President and Chief Financial Officer; and Dr. Ian MacLachlan as Executive Vice President and Chief Scientific Officer. Prior to the business combination Dr. Murray was Protiva's Chairman, President and CEO; Ian Mortimer was Chief Financial Officer of Tekmira; and Dr. Ian MacLachlan was Chief Scientific Officer of Protiva. K. Michael Forrest, a Tekmira director before the business combination, now serves as our Chairman. In September we expanded the management team further by adding Tammy Mullarky as Vice President, Strategic Planning and Business Development and Dr. Peter Lutwyche as Vice President, Pharmaceutical Development.

Transfer of Business to Tekmira

The Company did not carry on any active business until April 30, 2007 when the Company and Inex Pharmaceuticals Corporation ("Inex"), its parent company at that time, were reorganized under a Plan of Arrangement. Under the Plan of Arrangement,

- all of Inex's biopharmaceutical business, assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology and

partnership arrangements, and all of Inex's employees, were transferred to Tekmira, and

- all outstanding shares of Tekmira were distributed to Inex shareholders.

Immediately before the reorganization, Inex's common shares were consolidated on a basis of two current common shares for one new common share. Except as otherwise indicated, all references to common stock, common shares outstanding, average number of common shares outstanding, per share amounts and options in this discussion have been restated to reflect the common stock consolidation on a retroactive basis. Under the Plan of Arrangement, Inex's common shareholders received one common share of Tekmira for each post consolidation share of Inex held. The shares distributed to Inex's shareholders represented 100% of Tekmira's outstanding common shares.

On April 30, 2007, concurrent with and as part of the Plan of Arrangement, Inex issued convertible debentures to a group of investors (the "Investors") for $5.3 million in cash. $5.2 million (US$4.7 million) of the cash received by Inex upon the issuance of the convertible debentures was recorded as Contributed Surplus. As required by the terms of a Purchase and Settlement Agreement, which is covered later in this discussion, the $5.2 million was paid to certain contingent debtors and was recorded as a loss on the purchase and settlement of promissory notes (see Off-Balance sheet Arrangements/Purchase and settlement of the exchangeable and development notes discussion below). The remaining balance of the cash raised from the convertible debenture of $0.1 million was retained by Inex as working capital and was not contributed to Tekmira.

Effective May 1, 2007, 24,563,851 common shares of Tekmira began trading on the Toronto Stock Exchange under the symbol "TKM".

As a non-recurring related party transaction between Tekmira and Inex, companies under common control, the assets and liabilities of Inex were transferred at their carrying values using the continuity-of-interests method of accounting. For reporting purposes, Tekmira is considered to have continued Inex's pharmaceutical business and will include the historical operating results of Inex to April 30, 2007.

References in this discussion to the Company's business and operations that pre-date the April 30, 2007 restructuring are references to the business and operations of Inex, but are included on the basis that such historical business and operations have been continued by Tekmira.

Technology, product development and licensing agreements

Our pipeline consists of products being developed internally with our research and development resources and products that are being developed through external partners. Our focus internally is on advancing products that utilize our proprietary lipid nanoparticle technology, referred to as SNALP, for the delivery of siRNA. These products are intended to treat diseases through a process known as RNA interference which prevents the production of proteins that are associated with various diseases. We have rights to develop up to seven RNAi therapeutic products under rights granted to us by Alnylam.

Our internal lead product candidates are

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

In the field of RNAi therapeutics, we have licensed our lipid nanoparticle delivery technology to Alnylam and Merck & Co., Inc. Alnylam expects to file an Investigational New Drug (IND) application before the end of 2008 for a product candidate that includes our SNALP delivery technology (see Alnylam collaboration and licensing). Alnylam has granted access to our technology to certain of its partners, including Roche, Regulus Therapeutics, LLC ("Regulus") (a joint venture between Alnylam and Isis

Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited ("Takeda"). In addition, we have research relationships with Bristol-Myers Squibb Company, Johnson & Johnson Pharmaceutical Research & Development, a Division of Janssen Pharmaceutica, N.V. and the US Army Medical Research Institute for Infectious Diseases. Outside the RNAi field, we have legacy licensing agreements with Hana Biosciences, Inc. and Aradigm Corporation.

