TEKMIRA PHARMACEUTICALS CORPORATION

2008 Annual Report

Dear Tekmira Shareholders,

2008 was a transformative year for Tekmira and we have positioned the company as a leader in the field of RNA interference, one the fast growing areas of novel drug discovery and development. RNAi therapeutics are based on the Nobel Prize winning discovery of the mechanism used by cells to turn-off or 'silence' disease-causing genes.

In May 2008, we completed the business combination between Tekmira and Protiva Biotherapeutics and created the new Tekmira, a well funded company with leading scientific capabilities and intellectual property in the RNAi field. Specifically, we believe we are a global leader in providing enabling delivery technology for RNAi therapeutics and our SNALP technology is critical to the success of these therapies.

Our strategy to build long term value is to advance our own proprietary pipeline of RNAi therapeutic candidates and we have made significant progress in this area over the past year. We also support our pharmaceutical partners as they advance products using Tekmira's SNALP technology and these relationships generate near term revenue.

Our success has come in four areas — technology, products, partners and financial management.

Technology

Tekmira's technology provides a solution to the major challenge facing the successful development of RNAi therapeutics — the delivery to sites of disease.

Tekmira's SNALP (stable nucleic acid-lipid particles) are specialized lipid nanoparticles that fully encapsulate and systemically deliver small interfering RNA (siRNA), the active molecules that mediate RNA interference. Pre-clinical studies have shown SNALP to be effective in delivering the siRNA to target organs and into cells where the siRNA can carry out the desired effect of inducing RNA interference and silencing disease causing genes.

Our SNALP technology is the industry leading solution to siRNA delivery as evidenced by our growing list of partners and the products being advanced based on our technology. We continue to pursue improvements in SNALP in order to maintain our leadership position and to expand the potential therapeutic opportunities for RNAi therapeutics.

Products

Based on progress in 2008, we expect to file an Investigational New Drug (IND) application and begin a Phase 1 human clinical trial in the first half of 2009 to evaluate our lead product candidate ApoB SNALP as a treatment for high cholesterol. We expect to see Phase 1 results for ApoB SNALP later this year or early in 2010.

Our second product candidate, PLK1 SNALP, is being developed as a treatment for cancer and we expect to select our third product candidate later in 2009. PLK1 SNALP data was

recently highlighted in the Journal of Clinical Investigation where we demonstrated impressive antitumor activity in two different models of cancer.

Partners

Tekmira has an impressive number of research and product development collaborations with leading pharmaceutical companies.

The most advanced collaborator product that utilizes Tekmira's SNALP technology is Alnylam Pharmaceuticals' ALN-VSP, being developed as a treatment for liver cancers and other cancers with liver involvement. Alnylam intends to begin enrolling patients in a Phase 1 clinical trial in the first half of 2009. Tekmira will receive a milestone payment after the first patient is enrolled. In addition, Tekmira will receive a minimum of $11.2 million over the next three years from Alnylam for manufacturing their SNALP based product candidates.

Alnylam has provided access to SNALP intellectual property to Roche, Takeda Pharmaceutical Company and Regulus Therapeutics and we are collaborating with Roche to support their progress using our SNALP technology. We expect to expand these collaborations and potentially add other collaborations which will continue to provide us with near term revenue.

Financial Management

Our cash resources amounted to $31.9 million at year-end, giving Tekmira one of the strongest balance sheets among comparable development-stage biotech companies.

We continue to manage our cash resources prudently and we believe the cash on hand and revenue expected from our partners will enable us to execute on our strategy until the second half of 2010 without the need for additional financing.

Our successes in technology advancement, partner support, product development and financial management are the keys to our success and the result of the expertise and commitment of our employees. I look forward to providing updates as 2009 unfolds and we move our product candidates into clinical development.

Respectfully,

Mark J. Murray, Ph.D.
President and Chief Executive Officer

March 24, 2009

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

March 24, 2009 / *This discussion and analysis should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008 and related notes that are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to Tekmira Pharmaceuticals Corporation ("Tekmira" or the "Company"), including our May 1, 2008 management information circular is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

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

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

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

There are also other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements and information. Such factors include, among others, the stage of development of Tekmira, lack of product revenues, additional capital requirements, the impact of the global economic downturn, the need to obtain regulatory approval to commence clinical trials, risks associated with the completion of clinical trials and obtaining regulatory approval to market Tekmira's products, the safety and efficacy of Tekmira's products, the ability to protect Tekmira's intellectual property and dependence on collaborative partners.

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

OVERVIEW

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

Business combination with Protiva on May 30, 2008

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

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

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

Transfer of Business to Tekmira on April 30, 2007

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

- all of Inex's biopharmaceutical business, assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology and partnership arrangements, and all of Inex's employees, were transferred to Tekmira, and

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

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

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

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

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

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

Technology, product development and licensing agreements

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

Our lead internal product candidates are

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

In the field of RNAi therapeutics, we have licensed our lipid nanoparticle delivery technology to Alnylam and Merck & Co., Inc. In December 2008 Alnylam filed an Investigational New Drug (IND) application for a product candidate based on our SNALP delivery technology (see Alnylam collaboration and licensing). Alnylam has granted non-exclusive access to some of our intellectual property to certain of its partners, including Roche, Regulus Therapeutics, Inc. ("Regulus") (a joint venture between Alnylam and Isis Pharmaceuticals, Inc.) and Takeda Pharmaceutical Company Limited ("Takeda"). In addition, we have research relationships with Bristol-Myers Squibb Company, Johnson & Johnson Pharmaceutical Research & Development, a Division of Janssen Pharmaceutica, N.V., the US Army Medical Research Institute for Infectious Diseases and the United States National Cancer Institute.

Outside the RNAi field, we have legacy licensing agreements with Hana Biosciences, Inc. and Aradigm Corporation.

ApoB SNALP

ApoB SNALP is an agent designed to reduce the production of apolipoprotein B ("ApoB") in the liver. ApoB is a protein synthesized in the liver that plays a central role in transporting cholesterol in the body and is a potential target for achieving a reduction of low density lipoprotein ("LDL") cholesterol also known as "bad cholesterol". Elevated LDL cholesterol levels are associated with increased risk of atherosclerosis causing narrowing of the blood vessels.

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

We initiated formal safety studies for ApoB SNALP in the second half of 2008 and we expect to submit an Investigational New Drug (IND) application with the FDA and to initiate a human clinical trial in the first half of 2009. This clinical trial will be conducted in high cholesterol patients and will initially determine the safety profile of ApoB SNALP and may provide some preliminary data on LDL cholesterol lowering activity. We anticipate that subsequent clinical studies will evaluate the efficacy of ApoB SNALP as a single agent or in combination with other cholesterol-lowering drugs.

PLK1 SNALP

Our second internal siRNA product, PLK1 SNALP, has been shown in preclinical animal studies to selectively kill cancer cells, while sparing normal cells in healthy tissue. We expect to initiate formal safety studies for PLK1 SNALP in the second half of 2009 and to submit an IND application to initiate a human clinical trial in 2010. This updated PLK1 IND timeline gives us time to incorporate new and improved SNALP formulations into the product. These formulation improvements are designed to provide an improved therapeutic index which is expected to broaden the opportunity for PLK1 SNALP.

Alnylam collaboration and license

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

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

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

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

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

Under the RNAi licenses granted to us, we may select five additional gene targets to develop RNAi therapeutic products, provided that the targets are not part of an ongoing or planned development program of Alnylam. In consideration for this license, we have agreed to pay royalties to Alnylam on product sales and have milestone obligations of up to US$8.5 million on each of the four non-exclusive targets (with the exception of PLK 1 SNALP if Alnylam opts–in to the development program).

In December 2008, Alnylam filed an IND application for a product candidate that utilizes our SNALP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for liver cancer and other solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our SNALP technology. We are responsible for manufacturing ALN-VSP drug product and we conducted preclinical work in support of Alnylam's IND application. We are eligible to receive a milestone payment from Alnylam upon the dosing of the first patient in an ALN-VSP phase 1 clinical trial which Alnylam expects to occur in the first half of 2009.

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

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

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

As provided under the agreement with Merck, we anticipate an arbitration proceeding will determine the inventorship of certain intellectual property. We do not expect the outcome of the arbitration to have a material effect on our operations or the value of our intellectual property.

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

As a result of the business combination with Protiva we have acquired an agreement with Bristol-Myers Squibb to evaluate the use of SNALP technology for target validation and to evaluate SNALP for delivery to organs other than the liver. Bristol-Myers Squibb recently exercised an option to extend the research collaboration through 2009.

