TEKMIRA PHARMACEUTICALS CORPORATION

2010 Second Quarter Report

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

August 12, 2010 / *This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the periods ended June 30, 2010, and the audited consolidated financial statements and related notes for the year ended December 31, 2009, both of which are prepared in accordance with Canadian generally accepted accounting principles, and management's discussion and analysis of financial condition and operations for the year ended December 31, 2009. Unless the context otherwise requires, all references to "Tekmira", the "Company", "we", "us", and "our" refer to Tekmira Pharmaceuticals Corporation, including all its subsidiaries. Additional information relating to Tekmira, including the Company's March 31, 2010 Annual Information Form is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.*

FORWARD-LOOKING STATEMENTS

This discussion and analysis contains "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). Forward-looking statements are generally identifiable by use of the words "believes," "may," "plans," "will," "anticipates," "intends," "budgets", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions. Forward-looking statements in this discussion and analysis include statements about Tekmira's strategy, future operations, clinical trials, prospects and the plans of management; RNAi (ribonucleic acid interference) product development programs; estimates of the number of clinical development programs to be undertaken by Tekmira and its product development partners; selection of additional product candidates; timing of release of clinical data; the quantum and timing of potential funding; use of lipid nanoparticle (LNP) technology by Tekmira's licensees (we have previously referred to our LNP technology as SNALP for Stable Nucleic Acid Lipid Particles); the effects of Tekmira's products on the treatment of elevated low-density lipoprotein (LDL) cholesterol, cancer and infectious disease; Tekmira's expectations with respect to existing and future agreements with third parties; and estimates of the length of time Tekmira's business will be funded by its anticipated financial resources.

With respect to the forward-looking statements contained in this discussion and analysis, Tekmira has made numerous assumptions regarding, among other things: LNP's status as a leading RNAi delivery technology; the effectiveness of Tekmira's products as a treatment for high LDL cholesterol, cancer and infectious disease; the developmental milestones and approvals required to trigger funding for TKM-Ebola from the Transformational Medical Technologies program; results in non-human primates are indicative of the potential effect in humans; Tekmira's research and development capabilities and resources; FDA approval with respect to commencing clinical trials; FDA approval of Tekmira's products; the timing and obtaining of regulatory approvals for Tekmira's products; the timing and results of clinical data releases and use of LNP technology by Tekmira's development partners and licensees; the time required to complete research and product development activities; the timing and quantum of payments to be received under contracts with Tekmira's collaborative partners including the U.S. Government; the sufficiency of budgeted capital expenditures in carrying out planned activities; Tekmira's ability to protect its intellectual property rights and not to infringe on the intellectual property rights of others; the ability to succeed at establishing a successful commercialization program for any of Tekmira's products; and the availability and cost of labour and services. While Tekmira considers these assumptions to be reasonable, these assumptions are inherently subject to significant business, economic, competitive, market and social uncertainties and contingencies.

Additionally, there are known and unknown risk factors which could cause Tekmira's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements contained herein. Known risk factors include, among others: the possibility that other organizations have made advancements in RNAi delivery technology that Tekmira is not aware of; the FDA will not approve the commencement of Tekmira's planned clinical trials or approve the use of Tekmira's products and generally, difficulties or delays in the progress, timing and results of clinical trials and studies; the FDA may determine that the design and planned analysis of Tekmira's clinical trials do not adequately address the trial objectives in support of Tekmira's regulatory submissions; future operating results are uncertain and likely to fluctuate; Tekmira may not be able to develop and obtain regulatory approval for its products; competition from other pharmaceutical or biotechnology companies; Tekmira's ability to raise additional financing required to fund further research and development, clinical studies, and obtain regulatory approvals, on commercially acceptable terms or at all; economic and capital market conditions; Tekmira's ability to obtain and protect intellectual property rights, and operate without infringing on the intellectual property rights of others; Tekmira's research and development capabilities and resources will not meet current or expected demand; Tekmira's development partners and licensees conducting clinical trial and development programs will not result in expected results on a timely basis, or at all; anticipated payments under contracts with Tekmira's collaborative partners including the U.S. Government will not be received by Tekmira on a timely basis, or at all, or in the quantum expected by Tekmira; pre-clinical trials may not be completed, or clinical trials started, when anticipated or at all; pre-clinical and clinical trials may be more costly or take longer to complete than anticipated; pre-clinical or clinical trials may not generate results that warrant future development of the tested drug candidate; funding from research and product development partners may not be provided when required under agreements with those partners; Tekmira may become subject to product liability or other legal claims for which the Company has made no accrual in its financial statements; Tekmira has not sufficiently budgeted for capital expenditures necessary to carry out planned activities.

