TEKMIRA PHARMACEUTICALS CORPORATION

2010 First Quarter Report

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

May 13, 2010 / *This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the period ended March 31, 2010, and the audited consolidated financial statements and related notes for the year ended December 31, 2009, 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, 2009. Unless the context otherwise requires, all references to "Tekmira", the "Company", "we", "us", and "our" refer to Tekmira Pharmaceuticals Corporation, including all its subsidiaries. Additional information relating to Tekmira, including the Company's March 31, 2010 Annual Information Form is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

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

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

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

Also included in this discussion and analysis is an estimate of the length of time that our business will be funded by our anticipated financial resources (see Risks and uncertainties). This estimate is based upon our assessment of the time to complete our research and product development activities, the announced programs of our collaborative partners, and estimates of the timing of payments to be received under contracts. There are circumstances and factors that may cause actual cash usage to be materially different from our current estimate of the adequacy of our cash resources. Such circumstances and factors include the following: preclinical trials may not be completed, or clinical trials started, when anticipated; preclinical and clinical trials may be more costly or take longer to complete than currently anticipated; preclinical or clinical trials may not generate results that warrant future development of the tested drug candidate; funding and milestone payments from our research and

product development partners may not be provided when required under our agreements with those partners; batches of drugs that we manufacture may fail to meet specifications resulting in delays and investigational and remanufacturing costs; decisions to in-license or acquire additional products for development; we may become subject to product liability or other legal claims for which we have made no accrual on our financial statements; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services.

A more complete discussion of the risks and uncertainties facing Tekmira appears in our Annual Information Form dated March 31, 2010 available at www.sedar.com. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements or information contained herein to reflect future results, events or developments, except as required by law.

OVERVIEW

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

Plans to apply for a US share listing

On May 12, 2010, we announced plans to apply for a listing of our common shares on the NASDAQ stock market. This listing would be in addition to our current listing with the Toronto Stock Exchange.

We believe a US listing will broaden Tekmira's exposure to leading North American health care investors and many of our collaborators are listed in the United States. We have started the process of preparing the documentation to list Tekmira shares in the US and believe we will be in a position to file with the US Securities and Exchange Commission ("SEC") in the next few months.

Business combination with Protiva on May 30, 2008

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

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

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

Technology, product development and licensing agreements

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

Our lead internal product candidates are

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

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

ApoB SNALP

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

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

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

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

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

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

treatment. The suppressive effects of a single ApoB SNALP dose lasted for several weeks in preclinical animal studies.

PLK1 SNALP

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

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

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

Alnylam collaboration and license

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

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

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

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

The agreements with Alnylam grant us intellectual property rights to develop our own proprietary RNAi therapeutics. Alnylam has granted us a worldwide license for the discovery, development and commercialization of RNAi products directed to seven gene targets (three exclusive and four non-exclusive licenses). Licenses for two targets, ApoB and PLK1, have already been granted on a non-

exclusive basis. Under the RNAi licenses granted to us, we may select five additional gene targets to develop RNAi therapeutic products, provided that the targets are not part of an ongoing or planned development program of Alnylam. In consideration for this license, we have agreed to pay royalties to Alnylam on product sales and have milestone obligations of up to US$8.5 million on each of the four non-exclusive licenses (with the exception of PLK1 SNALP if Alnylam opts–in to the development program) and no milestone obligations on the three exclusive licenses.

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

In August 2009 Alnylam announced ALN-TTR as their next siRNA product candidate for human clinical trials. Alnylam will be advancing two ALN-TTR formulations, ALN-TTR01 and ALN-TTR02. Both formulations are RNAi therapeutics targeting transthyretin ("TTR") for the treatment of TTR amyloidosis, a systemic disease caused by mutations in the TTR gene. ALN-TTR01 and ALN-TTR02 utilize our SNALP technology and will be manufactured by us. Alnylam expects to initiate a clinical trial for ALN-TTR01 in the first half of 2010.

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

Roche product development and research agreements

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

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

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

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

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

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

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

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

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

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

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

Takeda Pharmaceutical Company Limited ("Takeda") research agreement

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

In Q1 2010 we expanded our research agreement with Takeda. As part of the expanded collaboration, Takeda will evaluate new SNALP formulations to deliver siRNA molecules provided by Takeda.