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

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

Research agreement with Roche

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

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

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

License agreement with Aradigm Corporation ("Aradigm")

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition / Our primary sources of revenue have been derived from research and development collaborations services, and licensing fees comprised of initial fees and milestone payments. Payments received under collaborative research and development agreements, which are non-refundable, are recorded as revenue as services are performed and as the related expenditures

are incurred pursuant to the agreement, provided collectability is reasonably assured. Revenue earned under research and development manufacturing collaborations where we bear some or all of the risk of a product manufacture failure is recognized when the purchaser accepts the product and there are no remaining rights of return. Revenue earned under research and development collaborations where we do not bear any risk of product manufacture failure is recognized in the period the work is performed. Initial fees and milestone payments which require our ongoing involvement are deferred and amortized into income over the estimated period of our involvement as we fulfill our obligations under our agreements. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured.

Our revenue recognition policy is in accordance with the guidelines provided in Emerging Issues Committee (EIC) -141, *Revenue Recognition, Non-Refundable Fees* and EIC-142, *Revenue Arrangements with Multiple Deliverables.*

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

Our revenue for 2008 was $11.7 million (2007 - $15.8 million) and deferred revenue at December 31, 2008 was $0.5 million (December 31, 2007 - $4.6 million).

Valuation and amortization of intangible assets / Our intangible assets are medical technology purchased or licensed from arm's length third parties and goodwill. The costs incurred in establishing and maintaining patents for intellectual property developed internally are expensed in the period incurred.

The costs of our purchased medical technology are amortized on a straight-line basis over the estimated useful life of the technology. Factors considered in estimating the valuation and useful life of medical technology include:

- our expected use of the asset
- legal, regulatory and contractual provisions that may limit the useful life
- the effects of obsolescence, demand, competition and other economic factors
- the level of maintenance expenditures required to obtain the expected future cash flows from the medical technology

We review the carrying value of our medical technology on an annual basis and when we undergo major changes in our business and if we determine that successful development of products to which medical technology costs relate is not sufficiently viable, or that deferred medical technology costs exceed the recoverable value based on future potential undiscounted cash flows, such costs are written down to fair value.

The valuation of medical technology is a critical accounting estimate because of the long-term nature of

and risks and uncertainties related to the development of our medical technology. Significant judgment is exercised and assumptions are made when determining whether the carrying value of the medical technology may or may not be recoverable based on future potential undiscounted cash flows. Any significant changes to our assessment could possibly result in an impairment loss being charged against our medical technology. Also, the determination of the fair value of technology is highly dependent on estimated future cash flows that are subject to significant uncertainty.

The $16.3 million valuation of medical technology acquired through the business combination with Protiva is covered in the Overview section of this discussion. We have estimated that the life of the medical technology acquired from Protiva is 16 years. This estimate is based, amongst other things, on the remaining patent lives underlying the Protiva medical technology. The recent down-turn in financial markets led us to carry out an impairment test on the Protiva medical technology in the third quarter of 2008 and we determined that the undiscounted future cash-flows exceeded the carrying value of intangible assets thereby requiring no impairment.

Goodwill valuation / We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible assets and goodwill. The judgments made in the context of the purchase price allocation can materially impact our financial position and results of operations.

Goodwill is not amortized but is tested for possible impairment at least annually and whenever changes in circumstances occur that would indicate an impairment in the value of goodwill. When the carrying value of goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Circumstances that could trigger an impairment include adverse changes in legal or regulatory matters or the business climate, technological advances, decreases in anticipated demand for the technology, unanticipated competition and other market conditions.

The $3.9 million excess of the purchase price for Protiva over the estimated fair values of the net assets acquired was recorded as goodwill. Various factors contributed to the establishment of goodwill, including: the value of Protiva's highly skilled and knowledgeable work force as of the acquisition date; the expected revenue growth over time that is attributable to new and expanded collaborative partnerships; and the synergies expected to result from combining workforces and infrastructures.

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

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

Compensation expense is recorded for stock options issued to employees and non-employees using the fair value method. We must calculate the fair value of stock options issued and amortize the fair value to stock compensation expense over the vesting period, and adjust the amortization for stock option forfeitures and cancellations. We use the Black-Scholes model to calculate the fair value of stock options issued which requires that certain assumptions, including the expected life of the option and expected volatility of the stock, be estimated at the time that the options are issued. We amortize the fair value using the straight-line method over the vesting period of the options, generally a period of three years. This accounting estimate is reasonably likely to change from period to period as further stock options are issued and adjustments are made for stock option forfeitures and cancellations. We account for the forfeitures of unvested options in the period in the forfeitures occur.

The Black-Scholes model is not the only permitted model to calculate the fair value of stock options issued pursuant to Handbook Section 3870. A different model, such as the binomial model, as well as any changes to the assumptions made may result in a different stock compensation expense calculation.

We recorded stock compensation expense in 2008 of $1.8 million (2007 - $0.4 million).

CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS

We have not made any changes in accounting policies in 2007 or 2008. Adoption of new accounting standards have not resulted in any changes to our financial statements in 2007 or 2008. Effective January 1, 2008, we adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA). These standards were adopted to conform current period disclosures with the requirements of the standards, including comparative information.

Capital Disclosures (CICA 1535)

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

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

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

General standards of financial statement presentation (CICA 1400)

In May 2007, the Accounting Standards Board (AcSB) amended CICA 1400, *General Standards of Financial Statement Presentation*, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future which is at least, but not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets (CICA 3064) and financial statement concepts (CICA 1000)

CICA 3064, *Goodwill and Intangible Assets* replaced CICA 3062, *Goodwill and Other Intangible Assets*, and CICA 3450, *Research and Development Costs*. CICA 1000, *Financial Statement Concepts* was also amended to provide consistency with this new standard. The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. We are currently assessing the impact of this new accounting standard on our consolidated financial statements.

Convergence with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The IASB will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

We will be required to changeover to IFRS for interim and annual financial statements beginning on January 1, 2011. As a result, we are developing a plan to convert our consolidated financial statements to IFRS. Individuals primarily responsible for the changeover have been identified and have begun training.

A detailed analysis of the differences between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives will be conducted in 2009. Changes in accounting policies are likely and may materially impact our consolidated financial statements.

CONTROLS AND PROCEDURES

Our Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures for the year ending December 31, 2008 and have concluded that our disclosure controls and procedures provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

Our Chief Executive Officer and the Chief Financial Officer are also responsible for the design and effectiveness of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. They have evaluated our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings and believe them to provide such reasonable assurance. They also concluded that there were no changes during 2008 that materially affected the Company's internal control over financial reporting and disclosure controls and procedures.

SELECTED FINANCIAL INFORMATION

The following is selected financial information for our 2008, 2007 and 2006 fiscal years:

(in millions of Cdn$ except per share date)	**2008**	2007	2006
Total revenues	**$ 11.7**	$ 15.8	$ 15.9
Research and development expenses	**16.1**	8.3	5.3
General and administrative expenses	**4.4**	4.4	4.5
Termination and restructuring expenses	**3.2**	-	-
Amortization of intangible assets	**0.6**	-	0.5
Depreciation of property and equipment	**0.8**	0.4	0.4
Total (loss) income	**(14.3)**	(2.6)	21.1
Basic and diluted (loss) income per share	**(0.35)**	(0.11)	1.09
Total assets	**51.5**	24.6	7.0
Total long-term liabilities	**0.3**	-	0.1
Deficit	**(212.1)**	(197.8)	(195.3)
Total shareholders' equity	**$ 46.6**	$ 18.2	$ 0.2

The factors that have caused period to period variations in our revenues, expenses and loss per year between 2008 and 2007 are explained in detail in Results of Operations. There were a number of factors contributing to changes in our results from 2006 to 2007 the largest of which is the 2006 gain on the purchase and settlement of the exchangeable and development notes of $26.0 million and the $5.2 million partial reversal of the gain in 2007 as a consequence of payments made to certain debtors. The increase in research and development expenses from 2006 to 2007 relates to an increase in operations and staff levels. Also, from 2006 to 2007 there was a considerable shift in our revenue streams away from Hana and towards Alnylam.

There was no amortization of intangible assets expense in 2007 as in the second quarter of 2006 medical technology purchased in 1998 was tested for impairment and written off to nil.

The increase in total assets from 2006 to 2007 was primarily due to increasing cash and cash equivalents resulting from a $9.4 million up-front licensing and collaboration agreement payment from Alnylam in January 2007 and $14.9 million in proceeds from our public share offering in February 2007.

