TEKMIRA PHARMACEUTICALS CORPORATION

2010 Annual Report

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's Annual Information Form dated March 30, 2011 and available at www.sedar.com. All forward-looking statements herein are qualified in their entirety by this cautionary statement, and Tekmira disclaims any obligation to revise or update any such forward-looking statements or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, except as required by law.

OVERVIEW

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

United States share listing

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

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

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

Technology, product development and licensing agreements

Our therapeutic product pipeline consists of products being developed internally with our research and development resources. We also support the development of our collaboration partners' products and are developing an Ebola antiviral product (TKM-Ebola) under a Transformational Medical Technologies (TMT) contract with the U.S. Government. Our focus is on advancing products that utilize our proprietary lipid nanoparticle (LNP) technology for the delivery of small interfering RNA (siRNA). We have previously referred to our LNP technology as SNALP for Stable Nucleic Acid Lipid Particles. These products are intended to treat diseases through a process known as RNA interference which prevents the production of proteins that are associated with various diseases. We have rights under Alnylam Pharmaceuticals, Inc.'s (Alnylam) RNAi intellectual property to develop eight RNAi therapeutic products.

Our most advanced internal product candidates are

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

In the field of RNAi therapeutics, we have licensed our LNP delivery technology to Alnylam and Merck & Co., Inc. Alnylam has granted non-exclusive access to some of our intellectual property to certain of its partners, including F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (Roche), Regulus Therapeutics, Inc. (Regulus) (a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited. In addition, we have ongoing research relationships with Bristol-Myers Squibb Company, the United States National Cancer Institute, the U.S. Government through their TMT program and other undisclosed pharmaceutical and biotechnology companies. Outside the RNAi field, we have legacy licensing agreements with Talon Therapeutics, Inc. (Talon, formerly Hana Biosciences, Inc.) and Aradigm Corporation.

TKM-ApoB

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

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

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

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

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

TKM-PLK1

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

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

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

TKM-Ebola

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

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

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

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

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

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

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

Expansion of intellectual property portfolio

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

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

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

Alnylam collaboration and license

On January 8, 2007, we entered into a licensing and collaboration agreement with Alnylam giving them an exclusive license to certain historical lipid nanoparticle intellectual property owned by Tekmira for the discovery, development, and commercialization of RNAi therapeutics. This agreement only covered intellectual property owned before Tekmira's business combination with Protiva Biotherapeutics, Inc. (Protiva) on May 30, 2008.

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

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

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

The agreements with Alnylam grant us intellectual property rights to develop our own proprietary RNAi therapeutics. Alnylam has granted us a worldwide license for the discovery, development and commercialization of RNAi products directed to eight gene targets (three exclusive and five non-exclusive licenses). Licenses for three targets, ApoB, PLK1 and Ebola, have already been granted on a non-exclusive basis. Under the RNAi licenses granted to us, we may select five additional gene targets to develop RNAi therapeutic products, provided that the targets are not part of an ongoing or planned development program of Alnylam. In consideration for this license, we have agreed to pay royalties to Alnylam on product sales and have milestone obligations of up to US$8.5 million on four of the non-exclusive licenses (with the exception of TKM-Ebola, which has no milestone obligations, and TKM-PLK1 if Alnylam opts–in to the development program) and no milestone obligations on the three exclusive licenses.

On April 3, 2009 Alnylam announced that they had initiated a Phase 1 human clinical trial for a product candidate

that utilizes our LNP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for advanced solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our LNP technology. We are responsible for manufacturing the ALN-VSP drug product. The initiation of the ALN-VSP Phase 1 clinical trial triggered a milestone payment of $0.6 million (US$0.5 million) which we received in May 2009. Interim ALN-VSP data were presented at the 2010 Annual Meeting of the American Society of Clinical Oncology (ASCO) in May 2010 and at the Chemotherapy Foundation Symposium in November 2010. Alnylam expects to report additional clinical data in the second quarter of 2011.

Alnylam are advancing two ALN-TTR formulations, ALN-TTR01 and ALN-TTR02. Both formulations are RNAi therapeutics targeting transthyretin (TTR) for the treatment of TTR amyloidosis, a systemic disease caused by mutations in the TTR gene. ALN-TTR01 and ALN-TTR02 utilize our LNP technology and are being manufactured by us. On July 7, 2010, Alnylam announced the initiation of a Phase 1 human clinical trial for ALN-TTR01 which triggered a US$0.5 million milestone payment to us and Alnylam expects to report data from this trial in the third quarter of 2011.

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

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

Roche product development and research agreements

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

On May 11, 2009 we announced a product development agreement with Roche (Roche Product Development Agreement) that provides for product development up to the filing of an IND by Roche. The product development activities under this agreement expand the activities that were formerly covered by the Roche Research Agreement. Under the Roche Product Development Agreement Roche is paying for the provision of our staff and for external costs incurred up to US$8.8 million, for us to support the advancement of a Roche RNAi product candidate using our LNP technology through to the filing of an IND application. We are recognizing revenue from this agreement in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates is being recorded in the period that Roche is invoiced for those costs.

