MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management discussion and analysis (MD&A) for the nine months ended September 30, 2010 is as of November 10, 2010. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./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 should be read in conjunction with our unaudited consolidated financial statements for the three and nine months ended September 30, 2010 and the related notes thereto and our MD&A for the year ended December 31, 2009. Our consolidated financial statements are prepared in accordance with generally accepted accounting principles used in the United States of America ("U.S. GAAP"). These principles differ in certain respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The differences as they affect the interim financial statements are described in note 12 to our consolidated interim financial statements as at and for the three and nine months ended September 30, 2010 and our September 30, 2010 Canadian Supplement to the MD&A as of November 10, 2010. All amounts are expressed in U.S. dollars unless otherwise indicated.

The forward-looking statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, and other non-historical statements, are based on our current expectations and beliefs, including certain factors and assumptions, as described in our most recent Annual Information Form, but are also subject to numerous risks and uncertainties, as described in the "Risk Factors" section of our Annual Information Form. As a result of these risks and uncertainties, or other unknown risks and uncertainties, our actual results may differ materially from those contained in any forward-looking statements. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We undertake no obligation to update forward-looking statements, except as required by law. Additional information relating to Cardiome Pharma Corp., including our most recent Annual Information Form, is available by accessing the SEDAR website at www.sedar.com or the EDGAR website at www.sec.gov/edgar.

OVERVIEW

We are a life sciences company focused on developing drugs to treat or prevent cardiovascular diseases. We have one product, BRINAVESS™, approved for marketing in the European Union, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults. Our lead clinical programs are also focused on the treatment of atrial fibrillation, an arrhythmia, or abnormal rhythm, of the upper chambers of the heart. We also have a Phase 1 program for GED-aPC, an engineered analog of recombinant human activated Protein C, and have pre-clinical projects directed at various cardiovascular and other therapeutic indications.

The intravenous formulation of vernakalant hydrochloride (vernakalant (iv)) was recently approved for marketing in the European Union, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults, under the trade name BRINAVESS™. Vernakalant (iv) is also a product candidate in other jurisdictions for the acute conversion of atrial fibrillation.

We have previously announced positive results for two pivotal Phase 3 atrial fibrillation trials, ACT 1 and ACT 3, respectively, for vernakalant (iv). We have also announced positive results from an additional Phase 3 study, ACT 2, evaluating patients with post-operative atrial arrhythmia and have completed an open-label safety study, ACT 4, in conjunction with our North American co-development partner Astellas US LLC (Astellas).

In early 2007, the New Drug Application (NDA) for vernakalant (iv), filed by Astellas in 2006, was accepted for review by the United States Food & Drug Administration (FDA). We were informed that the expected action date under the U.S. Prescription Drug User Fee Act (PDUFA) was October 19, 2007. In Q3-2007, we announced that the FDA would be extending the review period for the NDA for vernakalant

(iv) to January 19, 2008. In Q4-2007, we, together with Astellas, participated in a panel review conducted by the Cardiovascular and Renal Drugs Advisory Committee and announced that the panel members voted 6 to 2 in favour of recommending to the FDA that vernakalant (iv) be approved for rapid conversion of acute atrial fibrillation to sinus rhythm. In Q1-2008, we announced that Astellas was informed by the FDA that a decision had not yet been made regarding the NDA for vernakalant (iv) and that the FDA did not provide an action letter prior to the target PDUFA action date. In Q1-2008, we initiated a Phase 3 European Comparator Study (the AVRO study) for vernakalant (iv). In Q3-2008, we announced that Astellas received an action letter from the FDA informing Astellas that the FDA had completed its review of the NDA for vernakalant (iv) and that the application is approvable. In Q3-2009, we announced that, following extended discussions with the FDA, Astellas is undertaking a single confirmatory additional Phase 3 clinical trial under a Special Protocol Agreement (SPA), called ACT 5, which began patient enrolment in Q4-2009. In October 2010, we announced that Astellas has suspended patient enrollment in the ACT 5 trial pending FDA review of a single serious adverse event of cardiogenic shock experienced by a patient with atrial fibrillation who received vernakalant (iv).

