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Tekmira Pharmaceuticals Releases Third Quarter 2007 Operating Results

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Vancouver, BC — Tekmira Pharmaceuticals Corporation ("Tekmira"; TSX:TKM) reported today in its Third Quarter 2007 operating results that its internal and partnered drug development programs are on track to have as many as eight treatments for cancer and other diseases in human clinical trials by the end of 2008.

Tim Ruane, President and CEO of Tekmira, said key achievements during the Third Quarter included:

- Initiation August 3, 2007 by Tekmira partner Hana Biosciences Inc. (Nasdaq: HNAB) of a Phase 2 clinical trial evaluating Marqibo® (vincristine sulfate injection, OPTISOME™) as a treatment for adult patients with relapsed acute lymphoblastic leukemia (ALL). Marqibo was one of three Tekmira targeted chemotherapy products licensed in 2006 to Hana for clinical development and commercialization.
- An announcement August 22, 2007 by Hana that Marqibo had received Fast Track designation from the United States Food and Drug Administration (FDA) for the treatment of adult patients with Philadelphia chromosome negative ALL in second relapse or who have failed two lines of prior therapy.
- A major alliance signed July 9, 2007 between Tekmira's partner Alnylam Pharmaceuticals, Inc. (Nasdaq: ALNY) and Roche Venture Fund of Basel, Switzerland that has the potential to bring milestone payments and royalties to Tekmira. The alliance gives Roche a non-exclusive license to develop drugs using Alnylam RNA interference (RNAi) therapeutics and access to Tekmira's liposomal drug delivery technology. Tekmira is eligible to receive up to US\$13 million in milestones plus royalties on sales of each product developed by Alnylam or its partners that utilizes Tekmira's technology. Tekmira and Alnylam signed an exclusive licensing agreement in January 2007.

"We continue our leadership among development-stage Canadian biotech companies based on our internal development program, our collaborations with other companies and our strong financial position," said Ruane.

Milestones expected during the next 12-18 months include:

- A Phase 3 trial by Hana evaluating Marqibo as a treatment for front-line ALL.
- A Phase 2 trial by Hana evaluating Marqibo as a treatment for uveal melanoma.
- A Phase 2 trial by Hana evaluating Alocrest™ (vinorelbine tartrate injection, OPTISOME™; formerly-~~ONX~~25) as a treatment for solid tumors.
- A Phase 1 trial by Hana investigating Brakiva™ (topotecan hydrochloride injection, OPTISOME™; formerly-~~ONX~~6) as a treatment for solid tumors.
- An Investigational New Drug (IND) application and a Phase 1 trial by Tekmira investigating INX-0167 to stimulate the immune system to treat cancer.
- The continued advancement by Alnylam of ALN-PCS01, a systemically delivered RNAi therapeutic being developed as a treatment for hypercholesterolemia.
- The continued advancement by Alnylam of ALN-VSP01, a systemically delivered RNAi therapeutic being developed as a treatment for liver cancer and, potentially, other solid tumors.

Subsequent event

On October 16, 2007 Tekmira provided an update on the ongoing legal dispute with Protiva Biotherapeutics Inc. On October 16, 2007 Protiva announced an agreement with Merck & Co., Inc. whereby Protiva licensed to Merck rights to technology in the field of RNAi on a non-exclusive basis.

Tekmira reported that as part of the contractual agreements that created Protiva in 2001, Tekmira believes it has retained all rights to the delivery of RNAi. Tekmira also believes that any technology advancements made by Protiva and its collaborators or by Tekmira are either owned by Tekmira or should be licensed to Tekmira on an exclusive, worldwide, paid-up and royalty-free basis.

Tekmira will be amending its statement of claim in British Columbia Supreme Court to include a claim on any and all consideration received by Protiva in connection with the licensing of the disputed technology. Further, Tekmira will amend its

statement of claim to seek a ruling that will effectively terminate Merck's license to the disputed technology.

Tekmira is continuing to develop its RNAi delivery technology with its collaborator, Alnylam Pharmaceuticals, Inc., a leader in the development of therapeutics based on RNAi.