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

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

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

Bristol-Myers Squibb Company (BMS) research agreement

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

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

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

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

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

Takeda Pharmaceutical Company Limited (Takeda) research agreement

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

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

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

Legacy Agreements

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

Talon is developing targeted chemotherapy products under a legacy license agreement entered into in May 2006. Marqibo® (Optisomal Vincristine), Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan), products originally developed by us, have been exclusively licensed to Talon. Talon has agreed to pay us milestones and royalties and is responsible for all future development and future expenses. In May 2009, the license agreement with Talon was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the license agreement with Talon was amended a second time such that Talon paid $5.9 million (US$5.75 million) in consideration for reducing certain future payments associated with the product candidates. The payment of $5.9 million (US$5.75 million) from Talon has been paid to certain of our contingent creditors in full settlement of a contingent obligation - see "Off-Balance Sheet Arrangements." We are now eligible to receive milestone payments from Talon of up to US$19.0 million upon achievement of further development and regulatory milestones and we are also eligible to receive single-digit royalties on product sales. The milestone payments can be made in common shares of Talon. If Talon sublicenses any of the product candidates, Tekmira is eligible to receive a percentage of any upfront fees or milestone payments received by Talon.

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

Aradigm Corporation (Aradigm) license agreement

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

our technology. In addition, we are entitled to royalties on any product revenue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies that we believe to be most critical in fully understanding and evaluating our financial results are revenue recognition and stock-based compensation. These accounting policies require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable, based upon information available to us at the time that these estimates and assumptions are made. Actual results may differ from our estimates. Areas where critical accounting estimates are made include revenue recognition and amounts recorded as stock-based compensation. Our critical accounting estimates affect our net loss calculation.

Revenue Recognition / Our primary sources of revenue have been derived from research and development collaborations and contracts, and licensing fees comprised of initial fees and milestone payments. Payments received under research and development agreements and contracts, which are non-refundable, are recorded as revenue as services are performed and as the related expenditures are incurred pursuant to the agreement, provided collectability is reasonably assured. Revenue earned under research and development manufacturing collaborations where we bear some or all of the risk of a product manufacture failure is recognized when the purchaser accepts the product and there are no remaining rights of return. Revenue earned under research and development collaborations and contracts where we do not bear any risk of product manufacture failure is recognized in the period the work is performed. Initial fees and milestone payments which require our ongoing involvement are deferred and amortized into income over the estimated period of our involvement as we fulfill our obligations under our agreements. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured.

The revenue that we recognize is a critical accounting estimate because of the volume and nature of the revenues we receive. Some of the research, development and licensing agreements that we have entered into contain multiple revenue elements that are to be recognized for accounting in accordance with our revenue recognition policy. We need to make estimates as to what period the services will be delivered with respect to up-front licensing fees and milestone payments received because these payments are deferred and amortized into income over the estimated period of our ongoing involvement. The actual period of our ongoing involvement may differ from the estimated period determined at the time the payment is initially received and recorded as deferred revenue. This may result in a different amount of revenue that should have been recorded in the period and a longer or shorter period of revenue amortization. When an estimated period changes we amortize the remaining deferred revenue over the estimated remaining time to completion. The rate at which we recognize revenue from payments received for services to be provided under research and development agreements depends on our estimate of work completed to date and total work to be provided. The actual total services provided to earn such payments may differ from our estimates.

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

Stock-based compensation / The stock based compensation that we record is a critical accounting estimate due to the value of compensation recorded, the volume of our stock option activity, and the many assumptions that are required to be made to calculate the compensation expense.

Compensation expense is recorded for stock options issued to employees and directors using the fair value method. We must calculate the fair value of stock options issued and amortize the fair value to stock compensation expense over the vesting period, and adjust the expense for stock option forfeitures and cancellations. We use the Black-Scholes model to calculate the fair value of stock options issued which requires that certain assumptions, including the expected life of the option and expected volatility of the stock, be estimated at the time that the options are issued. This accounting estimate is reasonably likely to change from period to period as further stock options are issued and adjustments are made for stock option forfeitures and cancellations. We make an estimate for stock option forfeitures at the time of grant and revise this estimate in subsequent periods if actual forfeitures differ. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock option. We amortize the fair value of stock options using the straight-line method over the vesting period of the options, generally a period of three years for employees and immediate vesting for directors.

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

DIFFERENCES BETWEEN UNITED STATES OF AMERICA AND CANADIAN GAAP

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

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

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

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

Looking at collaborations revenue, the expiration of our research collaboration with Alnylam in August 2009 has been offset by expansion of manufacturing services provided to Alnylam and the expansion of our collaboration with Roche. Licensing fees and milestone payments revenue was lower in 2009 as compared to 2008 as up-front payments from Alnylam were fully amortized into revenue by the end of 2008 and the only 2009 receipt was an Alnylam milestone payment of $0.6 million.