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

Pfizer research agreement

We recently initiated a research collaboration with Pfizer. Pfizer is evaluating our SNALP technology for the delivery of siRNA molecules provided by Pfizer.

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

Hana is developing targeted chemotherapy products under a legacy license agreement entered into in May 2006. Marqibo® (Optisomal Vincristine), Alocrest™ (formerly INX-0125, Optisomal Vinorelbine)

and Brakiva™ (formerly INX-0076, Optisomal Topotecan), products originally developed by us, have been exclusively licensed to Hana. Hana has agreed to pay us milestones and royalties and is responsible for all future development and future expenses. Certain of the milestones from Hana, if received, will be transferred to contingent creditors under a debt retirement agreement first entered into on June 20, 2006. The contingent creditors have no recourse to any of Tekmira's other assets. The debt retirement obligation is discussed further in our 2009 Annual Report.

Aradigm Corporation ("Aradigm") license agreement

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates are disclosed in the "Management's Discussion and Analysis" section and the notes to our audited annual consolidated financial statements contained in our 2009 Annual Report.

FUTURE CHANGES IN ACCOUNTING POLICIES

Impact of Accounting Pronouncements Affecting Future Periods

As discussed earlier, on May 12, 2010, we announced plans to apply for a listing of our common shares on the NASDAQ stock market. We intend to file a registration statement pursuant to the Securities and Exchange Act of 1934 on Form 20-F in order to register our securities with the SEC. The Canadian Securities Administrators' National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, permits Canadian public companies which are also SEC registrants the option to prepare their financial statements under US GAAP.

We have undertaken a detailed review of the implications of conversion to US GAAP as compared to Canadian GAAP and International Financial Reporting Standards ("IFRS"). Based on a number of our competitors and collaborators reporting in US GAAP we concluded that US GAAP is more relevant to our investors and the other users of our financial statements than Canadian GAAP or IFRS. As such, it has been determined that should we complete a listing on a US market in 2010 we will stop our IFRS conversion efforts and adopt US GAAP as Tekmira's primary basis of financial reporting commencing December 31, 2010 on a retrospective basis. Upon conversion our comparative financial information will be revised to reflect our results as if they had been historically reported in accordance with US GAAP.

Management's initial assessment is that the application of US GAAP would result in the following material difference in our accounting policies: Technology and technology licenses acquired from third-parties would be classified as in-process research and development and written off immediately as they have no alternative use under US GAAP. Under Canadian GAAP these technologies and licenses are capitalized to intangible assets and amortized on a straight-line basis over their estimated life. This accounting policy difference applies to $16.3 million of medical technology included with the acquisition of Protiva completed on May 30, 2008. Under Canadian GAAP we capitalized the medical technology to intangible assets but under US GAAP this medical technology would be classified as in-process research and development and expensed at the time of acquisition. Conversion to US GAAP would result in a one-time expense of medical technology of $16.3 million in Q2 2008 and the reversal of subsequent quarterly $0.25 million medical technology amortization charges.

From our initial analysis we do not expect the adoption of US GAAP to require significant changes to our existing internal controls over financial reporting and disclosure controls and procedures, or information and data systems.

We plan to engage our auditors in the second quarter of 2010 to provide their opinion on our conclusions of material differences in our Canadian and US GAAP accounting policies.

If conversion to US GAAP effective December 31, 2010 is not possible, Tekmira will need to convert its financial reporting to IFRS. In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will convert to IFRS effective in calendar year 2011. IFRS use a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The IASB will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

Should conversion to IFRS be necessary we need to make the changeover for interim and annual financial statements beginning on January 1, 2011. As a result, we are developing a contingency plan to convert our consolidated financial statements to IFRS. Individuals primarily responsible for the contingent changeover to IFRS have been identified and have begun training. The Company also held an IFRS information session with the Audit Committee. During this session management provided the Audit Committee with a review of the timeline for potential implementation and a preliminary analysis of major differences between IFRS and the Company's current accounting policies. As a result of the information session, the Audit Committee members are considering how they will gain the necessary financial expertise should we need to convert to IFRS. Additionally, we have had meetings with our auditors, KPMG LLP, in connection with the implementation and timing of the IFRS changeover, and in connection with the identification and impact analysis of the differences between Canadian GAAP and IFRS.