A more complete discussion of the risks and uncertainties facing Tekmira appears in Tekmira's Annual Information Form dated March 31, 2010 available at www.sedar.com. All forward-looking statements herein are qualified in their entirety by this cautionary statement, and Tekmira disclaims any obligation to revise or update any such forward-looking statements or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, except as required by law.

OVERVIEW

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

Plans to apply for a U.S. share listing

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

We are making progress with our listing application and expect to be listed on the NASDAQ Global Market within a few months.

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

Technology, product development and licensing agreements

Our therapeutic product pipeline consists of products being developed internally with our research and development resources. We also support the development of our collaboration partners' products and are developing an Ebola antiviral (TKM-Ebola) under a Transformational Medical Technologies (TMT)

contract with the U.S. Department of Defense (DoD). Our focus is on advancing products that utilize our proprietary lipid nanoparticle (LNP) technology for the delivery of small interfering RNA (siRNA). We have previously referred to our LNP technology as SNALP for Stable Nucleic Acid Lipid Particles. These products are intended to treat diseases through a process known as RNA interference which prevents the production of proteins that are associated with various diseases. We have rights under Alnylam Pharmaceuticals, Inc.'s (Alnylam) fundamental RNAi intellectual property to develop seven RNAi therapeutic products.

Our lead internal product candidates are

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

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

TKM-ApoB

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

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

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

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

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

TKM-PLK1

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

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

We have completed formal preclinical safety studies and in August filed an IND application with the FDA to initiate a Phase 1 human clinical trial in the second half of 2010 evaluating TKM-PLK1 as a treatment for solid tumor cancers.

TKM-Ebola

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

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

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

On July 14, 2010, we signed a contract with the United States Government to advance an RNAi therapeutic utilizing our LNP technology to treat Ebola virus infection. In the initial phase of the contract, which is expected to last approximately three years and is funded under the Transformational Medical Technologies (TMT) program, we are eligible to receive up to US$34.7 million. This initial funding is for the development of TKM-Ebola including completion of preclinical development, filing an IND

application with the FDA and completing a Phase 1 human safety clinical trial.

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

Under the contract we will invoice the Government for direct labour and third party costs plus an apportionment of overheads plus a profit margin.

Alnylam collaboration and license

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

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

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

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

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

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

presented at the 2010 Annual Meeting of the American Society of Clinical Oncology (ASCO) in a poster titled "Interim safety and pharmacodynamic results for ALN-VSP02, a novel RNAi therapeutic for solid tumors with liver involvement," in the Developmental Therapeutics – Experimental Therapeutics poster session. The study results from 19 patients in the first four dose cohorts demonstrate that ALN-VSP is well tolerated in most patients, and results from pharmacodynamic measurements provide preliminary evidence of clinical activity. The study has not yet reached a maximum tolerated dose and is continuing enrollment with dose escalation.

In August 2009 Alnylam announced ALN-TTR as their next siRNA product candidate for human clinical trials. Alnylam will be advancing two ALN-TTR formulations, ALN-TTR01 and ALN-TTR02. Both formulations are RNAi therapeutics targeting transthyretin (TTR) for the treatment of TTR amyloidosis, a systemic disease caused by mutations in the TTR gene. ALN-TTR01 and ALN-TTR02 utilize our LNP technology and will be manufactured by us. On July 7, 2010, Alnylam announced the initiation of a Phase 1 human clinical trial for ALN-TTR01 which triggered a US$0.5 million milestone payable to us.

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

Roche product development and research agreements

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

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

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

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

At June 30, 2010 there was one systemic RNAi product in development under the Roche Product Development Agreement. Roche recently provided us with guidance that the IND filing of the product candidate will be delayed and will not be filed before the end of 2010.