ApoB SNALP

ApoB SNALP is a SNALP-encapsulated siRNA designed to down regulate the production of ApoB. ApoB is a protein synthesized in the liver that plays a central role in cholesterol trafficking and is a potential target for reduction of hypercholesterolemia or high cholesterol. ApoB is an essential protein for the assembly and secretion of very low density lipoprotein ("VLDL"), a precursor to low density lipoprotein ("LDL"). Elevated blood cholesterol levels are associated with increased risk of atherosclerosis which is associated with a build up of cholesterol and fat in artery walls causing narrowing of the blood vessel.

Molecular approaches targeting ApoB with antisense oligonucleotides developed by others have advanced through Phase 2 clinical studies with promising results. We believe that a siRNA based approach may offer advantages over antisense therapeutics.

The therapeutic potential of ApoB SNALP has been demonstrated in preclinical models of hypercholesterolemia. Rodents fed a high fat (so-called "Western") diet demonstrate a 50-100% increase in total cholesterol in the blood. A single ApoB SNALP treatment can overcome such diet-induced hypercholesterolemia, returning blood cholesterol levels to normal. The suppressive effects of a single SNALP dose lasts for weeks in mice and is expected to last considerably longer in larger animal models. In addition to rodent animal studies, we have also conducted several studies showing that ApoB SNALP can be effective at lowering LDL cholesterol levels in non-human primates.

We initiated formal safety studies for ApoB SNALP in the third quarter of 2008 and we expect to submit an Investigational New Drug ("IND") application with the FDA and to initiate human clinical trials in the first half of 2009. These clinical trials are expected to be conducted in hypercholesterolemic patients and will initially determine the safety profile of ApoB SNALP and may provide some preliminary data on serum LDL cholesterol lowering activity. Subsequent clinical studies may evaluate the safety and efficacy of ApoB SNALP as a single agent or in combination with other cholesterol-lowering drugs.

PLK1 SNALP

Our second internal siRNA product, PLK1 SNALP, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in healthy tissue. We expect to initiate formal safety studies for PLK1 SNALP in the first half of 2009 and to submit an IND application with the FDA to initiate human clinical trials in the second half of 2009. We have an agreement with Alnylam that gives Alnylam the right to form an equal cost, and ultimately revenue, sharing relationship with respect to the development of PLK1 SNALP.

Alnylam collaboration and license

On March 25, 2006, we entered into a collaboration agreement with Alnylam combining our leading expertise in the systemic delivery of nucleic acids with Alnylam's leadership in the field of RNAi therapeutics.

On January 8, 2007, we entered into a licensing and expanded collaboration agreement with Alnylam giving them a worldwide exclusive license to our lipid nanoparticle delivery technology for the discovery, development, and commercialization of RNAi therapeutics, and expanding our existing research alliance. We are also the exclusive manufacturer for Alnylam to the end of Phase 2 clinical studies for

each Alnylam product that utilizes our technology.

As a result of the business combination with Protiva on May 30, 2008 we acquired a Cross-License Agreement ("Cross-License") between Protiva and Alnylam, dated August 14, 2007. The Cross-License gives Alnylam non-exclusive access to Protiva's intellectual property and requires Alnylam to fund a certain level of collaborative research.

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

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

As well as the research and development funding, up-front payment and milestones potential, the agreements with Alnylam grant to us intellectual property rights to develop our own, independent, RNAi therapeutics. Alnylam has granted us a worldwide license to their technology and intellectual property for the discovery, development and commercialization of RNAi products directed to seven RNAi gene targets (three exclusive and four non-exclusive licenses). Two targets, ApoB and PLK1, have already been selected on a non-exclusive basis.

Under the RNAi licenses granted to us, we may select up to 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 or their partners. In consideration for this license, we agreed to pay royalties to Alnylam on product sales and must pay milestones of up to US$8.5 million on each of the four non-exclusive targets (except for PLK 1 SNALP if Alnylam opts into the development program).

Alnylam expects to file an IND application before the end of 2008 for a product candidate that includes our SNALP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for liver cancer and potentially other solid tumors. ALN-VSP comprises small interfering RNA (siRNA) molecules delivered systemically using our SNALP technology. We are responsible for manufacturing ALN-VSP drug product and we have conducted preclinical work in support of Alnylam's IND application.

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

As a result of the business combination with Protiva we have acquired a non-exclusive royalty-bearing world-wide licensing agreement with Merck. Under the license, Merck will pay up to US$17.0 million in milestones for each product they develop using the acquired technology, 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.

As provided under the agreement with Merck, we are currently in arbitration with their subsidiary, Sirna Therapeutics, to determine the inventorship of certain intellectual property. We do not expect the outcome of the arbitration to have a material effect on our operations or the value of our intellectual property.