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

SUMMARY OF QUARTERLY RESULTS

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

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

(in millions Cdn$ except per share data)

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Revenue	$ 2.5	$ 4.2	$ 3.1	$ 2.9	$ 3.8	$ 3.3	$ 4.5	$ 2.5
Net (loss)	(4.8)	(6.0)	(3.1)	(2.1)	(2.3)	(2.8)	(2.6)	(4.4)
Basic and diluted net (loss) per share	$ (0.14)	$ (0.12)	$ (0.07)	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.05)	$ (0.09)

Quarterly Trends / Our revenue is derived from research and development collaborations, licensing fees and milestone payments. Over the past two years, our principal sources of revenue have been our Alnylam partnership entered into in March 2006 and more recently our Roche partnership. Revenue from our Roche collaboration increased throughout 2009 to $2.3 million in Q4 2009 when we manufactured a number of batches of drug. Revenue from our Alnylam collaboration was also higher than usual in Q4 2009 when the balance of deferred revenue related to minimum FTE payments for the year was brought into revenue. We expect revenue to continue to fluctuate particularly due to the variability in demand for our manufacturing services and timing of milestone receipts.

Net loss in Q2 2008 was unusually high due to two factors related to the business combination with Protiva on May 30, 2008:

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

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

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

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

Net losses in from Q3 2009 onwards have generally increased due to increased spending on our ApoB SNALP and PLK1 SNALP programs that are now at or approaching human clinical trial stage.

Our results for the first quarter of 2010 are discussed below.

RESULTS OF OPERATIONS

For the three months ended March 31, 2010, our net loss was $4.4 million ($0.09 per common share, basic and fully diluted) as compared to a net loss of $2.1 million ($0.04 per common share, basic and fully diluted) for first quarter of 2009.

The primary reason for the increase in net loss is increased spending on our ApoB SNALP and PLK1 SNALP programs. We are manufacturing materials for preclinical and clinical trials and conducting toxicology studies in preparation for clinical development of both programs.

Revenue / Revenue from research and development collaborations was $2.5 million in the first quarter of 2010 as compared to $2.9 million in the first quarter of 2009. There was no revenue from licensing fees and milestone payments in the first quarter of 2010 or the first quarter of 2009.

Revenue is detailed in the following table:

	Three months ended	
(in millions Cdn$)	**March 31 2010**	March 31 2009
Research and development collaborations revenue		
Alnylam	**$ 0.9**	$ 2.4
Roche	**1.3**	0.4
Other RNAi collaborators	**0.3**	0.1
Total research and development collaborations revenue	**$ 2.5**	$ 2.9

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

In addition to the cessation of research revenue from Alnylam, manufacturing revenue in Q1 2010 was lower than in Q1 2009. Manufacturing activity levels fluctuate from period to period and between our collaborations and our internal projects.

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

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

31, 2010 there was $0.8 million of deferred revenue in this respect.

We earned $0.4 million in research and development collaborations revenue during the first quarter of 2009 for work under a separate Roche Research Agreement.

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

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

Expenses / Research, development and collaborations / Research, development and collaborations expenses increased to $5.5 million in the first quarter of 2010 from $3.6 million in the first quarter of 2009, due largely to increased spending on our ApoB SNALP and PLK1 SNALP programs. In Q1 2010 we were manufacturing materials for preclinical and clinical trials and conducting toxicology studies in preparation for clinical development of both programs.

Research, development and collaborations compensation expenses increased by about $0.3 million from Q1 2009 to Q1 2010 due to an increase in staff numbers and the vesting and expensing of a portion of stock options granted in Q1 2010. Our research and development staff numbers have increased to 71 at March 31, 2010 (total staff 81) as compared to 60 (total staff 72) at March 31, 2009. Ordinarily, we issue an annual grant of stock options to all staff and directors at the end of our calendar year but due to a stock trading black-out our annual grant was delayed until Q1 2010. Typically, a portion of our stock options vest immediately so there is a peak in stock option expense in the period when options are granted.

