



December 14, 2012

VIA SEDAR

To each of the securities commissions or similar regulatory authorities in each of the provinces and territories in Canada

Re: Unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2012 and September 30, 2011

These unaudited interim condensed consolidated financial statements are being re-filed to correct two typographical errors in the statements of cash flow in the unaudited interim condensed consolidated financial statements filed on November 13, 2012. The changes in fair value of warrant liability reported in the statements of cash flow for the three and nine months ended September 30, 2012 were previously reported as \$894,376 and \$771,720 and are herein corrected to \$1,744,734 and \$1,622,078, respectively.

This change has no other effect on the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2012 and September 30, 2011. We apologize for any inconvenience this may have caused.

Yours very truly,

A handwritten signature in black ink, appearing to read "Ian Mortimer".

Ian Mortimer
Chief Financial Officer
Tekmira Pharmaceuticals Corporation



**TEKMIRA PHARMACEUTICALS
CORPORATION**

Q3 2012 Quarterly Report

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

November 13, 2012 / *This management discussion and analysis (MD&A) for the three and nine months ended September 30, 2012 should be read in conjunction with the unaudited condensed consolidated financial statements and related notes for the same period and the MD&A and the audited consolidated financial statements and related notes for the year ended December 31, 2011. 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 condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles used in the United States of America (U.S. 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 annual report on Form 20-F for the year ended December 31, 2011, 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 the settlement to resolve all litigation between Tekmira and Alnylam Pharmaceuticals, Inc. and AICana Technologies, Inc; statements about the quantum and timing of Tekmira's expected payments related to the settlement agreement and new licensing agreement with Alnylam; statements about Tekmira's expected payments from the settlement and cash runway extending into 2015; Tekmira's plans to advance multiple products into human clinical trials; expected timing of Phase 2 clinical trials for TKM-PLK1; the development of other product candidates in Tekmira's pipeline, including the expected timing for the nomination of Tekmira's next product candidate; anticipated royalty payments based on sales of Marqibo; the modification request to the existing TKM-Ebola contract with the DoD to integrate recent advancements in LNP formulation and manufacturing technology; expected timing of the completion and submission of the LNP formulation work to the FDA and the initiation of a new Phase 1 clinical trial for TKM-Ebola; the quantum and timing of funding that may be provided to Tekmira pursuant to the TKM-Ebola contract with the DoD; the quantum and timing of future milestone royalty payments expected from the ALN-TTR02, ALN-VSP, ALN-PCS and other LNP-enabled product development programs of Alnylam; the timing of an ALN-TTR02 pivotal or Phase 3 clinical trial; the timing of ALN-VSP clinical trials in China; milestones and royalty payments from Alnylam's LNP-enabled products; Tekmira's expectations of entering into a cross license agreement with AICana, which includes anticipated milestone and royalty payments and an expected agreement for AICana not to compete in the RNAi field for five years; licenses for the discovery, development and commercialization of RNAi products directed to thirteen gene targets; expected royalty payments from commercial sales of Tekmira's product development partners; and 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 effects of Tekmira's products on the treatment of cancer and infectious disease; statements and details of the TKM-PLK1 and TKM-Ebola Phase 1 human clinical trials; the quantum and timing of potential funding; use of lipid nanoparticle technology by Tekmira's licensees; Tekmira's expectations with respect to existing and future agreements with third parties; 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 cancer or infectious disease; the developmental milestones and approvals required to trigger funding for TKM-Ebola from the TMT program; results in preclinical models are indicative of the potential effect in humans; Tekmira's research and development capabilities and resources;

FDA approval with respect to commencing clinical trials; 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 partners including Alnylam, Talon, the DoD, and others; Tekmira's financial position and its ability to execute on its business strategy; and Tekmira's ability to protect its intellectual property rights and not to infringe on the intellectual property rights of others. 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: expected payments related to the settlement and licensing agreement between Tekmira and Alnylam may not be received in the quantum and on the timing currently anticipated, or at all; payments received from the settlement may not be sufficient to fund Tekmira's continued business plan as currently anticipated; TKM-PLK1 may never enter into Phase 2 clinical trials; Tekmira may never receive milestones or royalty payments from Alnylam; Tekmira may not receive any additional non-exclusive licenses from Alnylam; the possibility that Tekmira does not enter into a cross license agreement with AICana on the terms currently anticipated, or all; 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, development programs and joint venture strategic alliances will not result in expected results on a timely basis, or at all; anticipated payments under contracts with Tekmira's collaborative partners may not be received by Tekmira on a timely basis, or at all, or in the quantum expected by Tekmira; Tekmira's products may not prove to be effective in the treatment of cancer and infectious disease; 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; 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; 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; a pivotal trial for ALN-TTRO2 may not start as currently anticipated, or at all; clinical trials for ALN-VSP may not commence as anticipated, or at all; anticipated payments under contracts with Tekmira's collaborative partners including the U.S. Government, Alnylam, and Talon will not be received by Tekmira on a timely basis, or at all, or in the quantum expected by Tekmira; the U.S. Government may reduce or cancel certain defense spending, including Tekmira's contract to develop TKM-Ebola; FDA may decide that TKM-Ebola "Animal Rule" data is insufficient for approval and require additional pre-clinical, clinical or other studies, refuse to approve TKM-Ebola, or place restrictions on our ability to commercialize TKM-Ebola; the release of data from the TKM-Ebola and TKM-PLK1 Phase 1 human clinical trials may not occur in the expected timeframe, or at all; the DoD may not accept the modification request to the existing TKM-Ebola to integrate recent advancements in LNP formulation and manufacturing technology; we may not complete the work necessary for the submission of the new LNP formulation to the FDA in the anticipate timeframe, or at all; we may not initiate a new TKM-Ebola Phase 1 clinical trial in the anticipated timeframe, 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's products may not prove to be effective in the treatment of cancer or infectious disease; Tekmira may become subject to product liability or other legal claims for which Tekmira has made no accrual in its financial statements; Tekmira's cash runway may not extend as far as anticipated, and may be substantially less than required to continue current operations; and the possibility that Tekmira has not sufficiently budgeted for expenditures necessary to carry out planned activities.

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's annual report on Form 20-F for the year ended December 31, 2011 (Annual Report), which is available at www.sedar.com or at www.sec.gov/edgar.shtml. 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.

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's annual report on Form 20-F for the year ended December 31, 2011 (Annual Report), which is available at www.sedar.com or at www.sec.gov/edgar. 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 (LNP) delivery technology to pharmaceutical partners.

Technology, product development and licensing agreements

Our therapeutic product pipeline consists of products being developed internally with our research and development resources. We also support the development of our partners' products and are developing an Ebola antiviral product, called 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) and multivalent RNA (MV-RNA). These products are intended to treat diseases through a process known as RNA interference, which prevents the production of disease associated proteins. We have rights under the RNAi intellectual property of Alnylam Pharmaceuticals, Inc. to develop thirteen RNAi therapeutic products. We have exclusive access to MV-RNA technology for the development of RNAi therapeutic products.

In the field of RNAi therapeutics, we have licensed our LNP delivery technology to Alnylam and Merck & Co., Inc. 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 field of RNAi, we have legacy licensing agreements with Talon Therapeutics, Inc. and Aradigm Corporation.

Internal Product Candidates

TKM-PLK1

Our lead oncology product candidate, TKM-PLK1, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in adjacent healthy tissue. TKM-PLK1 targets PLK1 (polo-like kinase 1), a protein involved in tumor cell proliferation and a validated oncology target. Inhibition of PLK1 expression 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 the 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 provided potent anti-tumor efficacy in preclinical models of tumors outside the liver.

