TEKMIRA PHARMACEUTICALS CORPORATION

Q1 2011 Quarterly Report

TEKMIRA PHARMACEUTICALS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS

May 10, 2011 / *This management discussion and analysis (MD&A) for the three month period ended March 31, 2011 should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the same period and the audited consolidated financial statements and related notes for the year ended December 31, 2010. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the United States/Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A and our consolidated financial statements are prepared in accordance with generally accepted accounting principles used in the United States of America ("U.S. GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated. Unless the context otherwise requires, all references to "Tekmira", the "Company", "we", "us", and "our" refer to Tekmira Pharmaceuticals Corporation, including all of its subsidiaries. Additional information relating to Tekmira, including the Company's March 30, 2011 Annual Information Form is available at the SEDAR website at www.sedar.com or the EDGAR website at www.sec.gov/edgar.*

FORWARD-LOOKING STATEMENTS

This discussion and analysis contains "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). Forward-looking statements are generally identifiable by use of the words "believes," "may," "plans," "will," "anticipates," "intends," "budgets", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions. Forward-looking statements in this MD&A include statements about Tekmira's strategy, future operations, clinical trials, prospects and the plans of management; RNAi (ribonucleic acid interference) product development programs; estimates of the number of clinical development programs to be undertaken by Tekmira and its product development partners; selection of additional product candidates; timing of release of clinical data; the quantum and timing of potential funding; use of lipid nanoparticle (LNP) technology by Tekmira's licensees; 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; statements about the nature, prospects and anticipated timing to resolve the complaint filed by Tekmira against Alnylam; the nature, scope and quantum of damages sought by Tekmira from Alnylam; measures taken to ensure that Tekmira can pursue the litigation with Alnylam without interruption to Tekmira's core business activities; estimates and scope of Tekmira's financial guidance and expected cash runway in light of the litigation with Alnylam; and estimates of the length of time Tekmira's business will be funded by its anticipated financial resources.

With respect to the forward-looking statements contained in this MD&A, Tekmira has made numerous assumptions regarding, among other things: LNP's status as a leading RNAi delivery technology; the effectiveness of Tekmira's products as a treatment for high LDL cholesterol, cancer and infectious disease; the developmental milestones and approvals required to trigger funding for TKM-Ebola from the Transformational Medical Technologies program; results in non-human primates are indicative of the potential effect in humans; Tekmira's research and development capabilities and resources; FDA approval with respect to commencing clinical trials; the timing and obtaining of regulatory approvals for Tekmira's products; the timing and results of clinical data releases and use of LNP technology by Tekmira's development partners and licensees; the time required to complete research and product development activities; the timing and quantum of payments to be received under contracts with Tekmira's collaborative partners including the U.S. Government and the manufacturing agreement with Alnylam; the nature and prospects of the litigation with Alnylam; based on the conduct of Alnylam, the nature, scope and quantum of damages that Tekmira is entitled to; costs and timing of the litigation with Alnylam and the effects of such on Tekmira's financial position and execution of Tekmira's business strategy; the effect of Alnylam's answer and counterclaim on Tekmira's litigation position; 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; the FDA may determine that the design and planned analysis of Tekmira's clinical trials do not adequately address the trial objectives in support of Tekmira's regulatory submissions; future operating results are uncertain and likely to fluctuate; competition from other pharmaceutical or biotechnology companies; Tekmira's ability to raise additional financing required to fund further research and development, clinical studies, and obtain regulatory approvals, on commercially acceptable terms or at all; economic and capital market conditions; 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 and Alnylam will not be received by Tekmira on a timely basis, or at all, or in the quantum expected by Tekmira; pre-clinical trials may not be completed, or clinical trials started, when anticipated or at all; pre-clinical and clinical trials may be more costly or take longer to complete than anticipated; pre-clinical or clinical trials may not generate results that warrant future development of the tested drug candidate; Tekmira may become subject to product liability or other legal claims for which the Company has made no accrual in its financial statements; the reduction in Roche revenue may not be replaced in the quantity anticipated or at all; the final outcome of the litigation with Alnylam is not presently determinable or estimable and may result in an outcome that is unfavorable to Tekmira, including damages and other relief against Tekmira claimed by Alnylam in its counterclaim; there may be no basis for which Tekmira has any rights or entitlement to damages from Alnylam in the quantum anticipated by Tekmira, or at all; legal expenses associated with litigation are uncertain and may exceed current estimates, which may have a material adverse effect on Tekmira's financial position and ongoing business strategy; the uncertainty of litigation, including the time and expenses associated therewith; risks and uncertainties involved in the litigation process, such as discovery of new evidence or acceptance of unanticipated or novel legal theories, changes in interpretation of the law due to decisions in other cases, the inherent difficulty in predicting the decisions of judges and juries and the possibility of appeals; Tekmira has not sufficiently budgeted for capital expenditures necessary to carry out planned activities.