SUMMARY OF QUARTERLY RESULTS

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

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

(in millions Cdn$ except per share data)

	March 31 2007	June 30 2007	Sept 30 2007	Dec 31 2007	March 31 2008	June 30 2008	Sept 30 2008	**Dec 31 2008**
Revenue	$ 2.9	$ 3.0	$ 5.7	$ 4.2	$ 1.9	$ 2.5	$ 4.2	**$ 3.1**
Net income (loss)	0.7	(5.1)	1.5	0.4	(0.4)	(4.8)	(6.0)	**(3.1)**
Basic and diluted net income (loss) per share	$ 0.03	$ (0.21)	$ 0.06	$ 0.01	$ (0.02)	$ (0.14)	$ (0.12)	**$ (0.07)**

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

Net loss in the second quarter of 2007 includes a loss of $5.2 million which is the partial reversal of the 2006 gain on the purchase and settlement of exchangeable and development notes of $26.0 million and is covered further in the Off-Balance Sheet Arrangements section of this discussion.

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

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

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

Net loss in the fourth quarter of 2008 includes $1.2 million in restructuring costs as we reduced our workforce by 15 employees as part of the integration of the operations of Tekmira and Protiva. The fourth quarter loss includes $1.3 million in foreign exchange gains largely due to the positive effect on our US denominated cash investments and accounts receivable from the strengthening of the US dollar as compared to the Canadian dollar. Ordinarily in our fourth quarter we incur an employee and executive cash bonus expense reflecting the level of success in meeting our business objectives. In response to the global economic downturn, bonuses paid for 2008 were a nominal amount and a fraction of recent years' bonuses with executives receiving no cash bonuses in 2008.

RESULTS OF OPERATIONS

For the fiscal year ended December 31, 2008, our net loss was $14.3 million ($0.35 per common share, basic and fully diluted) as compared to a net loss of $2.6 million ($0.11 per common share, basic and fully diluted) for 2007.

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

Revenue / Revenue from research and development collaborations, licensing fees and milestone payments was $11.7 million in 2008 as compared to $15.8 million in 2007. In 2008 most of our revenue was from our partnership with Alnylam whereas in 2007 we also had significant revenues from our Hana partnership. The business combination with Protiva brought in some new collaborative partner revenue streams.

Revenue is detailed in the following tables:

(in millions Cdn$)	**2008**	2007
Research and development collaborations		
Alnylam	**$ 6.1**	$ 5.9
Hana	**0.1**	0.5
Other RNAi collaborators	**0.5**	-
Total research and development collaborations	**6.6**	6.4
Licensing fees and milestone payments		
Alnylam	**5.1**	5.0
Hana	-	4.1
Aradigm	-	0.2
Total licensing fees and milestone payments	**$ 5.1**	$ 9.4
Total revenue	**$ 11.7**	$ 15.8

Alnylam revenue / During 2007 and 2008 we were reimbursed by Alnylam for external costs and the provision of staff under the Alnylam-Tekmira LCA, the Alnylam-Protiva Cross-License and an Alnylam-Tekmira Manufacturing Agreement.

We will continue to provide collaborative research services to Alnylam under the Cross-License until August 14, 2009 whereby Alnylam will fund a minimum of US$2.0 million per annum for the provision of our research staff. Under a new Manufacturing Agreement dated January 2, 2009, we will continue to be the exclusive manufacturer of any products required by Alnylam through to the end of phase 2 clinical trials that utilize our intellectual property. Alnylam will pay for the provision of staff and for external costs incurred. Under the new Manufacturing Agreement there is a contractual minimum of $11.2 million for the three years from 2009 to 2011 for the provision of staff.

Under the LCA we received an up-front licensing payment of $9.4 million (US$8.0 million). Under a license agreement with the University of British Columbia ("UBC"), we made a milestone payment of $0.9 million in respect of the up-front payment from Alnylam. The up-front payment and the milestone payment were deferred and were amortized on a straight-line basis to revenue and expense respectively to December 31, 2008, the period over which we provided research support under the LCA. Effective January 1, 2009, we began providing all of our Alnylam collaborative research services under the Cross-License.

In December 2008, Alnylam filed an IND application for ALN-VSP, a product candidate that utilizes our SNALP technology. We are eligible to receive a milestone payment from Alnylam upon the dosing of the first patient in an ALN-VSP phase 1 clinical trial which Alnylam expects to occur in the first half of 2009.

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

We allocated $0.2 million as proceeds on the transfer of certain surplus laboratory equipment to Hana, resulting in no gain or loss on disposal. In accordance our revenue recognition policy, the remaining $15.3 million of the Hana Up-front Payments was deferred and was amortized into revenue from May 6, 2006 to December 31, 2007 by which time all services under a technology transfer agreement had been substantially completed.

The Company could receive up to an additional US$29.5 million in cash or Hana shares upon achievement of certain further development and regulatory milestones and will also be eligible to receive royalties on product sales. If received, certain of these contingent payments from Hana will be transferred to certain contingent creditors. This covered further in the Off Balance-Sheet arrangements section of this discussion.

Other RNAi collaborators / We active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb and Roche. Revenue under these agreements is being recognized on a percentage completion basis.

Aradigm revenue / On November 19, 2007, Aradigm announced that it would commence a Phase 2 trial of inhaled liposomal ciprofloxacin. We believe that the commencement of this trial in December 2007 triggered a $0.25 million (US$0.25 million) milestone payable by Aradigm. Aradigm's management believes that its product does not use our technology as defined under the license agreement. The dispute was resolved on February 13, 2008 when we signed a clarifying amendment to the licensing agreement with Aradigm. The amendment does not change our milestone and royalty eligibility under the original license agreement and Aradigm paid us $0.25 million on February 15, 2008. The amount was accrued as revenue in 2007, the period in which when we believe the milestone was triggered.

Expenses / Research and development / Research and development expenses increased to $16.1 million in 2008 as compared to $8.3 million in 2007. Inclusion of Protiva expenses from May 30, 2008, including ApoB SNALP and PLK1 SNALP project expenses and salary and infrastructure costs accounts for $7.1 million of the increase.

The majority of the increase in research and development external expenditures relate to our ApoB SNALP program, specifically preclinical toxicology costs and costs related to the purchase of GMP

materials. Stock based compensation for research and development staff was $1.3 million in 2008 as compared to $0.3 million in 2007 as our Board approved the accelerated vesting of all Tekmira stock options concurrent with the announcement of the business combination with Protiva. Intellectual property legal expenses increased by $0.6 million over the prior year due to the expansion of our patent portfolio following the business combination with Protiva.

Salary and infrastructure costs also increased as a result of the business combination with Protiva. Staff numbers initially increased by about 75% as a result of the business combination although there was a subsequent post-integration reorganization in October. Our internal research and development staff numbers were 61 at December 31, 2008 (total staff 76) as compared to 39 (total staff 50) at December 31, 2007.

Research and development expenses are expected to increase in 2009 as our ApoB SNALP program advances through development, the PLK1 SNALP program is advanced into preclinical toxicology studies and we continue to incur collaboration costs that will be passed through to our collaborative partners.

General and administrative / General and administrative expenses were $4.4 million for 2008 as compared to $4.4 million for 2007. There were a number of off-setting changes in the composition of general and administrative expenses. Protiva expenses from May 30, 2008, the date of business combination, were $0.7 million. Stock based compensation for general and administrative staff was $0.4 million in 2008 as compared to $0.1 million in 2007 and in line with the increase noted above. Legal and professional fees were substantial in 2007 as we worked to complete the corporate reorganization on April 30, 2007. Legal and professional fees were similarly higher than normal in the period up to completion of the business combination with Protiva but these fees have been capitalized as they are a cost of acquisition of Protiva.

General and administrative expenses are expected to be slightly lower in 2009 as the past two years have included a number of one time expenses.

Termination and restructuring expenses / Termination and restructuring expenses were $3.2 million in 2008 and $nil in 2007. In May 2008, as a condition of closing the business combination with Protiva, the employment contract of Tekmira's Chief Executive Officer was terminated and an expense of $2.0 million was recorded. In October 2008, as part of the integration of the operations of Tekmira and Protiva, we completed a restructuring that resulted in a reduction in workforce of 15 employees and recorded an expense of $1.2 million.

Amortization of intangible assets / Amortization of intangible assets expense was $0.6 million for 2008 and $nil for 2007. The amortization relates to $16.3 million in medical technology acquired through the business combination with Protiva which is covered in the Overview section of this discussion. The estimated useful life and amortization period of the Protiva medical technology is discussed in the Critical accounting policies and estimates section of this discussion.

Depreciation of property and equipment / Depreciation of property and equipment was $0.8 million for 2008 as compared to $0.4 million for 2007. Our results from May 30, 2008 onwards include Protiva's depreciation charges. Also, capital asset purchases and depreciation thereof has increased in line with our growth since expanding our Alnylam collaboration early in 2007.