Intellectual property legal expenses increased by $0.2 million from Q1 2009 to Q1 2010 as we continue to expand and defend our technology base and patent portfolio.

Costs marked up and passed through to our collaborators Alnylam and Roche were at a similar level in Q1 2010 to Q1 2009.

Our research, development and collaboration expenses and laboratory equipment costs are reported net of funding from USAMRIID of $0.1 million in the first quarter of 2010 and $0.2 million in the first quarter of 2009.

General and administrative / General and administrative expenses were $1.0 million for the first quarter of 2010 as compared to $1.0 million for the first quarter of 2009. There was a reclassification in Q1 2010 of information systems costs out of general and administrative and into research, development and collaborations expenses. This decrease in Q1 2010 was offset by a charge for a severance payment made to our former Vice President of Strategic Planning and Business Development.

In our 2009 Annual Report we provided guidance that we expect general and administrative expenses to decrease in 2010 as compared to 2009. We now expect to incur fees related to our planned NASDAQ share listing that were not budgeted and could result in an increase in total general and administrative expenses in 2010 as compared to 2009.

Amortization of intangible assets / Amortization of intangible assets expense was $0.3 million for the first quarter of 2010 unchanged from $0.3 million for the first quarter of 2009. There is an amortization charge of $0.25 million every quarter that relates to the $16.3 million in medical technology acquired through the business combination with Protiva on May 30, 2008 that is being amortized over 16 years. The balance of the amortization charge on intangible assets relates to software.

As covered in the future changes in accounting policies section of this discussion, if we convert to US GAAP financial reporting the medical technology acquired from Protiva will be retrospectively recorded as an expense at the time of acquisition and the ongoing quarterly amortization charge of $0.25 million would not apply.

Depreciation of property and equipment / Depreciation of property and equipment was $0.2 million for the first quarter of 2010 unchanged from $0.2 million for the first quarter of 2009.

Other income and (losses) / Interest income / Interest income was $0.02 million for the first quarter of 2010 as compared to $0.08 million for the first quarter of 2009. Cash investment balances and average interest rates are lower in Q1 2010 as compared to Q1 2009. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

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 March 31, 2010, we had cash and cash equivalents of approximately $18.5 million as compared to $24.4 million at December 31, 2009.

Operating activities used cash of $5.4 million in the first quarter of 2010 as compared to cash used of $1.1 million in the first quarter of 2009. The $1.8 million increase in non-cash working capital relates largely to a decrease in accounts payable and accrued liabilities as we paid off what was a particularly high level of material and contract purchases made towards the end of 2009. Excluding changes in non-cash working capital, cash used in operating activities in the first quarter of 2010 was $3.6 million as compared to $1.5 million in the first quarter of 2009 reflecting a higher level of research and development spending in Q1 2010.

Net cash provided used in investing activities was $0.6 million in the first quarter of 2010 as compared to net cash provided by investing activities of $4.9 million in the first quarter of 2009. Proceeds from short-term investments were $5.7 million in the first quarter of 2009 as we moved maturing short-term investments into a high interest savings account with a major Canadian bank. The high-interest savings account is classified as "cash and cash equivalents" in our balance sheet. Property and equipment in both the first quarter of 2009 and 2010 relates largely to facility improvements and manufacturing equipment. We are nearing the completion of upgrades to our in house clean room facility and expect to be manufacturing clinical supplies in this clean room, for ourselves and our partners by mid-year. Manufacturing in-house will give us more flexibility and more control over our manufacturing process and timelines.

In our 2009 Annual Report we provided guidance that our funds on hand plus expected interest income and the contractually payable further funds from Alnylam, Roche and our other collaborators would be sufficient to continue our product development until mid-2011. As a result of signing a new agreement with Bristol-Myers Squibb we now believe that our current funds on hand plus expected interest income and the contractually payable further funds from Alnylam, Roche and our other collaborators will be sufficient to continue our product development into the second half of 2011 without the need for additional financing (see Forward–looking statements and Risks and uncertainties).