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

OVERVIEW

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

Technology, product development and licensing agreements

Our therapeutic product pipeline consists of products being developed internally with our research and development resources. We also support the development of our collaboration partners' products and are developing an Ebola antiviral product (TKM-Ebola) under a Transformational Medical Technologies (TMT) contract with the U.S. Government. Our focus is on advancing products that utilize our proprietary lipid nanoparticle (LNP) technology for the delivery of small interfering RNA (siRNA). These products are intended to

treat diseases through a process known as RNA interference which prevents the production of proteins that are associated with various diseases. We have rights under Alnylam Pharmaceuticals, Inc.'s (Alnylam) RNAi intellectual property to develop eight RNAi therapeutic products.

Our most advanced internal product candidates are

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

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

TKM-PLK1

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

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

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

TKM-Ebola

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

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

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

the Ebola virus is known to replicate. All of the non-human primates treated with TKM-Ebola survived the infection and were shown to be free of ZEBOV virus infection within 14 days after inoculation with a lethal dose of ZEBOV virus.

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

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

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

Under the TKM-Ebola program we have successfully completed pilot studies scaling up our current manufacturing capabilities from 10 gram batches to one kilogram batches, which will support late clinical development and commercialization of LNP product candidates. Importantly, key LNP specifications are consistent and reproducible with this 100-fold increase in batch size.

In addition, we have successfully completed a pilot project on LNP lyophilization. This will provide a number of platform wide benefits including long-term product stability and reliable transport.

TKM-ApoB

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

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.

Our more recent research efforts have been focused on developing new LNP formulations employing novel lipids to achieve improvements in potency and tolerability. We have identified several new LNP formulations with improved characteristics that are currently being evaluated for TKM-ApoB development.

Expansion of intellectual property portfolio

We recently announced that the United States Patent & Trademark Office (USPTO) and the European Patent Office (EPO) had issued key patents covering elements of our leading lipid nanoparticle technology.

The EPO and USPTO granted claims covering our proprietary manufacturing process and apparatus for the production of lipid nanoparticles. Our manufacturing process is a proprietary method that is robust, scalable and highly reproducible. This process has been reviewed by multiple international regulatory agencies for the production of LNPs used in several ongoing human clinical trials.

The USPTO granted claims (U.S. Patents No. 7,807,815 and No. 7,915,399) covering the identification and

modification of siRNA sequence motifs responsible for immune stimulation. This case is the first in a series of patent filings we have made covering methods of mitigating siRNA immune stimulation through chemical modification. This intellectual property is based on research by our scientists on the sequence-dependent stimulation of the innate immune response by nucleic acids, including siRNA.

Alnylam collaboration and license

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

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

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

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

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

On April 3, 2009 Alnylam announced that they had initiated a Phase 1 human clinical trial for a product candidate that utilizes our LNP technology. The Alnylam product candidate, ALN-VSP, is being developed as a treatment for advanced solid tumors with liver involvement. ALN-VSP comprises siRNA molecules delivered systemically using our LNP technology. We are responsible for manufacturing the ALN-VSP drug product. The initiation of the ALN-VSP Phase 1 clinical trial triggered a milestone payment of $0.6 million (US$0.5 million) which we received in May 2009. Interim ALN-VSP data were presented at the 2010 Annual Meeting of the American Society of Clinical Oncology (ASCO) in May 2010 and at the Chemotherapy Foundation Symposium in November 2010. Alnylam has now completed enrollment for this trial and expects to report additional clinical data in the second quarter of 2011.