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

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

Bristol-Myers Squibb Company (BMS) research agreement

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

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

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

Takeda Pharmaceutical Company Limited (Takeda) research agreement

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

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

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

Pfizer research agreement

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

Legacy Agreements

Hana Biosciences, Inc. (Hana) license agreement

Hana is developing targeted chemotherapy products under a legacy license agreement entered into in May 2006. Marqibo® (Optisomal Vincristine), Alocrest™ (formerly INX-0125, Optisomal Vinorelbine) and Brakiva™ (formerly INX-0076, Optisomal Topotecan), products originally developed by us, have

been exclusively licensed to Hana. Hana has agreed to pay us milestones and royalties and is responsible for all future development and future expenses. Certain of the milestones from Hana, if received, will be transferred to contingent creditors under a debt retirement agreement first entered into on June 20, 2006. The contingent creditors have no recourse to any of Tekmira's other assets. The debt retirement obligation is discussed further in our 2009 Annual Management's Discussion and Analysis.

Aradigm Corporation (Aradigm) license agreement

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

FUTURE CHANGES IN ACCOUNTING POLICIES

Impact of Accounting Pronouncements Affecting Future Periods

As discussed earlier, we expect to be registered with the SEC and to be listed on the NASDAQ Global Market within a few months. The Canadian Securities Administrators' National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, permits Canadian public companies which are also SEC registrants the option to prepare their financial statements under US GAAP.

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

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

The adoption of US GAAP would not require significant changes to our existing internal controls over financial reporting and disclosure controls and procedures, or information and data systems.

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

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

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

SUMMARY OF QUARTERLY RESULTS

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

(in millions Cdn$ except per share data)

	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Revenue	$ 4.2	$ 3.1	$ 2.9	$ 3.8	$ 3.3	$ 4.5	$ 2.5	$ 2.3
Net (loss)	(6.0)	(3.1)	(2.1)	(2.3)	(2.8)	(2.6)	(4.4)	(4.2)
Basic and diluted net (loss) per share	$ (0.12)	$ (0.07)	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.05)	$ (0.09)	$ (0.08)

Quarterly Trends / Our revenue is derived from research and development collaborations, licensing fees and milestone payments. Over the past two years, our principal sources of revenue have been our

Alnylam partnership entered into in March 2006 and our Roche partnership which was expanded in May 2009. Revenue from our Roche collaboration increased throughout 2009 to $2.3 million in Q4 2009 when we manufactured a number of batches of drug. Revenue from our Alnylam collaboration was also higher than usual in Q4 2009 when the balance of deferred revenue related to minimum FTE payments for the year was brought into revenue. In Q1 2010 Alnylam revenue was relatively low as fewer batches were requested for manufacture and in Q2 2010 Roche program activity and revenue was relatively low. We expect revenue to continue to fluctuate particularly due to the variability in demand for our manufacturing services and timing of milestone receipts.

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

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

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

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

Our results for the second quarter of 2010 are further discussed below.

RESULTS OF OPERATIONS

For the first half of 2010 our net loss was $8.6 million ($0.17 per common share) as compared to a net loss of $4.3 million ($0.08 per common share) for the first half of 2009. For Q2 2010 our net loss was $4.2 million ($0.08 per common share) as compared to a net loss of $2.3 million ($0.04 per common share) for Q2 2009.

The primary reasons for the increase in net loss are a reduction in revenues and increased spending on our TKM-ApoB and TKM-PLK1 programs. We are manufacturing materials for preclinical and clinical trials and completing toxicology studies in preparation for clinical development of both programs. Revenues fluctuate particularly due to the variability in demand for our manufacturing services and timing of milestone receipts.

Revenue / Revenue from research and development collaborations, licensing fees and milestone payments was $2.3 million for Q2 2010 as compared to $3.8 million for Q2 2009 and was $4.8 million for the first half of 2010 as compared to $6.7 million for the first half of 2009. Revenues fluctuate particularly due to the variability in demand for our manufacturing services and timing of milestone receipts. The decrease in revenues for the periods discussed here is a result of period to period fluctuations in demand for our manufacturing services and the expiration of our Alnylam research collaboration in August 2009.

Revenue is detailed in the following table:

(in millions Cdn$)	Three months ended **June 30, 2010**	Three months ended June 30, 2009	Six months ended **June 30, 2010**	Six months ended June 30, 2009
Research and development collaborations				
Alnylam	**$ 1.4**	$ 2.2	**$ 2.3**	$ 4.6
Roche	**0.9**	1.0	**2.2**	1.4
Other RNAi collaborators	**-**	-	**0.3**	0.1
Total research and development collaborations	**2.3**	3.2	**4.8**	6.1
Licensing fees and milestone payments from Alnylam	**-**	0.6	**-**	0.6
Total revenue	**$ 2.3**	$ 3.8	**$ 4.8**	$ 6.7

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

In addition to the cessation of research revenue from Alnylam, manufacturing revenue in the first half of 2010 was lower than in the first half of 2009 as Alnylam requested fewer batches of drugs. Manufacturing activity levels fluctuate from period to period and between our collaborations and our internal projects.