There is no active research collaboration with Merck.

Research agreement with Bristol-Myers Squibb Company ("Bristol-Myers Squibb")

As a result of the business combination with Protiva we have acquired an agreement with Bristol-Myers Squibb to evaluate the use of SNALP technology to deliver siRNA to specific organs and tissues outside the liver. Under an amendment to this agreement Bristol-Myers Squibb has paid us $0.5 million for certain collaborative research to be undertaken. Recognition of this payment as revenue is covered in the Revenue section of this discussion.

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

In 2005, Protiva and the USAMRIID signed a research agreement to collaborate on the development of SNALP siRNA-based therapy against filovirus infections for a five year term. The USAMRIID waives any rights in inventions made in whole or in part by our employees and we have the option to retain title to such inventions with the U.S. Government retaining a non-exclusive paid-up license. The USAMRIID retains title to any inventions made by its employees, provided that we are granted an exclusive license on mutually agreed terms, with the U.S. Government retaining a non-exclusive paid-up license. Grants received from the USAMRIID are netted research and development expenses when the grant is earned.

Research agreement with Roche

On May 30, 2008, we signed an initial research agreement with Roche. Recognition of revenue from this agreement is covered in the Revenue section of this discussion. Through Alnylam, Roche has a sublicense to our technology and we are eligible to receive up to US$16.0 million in milestones plus additional royalties on each Roche product that uses our technology.

License agreement with Hana Biosciences, Inc. ("Hana")

Hana is developing our targeted chemotherapy products under a license agreement entered into in May 2006. Marqibo® (Optisomal Vincristine), Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan), have been exclusively licensed to Hana. Hana has agreed to pay us milestones and royalties (see Off-Balance Sheet Arrangements / Purchase and settlement of the exchangeable and development notes) and is responsible for all future development and future expenses. The impact of the Hana partnership on our results of operations is covered further in the Revenue section of this discussion.

License agreement with Aradigm Corporation ("Aradigm")

On December 8, 2004, we entered into a licensing agreement with Aradigm under which Aradigm exclusively licensed certain liposomal technology for delivery of the antibiotic ciprofloxacin to treat infections associated with cystic fibrosis and to meet requirements of the Canadian Department of National Defence to treat anthrax. Under this agreement, we are entitled to milestone payments aggregating US$4.75 million for each disease indication, to a maximum of two, pursued by Aradigm using liposomal ciprofloxacin. In addition, we are entitled to royalties on any product revenue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates are disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and the annual financial statements contained in our 2007 Annual Report with the exception of the accounting for the purchase of Protiva (see Overview), our estimate for the life of the medical technology acquired from Protiva and our policy for goodwill which follow below.

Medical technology estimated life / We have estimated that the life of the medical technology acquired from Protiva as part of our recent business combination is 16 years. This estimate is based, amongst other things, on the remaining patent lives underlying the Protiva medical technology. Should our assumptions underlying the value or estimated life of the Protiva medical technology change then we will carry out an impairment test.

Goodwill / Goodwill is tested for possible impairment at least annually and whenever changes in circumstances occur that would indicate an impairment in the value of goodwill. When the carrying value of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Circumstances that could trigger an impairment include adverse changes in legal or regulatory matters or the business climate, technological advances, decreases in anticipated demand for the technology and unanticipated competition. The recent 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 is nil and an impairment loss of $3.9 million, the full value of goodwill, has been recorded in the Statement of operations and comprehensive income (loss) for the three month and nine month periods ended September 30, 2008.

CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS

Effective January 1, 2008, we adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These standards were adopted to conform current period disclosures with the requirements of the standards, including comparative information.

Capital Disclosures (Section 1535)

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any policies covering capital requirements and, if it has not complied, the consequences of such noncompliance.

Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These standards replace CICA 3861, *Financial Instruments – Disclosure and Presentation* and increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

SUMMARY OF QUARTERLY RESULTS

The following table presents our unaudited quarterly results of operations for each of our last eight quarters. This data has been derived from our unaudited consolidated financial statements, which were prepared on the same basis as our annual audited financial statements and, in our opinion, include all

adjustments necessary, consisting solely of normal recurring adjustments, for the fair presentation of such information.