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

Alnylam is also developing ALN-PCS, an RNAi therapeutic, to treat hypercholesterolemia, or high levels of cholesterol in the blood. ALN-PCS is manufactured by us and is enabled by our LNP delivery technology.

Alnylam expects to file an IND for ALN-PCS in the first half of 2011 and to commence a Phase 1 clinical trial later in 2011.

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

On March 16, 2011, we announced the filing of a complaint against Alnylam for misappropriation and misuse of trade secrets, know-how and other confidential information, unfair and deceptive trade practices, unjust enrichment, unfair competition and false advertising. The suit, filed in the Business Litigation Session of the Massachusetts Superior Court, alleges Alnylam exploited its confidential relationship with us as a collaborator to engage in inappropriate and harmful conduct concerning our proprietary LNP technology, resulting in damage to our intellectual property and business interests. On April 6, 2011, Alnylam filed an answer and counterclaim to our complaint.

Roche product development and research agreements

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

On May 11, 2009 we announced a product development agreement with Roche (Roche Product Development Agreement) that provides for product development up to the filing of an IND by Roche. The product development activities under this agreement expand the activities that were formerly covered by the Roche Research Agreement. Under the Roche Product Development Agreement Roche is paying for the provision of our staff and for external costs incurred up to US$8.8 million, for us to support the advancement of a Roche RNAi product candidate using our LNP technology through to the filing of an IND application.

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

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

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

Bristol-Myers Squibb Company (BMS) research agreement

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

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

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

will support work at Tekmira and the UTMB.

Takeda Pharmaceutical Company Limited (Takeda) research agreement

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

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

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

Legacy Agreements

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

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

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

Aradigm Corporation (Aradigm) license agreement

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates are disclosed in the MD&A and the notes to our audited annual consolidated financial statements contained in our 2010 Annual Report.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued EITF 08-01, *Revenue Arrangements with Multiple Deliverables* (currently within the scope of FASB Accounting Standards Codification (ASC) Subtopic 605-25). This statement provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The EITF introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We adopted this pronouncement in the three month period ending March 31, 2011. Adoption of the pronouncement did not have a material impact on our financial

statements.

In March 2010, the FASB ratified the EITF final consensus on Issue ASC 2010-17, *Milestone Method of Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of a substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. We adopted this pronouncement in the three month period ending March 31, 2011. Adoption of the pronouncement did not have a material impact on our financial statements.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The enhanced disclosure will provide financial statement users with an improved understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. This standard is effective on a prospective basis for the first interim or annual period beginning after December 15, 2010. We adopted this standard in the three month period ending March 31, 2011. Adoption of the standard did not have a material impact on disclosures in our financial statements.

SUMMARY OF QUARTERLY RESULTS

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

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

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Revenue								
Collaborations and contracts:								
Alnylam	$ 2.2	$ 2.2	$ 2.0	$ 0.9	$ 1.4	$ 1.8	$ 2.1	$ 0.9
U.S. Government	-	-	-	-	-	1.2	2.4	3.4
Roche	1.0	1.0	2.4	1.3	0.9	0.7	1.7	-
Other	-	0.1	0.1	0.3	-	0.3	-	-
	3.2	3.3	4.5	2.5	2.3	3.9	6.2	4.3
Alnylam licensing fees and milestone payments	0.6	-	-	-	-	0.5	-	-
Talon license amendment payment	-	-	-	-	-	5.9	-	-
Total revenue	**3.8**	**3.3**	**4.5**	**2.5**	**2.3**	**10.4**	**6.2**	**4.3**
Expenses and other income (losses)	5.8	5.9	6.9	6.7	6.3	12.8	8.1	7.4
Net loss	**(2.0)**	**(2.6)**	**(2.4)**	**(4.2)**	**(4.0)**	**(2.4)**	**(1.9)**	**(3.1)**
Basic and diluted net loss per share	**$ (0.19)**	**$ (0.25)**	**$ (0.23)**	**$ (0.40)**	**$ (0.38)**	**$ (0.24)**	**$ (0.18)**	**$ (0.30)**

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

We had a collaborative research agreement with Alnylam that was completed in August 2009. In January 2009 we signed a Manufacturing Agreement with Alnylam. Revenue from the Alnylam Manufacturing Agreement was higher than usual in Q3 2009, Q4 2009, Q3 2010 and Q4 2010 when deferred revenue related to minimum FTE payments was recognized based on our estimate of percentage of completion of the annual commitment. In Q1 2010 and Q1 2011 Alnylam revenue was relatively low as fewer batches were requested for manufacture.