Research, development, collaborations and contracts expenses increased to $17.8 million in 2009 as compared to $16.1 million in 2008 due, in part, to the following factors:

- As a result of the business combination with Protiva completed on May 30, 2008, the level and cost of our research and development activities generally increased.
- With the business combination our intellectual property portfolio and related expenses expanded.
- Spending on our TKM-ApoB program was significantly higher in 2008 as compared to 2009. In 2008 we took TKM-ApoB through preclinical toxicology studies and the manufacture of drug product for human clinical trials. In 2009 our TKM-ApoB program moved into a Phase 1 clinical trial.
- In 2009 TKM-PLK1 spending increased significantly over 2008 as we commenced preclinical toxicology studies and the manufacture of human clinical trial drug product.
- Costs incurred in support of our collaborators were higher in 2009 as we manufactured a number of Alnylam products that utilize our LNP technology and in May 2009 our collaboration with Roche expanded into product development.
- Research and development wage expenses increased significantly following the business combination on May 30, 2008 and continued to be higher in 2009 as staffing levels were maintained to support our two lead internal programs and two major collaborative partners, Alnylam and Roche. However, research and development total compensation expenses in 2008 were unusually high as stock based compensation was $0.3 million in 2009 as compared to $1.8 million in 2008. In 2008 our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva.

Our 2008 termination and restructuring expenses were $3.2 million. In May 2008, as a condition of closing the business combination with Protiva, the employment contract of Tekmira's Chief Executive Officer was terminated and an expense of $2.0 million was recorded. In October 2008, as part of the integration of the operations of Tekmira and Protiva, we completed a restructuring that resulted in a reduction in workforce of 15 employees and recorded an expense of $1.2 million.

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

Revenue is detailed in the following table:

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

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

Agreement.

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

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

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

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

Roche revenue / Under the Roche Product Development Agreement dated May 2009 Roche are paying us for the provision of staff and for certain external costs incurred. We are recognizing revenue from the Roche Product Development Agreement in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total project hours. Revenue from external costs incurred under the Roche Product Development Agreement is recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received is being recorded in the balance sheet as accrued or deferred revenue, as appropriate. In November 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. As at December 31, 2010, we have retained a deferred revenue balance of $0.04 million to cover a small amount of stability study work to be completed for Roche. The balance of Roche deferred revenue was brought into income in 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

Revenue / Revenue was $14.4 million in 2009 as compared to $11.7 million in 2008. Looking at collaborations and contracts revenue, the expiration of our research collaboration with Alnylam in August 2009 has been offset by expansion of manufacturing services provided to Alnylam and the expansion of our collaboration with Roche. Licensing fees and milestone payments revenue is lower in 2009 as compared to 2008 as up-front payments from Alnylam were fully amortized into revenue by the end of 2008 and the only 2009 receipt was an Alnylam milestone payment of $0.6 million.

Revenue is detailed in the following table:

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

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

On April 3, 2009 Alnylam announced that they had initiated a Phase 1 human clinical trial for ALN-VSP, a product candidate that utilizes our LNP technology. The initiation of the ALN-VSP Phase 1 clinical trial triggered a milestone payment of $0.6 million (US$0.5 million) that we received and recorded as revenue in 2009.

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

We earned $0.9 million (US$0.8 million) in research and development collaborations revenue during the first half of 2009 for work completed under a separate Roche Research Agreement.

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

Expenses / Research, development, collaborations and contracts / Research and development expenses increased to $17.8 million in 2009 as compared to $16.1 million in 2008 due, in part, to the following factors:

- As a result of the business combination with Protiva completed on May 30, 2008, the level and cost of our research and development activities generally increased.
- With the business combination our intellectual property portfolio and related expenses expanded.
- Spending on our TKM-ApoB program was significantly higher in 2008 as compared to 2009. In 2008 we took TKM-ApoB through preclinical toxicology studies and the manufacture of drug product for human clinical trials. In 2009 our TKM-ApoB program moved into Phase 1 of clinical trials.
- In 2009 TKM-PLK1 spending increased significantly over 2008 as we commenced preclinical toxicology

studies and the manufacture of human clinical trial drug product.

- Costs marked up and passed through to our collaborators were higher in 2009 as we supported a number of Alnylam products that utilize our LNP technology and in May 2009 our collaboration with Roche expanded into product development.
- Research and development wage expenses increased significantly following the business combination on May 30, 2008 and continued to be higher in 2009 as staffing levels were maintained to support our two lead internal programs and two major collaborative partners, Alnylam and Roche. However, research and development total compensation expenses in 2008 were unusually high as stock based compensation was $0.3 million in 2009 as compared to $1.8 million in 2008. In 2008 our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva.

Our research, development and collaboration expenses and laboratory equipment costs are reported net of funding from USAMRIID of $0.8 million in 2009 and $0.2 million in 2008.

Our research and development staff numbers increased to 64 at December 31, 2009 (total staff 78) as compared to 61 (total staff 76) at December 31, 2008.

General and administrative / General and administrative expenses decreased to $4.2 million in 2009 as compared to $4.4 million in 2008. General and administrative expenses increased with the addition of Protiva expenses following the business combination on May 30, 2008. This increase in expenses fell off as the two businesses were integrated.

Termination and restructuring expenses / Termination and restructuring expenses were $nil in 2009 and $3.2 million in 2008. In May 2008, as a condition of closing the business combination with Protiva, the employment contract of Tekmira's Chief Executive Officer was terminated and an expense of $2.0 million was recorded. In October 2008, as part of the integration of the operations of Tekmira and Protiva, we completed a restructuring that resulted in a reduction in workforce of 15 employees and recorded an expense of $1.2 million.