On December 22, 2010, we announced the initiation of patient treatment in a Phase 1 human clinical trial of TKM-PLK1. The Phase 1 clinical trial, conducted at 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 is enrolling patients with advanced solid tumors. Secondary objectives of the trial are to measure tumor response and the pharmacodynamic effects of TKM-PLK1 in patients providing biopsies.

To date, TKM-PLK1 has been administered to 23 patients with a total of 128 doses administered. On August 14, 2012, we released interim results from the TKM-PLK1 Phase 1 study, which employs a unique LNP developed for oncology applications, showing that TKM-PLK1 was generally well tolerated. TKM-PLK1 has shown drug activity to date, including one patient with a partial response and another patient who attained stable disease. Based on these interim data, patient enrollment is continuing at 0.75 mg/kg. Once complete, results from the Phase 1 clinical trial, including additional measures of drug activity, will be presented at a forthcoming scientific meeting. Tekmira anticipates initiating a Phase 2 clinical trial in 2013.

TKM-Ebola

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 no approved treatments for Ebola or other hemorrhagic fever viruses.

On May 28, 2010 we announced the publication of a series of studies demonstrating the ability of an RNAi therapeutic utilizing our LNP technology to protect non-human primates from Ebola virus, a highly contagious and lethal human infectious disease. We conducted the studies in collaboration with infectious disease researchers from Boston University and the United States Army Medical Research Institute for Infectious Diseases (USAMRIID) and were funded in part by the U.S. Government's Transformational Medical Technologies (TMT) program. These preclinical studies were published in the medical journal *The Lancet* and demonstrated that when siRNA targeting the Ebola virus and delivered by Tekmira's LNP technology were used to treat previously infected non-human primates, the result was 100 percent protection from an otherwise lethal dose of Zaire Ebola virus (Geisbert et al., *The Lancet*, Vol 375, May 29, 2010).

On July 14, 2010, we signed a contract with the United States Department of Defense (DoD) to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection. In the initial phase of the contract, we are eligible to receive up to US\$34.7 million. This initial funding is for the development of TKM-Ebola, including completion of preclinical development, filing an IND application with the FDA and the completion of a Phase 1 human safety clinical trial.

The United States DoD has the option of extending the contract beyond the initial funding period to support the advancement of TKM-Ebola through to the completion of clinical development and FDA approval. Based on the budget for the extended contract this would provide the Company with a total of up to US\$140.0 million in funding for the entire program. Under the contract we invoice the United States DoD for direct labor, third party costs and an apportionment of overheads plus an incentive fee. The funding is paid through monthly reimbursements, and the U.S. DoD has the ability to cancel at any time.

On August 6, 2012, we announced that we had received a temporary stop-work order from the United States DoD with respect to our TKM-Ebola program, which is funded under the TMT Program. On October 2, 2012, we disclosed that the temporary stop-work order was lifted by the United States DoD and work will continue on development of the TKM-Ebola product.

We have submitted a modification request to the existing contract to the United States DoD in order to integrate recent advancements in LNP formulation and manufacturing technology in the TKM-Ebola development program. The program will utilize an LNP formulation that is more than 10-fold more potent than previous formulations and more potent than all other LNP formulations currently being evaluated in clinical trials. We have initiated pre-clinical and chemistry, manufacturing and control studies that support the use of these improvements in the program. This development strategy will be accommodated by modifications to the existing contract, allowing both Tekmira and TMT to benefit from the significant advancements in LNP formulation technology made by us since the commencement of the TMT-funded program in July 2010. It is expected that the LNP formulation work will be completed and submitted to the FDA in the second half of 2013 in order to initiate a new Phase 1 clinical trial.

TKM-Ebola is being developed under specific FDA regulatory guidelines called the "Animal Rule." The Animal Rule provides that under certain circumstances, where it is unethical or not feasible to conduct human efficacy studies, the FDA may grant marketing approval based on adequate and well-controlled animal studies when the results of those studies establish that the drug is reasonably likely to produce clinical benefit in humans. Demonstration of the product's safety in humans is still required.

Other Preclinical Candidates

We have a number of other preclinical candidates in our pipeline addressing a wide range of therapeutic needs such as alcohol dependence and additional oncology targets. We will continue to generate data to support the advancement of the most promising of these targets, and we expect to be in a position to nominate our next product candidate for development in the coming months.

Alnylam settlement and license agreement

On November 12, 2012, we entered into an agreement to settle all litigation between Tekmira and Alnylam and

AlCana Technologies, Inc., and we also entered into a new licensing agreement with Alnylam that replaces all earlier licensing, cross-licensing, collaboration, and manufacturing agreements. Tekmira expects to enter into a separate cross license agreement with AlCana which will include milestone and royalty payments and AlCana has agreed not to compete in the RNAi field for five years.

As a result of the new Alnylam license agreement, Tekmira will receive a total of \$65 million in cash payments within 10 days of signing the agreement. This includes \$30 million associated with the termination of the manufacturing agreement and \$35 million associated with the termination of the previous license agreements, as well as a modification of the milestone and royalty schedules associated with Alnylam's ALN-VSP, ALN-PCS, and ALN-TTR02 programs. In addition, Alnylam has transferred all agreed upon patents and patent applications related to LNP technology for the systemic delivery of RNAi therapeutic products, including the MC3 lipid family, to Tekmira, who will own and control prosecution of this intellectual property portfolio. Tekmira is the only company able to sublicense LNP intellectual property in future platform-type relationships. Alnylam has a license to use Tekmira's intellectual property to develop and commercialize products and may only grant access to Tekmira's LNP technology to its partners if it is part of a product sublicense. Alnylam will pay Tekmira milestones and royalties as Alnylam's LNP-enabled products are developed and commercialized.

The new licensing agreement with Alnylam also grants 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 thirteen gene targets – three exclusive and ten non-exclusive licenses – provided that they have not been committed by Alnylam to a third party or are not otherwise unavailable as a result of the exercise of a right of first refusal held by a third party or are part of an ongoing or planned development program of Alnylam. Licenses for five of the ten non-exclusive targets – ApoB, PLK1, Ebola, WEE1, and CSN5 – have already been granted, along with an additional license for ALDH2, which has been granted on an exclusive basis. In consideration for this license, we have agreed to pay single-digit royalties to Alnylam on product sales and have milestone obligations of up to US\$8.5 million on the non-exclusive licenses (with the exception of TKM-Ebola, which has no milestone obligations). Alnylam no longer has “opt-in” rights to Tekmira's lead oncology product, TKM-PLK1, so we now hold all development and commercialization rights related TKM-PLK1. We will have no milestone obligations on the three exclusive licenses.

Alnylam is developing LNP-enabled products: ALN-TTR, ALN-VSP, and ALN-PCS.