In Q3 2010 we signed a contract with the U.S. Government to develop TKM-Ebola and incurred significant program costs such as materials and preclinical studies that have been included in research, development, collaborations and contracts expenses. These third-party costs are being reimbursed by the U.S. Government so are also recorded as revenue. U.S. Government revenue from the TKM-Ebola program also includes labour, overheads and incentive fee charges. Revenues have increased since the program's inception as the level of activity increases.

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

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

Also in Q3 2010 we received a $5.9 million license amendment payment from Talon. The $5.9 million was then paid to certain of our contingent creditors in full settlement of a contingent obligation so is also included as an "other loss" in our Q3 2010 income statement.

We expect revenue to continue to fluctuate particularly due to the variability in demand for our manufacturing services, the development stage of the TKM-Ebola contract and the timing of licensing payments and milestone receipts.

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

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

RESULTS OF OPERATIONS

Three months ended March 31, 2011 compared to the three months ended March 31, 2010

For the three months ended March 31, 2011 ("Q1 2011"), our net loss was $3.1 million ($0.30 per common share) as compared to a net loss of $4.2 million ($0.40 per common share) for the three months ended March 31, 2010 ("Q1 2010").

The primary reason for the decrease in losses is an increase in revenue in Q1 2011.

Revenue / Revenue was $4.3 million for Q1 2011 as compared to $2.5 million in Q1 2010.

Revenue is detailed in the following table:

(in millions Cdn$)	**Q1 2011**	Q1 2010
Collaborations and contracts		
Alnylam	**$ 0.9**	$ 0.9
U.S. Government	**3.4**	-
Roche	**-**	1.3
Other RNAi collaborators	**-**	0.3
Total collaborations and contracts	**4.3**	2.5

Alnylam revenue / 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.

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

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

BMS revenue / In May 2010 we signed a formulation agreement with BMS under which BMS paid us $3.2 million (US$3.0 million) to make a certain number of LNP formulations over the next four years. Revenue from this agreement will be recognized as batches are produced. Revenue under the formulation agreement for Q1 2011 was $0.04 million as we began to produce batches of formulations requested by BMS.

Roche revenue / Under the Roche Product Development Agreement dated May 2009 Roche were paying us for the provision of staff and for certain external costs incurred. In November 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement, Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with Tekmira. As at December 31, 2010, we retained a deferred revenue balance of $0.04 million to cover a small amount of stability study work to be completed for Roche and the balance of Roche deferred revenue was brought into income in 2010. Roche revenue of $0.004 million for Q1 2011 represents stability study work performed under the contract.

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

Expenses / Research, development, collaborations and contracts / Research, development, collaborations and contracts expenses were $5.6 million in Q1 2011 as compared to $5.5 million in Q1 2010.

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

Q1 2011 spending on our internal programs has decreased as compared to Q1 2010. In Q1 2010 we incurred costs on our TKM-ApoB program for toxicology studies and manufacturing of drug product. As discussed in the Overview section of this MD&A, we are currently evaluating new formulations for potential TKM-ApoB development so Q1 2011 program costs are much lower than Q1 2010. In Q1 2011 we incurred clinical trial costs for TKM-PLK1 but these are less than the toxicology study and materials costs that we incurred in Q1 2010.

Research, development, collaborations and contracts compensation expenses are at a similar level in Q1 2011 to Q1 2010. In Q1 2011, salary expenses increased in line with staff number increases but this was offset by a decrease in stock option expense. Our research and development staff numbers have increased to 87 at March 31, 2011 (total staff 98) as compared to 71 (total staff 81) at March 31, 2010. Ordinarily, we issue an annual grant of stock options to all staff and directors at the end of our fiscal year but due to a stock trading black-out our annual grant was delayed until Q1 2010. Our 2010 annual grant of stock options occurred as planned in December 2010. Typically, a portion of our stock options vest immediately so there is a peak in stock option expense in the period when options are granted.