Depreciation of property and equipment / Depreciation of property and equipment was $1.0 million in 2009 as compared to $0.8 million in 2008. Our results from May 30, 2008 onwards include Protiva's depreciation charges. Also, capital asset purchases and depreciation thereof has increased steadily in line with growth in the manufacturing side of our business.

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

Other income (losses) / Interest income / Interest income was $0.2 million in 2009 as compared to $0.9 million in 2008. Our average cash, cash equivalent and short-term investment balances were at similar levels in 2009 and 2008 but average interest rates were significantly lower in 2009 as compared to 2008. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Impairment loss on goodwill / A down-turn in financial markets led us to carry out a goodwill impairment test as at September 30, 2008. Based on Tekmira's market capitalization as at September 30, 2008 we determined that the fair value of goodwill arising from the acquisition of Protiva was nil and an impairment loss of $3.9 million, the full value of goodwill, was recorded in the Consolidated statement of operations and comprehensive loss.

Foreign exchange gains (losses) / Foreign exchange gains (losses) showed losses of $0.4 million in 2009 as compared to gains of $2.1 million in 2008. The foreign exchange gains in 2008 relate largely to the positive effect on our US denominated cash investments and accounts receivable from the strengthening of the US dollar as compared to the Canadian dollar. Conversely, foreign exchange losses in 2009 relate to the weakening of the US dollar as compared to the Canadian dollar.

Towards the end of 2008 we converted the majority of our US dollar cash and cash equivalent holdings into Canadian dollars which reduced our exposure to foreign exchange rate fluctuations in 2009.

LIQUIDITY AND CAPITAL RESOURCES

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

investment, and government contracts, grants and tax credits.

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

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

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

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

Contractual obligations

Our laboratory and office premises operating lease expires in July 2014 but we have the option to extend the lease to 2017 and then to 2022 and then to 2027. The lease includes a signing incentive payment. In accordance with our accounting policy the signing incentive payment is being amortized on a straight-line basis over the term of the lease.

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

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

We also have collaborative arrangements that require us to undertake certain research and development work as further explained elsewhere in this discussion.

Off-Balance Sheet arrangements

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

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

promissory notes will be limited to our receipt, if any, of up to US$12.0 million in payments from a third party. We will pay these funds, if and when we receive them, to the former Protiva shareholders in satisfaction of the promissory notes. As contingent obligations that would not need to be funded by the Company, the US$12.0 million receivable and the related promissory notes payable are not included in our consolidated balance sheet.

RELATED PARTY TRANSACTIONS

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

OUTSTANDING SHARE DATA

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

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our Annual Information Form dated March 30, 2011 which can be found at www.sedar.com.

We believe that our current funds on hand plus expected income including funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into the first quarter of 2012. Substantial additional funds will be required to continue with the active development of our pipeline products and technologies. In particular, our funding needs may vary depending on a number of factors including:

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

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

If adequate funding is not available, we may be required to delay, reduce or eliminate one or more of our research

or development programs. We may need to obtain funds through arrangements with collaborators or others that may require us to relinquish most or all of our rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise seek if we were better funded. Insufficient financing may also mean failing to prosecute our patents or relinquishing rights to some of our technologies that we would otherwise develop or commercialize.

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

CONTROLS AND PROCEDURES

Our Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures for the year ending December 31, 2010 and have concluded that our disclosure controls and procedures are effective.

Our Chief Executive Officer and the Chief Financial Officer are also responsible for the design and effectiveness of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. They have evaluated our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings and believe them to be effective. They also concluded that there were no changes during 2010 that materially affected the Company's internal control over financial reporting and disclosure controls and procedures.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Financial Statements (expressed in Canadian dollars)

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

December 31, 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safe-guarding of assets. The consolidated financial statements include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and meets independently with the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards and the public company accounting oversight board (United States), and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with accounting principles generally accepted in the United States of America. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

/s/ Mark J. Murray

Dr. Mark J. Murray
President and
Chief Executive Officer

/s/ Ian C. Mortimer

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

March 30, 2011

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Chartered Accountants

March 30, 2011
Vancouver, Canada

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets
(Expressed in Canadian Dollars)
(Prepared in accordance with U.S. GAAP)

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

Basis of presentation and future operations (note 1)
Business acquisition (note 3)
Subsequent event (note 14)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
(Prepared in accordance with U.S. GAAP)

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

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2010, 2009 and 2008
(Expressed in Canadian Dollars)
(Prepared in accordance with U.S. GAAP)

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

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Cash Flow
(Expressed in Canadian Dollars)
(Prepared in accordance with U.S. GAAP)

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

See accompanying notes to the consolidated financial statements.

1. Nature of business and future operations

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

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

2. Significant accounting policies

Basis of presentation

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

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

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

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

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses, contingent assets and contingent liabilities as at the end or during the reporting period. Actual results could significantly differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of goodwill, the valuation of acquired in-process research and development, the useful lives of property and equipment for the purpose of amortization, recognition of revenue, stock-based compensation, and the amounts recorded as accrued liabilities.

Cash and cash equivalents

Cash and cash equivalents are all highly liquid instruments with an original maturity of three months or less when purchased. Cash equivalents are recorded at cost plus accrued interest. The carrying value of these cash equivalents approximates their fair value.