FINANCIAL RESULTS

Restructuring of Inex Pharmaceuticals Corporation ("Inex") – Transfer of Business to Tekmira

Tekmira did not carry on any active business until April 30, 2007 when, together with Inex, its parent company at that time, it was reorganized under a Plan of Arrangement. Under the Plan of Arrangement all of Inex's business and transferable assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology and partnership arrangements were transferred to Tekmira. Inex's management team and employees are now employed by Tekmira where they have assumed the same positions they occupied in Inex. All outstanding shares of Tekmira were distributed to Inex shareholders.

On April 30, 2007, concurrent with and as part of the Plan of Arrangement, Inex, now having no pharmaceutical assets, issued convertible debentures to a group of investors (the "Investors") for \$5.3 million in cash. When the convertible debentures are converted, the Investors will hold 100% of the non-voting shares in Inex and 80% of the total number of Inex's outstanding common shares.

\$5.2 million (US\$4.7 million) of the cash received by Inex upon the issuance of the convertible debentures has been recorded as Additional paid-in capital. The \$5.2 million was subsequently paid to certain former noteholders. The remaining balance of the cash raised from the convertible debenture of \$0.1 million remains with Inex as working capital and was not contributed to Tekmira.

Effective May 1, 2007, Tekmira's common shares began trading on the Toronto Stock Exchange under the symbol "TKM" and the common shares of Inex ceased to trade.

As a non-recurring related party transaction between Tekmira and Inex under common control, the assets and liabilities 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. Accordingly, for the reporting periods ended September 30, 2007, the financial statements combine the financial results for the business carried on in Inex up to April 30, 2007 with those of Tekmira from May 1, 2007 to September 30, 2007. References in this release 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.

Tekmira continues to carry on the biopharmaceutical business of Inex, and after completion of the Plan of Arrangement, Inex was renamed 1322256 Alberta Ltd.

Results of operations overview / For the nine months ended September 30, 2007, Tekmira's net loss was \$2.9 million (\$0.12 per common share, basic and fully diluted) as compared to net income of \$20.9 million (\$1.08 per common share, basic and fully diluted) for the comparable period in 2006. For the three months ended September 30, 2007, net income was \$1.5 million (\$0.06 per common share, basic and fully diluted) as compared to net income of \$3.6 million (\$0.19 per common share, basic and fully diluted) for the comparable period in 2006.

There are a number of factors contributing to the changes in results the largest of which is the gain on the purchase and settlement of the exchangeable and development notes of \$26.8 million in the second quarter of 2006 and the \$5.2 million partial reversal of the gain in the second quarter of 2007.

Revenue / Total revenue was \$5.7 million for the third quarter of 2007 as compared to \$7.0 million for the third quarter of 2006 and was \$11.6 million for the first nine months of 2007 as compared to \$13.1 million for the first nine months of 2006. Revenue arises from licensing and collaboration payments from partnerships with Alnylam and Hana that began on March 25, 2006 and May 6, 2006 respectively.

Alnylam revenue / On March 25, 2006, Tekmira signed an exclusive research collaboration agreement with Alnylam to evaluate Alnylam's RNAi therapeutics with Tekmira's systemic lipid-based technology. On January 8, 2007, Tekmira entered into a licensing and expanded collaboration agreement with Alnylam giving them a worldwide exclusive license to Tekmira's lipid-based delivery formulation technology for the discovery, development, and commercialization of RNAi therapeutics, and expanding the existing research and manufacturing alliance. The financial terms of the agreement include a minimum of US\$2.0 million in research and development collaboration funding in both 2007 and 2008 and this revenue is being recognized based on the time spent by the Company's scientific staff on Alnylam research and development projects.