General and administrative / General and administrative expenses were $1.5 million in Q1 2011 as compared to $1.0 million in Q1 2010. The increase in Q1 2011 largely relates to legal fees incurred in respect of our lawsuit against Alnylam (see Overview for further discussion of the lawsuit).

Depreciation of property and equipment / Depreciation of property and equipment was $0.2 million in Q1 2011 and $0.2 million in Q1 2010.

Other income (losses) / Interest income / Interest income was $0.03 million in Q1 2011 and $0.02 million in Q1 2010. The increase is due to increasing interest rates more than offsetting our reduced cash investment balances. In the future, interest income will continue to fluctuate in relation to cash balances and interest yields.

Other income (losses) / Foreign exchange gains (losses) / Foreign exchange losses were $0.05 million in Q1 2011 as compared to gains of $0.04 million in Q1 2010. Our foreign exchange gains and losses relate almost entirely to changes in the US dollar to Canadian dollar exchange rate. We have some US dollar denominated cash and receivables which provide a natural exchange rate hedge against our US dollar denominated payables and we keep our US dollar cash and investment balances to a working capital level to avoid exchange rate risk.

LIQUIDITY AND CAPITAL RESOURCES

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

At March 31, 2011, we had cash and cash equivalents of approximately $9.2 million as compared to $12.3 million at December 31, 2010.

Operating activities used cash of $3.1 million in Q1 2011 as compared to $5.3 million in Q1 2010. Excluding changes in non-cash operations items, cash used in operating activities in Q1 2011 fell to $2.8 million as compared to $3.6 million in Q1 2010 due, largely, to increasing revenues as discussed earlier. A large part of the changes in non-cash operating items relate to the TKM-Ebola contract for which we are incurring and being reimbursed for some large sub-contract and material purchases.

Investing activities used $0.06 million in cash in Q1 2011 as compared to $0.6 million in Q1 2010. Investing in Q1 2010 relates to facility improvements and manufacturing equipment. Since the start of our TKM-Ebola contract in July 2010 a lot of the equipment we acquire is purchased and owned by the U.S. Government so is not recorded as a Company investment.

In our 2010 Management's Discussion and Analysis we provided guidance that our funds on hand plus expected income would be sufficient to continue our product development into the first quarter of 2012. In Q1 2011 we reduced costs as compared to budget and invoiced certain materials to the U.S. Government that we had expensed in an earlier period. We now believe that our current funds on hand plus expected income, including funds from our collaborative partners and the U.S. Government, will be sufficient to continue our product development into the second quarter of 2012. To further extend our cash runway, we are considering a reduction in expenses associated with non-core activities (see Risks and uncertainties).

Contractual obligations

There have not been any material changes to our contractual obligations from those disclosed in our 2010 Annual Report.

Off-Balance Sheet arrangements

There have not been any material changes to our off-balance sheet arrangements from those disclosed in our 2010 Annual Report.

OUTSTANDING SHARE DATA

As of April 30, 2011, we had 10,341,934 common shares outstanding and we had outstanding options to purchase 1,427,263 common shares.

RISKS AND UNCERTAINTIES

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

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

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

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

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

In addition, we are exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of our assets and liabilities. We invest our cash reserves in high interest

saving accounts and bankers' acceptances with varying terms to maturity (not exceeding two years) issued by major Canadian banks, selected with regard to the expected timing of expenditures for continuing operations and prevailing interest rates. The fair value of our cash investments as at March 31, 2011 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

For the three months ended March 31, 2011, no changes were made in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

TEKMIRA PHARMACEUTICALS CORPORATION

Unaudited Interim Condensed Consolidated Financial Statements (expressed in Canadian dollars)