Fair value of financial instruments

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

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

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

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

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

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

Inventory

Inventory includes materials assigned for the manufacture of products for collaborative partners and manufacturing costs for products awaiting acceptance by collaborative partners. Inventory is carried at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, costs of manufacturing and other costs incurred in bringing the inventories to their present location and condition.

Property and equipment

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

	Rate
Laboratory equipment	5 years
Computer and office equipment	2-5 years
Furniture and fixtures	5 years

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

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

Intangible assets

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

Impairment of long-lived assets

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

Revenue recognition

The Company earns revenue from research and development collaboration and contract services, licensing fees and milestone payments. Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair values or are recognized as a single unit of accounting when relative fair values are not determinable. Non-refundable payments received under collaborative research and development agreements are recorded as revenue as services are performed and related expenditures are incurred. Non-refundable upfront license fees from collaborative licensing and development arrangements are recognized as the Company fulfills its obligations related to the various elements within the agreements, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit is being conferred. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured.

Revenue earned under research and development manufacturing collaborations where the Company bears some or all of the risk of a product manufacturing failure is recognized when the purchaser accepts the product and there are no remaining rights of return.

Revenue earned under research and development collaborations where the Company does not bear any risk of product manufacturing failure is recognized in the period the work is performed.

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

Cash or other compensation received in advance of meeting the revenue recognition criteria is recorded on the balance sheet as deferred revenue. Revenue meeting recognition criteria but not yet received or receivable is recorded on the balance sheet as accrued revenue.

Leases and lease inducements

Leases entered into are classified as either capital or operating leases. Leases which substantially transfer all benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the purchase and financing.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Lease inducements represent leasehold improvement allowances and reduced or free rent periods and are amortized on a straight-line basis over the term of the lease and are recorded as a reduction of rent expense.

Research and development costs

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

Income or loss per share

Income or loss per share is calculated based on the weighted average number of common shares outstanding. Diluted loss per share does not differ from basic loss per share since the effect of the Company's stock options are anti-dilutive. Diluted income per share is calculated using the treasury stock method which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding stock options.

Government assistance

Government assistance provided for current expenses is included in the determination of income or loss for the year, as a reduction of the expenses to which it relates. Government assistance towards the acquisition of property and equipment is deducted from the cost of the related property and equipment.

Foreign currency translation

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

Future income taxes

Income taxes are accounted for using the asset and liability method of accounting. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases and for loss carry-forwards. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the periods in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax laws or rates is included in earnings in the period that includes the enactment date. When realization of future income tax assets does not meet the more-likely-than-not criterion for recognition, a valuation allowance is provided.

Stock-based compensation

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

The fair value of stock options is typically measured at the grant date and amortized on a straight-line basis over the vesting period.

Segment information

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

Recent accounting pronouncements

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

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

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

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

3. Business acquisition

On May 30, 2008, the Company completed the acquisition of 100% of the outstanding shares of Protiva Biotherapeutics, Inc. ("Protiva"), a privately owned Canadian company developing lipid nanoparticle delivery technology for small interfering RNA ("siRNA"), for $31,761,255. Concurrent with the acquisition, the Company entered into initial research agreements with F. Hoffman-La Roche Ltd and Hoffman La-Roche Inc. (collectively "Roche").

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

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

Cost of acquisition

The Company issued 4,569,718 common shares to acquire 100% of the outstanding shares of Protiva. The fair value of the Company's shares has been determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange from March 27, 2008 to April 2, 2008, being $6.30 per share. The Company used the Black-Scholes option pricing model to estimate the fair value of the 350,459 shares reserved at the acquisition date for the exercise of assumed Protiva stock options using the following weighted average assumptions: dividend yield of 0%; risk free interest rate of 3.03%; volatility factor of the expected market price of the Company's common stock of 131%; and a weighted average expected life of the options of six years.

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

(Expressed in Canadian dollars)

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

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
In-process research and development		16,252,000
Goodwill		3,890,749
Accounts payable and accrued liabilities		(1,794,500)
Deferred revenue		(448,635)
	$	31,761,255

Allocation of fair values

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

The Company used the income approach and considered potential cash flows from both internal and partnered products to determine the fair value of the in-process research and development. The excess purchase price over the fair value of the net identifiable assets acquired has been allocated to goodwill.

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

At September 30, 2008 the Company carried out a goodwill impairment test. Based on the Company's evaluation, including its market capitalization as at September 30, 2008 the Company determined that the fair value of goodwill was nil and an impairment loss of $3,890,749 was recorded in the statement of operations and comprehensive loss.

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

The Company does not anticipate a future tax liability as a result of the differences between the tax values and allocated fair values of the assets, based on available tax deductions. At the time of the acquisition, Protiva had approximately $19,000,000 of unused non-capital losses available to reduce taxable income of future years and expiring between 2008 and 2027 and approximately $1,000,000 of investment tax credits available to reduce income taxes of future years expiring between 2011 and 2027. Furthermore, Protiva had Scientific Research and Experimental Development expenditures of approximately $11,500,000 available for carry-forward indefinitely against future taxable income. The tax value of goodwill arising on the acquisition is approximately $2,918,000. The potential income tax benefits relating to these future tax assets have not been recognized in the purchase price allocation as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation.