In Q2-2009, we announced a collaboration and license agreement for the development and commercialization of vernakalant (iv) with an affiliate of Merck & Co., Inc. (Merck), providing Merck with exclusive rights to vernakalant (iv) outside of the United States, Canada and Mexico (collectively "North America"). Under the agreement, further development efforts and expenses for vernakalant (iv) outside of North America are the responsibility of Merck, notwithstanding the AVRO study, which was funded by us. In Q3-2009, we announced that Merck had filed a Marketing Authorisation Application (MAA) to the European Medicines Agency (EMA) seeking marketing approval for vernakalant (iv) in the European Union, triggering a $15 million milestone payment to us. In Q4-2009, we announced that the AVRO study was completed and met its primary endpoint of achieving statistical significance in demonstrating the superiority of vernakalant (iv) over amiodarone in the conversion of atrial fibrillation to sinus rhythm within 90 minutes of the start of drug administration. In Q2-2010, we announced final results from the AVRO study, which were presented at Heart Rhythm 2010, the annual meeting of the Heart Rhythm Society. In Q2-2010, we also announced that the Committee for Medicinal Products for Human Use of the EMA recommended marketing approval for vernakalant (iv) for the conversion of recent onset atrial fibrillation to sinus rhythm in adults.

In September 2010, we announced that vernakalant (iv), under the trade name BRINAVESS™, was granted marketing approval in the European Union, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less. The approval triggered a $30 million milestone payment to us from Merck. Subsequent to quarter-end, BRINAVESS™ has been commercially launched by Merck in a number of countries, and further product launches are planned for the remaining countries for which marketing approval has been obtained. In addition, Merck is currently enrolling patients in a Phase 3 Asia Pacific study that is expected to support regulatory applications in additional territories for which marketing approval has not yet been attained.

Our product candidate for the long-term prevention of atrial fibrillation recurrence is the oral formulation of vernakalant hydrochloride (vernakalant (oral)). In 2006, we announced positive results from a Phase 2a pilot study. A Phase 2b clinical study for vernakalant (oral) was initiated in Q1-2007 and we announced positive final results from the completed study in Q3-2008. In Q2-2009, we announced a collaboration and license agreement for the development and commercialization of vernakalant (oral) providing a Merck affiliate with exclusive rights to vernakalant (oral) globally. Further development efforts and

expenses for vernakalant (oral) globally are the responsibility of Merck. Merck continues to work toward optimizing the clinical development plan for vernakalant (oral).

In Q2-2007, Cardiome acquired exclusive worldwide rights to GED-aPC, an engineered analog of recombinant human activated Protein C, for all indications. In Q4-2007, we announced initiation of a Phase 1 study for GED-aPC. In Q3-2009, we announced that enrolment in this trial was completed. Results from this study are expected to be released in 2010. We also announced the decision that future development and commercialization of the GED-aPC technology, currently held in a subsidiary company, will be funded either externally or via a partnership with another life sciences company. We are currently seeking external capital to fund future activities related to the development of GED-aPC. We may choose to co-invest in the venture to maintain an equity interest. Under a collaborative research and development agreement (CRDA) with the US Army Medical Research Institute of Infectious Diseases (USAMRIID), we are supplying GED-aPC in support of a non-clinical investigation into the potential therapeutic benefit of GED-aPC in infectious disease. The study is funded by the US Department of Defense, Defense Threat Reduction Agency and will conclude in 2011.

CORPORATE DEVELOPMENT

Long-term debt

In February 2010, we announced that Merck, through an affiliate, advanced $25 million to us pursuant to a $100 million secured, interest-bearing credit facility granted to us under the collaboration and license agreement with Merck. This credit facility can be accessed in amounts of up to $25 million annually, subject to certain minimums, from January 1, 2010 to December 31, 2013. We may, at our option, repay all or a portion of the advance from time to time without premium or penalty. This advance must be repaid in full by December 31, 2016.

AVRO Study Results

In May 2010, we announced final results from the AVRO Phase 3 comparator study for vernakalant (iv), which showed that vernakalant (iv) was superior to amiodarone injection, in converting patients' heart rate from atrial fibrillation to sinus rhythm within 90 minutes of the start of administration. The results of the study were presented at Heart Rhythm 2010, the annual meeting of the Heart Rhythm Society.

European Market Approval of BRINAVESS™ and $30 Million Milestone

In September 2010, we announced that vernakalant (iv), under the trade name BRINAVESS™, was granted marketing approval in the European Union, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less. Also in September 2010, we announced that European approval triggered a $30 million milestone payment from Merck. BRINAVESS™ has been commercially launched by Merck in a number of countries, and further product launches are planned for the remaining approved countries.

Suspension of Enrollment in ACT 5 Trial

Subsequent to quarter-end, in October 2010, we announced that Astellas has suspended patient enrollment in the ACT 5 study of vernakalant (iv) following a single unexpected serious adverse event of cardiogenic shock experienced by a patient with atrial fibrillation who received vernakalant (iv).