ALN-TTR

Alnylam's ALN-TTR01 and ALN-TTR02 are RNAi therapeutics targeting transthyretin (TTR) for the treatment of TTR-mediated amyloidosis (ATTR), a systemic disease caused by mutations in the TTR gene. ALN-TTR01 and ALN-TTR02 utilize our LNP technology. In July 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. Alnylam has initiated a Phase 1 trial with ALN-TTR02 aimed at evaluating safety, tolerability, and clinical activity of ALN-TTR02 in healthy volunteers. New data were presented on July 16, 2012 at Boston University School of Medicine. Alnylam reported results that showed that administration of ALN-TTR02 resulted in statistically significant reductions in serum TTR protein levels of up to 94%. Suppression of TTR, the disease-causing protein in ATTR, was found to be rapid, dose dependent, durable, and specific after just a single dose. Alnylam has initiated a Phase 2 study of ALN-TTR02 in patients with ATTR and has guided that its goal is to start a pivotal trial in 2013. The initiation of the Phase 2 study of ALN-TTR02 triggered a US\$1.0 million milestone payment to Tekmira. Tekmira is entitled to receive a US\$5 million milestone payment when ALN-TTR02 enters a pivotal or Phase 3 clinical trial, which is expected to occur in 2013. Tekmira will also receive royalty payments based on commercial sales of ALN-TTR.

ALN-VSP

In April 2009, Alnylam announced that they had initiated a Phase 1 human clinical trial for a product candidate that utilizes our LNP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for advanced solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using 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) which we received in May 2009. In June 2011, Alnylam presented Phase 1 human clinical trial data at American Society of Clinical Oncology (ASCO) meeting and disclosed that ALN-VSP was generally well tolerated, demonstrated evidence for anti-tumor activity, and was found to mediate RNAi activity in both hepatic and extra-hepatic tumors. The most recent ALN-VSP data were presented at the American Society of Clinical Oncology (ASCO) meeting in June 2012. Alnylam disclosed that, overall, the results demonstrated

disease control lasting more than six months in the majority of patients treated on the extension study, including a complete response (CR) in an endometrial cancer patient who had multiple liver metastases. In this study, chronic dosing of up to 23 months with ALN-VSP was found to be generally safe and well tolerated. In July 2012, Alnylam disclosed that it has formed a strategic alliance with Ascleptis Pharmaceuticals (Hangzhou) Co., Ltd., a privately held US-China joint venture pharmaceutical company, to develop and commercialize ALN-VSP in China, including Hong Kong, Macau, and Taiwan. Tekmira is entitled to receive a US\$5 million milestone payment to enable ALN-VSP to enter clinical trials in China, which is expected to occur in 2013. Tekmira will also receive royalty payments based on commercial sales of ALN-VSP.

ALN-PCS

Alnylam is also developing ALN-PCS, an RNAi therapeutic, which is enabled by our LNP delivery technology, to treat hypercholesterolemia, or high levels of cholesterol in the blood. On September 26, 2011, Alnylam announced the initiation of a Phase 1 human clinical trial for ALN-PCS which triggered a US\$0.5 million milestone payment to us. On April 20, 2012, Alnylam presented ALN-PCS data at the American Heart Association's Arteriosclerosis, Thrombosis, and Vascular Biology (ATVB) 2012 Scientific Sessions held in Chicago, IL, updating interim data released earlier this year. Alnylam reported results that showed that administration of a single dose of ALN-PCS, in the absence of concomitant lipid-lowering agents such as statins, resulted in statistically significant and durable reductions of PCSK9 plasma levels of up to 84% and lowering of low-density lipoprotein cholesterol (LDL-C), or "bad cholesterol," of up to 50%. ALN-PCS was shown to be safe and well tolerated in this study. Alnylam expects to partner its ALN-PCS program prior to initiating a Phase 2 clinical study. Tekmira will also receive royalty payments based on commercial sales of ALN-PCS.

License and collaboration agreement with Halo-Bio RNAi Therapeutics, Inc.

On August 24, 2011, we entered into a license and collaboration agreement with Halo-Bio. Under the agreement, Halo-Bio granted to us an exclusive license to its multivalent ribonucleic acid MV-RNA technology. The Agreement allows us to work together with Halo-Bio to design and develop MV-RNA molecules directed at gene targets of interest to us and to combine MV-RNA molecules with our LNP technology to develop therapeutic products. MV-RNA technology comprises single macromolecules capable of mediating RNAi at multiple unique target sites. MV-RNA can target three sites on a single gene or up to three separate genes simultaneously. We have already successfully demonstrated multi-gene knockdown using MV-RNA enabled by our proprietary LNP formulations.

We paid Halo-Bio an initial license fee of \$97,940 (US\$100,000). The agreement was amended on August 8, 2012 to adjust the future license fees and other contingent payments. Under the amended agreement, the maximum future license fees and other contingent payments are US\$2,010,000 and the Company will pay up to US\$12,700,000 in milestones on each product developed plus royalties.

Roche product development and research agreements

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

On November 17, 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. The stability studies were completed in 2011 so we now have no further obligation to Roche. In October 2011, Arrowhead Research Corporation announced that it had acquired all RNA therapeutics assets and IP from Roche.

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. On May 17, 2011 we announced a further expansion of the collaboration to include broader applications of our LNP technology and additional target validation work. Recognition of revenue from agreements with BMS is covered in the Revenue section of this MD&A.

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, is supporting work at Tekmira and the UTMB.

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

Talon is developing targeted chemotherapy products under a legacy license agreement entered into in May 2006. Marqibo (Optisomal Vincristine), Alocrest (formerly INX-0125, Optisomal Vinorelbine) and Brakiva (formerly INX-0076, Optisomal Topotecan), products originally developed by us, have been exclusively licensed to Talon. Talon has agreed to pay us milestones and single-digit royalties and is responsible for all future development and future expenses. In May 2009, the license agreement with Talon was amended to decrease the size of near-term milestone payments and increase the size of long-term milestone payments. On September 20, 2010, the license agreement with Talon was amended a second time such that Talon paid \$5.9 million (US\$5.75 million) in consideration for reducing certain future payments associated with the product candidates. The payment of \$5.9 million (US\$5.75 million) from Talon has been paid to our contingent creditors in full settlement of a contingent obligation. 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 will also receive single-digit royalties based 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. Depending on the royalty rates Talon receives from its sublicensees, our royalty rate may be lower on product sales by the sublicensees. The royalty rate will be reduced to low single digits if there is generic competition.

Marqibo is a proprietary sphingosomal formulation of the widely used, off-patent cancer chemotherapeutic vincristine. The FDA has granted Talon orphan drug and fast track designations for the use of Marqibo in adult acute lymphoblastic leukemia (ALL). In August 2007, Talon initiated a Phase 2 Marqibo registration-enabling clinical trial in relapsed ALL. On July 18, 2011, Talon announced that its New Drug Application (NDA) for Marqibo had been submitted to the FDA seeking approval for the treatment of adult Philadelphia chromosome-negative ALL in second or greater relapse or that has progressed following two or more lines of anti-leukemia therapy. On August 9, 2012, Talon announced that Marqibo® (vinCRISTine sulfate LIPOSOME injection) had received accelerated approval from the U.S. Food and Drug Administration (FDA) for the treatment of adult patients with Philadelphia chromosome negative (Ph-) acute lymphoblastic leukemia (ALL) in second or greater relapse or whose disease has progressed following two or more anti-leukemia therapies. Talon is responsible for all future development of Marqibo. Tekmira received a US\$1.0 million milestone payment based on the FDA approval of Marqibo and will receive royalty payments based on Marqibo's commercial sales.

Aradigm Corporation license agreement

On December 8, 2004, we entered into a licensing agreement with Aradigm Corporation 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

There are no changes to our critical accounting policies and estimates from those disclosed in the annual MD&A and the notes to our audited annual consolidated financial statements both contained in our 2011 Annual Report.