(Expressed in Canadian dollars)

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

Private placement investment

Concurrent with the acquisition, the Company completed a private placement investment of 416,667 newly issued common shares for $4,965,000 (US$5,000,000, US$12.00 per share) with Alnylam Pharmaceuticals, Inc. ("Alnylam") and a private placement investment of 416,667 newly issued common shares for $5,000,000 (CAD$12.00 per share) with a Roche affiliate for an aggregate investment of $9,965,000. The fair value of the Company's shares issued to Alnylam and the Roche affiliate of $5,249,999 ($6.30 per share) was determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange on the five days around the March 30, 2008 acquisition and investment announcement being March 27, 2008 to April 2, 2008 and has been recorded as share capital. Based on this fair value, the share premium paid by Alnylam and the Roche affiliate was an aggregate of $4,715,001 and has been recorded as additional paid-in capital.

Pro forma information

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

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

4. Collaborations, contracts and licensing agreements

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

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

(Expressed in Canadian dollars)

The following table sets forth deferred collaborations and contracts revenue:

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

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

License and Collaboration Agreement with Alnylam through Tekmira

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

Cross-License with Alnylam acquired through Protiva

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

Research and development collaboration with Alnylam

Up until December 31, 2008, Alnylam was making collaborative agreement payments to both Tekmira and Protiva. Effective January 1, 2009, all collaborative research with Alnylam is performed under the Alnylam Cross-License and manufacturing is performed under a manufacturing agreement (the "Alnylam Manufacturing Agreement"). Under the Alnylam Manufacturing Agreement the Company continues to be the exclusive manufacturer of any products required by Alnylam through to the end of Phase 2 clinical trials that utilize the Company's technology. Alnylam pays the Company for the provision of staff and for external costs incurred. Time charged to Alnylam is at a fixed rate and under the Alnylam Manufacturing Agreement there is a contractual minimum for the provision of staff of $11,200,000 over the three years commencing January 1, 2009.

Licensing fees and milestone payments

In 2007, under the Alnylam License and Collaboration, the Company received 361,990 newly issued shares of Alnylam common stock which the Company sold for the net amount of $8,938,867 (US$7,594,619) and a subsequent cash payment of $475,720 (US$405,381) to bring the total up-front payment to $9,414,587 (US$8,000,000). Under a license agreement with the University of British Columbia ("UBC"), the Company made a milestone payment of $941,459, in respect of the up-front payment from Alnylam. In accordance with the Company's revenue recognition policy, the up-front payment of $9,414,587 and the milestone payment to UBC of $941,459, were deferred and were amortized on a straight-line basis to licensing fee revenue and expense respectively to December 31, 2008, the period over which the Company provided research support under the Alnylam License and Collaboration.

Alnylam has provided non-exclusive access to the Company's lipid nanoparticle intellectual property to F. Hoffman-La Roche Ltd ("Roche") and Takeda Pharmaceutical Company Limited ("Takeda"). The Company is eligible to receive up to US$16,000,000 in milestone payments for each RNAi therapeutic advanced by

Alnylam or its partners. The Company is also eligible for royalties on product sales. These milestones and royalties will pass through Alnylam. Of the US$16,000,000 potential milestone payments, US$4,500,000 relate to pre-regulatory approval milestones and US$11,500,000 relate to the milestones of regulatory approval and cumulative product sales of over US$500,000,000.

In the year ended December 31, 2010 the Company received a $514,129 (US$500,000) milestone payment from Alnylam in respect of the initiation of Alnylam's ALN-TTR01 Phase 1 human clinical trial. In the year ended December 31, 2009, the Company received a $596,500 (US$500,000) milestone payment from Alnylam in respect of the initiation of Alnylam's ALN-VSP Phase 1 human clinical trial.

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

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

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

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

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

(c) Roche collaboration

On May 11, 2009 the Company announced a product development agreement with Roche (the "Roche Product Development Agreement"). Under the Roche Product Development Agreement Roche was to pay the Company up to US$8,800,000 to support the advancement of each Roche RNAi product candidate using the Company's lipid nanoparticle technology through to the filing of an Investigational New Drug ("IND") application.

Under the Roche Product Development Agreement Roche is paying the Company for the provision of staff and for external costs incurred. The Company is recognizing revenue in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates is recorded in the period that Roche was invoiced for those costs. The difference between service revenue recognized and cash received is recorded in the Company's balance sheet as deferred revenue.

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

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

(d) Bristol-Myers Squibb collaboration

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

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

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

(e) Other RNAi collaborators

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

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

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

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

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

(g) Aradigm Corporation ("Aradigm")

The Company entered into a licensing agreement with Aradigm on December 8, 2004 under which Aradigm licensed certain of the Company's technology. Under this agreement, the Company is eligible to receive up to US$4,750,000 in milestone payments for each disease indication, to a maximum of two, pursued by Aradigm as well as royalties on product revenue resulting from products utilizing the licensed technology. The milestone payments are only payable twice regardless of the number of disease indications pursued.

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

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

As a result of the acquisition of Protiva the Company received a non-exclusive royalty-bearing world-wide license, of certain intellectual property acquired by Merck. Under the license Merck will pay up to US$17,000,000 in milestones for each product it develops using the acquired intellectual property except for the first product for which Merck will pay up to US$15,000,000 in milestones. Merck will also pay royalties on product sales. The license agreement with Merck was entered into as part of a settlement of litigation between Protiva and a Merck subsidiary.