Under the agreement, Tekmira is also providing contract manufacturing services to Alnylam. The cost of manufacturing batches of drugs for Alnylam is being recorded as inventory. Revenue from manufacturing services is being recognized as Alnylam accepts each production batch and related expenses are recorded at that time. In the third quarter of 2007, Alnylam accepted the initial batches of drugs that Tekmira manufactured for them and, as a result, recorded \$2.0 million in revenue. The balance of Alnylam research and development collaboration revenue of \$1.3 million and \$2.3 million in the third quarter and first nine months of 2007, respectively, relates to materials consumed and time charged for scientific staff working on Alnylam research and development projects.

Under the January 8, 2007 license and expanded collaboration agreement with Alnylam, Tekmira received an up-front licensing payment of \$9.4 million (US\$8.0 million) which is being amortized to revenue on a straight-line basis over the period ending December 31, 2008 which is the period that it is expected the Company will provide research support to Alnylam. As a result, \$1.2 million and \$3.5 million of the Alnylam up-front payment is included in licensing fees and milestone payments revenue in the three months and nine months ending September 30, 2007. 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.

Hana revenue / On May 6, 2006, Tekmira signed a number of agreements with Hana including the granting of worldwide licenses (the "Hana License Agreement") for its 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 Tekmira (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.

In accordance with the Company's revenue recognition policy, the Hana Up-front Payments were deferred and were initially being amortized on a straight line basis from April 3, 2006 to December 31, 2006 by which time Tekmira had expected to deliver substantially all of its services under the Service Agreement. After reviewing the delivery of services to Hana in the fourth quarter of 2006, Tekmira now expects to deliver substantially all of its services by the end of 2007 so has extended the amortization of the Hana Up-front Payments, effective October 1, 2006, to December 31, 2007. As a result, \$1.0 million and \$3.1 million of the Hana Up-front Payments is included in licensing fees and milestone payments revenue in the three months and nine months ended September 30, 2007 and \$1.0 million of the Hana Up-front Payments is included in the September 30, 2007 balance sheet as deferred revenue.

Effective April 3, 2006, Tekmira signed a Service Agreement under which Hana is reimbursing the Company for expenses and time spent in maintaining and transferring the technology and product expertise related to the three targeted chemotherapy products. Revenue from the Service Agreement is recorded as research and development collaboration revenue.

Under the Hana License Agreement Tekmira 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.

Under Tekmira's agreement with the Former Noteholders, the Hana Up-front Payments and the \$1.1 million (US\$1.0 million) milestone payment, less a payment of \$0.2 million (US\$0.2 million) to the University of British Columbia, have been transferred to the Former Noteholders. Tekmira has agreed to pay certain of the future contingent Hana payments to the Former Noteholders.

Expenses / Research and development / Research and development expenses increased to \$3.2 million for the third quarter of 2007 as compared to \$1.3 million for third quarter of 2006 and increased to \$5.3 million for the first nine months of 2007 as compared to \$3.8 million for the first nine months of 2006. The increases relate primarily to a build up in staff numbers and therefore salary expense and an increase in materials costs related research projects and batch manufacture for Alnylam. Internal research and development staff numbers have increased to 39 at September 30, 2007 (total staff 50) as compared to 17 (total staff 26) at September 30, 2006. In the second quarter of 2007 a significant portion of research and development salaries and substantial materials costs relating to Alnylam batch manufacture were deferred to inventory and were released to research and development expense in the third quarter of 2007 (see Alnylam revenue). Tekmira also purchased materials for the manufacture of a toxicology batch of its internal lead product, INX-0167.

As a result of spending on its INX-0167 program being less than budget, Tekmira now expects research and development expenses for 2007 to be significantly less than the \$10.0 million projected at the start of the year.

General and administrative / General and administrative expenses decreased to \$0.8 million for the third quarter of 2007 as compared to \$1.2 million for third quarter of 2006 and increased slightly to \$3.4 million for the first nine months of 2007 as compared to \$3.3 million for the first nine months of 2006. In the third quarter of 2006 the Company incurred considerable professional fees on the development of its spin-out plans.

Amortization / Amortization expense decreased to \$0.10 million in the third quarter of 2007 as compared to \$0.14 million for the third quarter of 2006 and \$0.32 million in the first nine months of 2007 as compared to \$0.76 million for the first nine

months of 2006. The decrease in amortization is primarily due to the full impairment of all of the Company's capitalized medical technology following the licensing of its targeted chemotherapy technology to Hana on May 6, 2006 and hence no medical technology amortization expense thereafter.