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

2011 – Q1

Three months ended March 31, 2011

TEKMIRA PHARMACEUTICALS CORPORATION

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

		March 31 2011 (Unaudited)		December 31 2010
Assets				
Current assets:				
Cash and cash equivalents	**$**	**9,228,665**	$	12,346,010
Accounts receivable (note 3)		**3,320,363**		3,318,729
Accrued revenue		**202,754**		817,464
Deferred expenses		**563,157**		557,256
Investment tax credits receivable		**403,580**		403,580
Finished goods inventory		**-**		150,731
Prepaid expenses and other assets		**270,621**		315,057
Total current assets		**13,989,140**		17,908,827
Property and equipment		**18,724,155**		18,668,897
Less accumulated depreciation and impairment		**(15,794,130)**		(15,555,481)
		2,930,025		3,113,416
Total assets	**$**	**16,919,165**	$	21,022,243
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 4)	**$**	**4,692,242**	$	6,151,923
Deferred revenue current portion (note 2)		**2,388,396**		1,982,264
Total current liabilities		**7,080,638**		8,134,187
Deferred revenue, net of current portion (note 2)		**2,113,847**		2,155,478
Total liabilities		**9,194,485**		10,289,665
Stockholders' equity:				
Common shares				
Authorized - unlimited number with no par value				
Issued and outstanding:				
10,341,934 (December 31, 2010 - 10,338,703)		**229,515,870**		229,491,529
Additional paid-in capital		**30,217,280**		30,151,810
Deficit		**(252,008,470)**		(248,910,761)
Total stockholders' equity		**7,724,680**		10,732,578
Total liabilities and stockholders' equity	**$**	**16,919,165**	$	21,022,243

Basis of presentation and future operations (note 1)
Contingencies (note 5)

See accompanying notes to the condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended March 31	
	2011	2010
Revenue (note 2)		
Collaborations and contracts	**$ 4,343,485**	$ 2,465,935
	4,343,485	2,465,935
Expenses		
Research, development, collaborations and contracts	**5,639,575**	5,456,477
General and administrative	**1,541,599**	995,272
Depreciation of property and equipment	**238,649**	237,739
	7,419,823	6,689,488
Loss from operations	**(3,076,338)**	(4,223,553)
Other income (losses)		
Interest income	**33,257**	21,393
Foreign exchange gains (losses)	**(54,628)**	38,669
Net loss and comprehensive loss	**$ (3,097,709)**	$ (4,163,491)
Loss per common share		
Basic and diluted	**$ (0.30)**	$ (0.40)
Weighted average number of common shares		
Basic and diluted	**10,341,259**	10,328,688

See accompanying notes to the condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

Condensed Consolidated Statements of Stockholders' Equity
For the three months ended March 31, 2011 (unaudited)
(Expressed in Canadian Dollars)
(Prepared in accordance with U.S. GAAP)

	Number of shares	Share capital	Additional paid-in capital	Deficit	Total stockholders' equity
Balance, December 31, 2010	10,338,703	$ 229,491,529	$ 30,151,810	$ (248,910,761)	$ 10,732,578
Stock-based compensation	-	-	88,375	-	88,375
Issuance of common shares pursuant to exercise of options	3,231	24,341	(22,905)	-	1,436
Net loss	-	-	-	(3,097,709)	(3,097,709)
Balance, March 31, 2011	10,341,934	$ 229,515,870	$ 30,217,280	$ (252,008,470)	$ 7,724,680

See accompanying notes to the condensed consolidated financial statements.

TEKMIRA PHARMACEUTICALS CORPORATION

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

	Three months ended March 31	
	2011	2010
OPERATING ACTIVITIES		
Loss for the period	**$ (3,097,709)**	$ (4,163,491)
Items not involving cash:		
Depreciation of property and equipment	**238,649**	237,739
Stock-based compensation expense	**88,375**	359,817
Foreign exchange (gains) losses arising on foreign currency cash balances	**4,646**	(2,888)
Net change in non-cash operating items:		
Accounts receivable	**(1,634)**	304,063
Accrued revenue	**614,710**	-
Deferred expenses	**(5,901)**	-
Inventory	**150,731**	-
Prepaid expenses and other assets	**44,436**	43,702
Accounts payable and accrued liabilities	**(1,459,681)**	(2,227,261)
Deferred revenue	**364,501**	128,335
	(3,058,877)	(5,319,984)
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(55,258)**	(552,570)
	(55,258)	(552,570)
FINANCING ACTIVITIES		
Issuance of common shares pursuant to exercise of options	**1,436**	200
	1,436	200
Foreign exchange gains (losses) arising on foreign currency cash balances	**(4,646)**	2,888
Decrease in cash and cash equivalents	**(3,117,345)**	(5,869,466)
Cash and cash equivalents, beginning of period	**12,346,010**	24,397,740
Cash and cash equivalents, end of period	**$ 9,228,665**	$ 18,528,274