(Expressed in Canadian dollars)

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

5. Property and equipment

December 31, 2010	Cost	Accumulated depreciation and impairment	Net book value
Laboratory equipment	$ 7,668,582	$ (6,554,699)	$ 1,113,883
Leasehold improvements	7,256,186	(5,730,396)	1,525,790
Computer and office equipment	3,080,100	(2,621,522)	458,578
Furniture and fixtures	664,029	(648,864)	15,165
	$ 18,668,897	$ (15,555,481)	$ 3,113,416

December 31, 2009	Cost	Accumulated depreciation and impairment	Net book value
Laboratory equipment	$ 7,352,191	$ (6,116,631)	$ 1,235,560
Leasehold improvements	5,671,752	(4,377,986)	1,293,766
Computer and office equipment	3,248,679	(2,478,688)	769,991
Furniture and fixtures	662,242	(640,518)	21,724
	$ 16,934,864	$ (13,613,823)	$ 3,321,041

6. Share capital

(a) Authorized

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

(b) Consolidation of common shares

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

(c) Stock-based compensation

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

1996 Stock Option Plan

Under the Company's 1996 Stock Option Plan the Board of Directors may grant options to employees and directors. The exercise price of the options is determined by the Company's Board of Directors but will be at least equal to the closing market price of the common shares on the day preceding the date of grant and the term may not exceed 10 years. Options granted generally vest over three years for employees and immediately for directors.

Concurrent with the announcement of the acquisition of Protiva on March 28, 2008, the Company's Board approved the accelerated vesting of all options outstanding under the Company's 1996 Share Option Plan such

(Expressed in Canadian dollars)

that all options outstanding at that date became fully vested and exercisable. Any stock based compensation expense not yet recognized with respect to the options with accelerated vesting was recognized on May 30, 2008, the date that Protiva was acquired.

On May 28, 2008 and May 12, 2009, the shareholders of the Company approved increases to the number of shares reserved for issuance under the Company's 1996 Stock Option Plan of 297,400 and 266,200, respectively, thereby increasing the maximum common shares available under the plan to 1,369,255 of which 193,965 common shares remain available for future allocation as at December 31, 2010.

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

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

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

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

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

(Expressed in Canadian dollars)

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

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

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

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

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

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

Valuation assumptions for the Company's 1996 Stock Option Plan

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

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

(Expressed in Canadian dollars)

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

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

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

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

Protiva Option Plan

On May 30, 2008, as a condition of the acquisition of Protiva Biotherapeutics Inc., a total of 350,457 common shares of the Company were reserved for the exercise of 519,073 Protiva share options ("Protiva Options"). The Protiva Options have an exercise price of $0.30, were fully vested as of May 30, 2008, expire at various dates from January 22, 2011 to March 1, 2018 and upon exercise each option will be converted into approximately 0.6752 shares of the Company (the same ratio at which Protiva common shares were exchanged for Company common shares at completion of the acquisition of Protiva). The Protiva Options are not part of the Company's 1996 Stock Option Plan and the Company is not permitted to grant any further Protiva Options. To December 31, 2009, none of the Protiva Options had been exercised, forfeited or cancelled.

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

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

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

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

7. Government grants and refundable investment tax credits

Government grants and refundable investment tax credits have been netted against research and development expenses.

Government grants for the year ended December 31, 2010 include $191,194 in funding from the US Army Medical Research Institute for Infectious Diseases (2009 - $775,292; 2008 - $239,031).

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

(Expressed in Canadian dollars)

8. Termination and restructuring expenses

In May 2008, as a condition of closing the business combination with Protiva (note 3) the employment contract of the Company's previous Chief Executive Officer was terminated and an expense of $1,984,266 was recorded. The termination sum was paid out as salary continuance until August 31, 2010. There was no remaining unpaid balance as at December 31, 2010 (December 31, 2009 - $608,550; December 31, 2008 - $1,484,757).

In October 2008, as part of the integration of the operations of Tekmira and Protiva, the Company completed a restructuring that resulted in a reduction in workforce of 15 employees. The Company recorded an expense of $1,188,278 in respect of these 15 employees. As at December 31, 2010 there was no remaining unpaid balance (December 31, 2009 - $5,284; December 31, 2008 - $235,393).

9. Income taxes

Income tax (recovery) expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate of 28.5% (year ended December 31, 2009 – 30.0%; 2008 – 31.0%) to the loss before income taxes as shown in the following tables:

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

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

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

(Expressed in Canadian dollars)

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

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

Under a Plan of Arrangement (Note 2) completed on April 30, 2007, Inex's non-capital losses and scientific research and experimental development pool of undeducted expenditures as well as the federal non-refundable investment tax credits generated from the business through April 30, 2007 are not available to the Company. The balances at December 31, 2010 represent the balances available to the Company.

The potential income tax benefits relating to the future tax assets shown in the table have not been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation. Accordingly, no future tax assets have been recognized as at December 31, 2010 and December 31, 2009.