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

Roche revenue / Under the Roche Product Development Agreement dated May 2009 Roche are paying us for the provision of staff and for certain external costs incurred. We are recognizing revenue from the Roche Product Development Agreement in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total project hours. Revenue from external costs incurred under the Roche Product Development Agreement is recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received is being recorded in the balance sheet as accrued or deferred revenue, as appropriate, and as at June 30, 2010 there was $1.1 million of deferred revenue in this respect.

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

Under the Roche Product Development Agreement we are currently developing one product with Roche. Roche recently provided us with guidance that the IND filing of the product candidate will be delayed and will not be filed before the end of 2010. This likely means that less revenue than we had previously expected will be earned and recognized for this product in 2010.

Other RNAi collaborators / We have active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb (BMS), Pfizer and Takeda. Also, as discussed earlier, in May 2010 we signed a formulation agreement with BMS under which BMS paid us $3.2 million (US$3.0 million) to make a certain number of LNP formulations over the next four years. Revenue from this agreement will be recognized as batches are produced. No batches have yet been produced under the new BMS agreement so deferred revenue as at June 30, 2010 includes $3.2 million in this respect.

Expenses / Research, development and collaborations / Research, development and collaborations expenses increased to $4.8 million for Q2 2010 as compared to $4.4 million for Q2 2009 and increased to $10.3 million for the first half of 2010 as compared to $8.0 million for the first half of 2009. The primary reason for the increase is the manufacture of materials for preclinical and clinical trials and conducting toxicology studies in preparation for clinical development of our TKM-ApoB and TKM-PLK1 programs.

Research, development and collaborations compensation expenses were at a similar level in the first half of 2009 and the first half of 2010. Increasing staff numbers in 2010 and the vesting and expensing of a portion of stock options granted in Q1 2010 was offset by higher compensation expenses in the first half of 2009 when a bonus was paid out following the successful filing of our TKM-ApoB IND application and signing a product development agreement with Roche. Our research and development staff numbers have increased to 72 at June 30, 2010 (total staff 83) as compared to 66 (total staff 78) at June 30, 2009. Ordinarily, we issue an annual grant of stock options to all staff and directors at the end of our calendar year but due to a stock trading black-out our annual grant was delayed until Q1 2010. Typically, a portion of our stock options vest immediately so there is a peak in stock option expense in the period when options are granted. Our bonus compensation philosophy is to pay discretionary bonuses as and when we achieve major corporate goals.

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

In our 2009 Annual Management's Discussion and Analysis we provided guidance that we expect research, development and collaborations expenses to increase in 2010 as compared to 2009 as we progress TKM-ApoB and TKM-PLK1 into the clinic. As a result of the recently awarded contract to develop TKM-Ebola we expect to incur further unbudgeted research, development and collaborations expenses. These further expenses will, however, be more than offset by revenues recognized from the contract as our costs will be reimbursed and we will charge the U.S. Government for program overheads and a profit margin.

General and administrative / General and administrative expenses were steady at $1.1 million for Q2 2010 and $1.1 million for Q2 2009 and $2.1 million for the first half of 2010 as compared to $2.1 million for the first half of 2009. There are two major offsetting costs: in the first half of 2009 we paid out discretionary bonuses to our staff and in the first half of 2010 we incurred fees related to our NASDAQ listing application.

In our 2009 Annual Management's Discussion and Analysis we provided guidance that we expect general and administrative expenses to decrease in 2010 as compared to 2009. As our NASDAQ share listing progresses we expect to incur further fees that were not budgeted and this will likely result in an increase in total general and administrative expenses in 2010 as compared to 2009.

Amortization of intangible assets / Amortization of intangible assets expense relates to medical technology acquired from Protiva and purchased software. The charge was $0.4 million for Q2 2010 as compared to $0.3 million for Q2 2009 and was $0.7 million for the first half of 2010 as compared to $0.6 million for the first half of 2009. There is an amortization charge of $0.25 million every quarter that relates to the $16.3 million in medical technology acquired through the business combination with Protiva on May 30, 2008 that is being amortized over 16 years. The balance of the amortization charge

on intangible assets relates to software. There was an increase in software amortization in Q2 2010 as we wrote off some legacy systems that we no longer require.