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

(in millions Cdn$ except per share data)

	Dec 31 2006	March 31 2007	June 30 2007	Sept 30 2007	Dec 31 2007	March 31 2008	June 30 2008	**Sept 30 2008**
Revenue	$ 2.8	$ 2.9	$ 3.0	$ 5.7	$ 4.2	$ 1.9	$ 2.5	**$ 4.2**
Net income (loss)	0.2	0.7	(5.1)	1.5	0.4	(0.4)	(4.8)	**(6.0)**
Basic net income (loss) per share	0.01	0.03	(0.21)	0.06	0.01	(0.02)	(0.14)	**(0.12)**
Diluted net income (loss) per share	$ 0.01	$ 0.03	$ (0.21)	$ 0.06	$ 0.01	$ (0.02)	$ (0.14)	**$ (0.12)**

Quarterly Trends / Our revenue is derived from research and development collaborations, licensing fees and milestone payments. Fluctuations are partially due to the timing of milestone payments. Over the past two years, our principal sources of revenue have been our Alnylam and Hana partnerships entered into in March 2006 and May 2006, respectively. Revenue from Q4 2006 to Q4 2007 includes approximately $1.0 million each quarter relating to the amortization of a Hana up-front payment. Revenue in the third quarter of 2007 increased as we completed the manufacture of a number of drug batches for Alnylam. We expect revenue to continue to fluctuate due to the variability in Alnylam's demand for manufacturing.

Net loss in the second quarter of 2007 includes a loss of $5.2 million which is the partial reversal of the Q2 2006 gain on the purchase and settlement of exchangeable and development notes of $26.8 million and is covered further in the Off-Balance Sheet Arrangements section of this discussion.

Net loss in the second quarter of 2008 is largely the result of increased research and development expenses linked to the acquisition of Protiva, including:

- The inclusion of Protiva expenses of $0.8 million from May 30, 2008, including ApoB SNALP and PLK1 SNALP project expenses;
- Stock based compensation for research and development staff of $1.0 million which is unusually high and is a result of accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva; and
- The accrual of $2.0 million for payments due to our former CEO.

Our results for the third quarter of 2008 are covered in the Results of operations section of this discussion.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2008, our net loss was $11.3 million ($0.26 per common share, basic and diluted) as compared to a net loss of $2.9 million ($0.12 per common share, basic and diluted) for the comparative period of 2007. For the three months ended September 30, 2008, our net loss was $6.0 million ($0.12 per common share, basic and diluted) as compared to a net income of $1.5 million ($0.06 per common share, basic and diluted) for the third quarter of 2007.

There are a number of factors contributing to changes in our results including changes to our revenue streams, the inclusion of Protiva's results from May 30, 2008, the date Protiva was acquired, some unusual expenses linked to the acquisition of Protiva and the impairment loss on goodwill.

Revenue / Revenue from research and development collaborations, licensing fees and milestone payments was $4.2 million for the third quarter of 2008 as compared to $5.7 million for the third quarter of 2007 and was $8.6 million for the first nine months of 2008 as compared to $11.6 million for the first nine months of 2007. Our revenue in the first nine months of 2007 arises from licensing and collaboration payments from partnerships with Alnylam and Hana that began on March 25, 2006 and May 6, 2006, respectively. Our revenue in the first nine months of 2008 arises primarily from our Alnylam collaboration.

Revenue is detailed in the following table:

	Three months ended		**Nine months ended**	
(in millions Cdn$)	**Sept 30 2008**	Sept 30 2007	**Sept 30 2008**	Sept 30 2007
Research and development collaborations				
Alnylam	**$ 2.7**	$ 3.3	**$ 4.5**	$ 4.3
Bristol-Myers Squibb	**0.2**	-	**0.2**	-
Roche	**0.1**	-	**0.1**	-
Hana	**-**	0.1	**0.1**	0.4
Total research and development collaborations	**$ 2.9**	$ 3.4	**$ 4.8**	$ 4.7
Licensing fees and milestone payments				
Alnylam licensing fees:				
2006 licensing options amortization	**$ 0.1**	$ 0.1	**$ 0.2**	$ 0.2
Up-front payment amortization	**1.2**	1.2	**3.6**	3.5
Hana up-front licensing fee amortization	**-**	1.0	**-**	3.1
Total licensing fees and milestone payments	**$ 1.3**	$ 2.3	**$ 3.8**	$ 6.8
Total revenue	**$ 4.2**	$ 5.7	**$ 8.6**	$ 11.6