Contractual obligations

There have not been any material changes to our contractual obligations from those disclosed in our 2009 Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS

There have not been any material changes to our off-balance sheet arrangements from those disclosed in our 2009 Annual Report.

RELATED PARTY TRANSACTIONS

Research, development and collaborations expenses in the first quarter of 2010 include $nil (Q1 2009 - $0.04 million) of contract research costs, measured at the cash amount and incurred in the normal course of operations with Ricerca Biosciences, LLC ("Ricerca") whose Chief Executive Officer, Mr. Ian Lennox, is also a director of the Company. We do not have any current contracts with Ricerca.

OUTSTANDING SHARE DATA

As of April 30, 2010, we had 51,643,605 common shares outstanding and we had outstanding options to purchase 5,171,240 common shares.

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our Annual Information Form dated March 31, 2010 which can be found at www.sedar.com.

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

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

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

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

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in a high interest savings account and in bankers' acceptances with varying terms to maturity (not exceeding two years) issued by major Canadian banks, selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. Investments with a maturity greater than three months are classified in our Balance Sheet as held-for-trading short-term investments and are recorded at cost plus accrued interest. The fair value of our cash investments as at March 31, 2010 is at least equal to the face value of those investments and the value reported in our Balance Sheet. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. We purchase goods and services in both Canadian and US dollars and earn a significant portion of our revenues in US dollars. We manage our US dollar currency risk by using cash received from US dollar revenues to pay US dollar expenses and by limiting holdings of US dollar cash and cash equivalent balances to working capital levels. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

CONTROLS AND PROCEDURES

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

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

Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

TEKMIRA PHARMACEUTICALS CORPORATION

2010 – Q1

Three months ended March 31, 2010

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

		March 31 2010 (Unaudited)		December 31 2009
Assets				
Current assets:				
Cash and cash equivalents	**$**	**18,528,274**	$	24,397,740
Accounts receivable		**748,832**		1,052,895
Investment tax credits receivable		**280,132**		280,132
Prepaid expenses and other assets		**183,279**		226,981
		19,740,517		25,957,748
Intangible assets		**14,839,476**		15,152,430
Property and equipment		**3,186,188**		2,812,340
	$	**37,766,181**	$	43,922,518
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**3,426,566**	$	5,653,827
Deferred revenue (note 3)		**1,290,772**		1,162,437
		4,717,338		6,816,264
Shareholders' equity:				
Common shares				
Authorized - unlimited number with no par value				
Issued and outstanding - 51,643,605 (2009 - 51,642,938)		**229,427,135**		229,426,757
Contributed surplus		**29,890,688**		29,531,049
Deficit		**(226,268,980)**		(221,851,552)
		33,048,843		37,106,254
	$	**37,766,181**	$	43,922,518

Basis of presentation and future operations (note 1)
Subsequent event (note 6)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(Expressed in Canadian Dollars)

	Three months ended	
	March 31 2010	March 31 2009
Research and development collaborations revenue (note 3)	**$ 2,465,935**	$ 2,880,763
Expenses		
Research, development and collaborations	**5,456,477**	3,618,892
General and administrative	**995,272**	971,954
Amortization of intangible assets	**313,894**	318,326
Depreciation of property and equipment	**177,782**	177,241
	6,943,425	5,086,413
Loss from operations	**(4,477,490)**	(2,205,650)
Other income and (losses)		
Interest income	**21,393**	83,593
Foreign exchange gains (losses)	**38,669**	46,478
Net loss and comprehensive loss	**$ (4,417,428)**	$ (2,075,579)
Weighted average number of common shares		
Basic and diluted	**51,643,442**	51,623,833
Loss per common share		
Basic and diluted	**$ (0.09)**	$ (0.04)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
For the three months ended March 31, 2010 (unaudited) and the year ended December 31, 2009 (audited)