RECENT ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to have an impact on our financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This newly issued accounting standard (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor do the amendments affect how earnings per share is calculated or presented. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the requirement within ASU 2011-05 to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. During the deferral, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the issuance of ASU 2011-05. These ASUs are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for Tekmira means January 1, 2012. Adoption of the pronouncement did not have a material impact on our financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This newly issued accounting standard clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This ASU is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for Tekmira means January 1, 2012. Adoption of the pronouncement did not have a material impact on our financial statements.

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 condensed 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

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Revenue								
Collaborations and contracts:								
U.S. Government	\$ 2.4	\$ 3.4	\$ 3.3	\$ 2.0	\$ 2.8	\$ 3.5	\$ 2.5	\$ 1.9
Alnylam	2.1	0.9	1.0	1.5	0.7	-	-	-
Roche	1.7	-	-	-	-	-	-	-
Other	-	-	0.1	0.2	0.2	0.1	0.1	0.1
	6.2	4.3	4.4	3.7	3.7	3.6	2.6	2.0
Alnylam milestone payments	-	-	-	0.5	-	-	1.0	-
Talon milestone payment	-	-	-	-	-	-	-	1.0
Total revenue	6.2	4.3	4.4	4.2	3.7	3.6	3.6	3.0
Expenses and other income (losses)	8.1	7.4	7.9	5.7	5.5	6.8	5.5	6.4
Net loss	(1.9)	(3.1)	(3.5)	(1.5)	(1.8)	(3.2)	(1.9)	(3.4)
Basic and diluted net								
loss per share	\$ (0.18)	\$ (0.30)	\$ (0.33)	\$ (0.12)	\$ (0.15)	\$ (0.25)	\$ (0.14)	\$ (0.25)

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 and our contract with the U.S. Government to advance TKM-Ebola which began in July 2010.

In January 2009 we signed a Manufacturing Agreement with Alnylam, which has subsequently been replaced by a new licensing agreement signed in November 2012, and under the new license agreement we are no longer manufacturing for Alnylam. Revenue from the previous Alnylam Manufacturing Agreement was higher than usual in Q4 2010 and Q3 2011 when deferred revenue related to minimum FTE payments was recognized based on our estimate of percentage of completion of the annual commitment. Quarterly revenue levels are also affected by the timing of manufacturing third party costs such as manufacturing suite charges. The timing of batch manufacturing is sporadic and manufacturing suite booking fees can precede the date of batch manufacture by many months. As discussed earlier, the Manufacturing Agreement with Alnylam was cancelled as part of the settlement of the litigation between Tekmira and Alnylam.

In Q3 2010 we signed a contract with the U.S. Government to develop TKM-Ebola and have since incurred significant program costs related to equipment, materials and preclinical and clinical studies. These costs are included in our research, development, collaborations and contracts expenses. These third-party costs are being reimbursed by the U.S. Government so they are also recorded as revenue. U.S. Government revenue from the TKM-Ebola program also includes labour, overheads and incentive fee charges. Third-party costs were lower in Q3 2011 as we focused on preparing to file the IND for TKM-Ebola. Costs were higher in Q1 2012 as our Phase 1 clinical trial for TKM-Ebola was initiated during the quarter. Also in Q1 2012, we began to acquire materials for continued work on scaling up our TKM-Ebola drug product manufacturing process. Revenues were lower in Q3 2012 due to a temporary stop-work order issued by the U.S. Government in August 2012. The stop-work order was subsequently lifted on October 2, 2012 and the contract has resumed.

In Q3 2011 we earned a US\$0.5 million milestone from Alnylam following their initiation of a Phase 1 human

clinical trial enabled by our LNP delivery technology. In Q2 2012 we earned a US\$1.0 million milestone from Alnylam following their initiation of a Phase 2 human clinical trial enabled by our LNP delivery technology.

In Q3 2012 we earned a \$1.0 million (US\$1.0 million) milestone from Talon when they received accelerated approval for Marqibo® from the U.S. Food and Drug Administration (FDA). We are eligible to receive royalty payments based on Marqibo's commercial sales, which are expected to commence next year.

We expect revenue to continue to fluctuate particularly due to the development stage of the TKM-Ebola contract and the irregular nature of licensing payments and milestone receipts.

Our Q3 2011 lower expenses and net loss are a result of an unusually high proportion of revenue being generated from the reimbursement of staff time and overheads through the TKM-Ebola contract. Staff time and overhead revenue has a greater impact on reducing our losses than third party research and development cost reimbursement. The increase in loss in Q1 2012, as compared to Q4 2011, is largely due to the reduction in Alnylam revenue in Q1 2012 and an increase in the fair value of our outstanding warrants in Q1 2012 as a result of our increasing share price. The increase in loss in Q3 2012 is largely due to the \$1.7 million increase in the fair value of our warrant liability which is caused by an increase in our share price over the previous quarter end.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011

For the first nine months of 2012 (year-to-date (YTD) 2012) our net loss was \$8.5 million (\$0.63 per common share) as compared to a net loss of \$8.1 million (\$0.73 per common share) for the first nine months of 2011 (YTD 2011). For the three months ended September 30, 2012, our net loss was \$3.4 million (\$0.25 per common share) as compared to a net loss of \$1.5 million (\$0.12 per common share) for the three months ended September 30, 2011.

Revenue / Revenue is detailed in the following table:

(in millions Cdn\$)	Q3 2012	Q3 2011	YTD 2012	YTD 2011
Collaborations and contracts				
U.S. Government	\$ 1.9	\$ 2.0	\$ 7.8	\$ 8.6
Alnylam	-	1.4	-	3.4
Other RNAi collaborators	0.2	0.2	0.4	0.4
Total collaborations and contracts	2.0	3.6	8.2	12.4
Alnylam milestone payments	-	0.5	1.0	0.5
Talon milestone payment	1.0	-	1.0	-
Total revenue	\$ 3.0	\$ 4.2	\$ 10.2	\$ 12.9

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. 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.

On August 6, 2012, we announced that we had received a temporary stop-work order from the U.S. Government in respect of our TKM-Ebola contract. On October 2, 2012, we announced that the stop-work order had been lifted and we have now resumed work. As a result of the stop-work order, U.S. Government revenue was lower than we had forecasted for Q3 2012 and YTD 2012.

Alnylam revenue / Under the previous Alnylam Manufacturing Agreement, we were the exclusive manufacturer of any products required by Alnylam that utilize our technology through to the end of Phase 2 clinical trials. Under the Agreement there was a contractual minimum payment for the provision of staff in each of the three

years from 2009 to 2011 and Alnylam was reimbursing us for any external costs incurred. As discussed earlier, the Alnylam Manufacturing Agreement was replaced by a new licensing agreement as part of the settlement of the litigation between Tekmira and Alnylam, and we are no longer manufacturing for Alnylam.

In Q2 2012 we earned a US\$1.0 million milestone from Alnylam following their initiation of Phase 2 human clinical trials for their product candidate ALN-TTR02. ALN-TTR02 utilizes our LNP technology. The milestone was paid in July 2012.

Other RNAi collaborators revenue / 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 following four year period. Other RNAi collaborators revenue also includes revenue from other ongoing collaborations.

Talon revenue / In Q3 2012, we earned a \$1.0 million (US\$1.0 million) milestone payment based on the FDA approval of Marqibo and will receive royalty payments based on Marqibo's commercial sales.