Alnylam revenue / On March 25, 2006, we signed an exclusive research collaboration agreement with Alnylam to evaluate Alnylam's RNAi therapeutics with our systemic lipid-based technology. On January 8, 2007, we entered into a licensing and expanded collaboration agreement with Alnylam (the "Alnylam LCA") giving them a worldwide exclusive license to our lipid-based delivery formulation technology for the discovery, development, and commercialization of RNAi therapeutics, and expanding the existing research and manufacturing alliance. The agreement includes a minimum of US$2.0 million in

research and development collaboration funding in both 2007 and 2008. This revenue is being recorded based on the time spent by our scientific staff and costs incurred on Alnylam research and development projects. Under the Alnylam LCA, we are also providing contract manufacturing services to Alnylam and this income is being recorded as research and development collaborations revenue.

As a result of the business combination with Protiva, on May 30, 2008 we acquired the Cross-License which was described earlier in the Alnylam collaboration and license section of this discussion. Under the Cross-License, we will provide a minimum of seven scientists until August 13, 2009 and Alnylam will reimburse us at a fixed rate for all personnel provided.

Alnylam research and development collaboration revenue in the third quarter of 2007 was unusually high as we manufactured several batches of drugs for Alnylam.

Under the Alnylam LCA we received an up-front licensing payment of $9.4 million (US$8.0 million). This is being amortized to revenue on a straight-line basis over the period ending December 31, 2008 which is the period that we expect to provide research support under the Alnylam LCA. Effective January 1, 2009, we expect to provide all of our Alnylam collaborative services under the Alnylam LCA. A milestone payment to the University of British Columbia of $0.9 million, representing 10% of the up-front licensing payment from Alnylam, is being amortized to research and development expenses to the period ending December 31, 2008.

Prior to the business combination with Protiva, we were eligible to receive up to US$13.0 million in potential milestone payments for each product developed by Alnylam or its licensees utilizing our technology, including those developed by Alnylam licensees. These licensees include Roche, Regulus and Takeda. As a result of the business combination with Protiva we are now eligible to receive US$16.0 million in milestones per product. Of these potential milestone payments, US$11.5 million are due upon regulatory approval and cumulative product sales of over US$500 million. We are also eligible for royalties on product sales.

Hana revenue / On May 6, 2006, we signed a number of agreements with Hana including the grant of worldwide exclusive licenses (the "Hana License Agreement") for our targeted chemotherapy products, Marqibo®, Alocrest™ and Brakiva™. Under the Hana License Agreement, Hana paid a non-refundable up-front cash payment of $1.7 million (US$1.5 million) and issued 1,118,568 Hana shares to us (together the "Hana Up-front Payments"). The value of the Hana shares on May 6, 2006, based on a share price of $12.34 (US$11.15) was $13.8 million (US$12.5 million) giving a total of $15.5 million (US$14.0 million) in Hana Up-front Payments.

We also entered into a Services Agreement under which Hana reimbursed us for expenses and time spent in maintaining and transferring the technology and product expertise related to the three targeted chemotherapy products. Reflecting the general completion of technology and product expertise transfer to Hana, the Service Agreement was terminated on June 30, 2008. Revenue from the Service Agreement has been recorded as research and development collaboration revenue.

In accordance with our revenue recognition policy, the Hana Up-front Payments were deferred and were amortized over the period to December 31, 2007, by which time we had delivered substantially all of our services under the Service Agreement.

Under the Hana License Agreement we could receive up to an additional US$29.5 million in cash or Hana shares for development and regulatory milestones and will also receive royalties on product sales. We have agreed to pay certain of the future contingent Hana payments to certain contingent debtors as covered in further detail in the Off-Balance Sheet Arrangements section of this discussion.

Bristol-Myers Squibb / As a result of the business combination with Protiva we have acquired a technology evaluation agreement with Bristol-Myers Squibb ("BMS"). Under an amendment to this

agreement BMS has paid us $0.45 million for certain collaborative research to be undertaken. Work on this evaluation agreement began in the third quarter of 2008 and was approximately 35% complete by quarter end. Under a separate agreement BMS will pay $0.04 million for some research undertaken in the three months ended September 30, 2008. Accordingly, we recognized $0.20 million in research and development collaboration revenue in the third quarter and as at quarter end we have deferred the balance of revenue of $0.29 million.

Roche / Roche has paid us $0.08 million to evaluate our technology under an initial research agreement and owes us a further $0.08 million. As at September 30, 2008 the evaluation work was 64% complete so for the first nine months of 2008 $0.10 million has been recognized as research and development collaboration revenue.