Other Income/Losses / Interest income / Interest income was $0.9 million for 2008 and $1.0 million for 2007. Average cash, cash equivalent and short-term investment balances increased significantly as a result of both our business combination with Protiva and the related $10.0 million in new financing but average interest rates were lower in 2008 than in 2007. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Loss on purchase and settlement of exchangeable and development notes / The loss on purchase and settlement of the exchangeable and development notes is covered in the Overview: Transfer of business to Tekmira on April 30, 2007 and Off-Balance Sheet Arrangements sections of this discussion.

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

Foreign exchange and other gains (losses) / Foreign exchange and other gains (losses) showed gains of $2.1 million for 2008 as compared to losses of $1.0 million for 2007. The foreign exchange gains in 2008 relate largely to the positive effect on our US denominated cash investments and accounts receivable from the strengthening of the US dollar as compared to the Canadian dollar. A weakening US dollar in 2007 had the opposite effect.

Towards the end of 2008 we converted the majority of our US dollar cash and cash equivalent holdings into Canadian dollars to reduce our future exposure to foreign exchange rate fluctuations. However, as a large portion of our revenues and expenses are in US dollars, exchange rate fluctuations will continue to create gains or losses as we expect to continue holding US denominated cash, cash investments, accounts receivable and accounts payable.

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2008, we had cash, cash equivalents and short-term investments of approximately $31.9 million as compared to $20.9 million at December 31, 2007.

Operating activities used cash of $10.3 million in 2008 and as compared to $3.3 million in 2007. Excluding changes in deferred revenue and non-cash working capital, cash used in operating activities in 2008 was $9.0 million and was $1.6 million in 2007. The $4.6 million decrease in deferred revenue in 2008 largely relates to the amortization of Alnylam's up-front payment under the LCA (see Revenue). The $3.3 million decrease in non-cash working capital in 2008 is partly the result of a lower Alnylam accounts receivable balance at the end of 2008 as compared to the end of 2007. Accounts receivable from Alnylam at December 31, 2007 were unusually high as a number of invoices for drug batches were issued to Alnylam shortly before year end. Also, current liabilities at December 31, 2008 were unusually high as a result of accruing severance for our former CEO. The severance is being paid out over time as salary continuance.

Net cash provided by investing activities was $3.9 million in 2008 as compared to $1.3 million of cash used in 2007. We acquired $3.4 in cash through the business combination with Protiva on May 30, 2008 and have netted $0.9 million in business acquisition costs against this cash balance for presentation purposes. We also acquired $8.3 million in short-term investments with our acquisition of Protiva and of this amount $2.6 million was converted to cash before the end of 2008. Capital expenditures were $1.2 million in 2008 as compared to $1.4 million in 2007. In both 2007 and 2008 we purchased laboratory and manufacturing equipment and continued our upgrade of information technology systems. Capital spending in 2009 is expected to increase as we are undertaking facility improvements.

Net cash provided by financing activities was $9.9 million in 2008 as compared to $20.1 million 2007.

The principle financing activities occurring in 2007 and 2008 were as follows:

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

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

Contractual obligations

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

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

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

2009	1.2
2010	1.2
2011	1.2
2012	1.1
Total	$ 4.7

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

Off-Balance Sheet Arrangements / Purchase and settlement of the exchangeable and development notes (the "Notes") / On June 20, 2006, we signed a purchase and settlement agreement (the "Purchase and Settlement Agreement") with the holders of certain exchangeable and development notes (the "Former Noteholders"). The Purchase and Settlement Agreement retired the exchangeable and development notes in exchange for US$2.5 million in cash, 1,118,568 Hana shares received upon licensing our chemotherapy products to Hana and certain contingent consideration. Subsequent to the Purchase and Settlement Agreement, amounts owing to the Former Noteholders became contingent obligations so have been removed from the Balance Sheet. As further explained in the Overview section of this discussion, we assumed all contingent obligations of Inex under the Purchase and Settlement Agreement as part of the Plan of Arrangement completed on April 30, 2007.

The contingent obligation under the Purchase and Settlement Agreement as at December 31, 2008 and as at December 31, 2007 was US$22.8 million. Further repayment under the Purchase and Settlement Agreement is contingent upon us receiving future milestone or royalty payments from Hana. If we do not receive any future proceeds from Hana then we will not owe the Former Noteholders any additional consideration or payments. The Former Noteholders have no recourse to any of the Company's other assets.

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

OUTSTANDING SHARE DATA

As of February 28, 2009, we had 51,623,677 common shares outstanding and we had outstanding options to purchase 6,331,845 common shares.

RISKS AND UNCERTAINTIES

Our risks and uncertainties are discussed in further detail in our management information circular dated May 1, 2008 which can be found at www.sedar.com.

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

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

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

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

better funded. Insufficient financing may also mean failing to prosecute our patents or relinquishing rights to some of our technologies that we would otherwise develop or commercialize.

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in a portfolio of liquid, high-grade investment securities with varying terms to maturity (not exceeding two years), selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. Investments with a maturity greater than three months are classified in our Balance Sheet as held-for-trading short-term investments and are recorded at cost plus accrued interest. In response to recent liquidity problems in asset backed commercial paper we have now moved all of our cash investments into bankers' acceptances issued by major Canadian banks. The fair value of our cash investments as at December 31, 2008 is at least equal to the face value of those investments and the value reported in our Balance Sheet. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. We purchase goods and services in both Canadian and US dollars and earn a significant portion of our revenues in US dollars. We manage our US dollar currency risk by using cash received from US dollar revenues to pay US dollar expenses and by limiting holdings of US dollar cash and cash equivalent balances to working capital levels. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

TEKMIRA PHARMACEUTICALS CORPORATION

2008 Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

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

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

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

President and
Dr. Mark J. Murray
Chief Executive Officer

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

March 24, 2009

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

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Tekmira Pharmaceutical Corporation as at December 31, 2008 and 2007 and the statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 10, 2009

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

		December 31 2008		December 31 2007
Assets				
Current assets:				
Cash and cash equivalents (note 7)	**$**	**26,218,342**	$	20,925,516
Short-term investments		**5,730,507**		-
Accounts receivable		**632,439**		1,793,955
Investment tax credits receivable (note 11)		**404,453**		26,184
Inventory		**174,524**		213,019
Prepaid expenses and other assets		**100,360**		109,154
		33,260,625		23,067,828
Property and equipment (note 8)		**2,610,192**		1,525,557
Intangible assets (notes 5 and 9)		**15,659,479**		-
	$	**51,530,296**	$	24,593,385
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 16)	**$**	**4,473,612**	$	1,718,610
Current portion of obligations under capital leases		**-**		75,688
Deferred revenue (note 6)		**459,094**		4,607,016
		4,932,706		6,401,314
Shareholders' equity:				
Share capital (note 10)		**229,412,230**		195,317,270
Contributed surplus (notes 1 and 5)		**29,272,005**		20,700,522
Deficit		**(212,086,645)**		(197,825,721)
		46,597,590		18,192,071
	$	**51,530,296**	$	24,593,385

Future operations (note 1)

Business acquisition (note 5)

Commitments and contingencies (note 14)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

K. Michael Forrest - Director James Hudson - Director

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended	
	December 31 2008	December 31 2007
Revenue (note 6)		
Research and development collaborations	**$ 6,649,273**	$ 6,406,986
Licensing fees and milestone payments	**5,082,303**	9,361,907
	11,731,576	15,768,893
Expenses		
Research, development and collaborations (note 11)	**16,123,203**	8,348,218
General and administrative	**4,404,028**	4,399,525
Termination and restructuring expenses (note 12)	**3,172,544**	-
Amortization of intangible assets (notes 5 and 9)	**592,521**	-
Depreciation of property and equipment	**764,247**	407,659
	25,056,543	13,155,402
(Loss) Income from operations	**(13,324,967)**	2,613,491
Other income and (losses)		
Interest income	**898,600**	1,012,783
Loss on purchase and settlement of exchangeable and development notes (note 1)	**-**	(5,179,000)
Impairment loss on goodwill (note 5)	**(3,890,749)**	-
Foreign exchange gains (losses)	**2,056,192**	(1,004,794)
Net loss and comprehensive loss	**$ (14,260,924)**	$ (2,557,520)
Weighted average number of common shares Basic and diluted	**40,581,748**	23,848,269
Loss per common share Basic and diluted	**$ (0.35)**	$ (0.11)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
Years ended December 31, 2008 and 2007