Revenue guidance / In our 2011 MD&A we provided guidance that our 2012 revenue was expected to be at a similar level to 2011. Also, we stated that U.S. Government contract revenue was expected to increase in 2012 as compared to 2011 levels. As a result of the temporary stop-work order, we now expect 2012 U.S. Government revenue to be less than 2011 levels. The financial statement impact of the settlement of the litigation between Tekmira and Alnylam has not yet been determined, but if this income is classified as revenue in Q4 2012, then we would expect our overall 2012 revenue to be significantly higher than 2011 levels.

Expenses / Research, development, collaborations and contracts / Research, development, collaborations and contracts expenses were \$3.1 million in Q3 2012 as compared to \$4.4 million in Q3 2011 and were \$10.8 million YTD 2012 as compared to \$16.2 million in YTD 2011.

For reasons discussed in the revenue section above, third-party expenses on our TKM-Ebola program and our Alnylam collaboration were lower in Q3 2012 and YTD 2012 as compared to Q3 2011 and YTD 2011.

Spending on our internal earlier-stage research programs was reduced as we focused on TKM-Ebola, TKM-PLK1 and the litigation against Alnylam and AICana.

In January 2012 there was a reduction in workforce of 16 employees. Severance costs recorded in Q1 2012 have been more than offset by the reduction in ongoing compensation expenses.

Research, development, collaborations and contracts expenses guidance / In our 2011 MD&A we provided guidance that our 2012 research, development, collaborations and contracts expenses were expected to decrease modestly as compared to 2011 levels. We now expect our 2012 research, development, collaborations and contracts expenses to be significantly less than 2011 levels.

General and administrative / General and administrative expenses were \$1.5 million in Q3 2012 as compared to \$1.2 million in Q3 2011 and were \$5.7 million YTD 2012 as compared to \$4.3 million YTD 2011. The increases in Q3 2012 and YTD 2012 largely relate to legal fees incurred in respect of our lawsuit against Alnylam and AICana.

General and administrative expenses guidance / In our 2011 MD&A we provided guidance that our 2012 general and administrative expenses were expected to decrease as compared to 2011 levels. As a result of the settlement of the litigation between Tekmira and Alnylam, contingent legal fees are payable in Q4 2012, so we now expect our 2012 general and administrative expenses to be significantly higher than 2011 levels. At September 30, 2012, the contingent legal fees were \$15.6 million.

Depreciation of property and equipment / Depreciation of property and equipment was \$0.2 million in Q3 2012 as compared to \$0.2 million in Q3 2011 and were \$0.7 million YTD 2012 as compared to \$0.7 million YTD 2011.

Other income (losses) / Change in fair value of warrant liability / In conjunction with equity and debt financing transactions in 2011 and an equity private placement that closed on February 29, 2012, we have issued common share purchase warrants. We are accounting for the warrants under the authoritative guidance on accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, on the understanding that in compliance with applicable securities laws, the registered warrants require the issuance of registered securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. At each balance sheet date the warrants are revalued using the Black-Scholes model and the change in value is recorded in the consolidated statement of operations and comprehensive loss.

The aggregate increase in value of our common share purchase warrants in Q3 2012 was \$1.7 million. The increase is largely a result of the increase in the Company's share price from the previous balance sheet date of June 30, 2012.

We expect to see future changes in the fair value of our warrant liability and these changes will largely depend on the change in the Company's share price and any change in our assumed rate of share price volatility and our assumptions for the expected lives of the warrants.

LIQUIDITY AND CAPITAL RESOURCES

Since our incorporation, we have financed our operations through the sales of shares, units, 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 September 30, 2012, we had cash and cash equivalents of approximately \$5.6 million as compared to \$9.2 million at December 31, 2011.

Operating activities used cash of \$1.3 million in Q3 2012 as compared to \$0.6 million in Q3 2011. Operating activities used cash of \$7.3 million YTD 2012 as compared to \$7.7 million YTD 2011. Excluding changes in non-cash operating items, cash used in operating activities YTD 2012 fell to \$5.6 million as compared to \$7.4 million YTD 2011 due, largely, to reduced research, development, collaborations and contracts expenses as discussed earlier. A large part of the changes in non-cash operating items relate to the TKM-Ebola contract for which we are incurring and being reimbursed for some large sub-contract and material purchases.

Investing activities provided \$0.002 million in cash in Q3 2012 as compared to \$nil in Q3 2011. Investing activities used \$0.01 million in cash YTD 2012 as compared to \$0.06 million YTD 2011. Any equipment we acquire under our TKM-Ebola contract is owned by the U.S. Government so is not recorded as a Company investment.

On February 29, 2012, we completed a private placement of 1,848,601 units for gross proceeds of \$4.1 million. Each unit, priced at \$2.20, consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$2.60 for a period of five years from closing. We are using the net proceeds of the offering for general corporate purposes. The common shares issued pursuant to the private placement were subject to a four-month hold period that expired on June 30, 2012. After financing costs and commissions, the offering generated net cash of \$3.8 million.

In December 2011, we secured a US\$3.0 million term loan facility from Silicon Valley Bank (SVB). In September 2012 SVB agreed to extend the latest draw down date to December 31, 2012. If the loan is used it will mature on September 1, 2015 and will carry a fixed interest rate of 8% annually. We have not yet drawn down on the loan. The loan would be secured by the assets of the Company and would not include any financial covenants.

We believe our current funds on hand, plus expected income, including payments to be received from Alnylam in Q4 2012 and other funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into 2015 (see Risks and uncertainties).

Contractual obligations

As at September 30, 2012 we had a contingent obligation to Orrick, Herrington and Sutcliffe LLP (Orrick), our lead legal counsel for our lawsuit against Alnylam and AICana of \$15,620,961 (US\$15,887,877). As a result of the settlement of the litigation between Tekmira and Alnylam on November 12, 2012 this amount, plus costs incurred after September 30, 2012, are now payable to Orrick and will be recorded in Q4 2012.

Under our license and collaboration agreement with Halo-Bio, in Q4 2012, we will pay Halo-Bio a \$200,000 license fee that was contingent upon the settlement of the litigation between Tekmira and Alnylam.

There have not been any other changes to our contractual obligations from those disclosed in our 2011 Form 20-F.

Off-Balance Sheet arrangements

Other than as disclosed elsewhere in this MD&A, there have not been any material changes to our off-balance sheet arrangements from those disclosed in our 2011 Form 20-F.

RELATED PARTY TRANSACTIONS

We have not entered into any related party transactions in the periods covered by this discussion.

OUTSTANDING SHARE DATA

As discussed above, on February 29, 2012 we completed the private placement of 1,848,601 units. Each unit consists of one common share and one half of one common share purchase warrant.

As of October 31, 2012, we had 14,007,854 common shares issued and outstanding, options to purchase an additional 1,802,162 common shares and warrants to purchase an additional 1,873,797 common shares.

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our Form 20-F dated December 31, 2011 which can be found at www.sedar.com or at www.sec.gov/edgar.