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

Depreciation of property and equipment / Depreciation of property and equipment was steady at $0.2 million for Q2 2010 and $0.2 million for Q2 2009 and $0.4 million for the first half of 2010 as compared to $0.4 million for the first half of 2009.

Other income and (losses) / Interest income / Interest income was $0.03 million for Q2 2010 and $0.03 million for Q2 2009 and $0.05 million for the first half of 2010 as compared to $0.11 million for the first half of 2009. Cash investment balances were lower in the first half of 2010 as compared to the first half of 2009 but interest rates have increased in 2010 as compared to 2009. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

LIQUIDITY AND CAPITAL RESOURCES

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

At June 30, 2010, we had cash and cash equivalents of approximately $18.2 million as compared to $24.4 million at December 31, 2009.

Operating activities used cash of $0.1 million in Q2 2010 as compared to $1.8 million in Q2 2009. Operating activities used cash of $5.5 million in the first half of 2010 as compared to $2.9 million in the first half of 2009. The $2.3 million increase in non-cash working capital relates largely to a decrease in accounts payable and accrued liabilities as we paid off what was a particularly high level of material and contract purchases made towards the end of 2009. Excluding changes in non-cash working capital and deferred revenue, cash used in operating activities in the first half of 2010 was $7.1 million as compared to $3.4 million in the first half of 2009 reflecting lower revenue and a higher level of research and development spending in the first half of 2010. Deferred revenue increased by $4.0 million in the first half of 2010 as compared to an increase of $1.7 million in the first half of 2009. The primary reason for this increase was the $3.2 million May 2010 payment from BMS related to the signing of a new collaborative agreement as discussed earlier.

Net cash used in investing activities was $0.2 million in Q2 2010 as compared to $14.6 million in Q2 2009. Net cash used in investing activities was $0.7 million in the first half of 2010 as compared to $9.7 million in the first half of 2009. In 2009 we made some investments in bankers' acceptances that have a maturity of greater than three months and are therefore classified as short-term investments as opposed to cash. We are currently investing our excess cash in a high-interest savings account, bankers' acceptances and government bonds all with a maturity of less than three months. Property and equipment cash outflows in both the first half of 2009 and 2010 relate largely to facility improvements and manufacturing equipment. We are nearing the completion of upgrades to our in-house clean room facility and expect to be manufacturing clinical supplies in this clean room, for ourselves and our partners before the end of the year. Manufacturing in-house will give us more flexibility and more control over our manufacturing process and timelines.

In our 2009 Annual Management's Discussion and Analysis we provided guidance that our funds on hand plus expected interest income and the contractually payable further funds from Alnylam, Roche and our other collaborators would be sufficient to continue our product development until mid-2011. As

a result of signing a new agreement with Bristol-Myers Squibb and a development contract with the U.S. Government we now believe that our current funds on hand plus expected interest income and funds from our collaborative partners and the U.S. Government will be sufficient to continue our product development into 2012.

Contractual obligations

There have not been any material changes to our contractual obligations from those disclosed in our 2009 Annual Management's Discussion and Analysis except for new contracts with collaborative partners and the U.S. Government that are covered elsewhere in this discussion.

OFF-BALANCE SHEET ARRANGEMENTS

There have not been any material changes to our off-balance sheet arrangements from those disclosed in our 2009 Annual Management's Discussion and Analysis.

RELATED PARTY TRANSACTIONS

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

OUTSTANDING SHARE DATA

As of July 31, 2010, we had 51,667,756 common shares outstanding and we had outstanding options to purchase 6,886,133 common shares.

RISKS AND UNCERTAINTIES

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

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

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

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

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

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in a high interest savings account and bankers' acceptances with varying terms to maturity (not exceeding two years) issued by major Canadian banks, selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. Investments with a maturity greater than three months are classified in our Balance Sheet as held-for-trading short-term investments and are recorded at cost plus accrued interest. The fair value of our cash investments as at June 30, 2010 is at least equal to the face value of those investments and the value reported in our Balance Sheet. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. We purchase goods and services in both Canadian and U.S. dollars and earn a significant portion of our revenues in U.S. dollars. We manage our U.S. dollar currency risk by using cash received from U.S. dollar revenues to pay U.S. dollar expenses and by limiting holdings of U.S. dollar cash and cash equivalent balances to working capital levels. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