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2006	19,283,397	$ 180,237,917	$ 15,211,567	$ (195,268,201)	$ 181,283
Net loss	-	-	-	(2,557,520)	(2,557,520)
Stock-based compensation	-	-	376,591	-	376,591
Issuance of common shares pursuant to exercise of options	107,284	162,203	(66,636)	-	95,567
Issuance of common shares pursuant to public offering (note 10)	5,175,000	16,042,500	-	-	16,042,500
Share issuance costs	-	(1,125,350)	-	-	(1,125,350)
Capital contribution from former parent company concurrent with Plan of Arrangement and paid to former noteholders (note 1)	-	-	5,179,000	-	5,179,000
Balance, December 31, 2007	24,565,681	$ 195,317,270	$ 20,700,522	$ (197,825,721)	$ 18,192,071
Net loss	-	-	-	(14,260,924)	(14,260,924)
Stock-based compensation (note 10)	-	-	1,772,351	-	1,772,351
Issuance of common shares pursuant to exercise of options (note 10)	42,742	55,740	(25,623)	-	30,117
Issuance of common shares pursuant to acquisition of Protiva Biotherapeutics Inc. (note 5)	22,848,588	28,789,221	-	-	28,789,221
Reservation of common shares for issue on the exercise of Protiva Biotherapeutics Inc. options (note 5)	-	-	2,109,754	-	2,109,754
Issuance of common shares pursuant to private placement (note 5)	4,166,666	5,249,999	4,715,001	-	9,965,000
Balance, December 31, 2008	**51,623,677**	**$ 229,412,230**	**$ 29,272,005**	**$ (212,086,645)**	**$ 46,597,590**

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Cash Flow
(Expressed in Canadian Dollars)

	Year ended December 31 2008	December 31 2007
OPERATIONS		
(Loss) for the period	**$ (14,260,924)**	$ (2,557,520)
Items not involving cash:		
Amortization of intangible assets	**592,521**	-
Depreciation of property and equipment	**764,247**	407,659
Stock-based compensation expense (note 10(d))	**1,772,351**	376,591
Gain from sale of property and equipment	**-**	(1,217)
Impairment loss on goodwill	**3,890,749**	-
Realized foreign exchange (gains) losses arising on foreign currency cash balances	**(1,749,237)**	207,544
Change in deferred revenue	**(4,596,557)**	(174,782)
Net change in non-cash working capital (note 15)	**3,261,423**	(1,541,289)
	(10,325,428)	(3,283,014)
INVESTMENTS		
Proceeds from sale of property and equipment	**-**	1,217
Acquisition of property and equipment	**(1,176,160)**	(1,350,713)
Proceeds on maturity of short-term investments, net	**2,606,652**	-
Cash acquired through acquisition of Protiva Biotherapeutics Inc., net of acquisition costs (note 5)	**2,519,095**	-
	3,949,587	(1,349,496)
FINANCING		
Issuance of common share pursuant to:		
Public offering, net of issue costs	**-**	14,917,150
Private placements	**9,965,000**	-
Exercise of options	**30,117**	95,567
Capital contribution from Inex Pharmaceuticals Corporation	**-**	5,179,000
Repayment of obligations under capital leases	**(75,688)**	(96,895)
	9,919,429	20,094,822
Realized foreign exchange gains (losses) arising on foreign currency cash balances	**1,749,237**	(207,544)
Increase in cash and cash equivalents	**5,292,826**	15,254,768
Cash and cash equivalents, beginning of year	**20,925,516**	5,670,748
Cash and cash equivalents, end of year	**$ 26,218,342**	$ 20,925,516
Supplemental cash flow information		-
Interest paid	**$ 3,668**	$ 10,171
Income taxes (recovered) paid	**$ -**	$ (63,576)
Fair value of Alnylam Pharmaceuticals, Inc. shares received	**$ -**	$ 9,323,200
Fair value of shares issued to Protiva Biotherapeutics Inc. shareholders pursuant to business acquisition (note 5)	**$ 28,789,221**	$ -
Fair value of shares reserved for the exercise of Protiva Biotherapeutics Inc. stock options (note 5)	**$ 2,109,754**	$ -

See accompanying notes to the consolidated financial statements.

1. Basis of presentation and future operations

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

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.

Pursuant to the Plan of Arrangement referred to above, substantially all of Inex's business and transferable assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology, partnership arrangements and Inex's contingent obligation related to certain debt (note 13) were transferred to the Company. The losses of Inex for income tax purposes remained with Inex. Inex's management team and employees became employees of the Company and assumed the same positions they occupied in Inex. The record holders of Inex's common shares immediately before the Plan of Arrangement received 100% of the shares of the Company as a result of the reorganization.

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

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

Pursuant to the Plan of Arrangement, Inex distributed $5,179,000 (US$4,664,345) of the cash received from the convertible debentures to certain contingent debtors of the Company (the "Former Noteholders") pursuant to the June 20, 2006 Purchase and Settlement Agreement (note 14(a)). The cash distributed by Inex was recorded by the Company as an increase in contributed surplus and the amount distributed to the Former Noteholders was recorded by the Company as loss on purchase and settlement of exchangeable and development notes.

1. Basis of presentation and future operations (continued)

Immediately before the Plan of Arrangement, Inex's common shares were consolidated on a basis of two current common shares for one new common share. All references to common stock, common shares outstanding, average number of common shares outstanding, per share amounts and options in these consolidated financial statements and notes thereto have been restated to reflect the common stock consolidation on a retroactive basis.

These consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries, Protiva Biotherapeutics Inc. and Protiva Biotherapeutics (USA), Inc., which were acquired on May 30, 2008 (note 5). All intercompany transactions and balances have been eliminated on consolidation.

Future operations

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

2. Significant accounting policies

These consolidated financial statements are presented in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Use of estimates

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

(b) Cash and cash equivalents

Cash and cash equivalents are all highly liquid instruments with an original maturity of three months or less when purchased. Cash and cash equivalents are recorded at fair value.

2. Significant accounting policies (continued)

(c) Financial instrument measurement bases

The following table shows the measurement basis adopted by the Company for its financial instrument categories:

Financial instrument category	Measurement basis
Cash and cash equivalents	Held for trading
Short-term investments	Held for trading
Accounts receivable	Loans and receivables
Investment tax credits receivable	Loans and receivables
Accounts payable	Other financial liabilities

(d) Inventory

Inventory includes materials available for the manufacture of products for our collaborative partners and manufacturing costs incurred but not yet billed to our collaborative partners. Inventory is carried at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(e) Property and equipment

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

	Rate
Laboratory equipment	5 years
Computer networks	5 years
Computer software	2-5 years
Office equipment	2 years
Furniture and fixtures	5 years

Leasehold improvements are amortized over the lesser of their estimated useful lives or the lease term. Assets held under capital leases that do not allow for ownership to pass to the Company are amortized using the straight-line method over the lease term.

2. Significant accounting policies (continued)

(f) Medical technology

The costs of acquiring or licensing medical technology from arm's length third parties are capitalized. Costs are amortized on a straight-line basis over the estimated useful life of the technology.

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

(g) Impairment of long-lived assets

If management determines that the carrying value of property and equipment or medical technology exceeds the recoverable value based on undiscounted future cash flows, such assets are written down to their fair values.

(h) Leases and lease inducements

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

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

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

(i) Revenue recognition

The Company earns revenue from research and development collaboration services, licensing fees and milestone payments. Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair values or are recognized as a single unit of accounting when relative fair values are not determinable. Non-refundable payments received under collaborative research and development agreements are recorded as revenue as services are performed and related expenditures are incurred. Non-refundable upfront license fees from collaborative licensing and development arrangements are recognized as the Company fulfills its obligations related to the various elements within the agreements, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit is being conferred. Revenue earned under contractual arrangements upon the occurrence of specified milestones is recognized as the milestones are achieved and collection is reasonably assured. Revenue earned under research and development manufacturing collaborations where the Company bears some or all of the risk of a product manufacture failure is recognized when the purchaser accepts the product and there are no remaining rights of return. Revenue earned under research and development collaborations where the Company does not bear any risk of product manufacture failure is recognized in the period the work is performed.

2. Significant accounting policies (continued)

(i) Revenue recognition (continued)

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

(j) Research and development expenditures

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets specified criteria for deferral and amortization. No development costs have been deferred to date.

(k) Income or loss per share

Income or loss per share is calculated based on the weighted average number of common shares outstanding. Diluted loss per share does not differ from basic loss per share since the effect of the Company's stock options are antidilutive. Diluted income per share is based on the diluted weighted average number of common shares outstanding resulting from in-the-money stock options based on the average trading price of the Company's shares in that period.