At September 30, 2012 we had \$5.1 million in working capital excluding warrants and deferred revenue and expense balances. We believe that our current funds on hand, plus expected income including payments to be received from Alnylam in Q4 2012 and other funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into 2015. Substantial additional funds will be required to continue with the active development of our pipeline products and technologies. In particular, our funding needs may vary depending on a number of factors including:

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

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

If adequate funding is not available, we may be required to delay, reduce or eliminate one or more of our research or development programs or reduce expenses associated with non-core activities. 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 guaranteed investment certificates 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 September 30, 2012 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, as far as possible, 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

For the nine months ended September 30, 2012, no changes were made in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

TEKMIRA PHARMACEUTICALS CORPORATION

Unaudited Interim Condensed 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))

2012 – Q3

Three and nine months ended September 30, 2012 and September 30, 2011

TEKMIRA PHARMACEUTICALS CORPORATION

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	September 30 2012	December 31 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,632,892	\$ 9,184,134
Accounts receivable	1,949,664	880,693
Accrued revenue	97,776	185,356
Deferred expenses	488,111	788,111
Investment tax credits receivable	9,825	331,032
Prepaid expenses and other assets	425,507	424,387
Total current assets	8,603,775	11,793,713
Property and equipment	18,693,441	18,684,491
Less accumulated depreciation and impairment	(17,167,070)	(16,486,912)
Property and equipment net of accumulated depreciation and impairment	1,526,371	2,197,579
Total assets	\$ 10,130,146	\$ 13,991,292
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 3,033,362	\$ 3,972,551
Deferred revenue (note 2)	3,082,341	2,807,898
Warrants (note 6)	2,677,480	205,044
Total current liabilities	8,793,183	6,985,493
Deferred revenue, net of current portion (note 2)	1,027,840	1,690,529
Total liabilities	9,821,023	8,676,022
Stockholders' equity:		
Common shares (note 6)		
Authorized - unlimited number with no par value		
Issued and outstanding:		
14,007,854 (December 31, 2011 - 12,148,635)	236,606,593	233,501,253
Additional paid-in capital	31,068,891	30,661,704
Deficit	(267,366,361)	(258,847,687)
Total stockholders' equity	309,123	5,315,270
Total liabilities and stockholders' equity	\$ 10,130,146	\$ 13,991,292

Nature of business, future operations and summary of significant accounting policies (note 1)

Contingencies and commitments (note 7)

Subsequent event (note 8)

See accompanying notes to the interim condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Revenue (note 2)				
Collaborations and contracts	\$ 2,055,934	\$ 3,636,309	\$ 8,221,763	\$ 12,387,617
Licensing fees and milestone payments	992,000	524,100	2,010,100	524,100
Total revenue	3,047,934	4,160,409	10,231,863	12,911,717
Expenses				
Research, development, collaborations and contracts	3,101,825	4,380,947	10,810,861	16,218,671
General and administrative	1,504,637	1,207,783	5,730,051	4,343,809
Depreciation of property and equipment	214,701	253,798	681,487	730,733
Total expenses	4,821,163	5,842,528	17,222,399	21,293,213
Loss from operations	(1,773,229)	(1,682,119)	(6,990,536)	(8,381,496)
Other income (losses)				
Interest income	25,631	17,711	79,170	79,963
Foreign exchange gains (losses)	56,891	(82,322)	61,770	(147,116)
Warrant issuance costs (note 6)	-	-	(47,000)	(80,000)
Increase (decrease) in fair value of warrant liability (note 6)	(1,744,734)	277,435	(1,622,078)	429,577
Net loss and comprehensive loss	\$ (3,435,441)	\$ (1,469,295)	\$ (8,518,674)	\$ (8,099,072)
Loss per common share				
Basic and diluted	\$ (0.25)	\$ (0.12)	\$ (0.63)	\$ (0.73)
Weighted average number of common shares				
Basic and diluted	14,006,774	12,139,113	13,596,800	11,039,144

See accompanying notes to the interim condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Interim Condensed Consolidated Statement of Stockholders' Equity

For the nine months ended September 30, 2012 (unaudited)

(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, 2011	12,148,635	\$ 233,501,253	\$ 30,661,704	\$ (258,847,687)	\$ 5,315,270
Stock-based compensation	-	-	469,230	-	469,230
Issuance of common shares pursuant to exercise of options	10,618	67,183	(62,043)	-	5,140
Issuance of common shares in conjunction with the private offering, net of issuance costs of \$178,407 and net of initial fair value of warrants of \$850,358	1,848,601	3,038,157	-	-	3,038,157
Net loss	-	-	-	(8,518,674)	(8,518,674)
Balance, September 30, 2012	14,007,854	\$ 236,606,593	\$ 31,068,891	\$ (267,366,361)	\$ 309,123

See accompanying notes to the interim condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Interim Condensed Consolidated Statements of Cash Flow

(Unaudited)

(Expressed in Canadian Dollars)

(Prepared in accordance with U.S. GAAP)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
OPERATING ACTIVITIES				
Loss for the period	\$ (3,435,441)	\$ (1,469,295)	\$ (8,518,674)	\$ (8,099,072)
Items not involving cash:				
Depreciation of property and equipment	214,701	253,798	681,487	730,733
Stock-based compensation expense	140,656	202,266	469,230	374,771
Foreign exchange (gains) losses				
arising on foreign currency cash balances	16,362	(63,446)	55,646	(32,544)
Warrant issuance costs	-	-	47,000	80,000
Change in fair value of warrant liability	1,744,734	(277,435)	1,622,078	(429,577)
Net change in non-cash operating items:				
Accounts receivable	(99,998)	2,609,585	(1,068,971)	1,776,184
Accrued revenue	10,811	(370,852)	87,580	67,174
Deferred expenses	141,346	74,479	300,000	68,053
Investment tax credits receivable	207,635	-	321,207	82,372
Inventory	-	211,047	-	150,731
Prepaid expenses and other assets	(80,958)	(243,655)	(1,120)	(350,123)
Accounts payable and accrued liabilities	76,515	(911,618)	(939,189)	(2,421,035)
Deferred revenue	(230,965)	(583,844)	(388,246)	339,240
Net cash used in operating activities	(1,294,603)	(568,970)	(7,331,972)	(7,663,093)
INVESTING ACTIVITIES				
Proceeds from sale of property and equipment	2,488	-	2,488	-
Acquisition of property and equipment	-	-	(12,767)	(56,448)
Net cash provided by (used in) investing activities	2,488	-	(10,279)	(56,448)
FINANCING ACTIVITIES				
Proceeds from issuance of common shares and warrants, net of issuance costs	-	-	3,841,515	4,545,647
Issuance of common shares pursuant to exercise of options	3,640	9,153	5,140	10,589
Net cash provided by financing activities	3,640	9,153	3,846,655	4,556,236
Foreign exchange gains (losses)				
arising on foreign currency cash balances	(16,362)	63,446	(55,646)	32,544
Decrease in cash and cash equivalents	(1,304,836)	(496,371)	(3,551,242)	(3,130,761)
Cash and cash equivalents, beginning of period	6,937,728	9,711,620	9,184,134	12,346,010
Cash and cash equivalents, end of period	\$ 5,632,892	\$ 9,215,249	\$ 5,632,892	\$ 9,215,249
Supplemental cash flow information				
Investment tax credits received	\$ 207,635	\$ -	\$ 321,207	\$ 102,464
Fair value of warrants issued in conjunction with public offering	\$ -	\$ -	\$ 850,358	\$ 742,809

See accompanying notes to the interim condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

1. Nature of business, future operations and summary of significant accounting policies

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.

Basis of presentation and significant accounting policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America (“U.S. GAAP”) for interim financial statements and accordingly, do not include all disclosures required for annual financial statements.

These statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2011 and included in the Company’s 2011 annual report on Form 20-F.

The unaudited interim condensed consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at September 30, 2012 and for all periods presented.

The results of operations for the three and nine months ended September 30, 2012 and September 30, 2011 are not necessarily indicative of the results for the full year.