Expenses / Research and development / Research and development expenses increased to $5.4 million for the third quarter of 2008 as compared to $3.2 million for the third quarter of 2007 and increased to $13.1 million for the nine months of 2008 as compared to $5.3 million for the first nine months of 2007. Inclusion of Protiva expenses from May 30, 2008, including ApoB SNALP and PLK1 SNALP project expenses, accounts for $3.5 million of the increase in the third quarter and $4.3 million of the increase in the first nine months of 2008 as compared to the same periods in 2007.

The majority of the increase in research and development external expenditures relate to our ApoB SNALP program, specifically preclinical toxicology costs and costs related to the purchase of GMP materials. Stock based compensation for research and development staff was $1.00 million in the second quarter of 2008 as compared to $0.03 million for the second quarter of 2007 as our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva in the second quarter of 2008. Also in the second quarter of 2008, we accrued $2.0 million for payments due to our former CEO and this has been allocated 75% to research and development expenses and 25% to general and administrative expenses.

Salary and infrastructure costs also increased as a result of the business combination with Protiva. Staff numbers increased by about 75% as a result of the business combination. Our internal research and development staff numbers were 78 at September 30, 2008 (total staff 94) as compared to 39 (total staff 50) at September 30, 2007. As part of the integration of Tekmira and Protiva, in October, we completed a reorganization which resulted in a reduction in workforce of 13 employees.

General and administrative / General and administrative expenses increased to $1.1 million for the third quarter of 2008 as compared to $0.8 million for third quarter of 2007 and increased to $3.6 million for the first nine months of 2008 as compared to $3.4 million for the first nine months of 2007. Inclusion of Protiva expenses from May 30, 2008 accounts for $0.3 million of the increase in the third quarter and $0.4 million of the increase in the first nine months of 2008 as compared to the same periods in 2007. Stock based compensation for general and administrative staff was $0.35 million for the second quarter of 2008 as compared to $0.01 million for the second quarter of 2007 and in line with the increase noted above. Legal and professional fees were substantial in the first nine months of 2007 as we worked to complete the corporate reorganization on April 30, 2007. Legal and professional fees were similarly higher than normal in the period up to completion of the business combination with Protiva but these fees have been capitalized as they are a cost of acquisition of Protiva.

Amortization of intangible assets / Amortization of intangible assets relates to medical technology acquired upon the business combination with Protiva. The estimated useful life and amortization period of the Protiva medical technology is discussed in the Critical accounting policies and estimates section of this discussion.

Depreciation of property and equipment / Depreciation of property and equipment was $0.2 million for the third quarter of 2008 as compared to $0.1 million for third quarter of 2007 and $0.5 million for the first nine months of 2008 as compared to $0.3 million for the first nine months of 2007. Our results from

May 30, 2008 onwards include Protiva's depreciation charges. Also, capital asset purchases and depreciation thereof has increased in line with our growth since expanding our Alnylam collaboration early in 2007.

Other Income/Losses / Interest income / Interest income was $0.3 million for the third quarter of 2008 and for third quarter of 2007 and $0.7 million for the first nine months of 2008 and for the first nine months of 2007. Average cash, cash equivalent and short-term investment balances increased significantly as a result of both our business combination with Protiva and the related $10.0 million in new financing but average interest rates were lower in the first nine months of 2008 as compared to the first nine months of 2007. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Loss on purchase and settlement of exchangeable and development notes / On June 20, 2006 we signed the Purchase and Settlement Agreement with the holders of certain exchangeable and development notes (the "Former Noteholders") and recorded a gain on settlement of $26.8 million.

On April 30, 2007, we completed a corporate reorganization (see Transfer of business to Tekmira) and, as required under the Purchase and Settlement Agreement, paid the proceeds from the sale of securities completed as part of the reorganization, $5.2 million (US$4.7 million), to the Former Noteholders. This payment has been recorded in the second quarter of 2007 as a loss on purchase and settlement of exchangeable and development notes.

Hereafter, the contingent obligation under the Purchase and Settlement Agreement of US$22.8 million will only change and will only be paid down with milestone and royalty payments which we may receive from Hana. Until the contingent obligation is fully repaid, milestone or royalty payments received from Hana, will be recorded in our Statement of Operations as licensing fees and milestone payment revenue with an equal and opposite loss on purchase and settlement of exchangeable and development notes. The net effect of these transactions on our net income or loss will be nil.