CONTROLS AND PROCEDURES

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

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

Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

TEKMIRA PHARMACEUTICALS CORPORATION

2010 – Q2

Three and six months ended June 30, 2010

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

		June 30 2010 (Unaudited)		December 31 2009
Assets				
Current assets:				
Cash and cash equivalents	**$**	**18,187,243**	$	24,397,740
Accounts receivable		**976,703**		1,052,895
Investment tax credits receivable		**270,494**		280,132
Prepaid expenses and other assets		**197,028**		226,981
		19,631,468		25,957,748
Intangible assets		**14,474,924**		15,152,430
Property and equipment		**3,171,512**		2,812,340
	$	**37,277,904**	$	43,922,518
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**3,199,614**	$	5,653,827
Deferred revenue (note 3)		**5,159,181**		1,162,437
		8,358,795		6,816,264
Shareholders' equity:				
Common shares				
Authorized - unlimited number with no par value				
Issued and outstanding - 51,666,556 (2009 - 51,642,938)		**229,466,722**		229,426,757
Contributed surplus		**29,932,796**		29,531,049
Deficit		**(230,480,409)**		(221,851,552)
		28,919,109		37,106,254
	$	**37,277,904**	$	43,922,518

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

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in Canadian Dollars)

	Three months ended		Six months ended	
	June 30 2010	June 30 2009	**June 30 2010**	June 30 2009
Revenue (note 3)				
Research and development collaborations revenue	**$ 2,316,163**	$ 3,181,193	**$ 4,782,098**	$ 6,061,956
Licensing fees and milestone payments	**-**	596,500	**-**	596,500
	2,316,163	3,777,693	**4,782,098**	6,658,456
Expenses				
Research, development and collaborations	**4,829,240**	4,380,938	**10,285,717**	7,999,830
General and administrative	**1,080,986**	1,119,560	**2,076,258**	2,091,514
Amortization of intangible assets	**396,028**	320,718	**709,922**	639,044
Depreciation of property and equipment	**176,498**	186,439	**354,280**	363,680
	6,482,752	6,007,655	**13,426,177**	11,094,068
Loss from operations	**(4,166,589)**	(2,229,962)	**(8,644,079)**	(4,435,612)
Other income (losses)				
Interest income	**25,477**	30,866	**46,870**	114,459
Foreign exchange losses	**(70,317)**	(51,786)	**(31,648)**	(5,308)
Net loss and comprehensive loss	**$ (4,211,429)**	$ (2,250,882)	**$ (8,628,857)**	$ (4,326,461)
Weighted average number of common shares				
Basic and diluted	**51,649,814**	51,625,677	**51,646,645**	51,624,760
Loss per common share				
Basic and diluted	**$ (0.08)**	$ (0.04)	**$ (0.17)**	$ (0.08)

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
For the six months ended June 30, 2010 (unaudited) and the year ended December 31, 2009 (audited)

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2008	51,623,677	$ 229,412,230	$ 29,272,005	$ (212,086,645)	46,597,590
Net loss	-	-	-	(9,764,907)	(9,764,907)
Stock-based compensation	-	-	265,685	-	265,685
Issuance of common shares pursuant to exercise of options	19,261	14,527	(6,641)	-	7,886
Balance, December 31, 2009	51,642,938	$ 229,426,757	$ 29,531,049	$ (221,851,552)	$ 37,106,254
Net loss	**-**	**-**	**-**	**(8,628,857)**	**(8,628,857)**
Stock-based compensation (note 4)	**-**	**-**	**420,351**	**-**	**420,351**
Issuance of common shares pursuant to exercise of options (note 4)	**23,618**	**39,965**	**(18,604)**	**-**	**21,361**
Balance, June 30, 2010	**51,666,556**	**$ 229,466,722**	**$ 29,932,796**	**$ (230,480,409)**	**$ 28,919,109**