(l) Government assistance

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

(m) Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. The previous month's closing rate of exchange is used to translate revenue and expense transactions. Exchange gains and losses are included in income or loss for the year.

2. Significant accounting policies (continued)

(n) Future income taxes

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

(o) Economic dependence

The Company is dependent on collaborative partners for both funding and access to intellectual property. Funding from collaborative partners and credit risk associated with accounts receivable from these partners is described in notes 6 and 3 respectively.

(p) Stock-based compensation

The Company grants stock options to employees, directors and consultants pursuant to a share incentive plan described in note 10. Compensation expense is recorded for stock options issued to employees and non-employees using the fair value method with a corresponding increase in contributed surplus. Forfeitures of unvested options are recorded in the period in which the forfeitures occur. Any consideration received on exercise of stock options or the purchase of stock is credited to share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the equity instruments issued, and the awards are periodically re-measured during the vesting period as the options are earned. Any changes therein are recognized over the period, and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The fair value of stock-based awards to employees is typically measured at the grant date and amortized on a straight-line basis over the vesting period.

(Expressed in Canadian dollars)

3. Adoption of new accounting standards

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

(a) Capital Disclosures (CICA 1535)

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

The Company's board of directors' ("Board") policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's total shareholders' equity. To maintain the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or structure collaborative and license agreements in a particular way. The Company has not yet attained sustainable profitable operations, therefore the Board does not establish quantitative return on capital criteria for management.

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

	December 31 2008	December 31 2007	Change
Total equity	**$ 46,597,590**	$ 18,192,071	156%

In the year ended December 31, 2008, total equity increased 156% compared to December 31, 2007 due to an increase in share capital (note 10) and contributed surplus (note 1) through the issuance of common shares for cash and the acquisition of Protiva Biotherapeutics, Inc. for common shares. This was partially offset by an increase in deficit.

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

The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian dollars)

3. Adoption of new accounting standards (continued)

(b) Financial Instruments – Disclosure (CICA 3862) and Presentation (CICA 3863)

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

Credit Risk

Credit risk is defined by the Company as an unexpected loss in cash and earnings if a collaborative partner is unable to pay its obligations in due time. The Company's main source of credit risk is related to its accounts receivable balance which principally represents temporary financing provided to collaborative partners in the normal course of operations. The account receivable from Alnylam Pharmaceuticals, Inc. ("Alnylam") as at December 31, 2008 was $393,830 and represents 62% of total accounts receivable as at that date (December 31, 2007 - $1,345,543 and 74%).

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was the accounts receivable balance of $632,439 (December 31, 2007 - $1,820,139).

The aging of accounts receivable at the reporting date was:

	December 31 2008	December 31 2007
Current	**$ 632,439**	$ 1,792,626
Past due 0-30 days	**-**	2,492
Past due more than 30 days	**-**	25,021
	$ 632,439	$ 1,820,139

3. Adoption of new accounting standards (continued)

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

Liquidity Risk

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

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

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

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

	December 31 2008	December 31 2007
Cash, cash equivalents and short term investments	**$ 31,948,849**	$ 20,925,516
Less: Accounts payable and accrued liabilities	**(4,473,612)**	(1,718,610)
	$ 27,475,237	$ 19,206,906

Foreign currency risk

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

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

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

3. Adoption of new accounting standards (continued)

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

Foreign currency risk (continued)

The Company's exposure to US dollar currency risk as at December 31, 2008 and expressed in Canadian dollars was as follows:

Cash and cash equivalents	$ 1,649,187
Accounts receivable	540,527
Accounts payable and accrued liabilities	(1,006,854)
	$ 1,182,860

A 10% strengthening of the Canadian dollar against the US dollar at December 31, 2008 would have increased losses for the year ending December 31, 2008 by $118,286. A 10% weakening of the Canadian dollar against the US dollar at December 31, 2008 would have decreased losses for the same period by $118,286. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

The Company invests its cash reserves in a portfolio of liquid, high-grade (rated R1 middle or better by the Dominion Bond Rating Service) investment securities with varying terms to maturity (not exceeding two years), selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. The Company's audit committee approves a list of acceptable securities for investment on a quarterly basis. A 100 basis point decrease in the interest rate would result in an increase in net losses of $267,756 for the year ended December 31, 2008. A 100 basis point increase would have an equal but opposite effect.

Fair values

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, investment tax credits receivable, accounts payable and promissory notes.

The carrying values of cash and cash equivalents and short-term investments are recorded at fair value. The carrying values of accounts receivable, investment tax credits receivable and accounts payable approximate their fair values due to the immediate or short-term maturity of these financial instruments.

4. Recent accounting pronouncements

(a) Goodwill and intangible assets and financial statement concepts

CICA 3064, *Goodwill and Intangible Assets* replaced CICA 3062, *Goodwill and Other Intangible Assets*, and CICA 3450, *Research and Development Costs*. CICA 1000, *Financial Statement Concepts* was also amended to provide consistency with this new standard. The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

(b) International financial reporting standards

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

5. Business acquisition

On May 30, 2008, the Company completed the acquisition of 100% of the outstanding shares of Protiva Biotherapeutics, Inc. (“Protiva”), a privately owned Canadian company developing lipid nanoparticle delivery technology for small interfering RNA (“siRNA”), for $31,761,255. Concurrent with the acquisition, the Company entered into initial research agreements with F. Hoffman-La Roche Ltd and Hoffman La-Roche Inc. (collectively “Roche”). Also concurrent with the acquisition, the Company completed a private placement investment of 2,083,333 newly issued common shares for $4,965,000 (US$5,000,000, US$2.40 per share) with Alnylam and a private placement investment of 2,083,333 newly issued common shares for $5,000,000 (CAD$2.40 per share) with a Roche affiliate for an aggregate investment of $9,965,000. The fair value of the Company’s shares issued to Alnylam and the Roche affiliate of $5,249,999 was determined based on the weighted average closing price of the shares traded on the Toronto Stock Exchange from March 27, 2008 to April 2, 2008, being $1.26 per share and has been recorded as share capital. Based on this fair value, the share premium paid by Alnylam and the Roche affiliate was an aggregate of $4,715,001 and has been recorded as contributed surplus.

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

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

(Expressed in Canadian dollars)

5. Business acquisition (continued)

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

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

Cost of acquisition

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

Allocation of fair values

A valuation of Protiva's property and equipment and medical technology has been completed, however, the allocation of the purchase price of the net assets acquired may vary if additional information becomes available on estimates made in the purchase price allocation.

5. Business acquisition (continued)

Allocation of fair values (continued)

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

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

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

The medical technology acquired includes licenses and intellectual property. The medical technology is being amortized on a straight-line basis over its useful life, estimated to be 16 years (note 9).

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

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

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

(Expressed in Canadian dollars)

6. Collaborative and Licensing Agreements

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

	2008	2007
Research and development collaborations		
Alnylam (a)	**$ 6,079,681**	$ 5,886,709
Hana (c)	**51,015**	520,277
Other RNAi collaborators (d)	**518,577**	-
Total research and development collaborations	**6,649,273**	6,406,986
Licensing fees and milestone payments		
Alnylam (a)	**5,082,303**	4,991,152
Hana up-front payment (c)	-	4,122,930
Aradigm milestone payment (e)	-	247,825
Total licensing fees and milestone payments	**5,082,303**	9,361,907
Total revenue	**$ 11,731,576**	**$ 15,768,893**

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

License and Collaboration Agreement with Alnylam through Tekmira

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

Cross-License with Alnylam acquired through Protiva

As a result of the acquisition of Protiva on May 30, 2008, the Company acquired a Cross-License Agreement ("Cross-License") between Protiva and Alnylam dated August 14, 2007. Alnylam was granted a non-exclusive license to the Protiva intellectual property.

6. Collaborative and Licensing Agreements (continued)

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

The principal licensing terms under the License and Collaboration Agreement ("LCA") and the Cross-License are:

(i) Up-front payment under the 2007 Alnylam-Tekmira LCA

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

(ii) PLK1 SNALP project funding and opt-in right under the 2007 Alnylam-Protiva Cross-License

Under the Alnylam-Protiva Cross-License, Alnylam made a payment of US$3,000,000 that gives Alnylam the right to opt into the Company's PLK1 SNALP project and contribute 50% of product development costs and share equally in any future product revenues. Alnylam have until the start of a Phase 2 clinical trial of the PLK1 SNALP project to exercise their opt-in right. If Alnylam chooses to opt into the PLK1 SNALP project the US$3,000,000 already paid will be credited towards Alnylam's 50% share of project costs to date. The Company did not record any deferred revenue related to the initial payment at the time of acquisition of Protiva.