Impairment loss on goodwill / The recent 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 is now nil and an impairment loss of $3.9 million, the full value of goodwill, has been recorded for the three month and nine month periods ended September 30, 2008.

Foreign exchange and other gains (losses) / Foreign exchange and other gains (losses) showed gains of $0.4 million in the third quarter of 2008 as compared to losses of $0.4 million in the third quarter of 2007 and gains of $0.8 in the first nine months of 2008 as compared to losses of $1.0 million in the first nine months of 2007. The foreign exchange gains in the third quarter and first nine months of 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. A weakening US dollar in the third quarter and first nine months of 2007 had the opposite effect. Exchange rate fluctuations will continue to create gains or losses as we expect to continue holding US denominated cash investments, accounts receivable and accounts payable.

Capital expenditures / Capital expenditures were $0.3 million in the third quarter of 2008 as compared to $0.2 million in the third quarter of 2007 and were $0.8 in the first nine months of 2008 as compared to $1.1 million in the first nine months of 2007. In the first nine months of 2008 we purchased laboratory and manufacturing equipment and continued our upgrade of information technology systems. In the third quarter and first nine months of 2007 we purchased laboratory equipment, manufacturing equipment and upgraded our information technology hardware and software.

LIQUIDITY AND CAPITAL RESOURCES

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

At September 30, 2008, we had cash, cash equivalents and short-term investments of approximately $34.2 million as compared to $20.9 million at December 31, 2007.

Operating activities used cash of $3.7 million in the third quarter of 2008 as compared to cash used of $1.0 million in the third quarter of 2007. Operating activities used cash of $7.2 million in the first nine months of 2008 as compared to $2.9 million in the first nine months of 2007. Excluding changes in deferred revenue and non-cash working capital, cash used in operating activities in the first nine months of 2008 was $5.3 million and was $1.5 million for the first nine months of 2007. The $3.6 million decrease in deferred revenue in the first nine months of 2008 largely relates to the amortization of Alnylam's up-front payment under the LCA (see Revenue). The $1.7 million decrease in non-cash working capital in the first nine months of 2008 is largely a result of accruing severance for our former CEO. The severance is being paid out over time as salary continuance.

Net cash provided by investing activities was $2.3 million in the third quarter of 2008 as compared to $0.2 million of cash used in the third quarter of 2007. Net cash provided by investing activities was $4.4 million in the first nine months of 2008 as compared to $1.1 million of cash used in the first nine months of 2007. We acquired $3.4 in cash through the business combination with Protiva on May 30, 2008 and have netted $0.9 million in business acquisition costs against this cash balance for presentation purposes. We also acquired $8.3 million in short-term investments with our acquisition of Protiva and of this amount $2.6 million was converted to cash in the third quarter of 2008.

Net cash used in financing activities was $0.02 million in the third quarter of 2008 as compared to cash used in financing activities of $0.01 million in the third quarter of 2007. Net cash provided by financing activities was $9.9 million in the first nine months of 2008 as compared to $20.1 million in the first nine months of 2007. The principle financing activities occurring in the first nine months of 2007 and 2008 were as follows:

- On February 20, 2007, we completed a public offering of 5,175,000 shares at a price of $3.10 per common share (figures are after adjusting for the April 30, 2007 one new for two old share consolidation). After paying underwriters commission and other share issue costs, the offering generated net cash of $14.9 million;
- We received a capital contribution of $5.2 million as a result of our April 30, 2007 corporate reorganization, all of which was paid to our Former Noteholders (see Transfer of business to Tekmira and Off-Balance sheet Arrangements/Purchase and settlement of the exchangeable and development notes); and
- Concurrent with the business combination with Protiva on May 30, 2008, we completed a private placement investment of 2,083,333 newly issued common shares for $5.0 million (US$5.0 million, US$2.40 per share) with Alnylam and a private placement investment of 2,083,333 newly issued common shares for $5.0 million ($2.40 per share) with a Roche affiliate.

We believe that our current funds on hand plus expected interest income and the expected further funds from our Alnylam collaboration will be sufficient to continue our product development until some time in the first half of 2010 (see Risks and uncertainties).

Contractual obligations

On September 24, 2008 we signed an amendment to our operating lease for our principal laboratory

and office premises. The amended lease expires in December 2012 but we have the option to extend the lease to 2017 and then to 2022. The amended lease includes a lower rent period, a free rent period and a tenant improvement allowance. In accordance with our accounting policy these lease inducements will be amortized on a straight-line basis over the five year term of the lease.