These interim financial statements follow the same significant accounting policies as those described in the notes to the audited consolidated financial statements of Tekmira Pharmaceuticals Corporation (“the Company”) for the year ended December 31, 2011.

These interim financial statements include the accounts of the Company and its two wholly-owned subsidiaries, Protiva Biotherapeutics Inc. (“Protiva”) and Protiva Biotherapeutics (USA), Inc. All intercompany transactions and balances have been eliminated on consolidation.

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 and warrants 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 and warrants. At September 30, 2012, potential common shares of 4,294,647 were excluded from the calculation of net loss per common share because their inclusion would be anti-dilutive.

Fair value of financial instruments

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, warrants, contingently payable promissory notes and a term loan facility.

The carrying values of cash and cash equivalents are recorded at fair value based on quoted prices in active markets (Level 1 inputs). The carrying values of accounts receivable, investment tax credits receivable and accounts payable and accrued liabilities approximate their fair values, based upon Level 3 inputs, due to the immediate or short-term maturity of these financial instruments.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

As quoted prices for the warrants are not readily available, the Company has used a Black-Scholes pricing model, as described in Note 6, to estimate fair value. These are level 3 inputs as defined in the Company's accounting policy for the fair value of financial instruments as described in the annual financial statements for the year ended December 31, 2011.

The Company has not yet drawn down any funds under its loan facility (Note 5).

Recent accounting pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to have an impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This newly issued accounting standard (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor do the amendments affect how earnings per share is calculated or presented. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the requirement within ASU 2011-05 to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. During the deferral, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the issuance of ASU 2011-05. These ASUs are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for the Company means January 1, 2012. As these accounting standards do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, the adoption of these standards did not have an impact on the Company's financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This newly issued accounting standard clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This ASU is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company means January 1, 2012. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

2. Collaborations, contracts and licensing agreements

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Collaborations and contracts				
U.S. Government (a)	\$ 1,879,314	\$ 1,956,920	\$ 7,808,645	\$ 8,645,515
Alnylam (b)	-	1,435,657	9,713	3,396,530
BMS (c)	129,353	217,527	314,243	286,912
Other RNAi collaborators (d)	47,267	26,205	89,162	58,660
Total research and development collaborations and contracts	2,055,934	3,636,309	8,221,763	12,387,617
Licensing fees and milestone payments				
Alnylam milestone payments (b)	-	524,100	1,018,100	524,100
Talon milestone payment (e)	992,000	-	992,000	-
Total licensing fees and milestone payments	992,000	524,100	2,010,100	524,100
Total revenue	\$ 3,047,934	\$ 4,160,409	\$ 10,231,863	\$ 12,911,717

The following table sets forth deferred collaborations and contracts revenue:

	September 30, 2012	December 31, 2011
U.S. Government (a)	\$ 1,519,944	\$ 1,593,946
BMS current portion (c)	1,562,397	1,213,952
Deferred revenue, current portion	3,082,341	2,807,898
BMS long-term portion (c)	1,027,840	1,690,529
Total deferred revenue	\$ 4,110,181	\$ 4,498,427

(a) 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, 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. At the beginning of the fiscal year the Company estimates its labour and overhead rates for the year ahead. At the end of the year the actual labour and overhead rates are calculated and revenue is adjusted accordingly. The Company's actual labour and overhead rates will differ from its estimated rates based on actual costs incurred and the proportion of the Company's efforts on contracts and internal products versus indirect activities. Within minimum and maximum collars, the amount of incentive fee the Company can earn under the contract varies based on costs incurred versus budgeted costs. Until the Company is able to make a reliable estimate of the final contract costs, only the minimum incentive fee achievable and earned is recognized.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

On August 6, 2012, the Company announced that it had received a temporary stop-work order from the U.S. Government in respect of this contract. On October 2, 2012, the Company announced that the stop-work order had been lifted and work on the contract resumed.

(b) License and collaboration with Alnylam Pharmaceuticals, Inc. (“Alnylam”)

On March 16, 2011 the Company filed a complaint against Alnylam. This litigation was settled on November 12, 2012 (note 8 - Subsequent event).

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”), which was amended and restated in May 2008, 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.

The Alnylam License and Collaboration was replaced by a new license agreement as part of a settlement (note 8 - Subsequent event).

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 (the “Alnylam Cross-License”). Alnylam was granted a non-exclusive license to the Protiva intellectual property.

The Alnylam Cross-License was replaced by a new license agreement as part of a settlement (note 8 - Subsequent event).

Manufacturing agreement with Alnylam

Under a manufacturing agreement with Alnylam (the “Alnylam Manufacturing Agreement”) effective January 1, 2009, the Company was 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 was paying the Company for the provision of staff and for external costs incurred. Time charged to Alnylam was at a fixed rate and under the Alnylam Manufacturing Agreement there was a contractual minimum for the provision of staff of \$11,200,000 over the three year period ending December 31, 2011.

The Alnylam Manufacturing Agreement was terminated as part of a settlement (note 8 - Subsequent event).

Milestone payments

In June 2012 the Company earned a \$1,018,100 (US\$1,000,000) milestone from Alnylam in respect of the initiation of Alnylam’s ALN-TTR02 Phase 2 human clinical trial.

(c) 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 use small interfering RNA (“siRNA”) molecules formulated by the Company in lipid nanoparticle (“LNP”) technology to silence target genes of interest. Bristol-Myers Squibb is conducting 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 is required to provide a pre-determined number of LNP batches over the four-year agreement. Bristol-Myers Squibb 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.

(d) Other RNAi collaborators

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

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

(e) Talon milestone payment

On August 9, 2012, the Company announced that its licensing partner, Talon Therapeutics, Inc. ("Talon") received accelerated approval for Marqibo® from the U.S. Food and Drug Administration ("FDA") for the treatment of adult patients with Philadelphia chromosome negative acute lymphoblastic leukemia in second or greater relapse or whose disease has progressed following two or more anti-leukemia therapies. Marqibo is a liposomal formulation of the chemotherapy drug vincristine. Marqibo, along with two other liposomal chemotherapy products, Alocrest (liposomal formulation of the chemotherapy drug vinorelbine) and Brakiva (liposomal formulation of the chemotherapy drug topotecan), were licensed from Tekmira to Talon (formerly Hana Biosciences) in 2006. Talon is responsible for all future development of these products. In the three months ended September 30, 2012, the Company earned a milestone of \$992,000 (US\$1,000,000) based on the FDA's approval of Marqibo. The Company is eligible to receive royalty payments based on Marqibo's commercial sales.

3. Concentration of 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 September 30, 2012 were \$848,872 (US\$863,377) and represent 44% of total accounts receivable as at that date (December 31, 2011 - \$747,720 and 85%). Accounts receivable from Talon as at September 30, 2012 were \$992,000 (US\$1,000,000) and represent 51% of total accounts receivable as at that date.

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 to be low risk.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at September 30, 2012 was the accounts receivable balance of \$1,949,664 (December 31, 2011 - \$880,693).

All accounts receivable balances at September 30, 2012 and at December 31, 2011 were current.