(iii) Milestones and royalties receivable

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

(iv) InterfeRx™ licenses

Alnylam has granted the Company or its Protiva subsidiary a total of seven InterfeRx™ licenses to develop RNAi therapeutic products. Selection of the products covered by the licenses is subject to Alnylam review and existing third-party obligations. The Company did not record any amount for these licenses as their fair value could not be reliably measured. The Company will pay royalties to Alnylam on sales of products using this intellectual property. To date the Company has exercised its right to two InterfeRx licenses for its PLK1 and ApoB programs.

6. Collaborative and Licensing Agreements (continued)

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

Research and development collaboration with Alnylam

During 2007 and 2008 the Company was reimbursed by Alnylam for external costs and the provision of staff under the 2007 LCA, the Cross-License and a Manufacturing Agreement.

The Company will continue to provide collaborative research services to Alnylam under the Cross-License until August 14, 2009 whereby Alnylam will fund a minimum of US$2,000,000 per annum for the provision of the Company's research staff. Under a new Manufacturing Agreement dated January 2, 2009, the Company continues to be the exclusive manufacturer of any products required by Alnylam through to the end of phase 2 clinical trials that utilize the Company's technology. Alnylam will pay the Company for the provision of staff and for external costs incurred. Time charged to Alnylam will be at a fixed rate and under the new Manufacturing Agreement there is a contractual minimum of $11,200,000 for the three years from 2009 to 2011.

Alnylam deferred revenue

At December 31, 2008, the Company had deferred research and development collaboration revenue in respect of Alnylam of $309,250 (2007 - $nil) and had deferred licensing fee and milestones payments revenue of $nil (2007 - $4,607,016).

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

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

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

As provided under the agreement with Merck, the Company anticipates an arbitration proceeding will determine the inventorship of certain intellectual property. The Company does not expect the outcome of the arbitration to have a material effect on its operations or the value of its intellectual property.

(c) Agreements with Hana Biosciences, Inc. ("Hana")

On May 6, 2006, the Company signed a number of agreements with Hana including the grant of worldwide licenses (the "License Agreement") for three of its targeted chemotherapy products, Marqibo®, Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan). Under the License Agreement, Hana paid a non-refundable up-front cash payment of $1,657,300 (US$1,500,000) and issued 1,118,568 Hana shares to the Company (together the "Hana Up-front Payments"). The aggregate fair value of the Hana shares on May 6, 2006, based on a share price of $12.34 (US$11.15) was $13,806,541 (US$12,472,033).

6. Collaborative Agreements (continued)

(c) Agreements with Hana Biosciences, Inc. ("Hana") (continued)

The Company allocated $170,910 as proceeds on the transfer of certain surplus laboratory equipment to Hana, resulting in no gain or loss on disposal. In accordance with the Company's revenue recognition policy, the remaining $15,292,931 of the Hana Up-front Payments was deferred and was amortized into revenue from May 6, 2006 to December 31, 2007 by which time all services under a technology transfer agreement had been substantially completed.

The Company could receive up to an additional US$29,500,000 in cash or Hana shares upon achievement of certain further development and regulatory milestones and will also be eligible to receive royalties on product sales. If received, certain of these contingent payments from Hana will be transferred to certain contingent creditors (note 14(c)).

(d) Other RNAi collaborators

The Company has active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb and Roche (note 5). Revenue under these agreements is being recognized on a percentage completion basis. As at December 31, 2008 a balance of $149,844 (2007 - $nil) remains as deferred revenue.

(e) Aradigm Corporation ("Aradigm")

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

On November 19, 2007, Aradigm announced that it would commence a Phase 2 trial of inhaled liposomal ciprofloxacin. The Company's management believes that the commencement of this trial in December 2007 triggered a US$250,000 milestone payable by Aradigm. Aradigm's management believes that its product does not use the Company's technology as defined under the license agreement. The dispute was resolved on February 13, 2008 when Aradigm and the Company signed a clarifying amendment to the licensing agreement. The amendment does not change the Company's milestone and royalty eligibility under the original license agreement. Under the amendment Aradigm agreed to pay US$250,000 to the Company and payment was received on February 15, 2008. The Company accrued the US$250,000 payment as milestone payment revenue in the year ended December 31, 2007 and has recorded the same amount in accounts receivable as at December 31, 2007.

The Company has not received any further payments from Aradigm during the year ended December 31, 2008.

7. Cash and cash equivalents

The Company's cash and cash equivalents are classified as held for trading. At December 31, 2008, cash and cash equivalents include commercial paper bearing a weighted average interest rate of 1.7% (2007 – 4.8%). Included in cash and cash equivalents is $1,649,187 (US$1,354,012) denominated in US dollars (2007 - $4,744,675 (US$4,786,315)).

8. Property and equipment

2008	Cost	Accumulated amortization and impairment	Net book value
Laboratory equipment	$ 6,966,852	$ 5,703,814	$ 1,263,038
Leasehold improvements	5,699,816	5,473,402	226,414
Computer hardware and software	2,812,959	1,803,247	1,009,712
Office equipment	558,274	479,156	79,118
Furniture and fixtures	662,242	630,332	31,910
	$ 16,700,143	$14,089,951	$ 2,610,192

2007	Cost	Accumulated amortization and impairment	Net book value
Laboratory equipment	$ 4,947,302	$ 4,317,293	$ 630,009
Leasehold improvements	4,304,199	4,193,413	110,786
Computer hardware and software	2,388,832	1,671,793	717,039
Office equipment	313,479	256,910	56,569
Furniture and fixtures	487,503	476,349	11,154
	$ 12,441,315	$10,915,758	$ 1,525,557

Included in laboratory equipment and office equipment are assets under capital leases with an original cost of $nil (2007 - $665,711) and accumulated amortization of $nil (2007 - $563,453).

(Expressed in Canadian dollars)

9. Intangible assets

December 31, 2008	Cost	Accumulated amortization	Net book value
Protiva medical technology (note 5)	$ 16,252,000	$ (592,521)	$ 15,659,479

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

The Company performed impairment testing of its intangible assets in the third quarter of 2008 and determined that the undiscounted future cash-flows exceeded the carrying value of intangible assets thereby requiring no impairment.

10. Share capital

(a) Authorized

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

(b) Issuance of common shares pursuant to the acquisition of Protiva

On May 30, 2008, the Company issued 22,848,588 common shares in exchange for 100% of Protiva's share capital (see Note 5).

(c) Financing

On February 20, 2007, the Company completed a public offering of 10,350,000 newly issued common shares at a price of $1.55 per common share. After adjusting for the April 30, 2007 share consolidation (note 1), the offering effectively represents the issuance of 5,175,000 shares at a price of $3.10 per common share. After paying underwriters commission and other share issue costs, the offering generated net cash of $14,917,150.

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

(Expressed in Canadian dollars)

10. Share capital (continued)

(d) Stock-based compensation

As part of the Plan of Arrangement that resulted in the transfer of the business of Inex to the Company, effective April 30, 2007, all outstanding options in Inex were cancelled and replaced with equivalent options of the Company. Under the Company's stock option plan the Board of Directors may grant options to employees, directors and consultants. The exercise price of the options is determined by the Company's Board of Directors but will be at least equal to the closing market price of the common shares on the day preceding the date of grant and the term may not exceed 10 years. Options granted are also subject to certain vesting provisions, but generally vest over three years.

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

On June 20, 2007 and on May 28, 2008, the shareholders of the Company approved increases to the number of shares reserved for issuance under the Company's 1996 Stock Option Plan of 1,125,115 and 1,487,000, respectively, thereby increasing the maximum common shares available under the plan to 5,515,276 of which 532,579 common shares remain available for future allocation as at December 31, 2008.

On May 30, 2008, as a condition of the acquisition of Protiva, the Company reserved 1,752,294 common shares for the exercise of Protiva share options ("Protiva Options") (see note 5). The Protiva Options have an exercise price of $0.30, are fully vested, expire at various dates from November 19, 2010 to March 1, 2018. To December 31, 2008, none of the Protiva Options had been exercised or cancelled. The Protiva Options are not part of the Company's 1996 Stock Option Plan and the Company is not permitted to grant any further Protiva Options.

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

	Number of optioned common shares	Weighted average exercise price
Balance, December 31, 2006	2,636,435	$ 4.44
Options granted	352,288	1.48
Options exercised	(107,284)	0.89
Options forfeited	(267,944)	11.43
Balance, December 31, 2007	2,613,495	3.48
Options granted	2,634,950	0.85
Options exercised	(42,742)	0.70
Options forfeited	(617,277)	1.59
Balance, December 31, 2008	4,588,426	$ 2.25

(Expressed in Canadian dollars)

10. Share capital (continued)

(d) Stock-based compensation (continued)

Options under the 1996 Stock Option Plan expire at various dates from March 3, 2009 to December 8, 2018.