See accompanying notes to the consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended		Six months ended	
	June 30 2010	June 30 2009	**June 30 2010**	June 30 2009
OPERATIONS				
Loss for the period	**$ (4,211,429)**	$ (2,250,882)	**$ (8,628,857)**	$ (4,326,461)
Items not involving cash:				
Amortization of intangible assets	**396,028**	320,718	**709,922**	639,044
Depreciation of property and equipment	**176,498**	186,439	**354,280**	363,680
Stock-based compensation expense (note 4)	**60,534**	85,293	**420,351**	196,138
Foreign exchange (gains) losses arising on foreign currency cash balances	**70,317**	(286,902)	**31,648**	(307,264)
Net change in non-cash working capital items:				
Accounts receivable	**(227,871)**	(143,180)	**76,192**	(838,463)
Investment tax credits receivable	**9,638**	-	**9,638**	275,965
Inventory	**-**	-	**-**	174,524
Prepaid expenses and other assets	**(13,749)**	(98,966)	**29,953**	(62,441)
Accounts payable and accrued liabilities	**(226,952)**	(883,899)	**(2,454,213)**	(797,404)
Net change in deferred revenue	**3,868,409**	1,257,369	**3,996,744**	1,748,623
	(98,577)	(1,814,010)	**(5,454,342)**	(2,934,059)
INVESTMENTS				
Proceeds from (acquisition of) short-term investments, net	**-**	(14,525,853)	**-**	(8,795,346)
Acquisition of intangible assets	**(31,476)**	(2,248)	**(32,416)**	(116,086)
Acquisition of property and equipment	**(161,822)**	(85,074)	**(713,452)**	(771,122)
	(193,298)	(14,613,175)	**(745,868)**	(9,682,554)
FINANCING				
Issuance of common share pursuant to exercise of options	**21,161**	-	**21,361**	600
	21,161	-	**21,361**	600
Foreign exchange gains (losses) arising on foreign currency cash balances	**(70,317)**	286,902	**(31,648)**	307,264
Decrease in cash and cash equivalents	**(341,031)**	(16,140,283)	**(6,210,497)**	(12,308,749)
Cash and cash equivalents, beginning of period	**18,528,274**	30,049,876	**24,397,740**	26,218,342
Cash and cash equivalents, end of period	**$ 18,187,243**	$ 13,909,593	**$ 18,187,243**	$ 13,909,593
Supplemental cash flow information				
Interest paid	**$ -**	$ -	**$ -**	$ -
Investment tax credits received	**$ 20,652**	$ -	**$ 20,652**	$ 275,965

See accompanying notes to the consolidated financial statements.

1. Basis of presentation and future operations

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and accordingly, do not include all disclosures required for annual financial statements.

The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at June 30, 2010 and for all periods presented.

The results of operations for the three months and six months ended June 30, 2010 and June 30, 2009 are not necessarily indicative of the results for the full year.

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

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

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

Future operations

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

2. Future changes in accounting policies

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

(Expressed in Canadian dollars)

2. Future changes in accounting policies (continued)

On May 12, 2010, the Company announced plans to apply for a listing of its common shares on the NASDAQ Global Market. This listing would be in addition to the Company's current listing on the Toronto Stock Exchange. To list its shares in the United States the Company will need to register with the U.S. Securities and Exchange Commission ("SEC"). The Canadian Securities Administrators' National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, permits Canadian public companies which are also SEC registrants the option to prepare their financial statements under US GAAP.

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

3. Collaborative and Licensing Agreements

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	**June 30, 2010**	June 30, 2009
Research and development collaborations				
Alnylam (a)	**$ 1,419,227**	$ 2,216,268	**$ 2,285,050**	$ 4,603,063
Roche (b)	**896,936**	964,925	**2,162,123**	1,362,235
Other RNAi collaborators (c)	**-**	-	**334,925**	96,658
	2,316,163	3,181,193	**4,782,098**	6,061,956
Alnylam licensing fees and milestone payments (a)	**-**	596,500	**-**	596,500
Total revenue	**$ 2,316,163**	$ 3,777,693	**$ 4,782,098**	$ 6,658,456

The following table sets forth deferred research and development collaborations revenue:

	June 30, 2010	December 31, 2009
Alnylam (a)	**$ 452,464**	$ 35,987
Roche (b)	**1,100,131**	792,583
BMS (c)	**3,336,586**	333,867
Other RNAi collaborators (c)	**270,000**	-
Total deferred revenue	**$ 5,159,181**	$ 1,162,437

3. Collaborative and Licensing Agreements (continued)

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

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

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

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

In the three month period ended June 30, 2009 the Company received a $596,500 (US$500,000) milestone payment from Alnylam in respect of the initiation of Alnylam's ALN-VSP Phase 1 human clinical trial.