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities is comprised of the following:

	September 30, 2012	December 31, 2011
Trade accounts payable	\$ 1,249,460	\$ 1,284,737
Research and development accruals	401,789	228,942
Professional fee accruals	917,225	1,669,838
Restructuring cost accruals	34,999	36,134
Deferred lease inducements	85,117	196,966
Other accrued liabilities	344,772	555,934
	\$ 3,033,362	\$ 3,972,551

5. Term loan

On December 21, 2011, the Company signed an agreement with Silicon Valley Bank for a term loan facility of up to US\$3,000,000. On September 24, 2012 the loan was amended. The loan amendment extended the deadline for any draw down on the facility from September 30, 2012 to December 31, 2012. The loan matures on September 1, 2015 and carries a fixed interest rate of 8% annually. If the Company draws down on the loan, principal and interest payments will be payable each month starting on January 1, 2013.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

The Company has not yet drawn on the loan. The loan is secured by the assets of the Company.

6. Share capital

(a) Financing

On February 29, 2012, the Company completed a private placement offering of 1,848,601 units at a price of \$2.20 per unit for total gross proceeds, before expenses, of \$4,066,922. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$2.60. The warrants expire on February 28, 2017. After paying brokerage fees and other unit issue costs, the offering generated net cash of \$3,841,515. The total unit issuance cost of \$225,407 has been allocated, on a pro-rata basis, as \$178,407 to the shares and \$47,000 to the warrants and recorded, respectively, to share capital and warrant issuance costs in the statement of operations and comprehensive loss.

On the date of issuance, the Black-Scholes aggregate value of the 924,302 warrants was \$850,358 and is based on an assumed risk-free interest rate of 1.44%, volatility of 40%, a zero dividend yield and an expected life of 5 years. The fair value of the warrants at issuance was initially recorded as a liability with the residual amount of proceeds from the private placement being allocated to share capital.

At September 30, 2012, the Black-Scholes value of all of the Company's total outstanding warrants of 1,873,797 was \$2,677,480 and is based on assumed risk-free interest rates ranging from 1.16% to 1.47%, volatility of 40%, a zero dividend yield and expected lives ranging from 3.71 to 6.23 years.

The following table sets forth increase or decrease in the fair value of the warrants as reflected in the statement of operations and comprehensive loss:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Decrease (increase) in the fair value of warrant liability	\$ (1,744,734)	\$ 277,435	\$ (1,622,078)	\$ 429,577

The value of the Company's warrants is particularly sensitive to changes in the Company's share price and the estimated rate of share price volatility.

(b) Stock-based compensation

On June 20, 2012, the shareholders of the Company approved a 550,726 increase in the number of stock-based compensation awards that the Company is permitted to issue.

The Company did not grant any options during the three months ended September 30, 2012.

During the nine months ended September 30, 2012, the Company granted 105,500 stock options. The fair value of the options granted was \$203,419 and was estimated using the Black-Scholes option pricing model and the following inputs: assumed risk-free interest rate of 1.71%, volatility of 119.9%, a zero dividend yield and an expected life of 8 years.

Combining all of the Company's share-based compensation plans, at September 30, 2012, the Company has 1,801,362 options outstanding and a further 619,488 options available for issuance.

7. Contingencies and commitments

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

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

maximum contribution from TPC of \$9,329,912. As at September 30, 2012, 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 on the share of future product revenue, if any, for Marqibo that is received by the Company. To September 30, 2012 the Company had not made any royalty payments to TPC.

Contingently payable promissory notes

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 license payments from Merck. Protiva will pay these funds if and when it receives them, to the former Protiva shareholders in satisfaction of the promissory notes. The US\$12,000,000 contingent receivable and the related promissory notes payable are not recorded in the Company's consolidated balance sheet.

License and collaboration agreement with Halo-Bio RNAi Therapeutics, Inc. ("Halo-Bio")

On August 24, 2011, the Company entered into a license and collaboration agreement (the "Agreement") with Halo-Bio. Under the Agreement, Halo-Bio granted the Company an exclusive license to its multivalent ribonucleic acid ("MV-RNA") technology. The Agreement provides for the companies to work together to design and develop MV-RNA molecules to gene targets of interest to the Company and to combine MV-RNA molecules with the Company's LNP technology to develop therapeutic products.

The Company paid Halo-Bio an initial license fee of \$97,940 (US\$100,000) and recorded this amount as a research and development expense in the consolidated statement of operations and comprehensive loss.

The agreement was amended on August 8, 2012 to adjust the future license fees and other contingent payments and the Company made a further license fee payment of \$50,145 (US\$50,000). Under the amended agreement, as at September 30, 2012, the maximum future license fees and other contingent payments are US\$1,700,000, which includes US\$200,000 that is payable upon settlement of the litigation with Alnylam and AICana. The Company will pay up to US\$12,700,000 in milestones on each product developed plus royalties.

8. Subsequent event

Settlement of litigation with Alnylam and AICana

On November 12, 2012, the Company entered into an agreement to settle all litigation between the Company and Alnylam and AICana Technologies, Inc. and also entered into a new licensing agreement with Alnylam that replaces all earlier licensing, cross-licensing, collaboration, and manufacturing agreements. Tekmira expects to enter into a separate cross license agreement with AICana which will include milestone and royalty payments and AICana has agreed not to compete in the RNAi field for five years.

As a result of the new Alnylam license agreement, the Company will receive a total of \$65 million in cash payments. This includes \$30 million associated with the termination of the manufacturing agreement and \$35 million associated with the termination of the previous license agreements, as well as a modification of the milestone and royalty schedules associated with Alnylam's ALN-VSP, ALN-PCS, and ALN-TTR02 programs. In addition, Alnylam has transferred all agreed upon patents and patent applications related to LNP technology for the systemic delivery of RNAi therapeutic products, including the MC3 lipid family, to Tekmira, who will own and control prosecution of this intellectual property portfolio. Tekmira is the only company able to sublicense LNP intellectual property in future platform-type relationships. Alnylam has a license to use Tekmira's intellectual property to develop and commercialize products and may only grant access to Tekmira's LNP technology to its partners if it is part of a product sublicense. Alnylam will pay Tekmira milestones and royalties as Alnylam's LNP-enabled products are developed and commercialized.

TEKMIRA PHARMACEUTICALS CORPORATION

Notes to interim condensed consolidated financial statements (unaudited)

(Expressed in Canadian dollars)

Three months and nine months ended September 30, 2012

The new licensing agreement with Alnylam also grants the Company intellectual property rights to develop its own proprietary RNAi therapeutics. Alnylam has granted the Company a worldwide license for the discovery, development and commercialization of RNAi products directed to thirteen gene targets – three exclusive and ten non-exclusive licenses – provided that they have not been committed by Alnylam to a third party or are not otherwise unavailable as a result of the exercise of a right of first refusal held by a third party or are part of an ongoing or planned development program of Alnylam. Licenses for five of the ten non-exclusive targets – ApoB, PLK1, Ebola, WEE1, and CSN5 – have already been granted, along with an additional license for ALDH2, which has been granted on an exclusive basis. In consideration for this license, the Company has agreed to pay single-digit royalties to Alnylam on product sales and have milestone obligations of up to US\$8.5 million on the non-exclusive licenses (with the exception of TKM-Ebola, which has no milestone obligations). Alnylam no longer has “opt-in” rights to Tekmira’s lead oncology product, TKM-PLK1, so Tekmira now holds all development and commercialization rights related TKM-PLK1. The Company will have no milestone obligations on the three exclusive licenses.

As a result of the settlement of the litigation between Tekmira and Alnylam, the contingent obligation to Orrick, Herrington and Sutcliffe LLP (Orrick), lead legal counsel for the lawsuit against Alnylam and AICana is now payable and will be recorded in Q4 2012. At September 30, 2012, the contingent obligation was \$15,620,961 (US\$15,887,877).