See accompanying notes to the condensed consolidated financial statements.

1. Summary of significant accounting policies

Nature of business and future operations

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

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

Basis of presentation and significant accounting policies

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

These statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 and included in the 2010 Annual Report.

The unaudited interim condensed consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position, results of operations and cash flows at March 31, 2011 and for all periods presented.

The results of operations for the three months ended March 31, 2011 and March 31, 2010 are not necessarily indicative of the results for the full year.

These financial statements follow the same significant accounting policies as those described in the notes to the audited consolidated financial statements of Tekmira Pharmaceuticals Corporation ("the Company") for the year ended December 31, 2010.

These 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.

Income or loss per share

Income or loss per share is calculated based on the weighted average number of common shares outstanding. Diluted loss per share does not differ from basic loss per share since the effect of the Company's stock options are anti-dilutive. Diluted income per share is calculated using the treasury stock method which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding stock options. At March 31, 2011, potential common shares (prior to consideration of the treasury stock method) of 1,428,763 were excluded from the calculation of net loss per common share because their inclusion would be anti-dilutive (March 31, 2010 – 1,384,907).

Fair value of financial instruments

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

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

(Expressed in Canadian dollars)

Recent accounting pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued EITF 08-01, *Revenue Arrangements with Multiple Deliverables* (currently within the scope of FASB Accounting Standards Codification (ASC) Subtopic 605-25). This statement provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The EITF introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company adopted this pronouncement in the three month period ending March 31, 2011. Adoption of the pronouncement did not have a material impact on the Company's financial statements.

In March 2010, the FASB ratified the EITF final consensus on Issue ASC 2010-17, *Milestone Method of Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of a substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. The Company adopted this pronouncement in the three month period ending March 31, 2011. Adoption of the pronouncement did not have a material impact on the Company's financial statements.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The enhanced disclosure will provide financial statement users with an improved understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. This standard is effective on a prospective basis for the first interim or annual period beginning after December 15, 2010. The Company adopted this standard in the three month period ending March 31, 2011. Adoption of the standard did not have a material impact on disclosures in the Company's financial statements.

2. Collaborations, contracts and licensing agreements

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

	Three months ended March 31	
	2011	2010
Collaborations and contracts		
Alnylam (a)	**$ 917,201**	$ 865,823
U.S. Government (b)	**3,381,133**	**-**
Roche (c)	**3,520**	1,265,187
BMS (d)	**41,631**	227,995
Other RNAi collaborators (e)	**-**	106,930
Total research and development collaborations and contracts	**4,343,485**	2,465,935

(Expressed in Canadian dollars)

The following table sets forth deferred collaborations and contracts revenue:

	March 31, 2011	December 31, 2010
Alnylam (a)	**$ 284,739**	$ -
U.S. Government (b)	**885,837**	760,924
Roche (c)	**36,712**	40,232
BMS current portion (d)	**1,181,108**	1,181,108
Deferred revenue, current portion	**2,388,396**	1,982,264
BMS long-term portion (d)	**2,113,847**	2,155,478
Total deferred revenue	**$ 4,502,243**	$ 4,137,742

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

License and Collaboration Agreement with Alnylam through Tekmira

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

Cross-License with Alnylam acquired through Protiva

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

Research and development collaboration with Alnylam

Under a manufacturing agreement with Alnylam (the "Alnylam Manufacturing Agreement") effective January 1, 2009 the Company is the exclusive manufacturer of any products required by Alnylam through to the end of Phase 2 clinical trials that utilize the Company's technology. Alnylam pays the Company for the provision of staff and for external costs incurred. Time charged to Alnylam is at a fixed rate and under the Alnylam Manufacturing Agreement there is a contractual minimum for the provision of staff of $11,200,000 over the three years commencing January 1, 2009.