Manufacturing Agreement with Alnylam

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

3. Collaborative and Licensing Agreements (continued)

(b) Roche

Under a February 11, 2009 research agreement with Roche the Company recognized $397,310 as revenue during the six month period ended June 30, 2009. The work under this agreement was completed in June 2009.

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

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

Under the Roche Product Development Agreement Roche will pay the Company for the provision of staff and for external costs incurred. The Company is recognizing revenue in proportion to the services provided up to the reporting date by comparing actual hours spent to estimated total hours for each product under the contract. Revenue from external costs incurred on Roche product candidates will be recorded in the period that Roche is invoiced for those costs. The difference between service revenue recognized and cash received will be recorded in the Company's balance sheet as accrued revenue or deferred revenue, as appropriate, and as at June 30, 2010 the deferred revenue balance was $1,100,131 (December 31, 2009 - $792,583).

(Expressed in Canadian dollars)

3. Collaborative and Licensing Agreements (continued)

(c) Other RNAi collaborators

The Company has active research agreements with a number of other RNAi collaborators including Bristol-Myers Squibb Company, Pfizer and Takeda.

On May 10, 2010 the Company announced the expansion of its research collaboration with Bristol-Myers Squibb Company ("Bristol-Myers Squibb"). Under the new agreement, Bristol-Myers Squibb will use small interfering RNA ("siRNA") molecules formulated by the Company in lipid nanoparticles ("LNPs") to silence target genes of interest. Bristol-Myers Squibb will conduct the preclinical work to validate the function of certain genes and share the data with the Company. The Company can use the preclinical data to develop RNAi therapeutic drugs against the therapeutic targets of interest. The Company received $3,233,400 (US$3,000,000) from Bristol-Myers Squibb concurrent with the signing of the agreement. The Company will be required to provide a pre-determined number of LNP batches over the four-year agreement. Bristol-Myers Squibb will have a first right to negotiate a licensing agreement on certain RNAi products developed by the Company that evolve from Bristol-Myers Squibb validated gene targets.

Revenue from the May 10, 2010 agreement with Bristol-Myers Squibb is being recognized as the Company produces the related LNP batches. No LNP batches had been produced under the agreement by June 30, 2010.

4. Stock-based compensation

Stock options

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

	Number of optioned common shares	Weighted average exercise price
Balance, December 31, 2009	4,328,140	$ 2.02
Options granted	959,350	0.77
Options exercised	(23,618)	0.90
Options forfeited, cancelled or expired	(128,833)	2.51
Balance, June 30, 2010	5,135,039	$ 1.78

The stock options expire at various dates from December 18, 2010 to June 24, 2020. A total of 1,276,087 options are available for future allocation under the 1996 Share Option Plan.

(Expressed in Canadian dollars)

4. Stock-based compensation (continued)

The Company has recorded compensation expense for stock-based compensation awarded to employees and calculated in accordance with the fair value method in the consolidated statements of operations and comprehensive loss in research, development and collaborations and general and administrative expenses as follows:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	**June 30, 2010**	June 30, 2009
Stock-based compensation expense	**$ 60,534**	$ 85,293	**$ 420,351**	$ 196,138

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:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	**June 30, 2010**	June 30, 2009
Dividend yield	**0.0%**	0.0%	**0.0%**	0.0%
Expected volatility	**117.1%**	142.7%	**119.6%**	142.7%
Risk-free interest rate	**2.4%**	2.0%	**2.7%**	2.0%
Expected average option term	**5.0 years**	5.0 years	**7.0 years**	5.0 years
Fair value of options granted	**$0.98**	$0.55	**$0.69**	$0.55

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

5. Related party transactions

Research, development and collaborations expenses in the three months and six months ended June 30, 2009 include $14,777 and $44,415 respectively of contract research costs, measured at the cash amount and incurred in the normal course of operations with Ricerca Biosciences, LLC ("Ricerca") whose Chief Executive Officer, Mr. Ian Lennox, is also a director of the Company. There were no transactions with Ricerca in the six months ended June 30, 2010. Accounts payable and accrued liabilities at June 30, 2010 include $nil in respect of Ricerca (December 31, 2009 - $nil).

6. Subsequent events

Contract with U.S. Government to develop an Ebola anti-viral

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

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

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

Licensing milestone payment of US$500,000 due from Alnylam

On July 7, 2010, the Company announced that Alnylam have initiated a Phase 1 human clinical trial for their product candidate ALN-TTR01 which triggered a US$500,000 milestone payable to the Company.