The following table summarizes information pertaining to stock options outstanding at December 31, 2008 under the Company's 1996 Stock Option Plan:

	Options outstanding December 31, 2008			Options exercisable December 31, 2008	
Range of Exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.30 to $0.56	815,550	9.9	$ 0.34	286,661	$ 0.36
$0.60 to $0.95	1,108,222	8.1	0.71	807,146	0.64
$1.07 to $1.12	1,491,984	8.8	1.11	1,141,984	1.11
$1.16 to $1.78	475,638	7.5	1.34	475,638	1.34
$2.08 to $4.00	86,400	3.1	3.28	86,400	3.28
$7.60 to $14.10	610,632	2.8	10.91	610,632	10.91
$0.30 to $14.10	4,588,426	7.8	$ 2.25	3,408,461	$ 2.78

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

	2008	2007
Dividend yield	**0.0%**	0.0%
Expected volatility	**123.2%**	124.0%
Risk-free interest rate	**2.8%**	4.3%
Expected average option term	**7.2 years**	7.3 years
Fair value of options granted	**$ 0.77**	$ 1.17

The Company has recorded compensation expense for stock-based compensation awarded to employees and calculated in accordance with the fair value method of $1,772,351 (2007 - $376,591).

(Expressed in Canadian dollars)

11. Government grants

Government grants have been netted against research and development expenses. Government grants include funding from Protiva's agreement with the US Army Medical Research Institute for Infectious Diseases of $239,031 for the period from May 30, 2008, the date Protiva was acquired, to December 31, 2008.

The Company has $404,453 of refundable Scientific Research and Experimental Development investment tax credits receivable as at December 31, 2008 (December 31, 2007 - $26,184). This includes $275,695 of investment tax credits earned by Protiva prior to being acquired by the Company and losing its Canadian Controlled Private Corporation tax status.

12. Termination and restructuring costs

In May 2008, as a condition of closing the business combination with Protiva (note 5) the employment contract of the Company's previous Chief Executive Officer was terminated and an expense of $1,984,266 was recorded. As at December 31, 2008, $1,484,757 remains unpaid (note 16).

In October 2008, as part of the integration of the operations of Tekmira and Protiva, the Company completed a restructuring that resulted in a reduction in workforce of 15 employees. The Company has recorded an expense of $1,188,278 in respect of these 15 employees in accordance with EIC 134 – *Accounting for Severance and Termination Benefits*. As at December 31, 2008, $235,393 remains unpaid (note 16).

13. Income taxes

Income tax (recovery) expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate of 31.0% (2007 – 34.12%) to loss before income taxes as shown in the following table:

	2008	2007
Computed taxes (recoveries) at Canadian federal and provincial tax rates	**$ (4,420,886)**	$ (960,493)
Difference due to change in enacted tax rates	**237,731**	-
Permanent and other differences	**(200,276)**	1,815,699
Change in valuation allowance	**4,383,431**	1,027,508
Utilization of non-capital loss carryforwards	-	(1,882,714)
Income tax (recovery) expense	**$ -**	$ -

(Expressed in Canadian dollars)

13. Income taxes (continued)

As at December 31, 2008, the Company has investment tax credits available to reduce Canadian federal income taxes of $3,193,999 and provincial income taxes of $1,425,686 and expiring in 2028.

At December 31, 2008, the Company has scientific research and experimental development expenditures of $20,301,032 available for indefinite carryforward and $23,868,051 of net operating losses due to expire in 2028 and which can be used to offset future taxable income in Canada.

Significant components of the Company's future tax assets as of December 31 are shown below:

	2008	2007
Future tax assets:		
Non-capital loss carryforwards	**$ 6,206,000**	$ 458,000
Capital loss carryforwards	**-**	-
Research and development deductions	**5,336,000**	871,000
Book amortization in excess of tax	**4,217,000**	4,955,000
Share issue costs	**292,000**	-
Tax value in excess of accounting value in investment	**24,000**	25,000
Tax value in excess of accounting value in intangible assets	**90,000**	-
Revenue recognized for tax purposes in excess of revenue recognized for accounting purposes	**113,000**	-
Provincial investment tax credits	**301,000**	108,000
Total future tax assets	**16,521,000**	6,417,000
Valuation allowance	**(16,521,000)**	(6,417,000)
Net future tax assets	**$ -**	$ -

Under a Plan of Arrangement (Note 1) completed on April 30, 2007, Inex's non-capital losses and scientific research and experimental development pool of undeducted expenditures as well as the federal non-refundable investment tax credits generated from the business through April 30, 2007 are not available to the Company. The balances at December 31, 2008 represent the balances available to the Company.

The potential income tax benefits relating to the future tax assets shown in the table have not been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation. Accordingly, no future tax assets have been recognized as at December 31, 2008 and 2007.

(Expressed in Canadian dollars)

14. Commitments and contingencies

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

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

In November 2008, the Company sub-leased a portion of its principal premises.

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

2009	$ 1,240,000
2010	1,167,000
2011	1,167,000
2012	1,118,000
	$ 4,692,000

(b) The Company entered into a Technology Partnerships Canada ("TPC") agreement with the Canadian Federal Government on November 12, 1999. Under this agreement, TPC agreed to fund 27% of the costs incurred by the Company, prior to March 31, 2004, in the development of certain oligonucleotide product candidates up to a maximum contribution from TPC of $9,329,912. As at December 31, 2008, a cumulative contribution of $3,701,571 (2007 - $3,701,571) has been received under this agreement. 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 December 31, 2008, the Company has not made any royalty payments to TPC.

(Expressed in Canadian dollars)

14. Commitments and contingencies (continued)

(c) In 2001, Elan Corporation, plc ("Elan"), a former collaborative partner of the Company, provided the Company with a US$12,015,000 exchangeable note to fund the Company's share of licensing costs of certain Elan technology. Also in 2001, Elan provided the Company with a development note facility of US$15,000,000 to partially fund the Company's share of Marqibo's development expenditures. Interest on the exchangeable and development notes (together "the Notes") accrued at 7% per annum, but no payment of interest or principal was required until maturity on April 27, 2007.

In April 2004, Elan assigned the Notes to a group of institutional investors. The terms and conditions of the Notes remained unchanged.

On June 20, 2006, the Company and the holders of exchangeable and development notes (the "Former Noteholders") signed a purchase and settlement agreement (the "Purchase and Settlement Agreement"). The Purchase and Settlement Agreement retired the exchangeable and development notes in exchange for US$2,500,000 in cash, 1,118,568 Hana shares received upon licensing chemotherapy products to Hana and certain contingent consideration. Subsequent to the Purchase and Settlement Agreement, amounts owing on the Notes became contingent obligations so have been removed from the Company's Balance Sheet. As further explained in Note 1, the Company assumed all contingent obligations of Inex under the Purchase and Settlement Agreement as part of the Plan of Arrangement completed on April 30, 2007.

The contingent obligation under the Purchase and Settlement Agreement as at December 31, 2008 and as at December 31, 2007 was US$22,835,476.

Further repayment under the Purchase and Settlement Agreement is contingent on the Company receiving future milestone or royalty payments from Hana. If the Company does not receive any future proceeds from Hana then it will not owe the Former Noteholders any additional consideration or payments. The Former Noteholders have no recourse to any of the Company's other assets.

(d) The Company has a contingent liability of US$12,000,000 in regard to certain promissory notes and has a related, equal and offsetting contingent asset receivable from a third party as described in note 5.

15. Net change in non-cash working capital items

	2008	2007
Accounts receivable	**$ 2,207,870**	$ (1,115,476)
Inventory	**38,495**	(213,019)
Prepaid expenses and other assets	**91,367**	(33,104)
Accounts payable and accrued liabilities	**923,691**	(44,913)
	$ 3,261,423	$ (1,406,512)

(Expressed in Canadian dollars)

16. Supplementary information

Accounts payable and accrued liabilities is comprised of the following:

	2008	2007
Trade accounts payable	**$ 619,912**	$ 310,523
Research and development accruals	**485,145**	310,728
Professional fee accruals	**551,972**	148,000
Executive termination cost accrual	**1,484,757**	15,402
Restructuring cost accruals	**235,393**	35,000
Executive bonus accrual	**80,357**	-
Deferred lease inducements	**283,334**	-
Other accrued liabilities	**732,742**	898,957
	$ 4,473,612	$ 1,718,610