Licensing fees and milestone payments

Alnylam has provided non-exclusive access to the Company's lipid nanoparticle intellectual property to F. Hoffman-La Roche Ltd ("Roche") and Takeda Pharmaceutical Company Limited ("Takeda"). The Company is eligible to receive up to US$16,000,000 in milestone payments for each RNAi therapeutic advanced by Alnylam or its partners. The Company is also eligible for royalties on product sales. These milestones and royalties will pass through Alnylam.

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

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

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

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

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

(c) Roche collaboration

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

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

On November 17, 2010, Roche announced that, as part of a corporate restructuring, they intend to discontinue research and development in the field of RNAi. Following the announcement Roche confirmed that, except for completing some product stability studies, they would be discontinuing product development with the Company. As at March 31, 2011, the Company has retained a deferred revenue balance sufficient to cover the cost of completing those stability studies.

(d) Bristol-Myers Squibb collaboration

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

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

(e) Other RNAi collaborators

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

3. Concentration of credit risk

Credit risk is defined by the Company as an unexpected loss in cash and earnings if a collaborative partner is unable to pay its obligations in due time. The Company's main source of credit risk is related to its accounts receivable balance which principally represents temporary financing provided to collaborative partners in the normal course of operations. Accounts receivable from the U.S. Government as at March 31, 2011 were $2,698,227 and represent 81% of total accounts receivable as at that date (December 31, 2010 - $2,031,980 and 61%). Accounts receivable from Alnylam as at December 31, 2010 were $352,270 and represent 11% of total accounts receivable as at that date (December 31, 2010 - $836,655 and 20%).

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.

(Expressed in Canadian dollars)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2011 was the accounts receivable balance of $3,320,363 (December 31, 2010 - $3,318,729).

All accounts receivable balances at March 31, 2011 and at December 31, 2010 were current.

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities is comprised of the following:

	March 31 2011	December 31 2010
Trade accounts payable	**$ 2,635,422**	$ 3,035,273
Research and development accruals	**641,804**	1,241,630
Professional fee accruals	**663,388**	1,030,405
Restructuring cost accruals	**34,999**	34,999
Deferred lease inducements	**308,815**	346,098
Other accrued liabilities	**407,814**	463,518
	$ 4,692,242	$ 6,151,923

5. Contingencies

Litigation

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

On April 7, 2011 we announced that Alnylam had filed an answer and counterclaim to the Company's complaint against Alnylam. The Company has not recorded an estimated liability associated with Alnylam's answer and counterclaim due to the uncertainties related to both the likelihood and the amount of any potential loss.

Product development partnership with the Canadian Government

The Company entered into a Technology Partnerships Canada ("TPC") agreement with the Canadian Federal Government on November 12, 1999. Under this agreement, TPC agreed to fund 27% of the costs incurred by the Company, prior to March 31, 2004, in the development of certain oligonucleotide product candidates up to a maximum contribution from TPC of $9,329,912. As at March 31, 2011, a cumulative contribution of $3,701,571 has been received and the Company does not expect any further funding under this agreement. In return for the funding provided by TPC, the Company agreed to pay royalties on the share of future licensing and product revenue, if any, that is received by the Company on certain non-siRNA oligonucleotide product candidates covered by the funding under the agreement. These royalties are payable until a certain cumulative payment amount is achieved or until a pre-specified date. In addition, until a cumulative amount equal to the funding actually received under the agreement has been paid to TPC, the Company agreed to pay royalties of between 0.375% and 5% on the share of future product revenue, if any, for Marqibo that is received by the Company. To March 31, 2011 the Company has not made any royalty payments to TPC.

License agreement with Merck & Co., Inc. ("Merck") and related contingently payable promissory notes

The Company has a contingent liability of US$12,000,000 in regard to certain promissory notes and has a related, equal and offsetting contingent asset receivable from Merck.

The Company has 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.