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2008	51,623,677	$ 229,412,230	$ 29,272,005	$ (212,086,645)	46,597,590
Net loss	-	-	-	(9,764,907)	(9,764,907)
Stock-based compensation	-	-	265,685	-	265,685
Issuance of common shares pursuant to exercise of options	19,261	14,527	(6,641)	-	7,886
Balance, December 31, 2009	51,642,938	$ 229,426,757	$ 29,531,049	$ (221,851,552)	$ 37,106,254
Net loss	**-**	**-**	**-**	**(4,417,428)**	**(4,417,428)**
Stock-based compensation (note 4)	**-**	**-**	**359,817**	**-**	**359,817**
Issuance of common shares pursuant to exercise of options (note 4)	**667**	**378**	**(178)**	**-**	**200**
Balance, March 31, 2010	**51,643,605**	**$ 229,427,135**	**$ 29,890,688**	**$ (226,268,980)**	**$ 33,048,843**

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended	
	March 31 2010	March 31 2009
OPERATIONS		
(Loss) for the period	**$ (4,417,428)**	$ (2,075,579)
Items not involving cash:		
Amortization of intangible assets	**313,894**	318,326
Depreciation of property and equipment	**177,782**	177,241
Stock-based compensation expense (note 4)	**359,817**	110,845
Foreign exchange (gains) losses arising on foreign currency cash balances	**(38,670)**	(20,362)
Net change in non-cash working capital	**(1,751,161)**	369,480
	(5,355,766)	(1,120,049)
INVESTMENTS		
Proceeds from (Acquisition of) short-term investments, net	**-**	5,730,507
Acquisition of intangible assets	**(940)**	(113,838)
Acquisition of property and equipment	**(551,630)**	(686,048)
	(552,570)	4,930,621
FINANCING		
Issuance of common share pursuant to exercise of options	**200**	600
	200	600
Foreign exchange gains (losses) arising on foreign currency cash balances	**38,670**	20,362
Increase in cash and cash equivalents	**(5,869,466)**	3,831,534
Cash and cash equivalents, beginning of period	**24,397,740**	26,218,342
Cash and cash equivalents, end of period	**$ 18,528,274**	$ 30,049,876
Supplemental cash flow information		
Interest paid	**$ -**	$ -
Investment tax credits received	**-**	275,965

See accompanying notes to the consolidated financial statements.

1. Basis of presentation and future operations

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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 March 31, 2010 and for all periods presented.

The results of operations for the three months ended March 31, 2010 and March 31, 2009 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2009 and included in the 2009 Annual Report.

These financial statements reflect the same significant accounting policies as those described in the notes to the audited consolidated financial statements of Tekmira Pharmaceuticals Corporation ("the Company") for the year ended December 31, 2009.

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

Future operations

The success of the Company and its ability to realize the value of its non-monetary assets is dependent on obtaining the necessary regulatory approval, 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 in the future.

2. Future changes in accounting policies

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

(Expressed in Canadian dollars)

2. Future changes in accounting policies (continued)

The Company has plans to register its shares on the NASDAQ stock market in addition to its current registration with the Toronto Stock Exchange. The Canadian Securities Administrators' National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, permits Canadian public companies which are also US Securities and Exchange Commission registrants the option to prepare their financial statements under US GAAP.

The Company undertook a detailed review of the implications of conversion to US GAAP as compared to IFRS. As a result of this analysis, it has been determined that should the Company complete a listing on the NASDAQ stock market in 2010 it will adopt US GAAP as its primary basis of financial reporting commencing December 31, 2010 on a retrospective basis.

3. Collaborative and Licensing Agreements

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

	Three months ended	
	March 31, 2010	March 31, 2009
Research and development collaborations revenue		
Alnylam (a)	**$ 865,823**	$ 2,386,795
Roche (b)	**1,265,187**	397,310
Other RNAi collaborators (c)	**334,925**	96,658
Total research and development collaborations revenue	**$ 2,465,935**	$ 2,880,763

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

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

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

3. Collaborative and Licensing Agreements (continued)

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

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

Manufacturing Agreement with Alnylam

The Company has a manufacturing agreement with Alnylam dated January 2, 2009 (the "Alnylam Manufacturing Agreement"). Under the Alnylam Manufacturing Agreement the Company is the exclusive manufacturer of any products required by Alnylam through to the end of phase 2 clinical trials that utilize the Company's technology. Alnylam pays the Company for the provision of staff and for external costs incurred. Time charged to Alnylam is at a fixed rate and under the Alnylam Manufacturing Agreement there is a contractual minimum for the provision of staff of $11,200,000 for the three years from 2009 to 2011.