10. Commitments and contingencies

Property lease

Effective July 29, 2009 the Company signed an amendment to the operating lease for its laboratory and office premises. The amended lease expires in July 2014 but the Company has the option to extend the lease to 2017 and then to 2022 and then to 2027. The amended lease included a signing incentive payment. In accordance with the Company's accounting policy the signing incentive payment is being amortized on a straight-line basis over the term of the amended lease.

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

	Lease commitment	Sub-lease income	Net commitment
Year ended December 31, 2011	$ 1,285,000	$ (194,000)	$ 1,091,000
Year ended December 31, 2012	1,285,000	(186,000)	1,099,000
Year ended December 31, 2013	1,285,000	-	1,285,000
Year ended December 31, 2014	750,000	-	750,000
	$ 4,605,000	$ (380,000)	$ 4,225,000

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

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

Product development partnership with the Canadian Government

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

Contingently payable promissory notes

The Company has a contingent liability of US$12,000,000 in regard to certain promissory notes and has a related, equal and offsetting contingent asset receivable from a third party as described in note 3.

11. Related party transactions

Research, development, collaborations and contracts expenses in the year December 31, 2009 include $44,415 of contract research costs, measured at the cash amount and incurred in the normal course of operations with Ricerca Biosciences, LLC ("Ricerca") whose Chief Executive Officer is also a director of the Company (year ended December 31, 2010 - $nil; year ended December 31, 2008 - $nil). There was no balance in accounts payable and accrued liabilities at December 31, 2010 in respect of Ricerca (December 31, 2009 - $nil). There were no related party transactions in the year ended December 31, 2010.

12. Concentrations of business risk

Credit risk

Credit risk is defined by the Company as an unexpected loss in cash and earnings if a collaborative partner is unable to pay its obligations in due time. The Company's main source of credit risk is related to its accounts receivable balance which principally represents temporary financing provided to collaborative partners in the normal course of operations. Accounts receivable from the U.S. Government as at December 31, 2010 were $2,031,980 and represent 61% of total accounts receivable as at that date (December 31, 2009 - $nil). Accounts receivable from Alnylam as at December 31, 2010 were $836,655 and represent 20% of total accounts receivable as at that date (December 31, 2009 - $398,658 and 38%).

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at December 31, 2010 was the accounts receivable balance of $3,318,729 (December 31, 2009 - $1,052,895).

The aging of accounts receivable at the reporting date was:

	December 31	
	2010	2009
Current	**$ 3,318,729**	$ 898,859
Past due 0-30 days	**-**	154,036
	$ 3,318,729	$ 1,052,895

Significant collaborators and customers risk

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

Liquidity Risk

Liquidity risk results from the Company's potential inability to meet its financial liabilities, for example payments to suppliers. The Company ensures sufficient liquidity through the management of net working capital and cash balances.

The Company's liquidity risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to liquidity risk on its liquid assets through maintaining its cash and cash equivalent deposits with high-credit quality financial institutions. Due to the nature of these investments, the funds are available on demand to provide optimal financial flexibility.

The Company believes that its current sources of liquidity are sufficient to cover its likely applicable short term cash obligations. The Company's financial obligations include accounts payable and accrued liabilities which generally fall due within 45 days.

The net liquidity of the Company is considered to be the cash, cash equivalents and short-term investments funds available less accounts payable and accrued liabilities.

	December 31	
	2010	2009
Cash, cash equivalents and short term investments	**$ 12,346,010**	$ 24,397,740
Less: Accounts payable and accrued liabilities	**(6,151,923)**	(5,653,827)
	$ 6,194,087	$ 18,743,913

Foreign currency risk

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

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

The Company manages its US dollar exchange rate risk by using cash received from US dollar revenues to pay US dollar expenses and by limiting its holdings of US dollar cash and cash equivalent balances to working capital levels. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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

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

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

13. Supplementary information

Accounts payable and accrued liabilities is comprised of the following:

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

14. Subsequent event

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

(Expressed in Canadian dollars)

15. Reconciliation of Generally Accepted Accounting Principles (GAAP)

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

Reconciliation of net loss and comprehensive loss

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

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

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

Intangible assets

	December 31		
	2010	2009	2008
Intangible assets, U.S. GAAP	**$ -**	$ -	$ -
Adjustments for in–process research and development	**13,627,979**	14,643,729	15,659,479
Intangible assets, Canadian GAAP	**$ 13,627,979**	$ 14,643,729	$ 15,659,479

Deficit

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

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

Other disclosures require by Canadian GAAP

Capital Disclosures

The Company's board of directors' ("Board") policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's total shareholders' equity. To maintain the capital structure, the Company may

attempt to issue new shares, acquire or dispose of assets or structure collaborative and license agreements in a particular way. The Company has not yet attained sustainable profitable operations, therefore the Board has not established quantitative return on capital criteria for management.

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

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

Interest rate risk

The Company invests its cash reserves in bankers' acceptances and high interest savings accounts issued by major Canadian banks. The Company's audit committee approves a list of acceptable investments on a quarterly basis. A 100 basis point decrease in the interest rate would have resulted in the Company earning no interest and an increase in net losses of $151,973 for the year ended December 31, 2010. A 100 basis point increase in interest rates would have resulted in a decrease in net losses of $151,973. This analysis assumes that all other variables, in particular interest rates, remain constant.

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