As a result of the acquisition of Protiva we also have an operating lease obligation for Protiva's facility. This lease expires in January 2009.

The minimum annual rent and operating cost commitment, net of committed sub-lease income, in millions of Canadian dollars, is as follows:

For the three months ended December 31, 2008	$ 0.2
2009	1.4
2010	1.4
2011	1.4
2012	1.4
Total	$ 5.9

With the acquisition of Protiva we also acquired collaborative arrangements that require us to undertake certain research and development work as further explained elsewhere in this discussion

Off-Balance Sheet Arrangements / 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 Hana shares we received on licensing our chemotherapy products to Hana and certain contingent consideration.

As discussed in the Overview, on April 30, 2007, we completed a corporate reorganization and, as required under the Purchase and Settlement Agreement, paid $5.2 million (US$4.7 million) to the Former Noteholders. The amount paid out was equivalent to certain investments made in the Company concurrent with the completion of the corporate reorganization.

The balance of the contingent obligation under the Purchase and Settlement Agreement as at September 30, 2008 of US$22.8 million (December 31, 2007 – US$22.8 million) will only change and will only be paid down if milestone or royalty payments are received from Hana. The Former Noteholders have no recourse to any of our other assets.

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

OUTSTANDING SHARE DATA

As of October 31, 2008, we had 51,623,677 common shares outstanding and we had outstanding options to purchase 749,827 common shares.

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our Annual Information Form and our Information Circular dated May 1, 2008 which can be found at www.sedar.com.

Within the next several years, substantial additional funds will be required to continue with the active development of our pipeline products and technologies. In particular, our funding needs may vary depending on a number of factors including:

- revenues earned from our collaborative partnerships, including Alnylam;
- our decisions to in-license or acquire additional products for development, in particular for our RNAi therapeutics program;
- the extent to which we continue development or can extract significant value from our technologies;
- our ability to attract and retain corporate partners, and their effectiveness in carrying out the development and ultimate commercialization of our product candidates;
- the decisions, and the timing of decisions, made by health regulatory agencies regarding our technology and products;
- competing technological and market developments; and
- prosecuting and enforcing our patent claims and other intellectual property rights.

We will seek to obtain funding to maintain and advance our business from a variety of sources including public or private equity or debt financing, collaborative arrangements with pharmaceutical companies and government grants. There can be no assurance that funding will be available at all or on acceptable terms to permit further development of our products. In addition, we have not established bank financing arrangements and there can be no assurance that we will be able to establish such arrangements or that bank financing can be arranged on satisfactory terms.

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

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in a diverse portfolio of liquid, high-grade investment securities with varying terms to maturity (not exceeding two years), selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. In response to recent liquidity problems in asset backed commercial paper we scrutinized our investment portfolio. We only hold asset backed commercial paper sponsored by major Canadian banks and none of these programs have experienced liquidity problems. The fair value of our investment securities as at September 30, 2008 is at least equal to the face value of those securities and the value reported in our balance sheet. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. We purchase goods and services in both Canadian and US dollars and earn a significant portion of our revenues in US dollars. For the foreseeable future our US dollar revenues are expected to exceed our US dollar expenditures so fluctuations of the US dollar as compared to the Canadian dollar would affect our net income or losses. We do not use forward currency contracts or other financial derivatives to hedge our exchange risk.

CONTROLS AND PROCEDURES

Our former Chief Executive Officer ("CEO") and our continuing Chief Financial Officer ("CFO") evaluated the effectiveness of our disclosure controls and procedures pursuant to Multilateral Instrument 52-109 ("MI 52-109"), *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the year ending December 31, 2007 and concluded that our disclosure controls and procedures provided reasonable assurance that material information relating to the Company was made known to them and reported as required.

Our former CEO and the continuing CFO were also responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and pursuant to MI 52-109. They have evaluated the design of our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance.

During the three months ended September 30, 2008 our CEO and CFO evaluated whether there were any material changes in internal control over financial reporting. They individually concluded that there were no changes during the third quarter that affected materially the Company's internal control over financial reporting and disclosure controls and procedures.

The CEO and CFO also evaluated the *design* of the Company's internal control over financial reporting and disclosure controls and procedures as of September 30, 2008 pursuant to the requirements of MI 52-109 and believe the design to be sufficient to provide such reasonable assurance.