Alnylam deferred revenue

At March 31, 2010, the Company had deferred research and development collaboration revenue in respect of Alnylam of $352,440 (December 31, 2009 - $35,987).

(b) Roche

Under a February 11, 2009 research agreement with Roche the Company recognized $397,310 as revenue during the three month period ended March 31, 2009. The work under this agreement was completed in June 2009.

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

(Expressed in Canadian dollars)

3. Collaborative and Licensing Agreements (continued)

(b) Roche (continued)

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

Under the Roche Product Development Agreement Roche will pay the Company for the provision of staff and for external costs incurred. The Company is recognizing revenue in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates will be recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received will be recorded in the Company's balance sheet as accrued revenue or deferred revenue, as appropriate, and as at March 31, 2010 the deferred revenue balance was $835,146 (December 31, 2009 - $792,583).

At March 31, 2010 there was one product in development under the Roche Product Development Agreement. Under the agreement, Roche may select a second product for development.

(c) Other RNAi collaborators

The Company has active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb Company (see note 6 – Subsequent event), Pfizer and Takeda. As at March 31, 2010 other RNAi collaborator deferred revenue was $103,186 (December 31, 2009 - $333,867).

4. Stock-based compensation

Stock options

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

	Number of optioned common shares	Weighted average exercise price
Balance, December 31, 2009	4,328,140	$ 2.02
Options granted	950,250	0.77
Options exercised	(667)	0.30
Options forfeited, cancelled or expired	(105,483)	0.82
Balance, March 31, 2010	5,172,240	$ 1.82

(Expressed in Canadian dollars)

4. Stock-based compensation (continued)

The stock options expire at various dates from May 28, 2010 to January 27, 2020. A total of 1,261,837 options are available for future allocation under the 1996 Share Option Plan.

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

	Three months ended	
	March 31, 2010	March 31, 2009
Dividend yield	0.0%	0.0%
Expected volatility	119.6%	142.7%
Risk-free interest rate	2.7%	1.95%
Expected average option term	7.0 years	5.0 years
Fair value of options granted	$ 0.69	$ 0.55

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

An expense for employee stock-based compensation in the three months ended March 31, 2010 of $359,817 (three months ended March 31, 2009 - $110,845) and calculated in accordance with the fair value method has been recorded in the consolidated statements of operations and comprehensive loss in research, development and collaborations and general and administrative expenses.

5. Related party transactions

Research, development and collaborations expenses in the three months ended March 31, 2010 include $nil of contract research costs, measured at the cash amount and incurred in the normal course of operations with Ricerca Biosciences, LLC ("Ricerca") whose Chief Executive Officer, Mr. Ian Lennox, is also a director of the Company (three months ended March 31, 2009 - $29,638). Accounts payable and accrued liabilities at March 31, 2010 include $nil in respect of Ricerca (March 31, 2009 - $15,402).

6. Subsequent event

On May 10, 2010 the Company announced the expansion of its research collaboration with Bristol-Myers Squibb Company ("Bristol-Myers Squibb"). Under the new agreement, Bristol-Myers Squibb will use small interfering RNA ("siRNA") molecules formulated by the Company in SNALP to silence target genes of interest. Bristol-Myers Squibb will conduct the preclinical work to validate the function of certain genes and share the data with the Company. The Company can use the preclinical data to develop RNAi therapeutic drugs against the therapeutic targets of interest. Bristol-Myers Squibb will pay the Company US$3,000,000 concurrent with the signing of the agreement. The Company will be required to provide a pre-determined number of SNALP batches over the four-year agreement. Bristol-Myers Squibb will have a first right to negotiate a licensing agreement on certain RNAi products developed by the Company that evolve from Bristol-Myers Squibb validated gene targets.