Other Income/Losses / Interest income / Interest income increased to \$0.3 million for the third quarter of 2007 as compared to \$0.1 million for the third quarter of 2006 and \$0.7 million for the first nine months of 2007 as compared to \$0.3 million for the first nine months of 2006. The increases are primarily the result of an increase in average cash and cash equivalents balances.

Gain (Loss) on purchase and settlement of exchangeable and development notes / On June 20, 2006 the Company signed the Purchase and Settlement Agreement with the Former Noteholders and recorded a gain on settlement of \$26.84 million. On August 29, 2006, Hana paid a milestone of \$1.11 million (US\$1.00 million) (see Hana revenue). After paying a royalty of \$0.22 million (US\$0.20 million) to the University of British Columbia, the balance of the milestone payment of \$0.89 million (US\$0.80 million) was paid to the Former Noteholders and recorded as a loss on purchase and settlement of exchangeable and development notes giving a net gain in the first nine months of 2006 of \$25.96 million.

On April 30, 2007, the Company completed a corporate reorganization and, as required under the Purchase and Settlement Agreement, paid \$5.18 million (US\$4.67 million) to the Former Noteholders. This payment was recorded in the second quarter of 2007 as a loss on purchase and settlement of exchangeable and development notes.

Following the second quarter payment, 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 Tekmira may receive from Hana. Until the contingent obligation is fully repaid milestone or royalty payments received from Hana will be recorded in the 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 Tekmira's net income or loss will be nil.

Foreign exchange and other gains and losses / Foreign exchange and other gains and losses showed losses of \$0.40 million in the third quarter of 2007 as compared to gains of \$0.01 million in the third quarter of 2006 and losses of \$1.02 million in the first nine months of 2007 as compared to gains of \$1.57 million in the first nine months 2006. Foreign exchange losses in the third quarter and first nine months of 2007 relate largely to the adverse effect of the Canadian dollar strengthening against the US dollar and Tekmira's US denominated cash and cash equivalents and accounts receivable being in excess of its US denominated accounts payable. Tekmira recorded foreign exchange gains in the first nine months of 2006 as in that period the strengthening Canadian dollar, as compared to the US dollar, reduced the US dollar denominated exchangeable and development notes balance as reported in Canadian dollars. Exchange rate fluctuations will continue to create gains or losses as Tekmira expects to continue to hold US denominated cash and cash equivalents, accounts receivable and accounts payable.

Capital expenditures / Capital expenditures increased to \$0.19 million in the third quarter of 2007 as compared to \$0.02 million in the third quarter of 2006 and \$1.11 million in the first nine months of 2007 as compared to \$0.09 million in the first nine months of 2006. In the third quarter and first nine months of 2007 Tekmira purchased laboratory equipment, manufacturing equipment and made partial payment towards an electronic IND filing system. The Company also upgraded its information technology hardware and software.

RISKS AND UNCERTAINTIES

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

- revenues earned from its partnership with Alnylam
- decisions to in-license or acquire additional products for development, in particular for its RNAi therapeutics program
- the pace at which the Company is able to or decides to continue to expand its staffing, research and development and operations in general
- the extent to which it continues development of or can extract significant value from its technologies
- its ability to attract and retain corporate partners, and their effectiveness in carrying out the development and ultimate commercialization of its product candidates
- the decisions, and the timing of decisions, made by health regulatory agencies regarding its technology and products
- competing technological and market developments
- prosecuting and enforcing its patent claims and other intellectual property rights

Tekmira's risks and uncertainties prior to completion of the Plan of Arrangement on April 30, 2007, are discussed in further detail in Inex's Annual Information Form which can be found at www.sedar.com. As a result of the completion of the Plan of Arrangement, Inex's business and the associated risks and uncertainties have been transferred to Tekmira.

To view the full press release, including financial statements, click [here](#)