The trial's independent Data Safety Monitoring Board had reviewed the case and recommended the trial continue, however the U.S. Food and Drug Administration (FDA) requested that full data regarding this case from the South American clinical site be provided for their review prior to determining what steps, if any, are needed to restart the study.

CLINICAL DEVELOPMENT

The following table summarizes recent clinical trials and regulatory developments associated with each of our research and development programs:

Project	Stage of Development	Current Status	Cost to Date (in millions of dollars)
Vernakalant (iv)	FDA New Drug Application (NDA)	ACT 5 trial initiated in Q4-2009. Patient enrollment currently suspended.	94.6
	European Marketing Authorisation Application (MAA)	Marketing approval received in September 2010.	
	European Comparator (AVRO) Study	Final results released in Q2-2010	
	Phase 3 Asia Pacific study	Patient enrollment initiated in Q3-2010	
Vernakalant (oral)	Phase 2b Clinical Trial	Final results released in Q3-2008	108.5
GED-aPC	Phase 1	Phase 1 study completed	15.7
	USAMRIID study	CRDA signed	
Pre-clinical Projects	Pre-Clinical Stage	Pre-clinical studies	2.7

The following provides a description of our clinical development efforts for each of our projects during the quarter:

Vernakalant (iv)

During Q3-2010, we continued to support Merck in the development of vernakalant (iv) outside of North America. Further development efforts for vernakalant (iv) outside of North America are now the responsibility of Merck. When requested, we also continued to support Astellas with the development of vernakalant (iv) in North America, including the ongoing ACT 5 trial.

Vernakalant (oral)

During Q3-2010, we continued to support Merck in the development of vernakalant (oral). Further development efforts for vernakalant (oral) globally are now the responsibility of Merck.

GED-aPC

During Q3-2010, we continued our efforts to secure external capital to fund continued clinical development of GED-aPC. Further development of GED-aPC is not expected to begin until such funding is obtained. Under a CRDA with USAMRIID, we are supplying GED-aPC in support of a non-clinical investigation into the potential therapeutic benefit of GED-aPC in infectious disease. The study is funded by the US Department of Defense, Defense Threat Reduction Agency and will conclude in 2011.

Other Projects

We continue to conduct pre-clinical research and development work on our internal early stage assets as well as review the external world for later stage and commercial assets.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting that occurred during the three and nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Our interim consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time that these estimates and assumptions were made. Actual results may differ from these estimates under different assumptions or conditions. Significant areas requiring management estimates include the assessment of net recoverable value and amortization period of technology licenses, clinical trial accounting, revenue recognition, stock-based compensation, and recognition of future income tax assets.

The significant accounting policies that we believe are the most critical in fully understanding and evaluating our reported financial results include our accounting policies with respect to intangible assets, clinical trial accounting, revenue recognition, research and development costs, stock-based compensation, and income taxes. These and other significant accounting policies are described more fully in Notes 2 and 19 of our 2009 consolidated annual financial statements and in our 2009 annual management's discussion and analysis. There have been no changes in these policies except as noted below:

Changes in Significant Accounting Policies

Prior to January 1, 2010, we prepared our consolidated financial statements in conformity with Canadian GAAP and provided a supplemental reconciliation to U.S. GAAP. Effective January 1, 2010, we adopted U.S. GAAP as the reporting standard for our consolidated financial statements. Our consolidated interim financial statements for the three and nine months ended September 30, 2010, including related notes, have therefore been prepared in accordance with U.S. GAAP. All comparative financial information contained in our consolidated interim financial statements has been recast to reflect our results as if they had been historically reported in accordance with U.S. GAAP. These adjustments resulted in an increase in deficit of $13.7 million, a decrease in intangible assets of $13.8 million, an increase in common share capital of $0.4 million, an increase in additional paid-in capital of $0.1 million and a decrease in accumulated other comprehensive income of $0.6 million, in each case as at January 1, 2010. These differences are outlined in note 19 to our annual audited consolidated financial statements for the year ended December 31, 2009. A reconciliation of the differences from U.S GAAP to Canadian GAAP is contained in note 12 to our consolidated interim financial statements as at and for the three and nine months ended September 30, 2010 and are described in our Canadian Supplement to the MD&A as of November 10, 2010.

Our functional currency changed to U.S. dollars from Canadian dollars on January 1, 2010 based on our analysis of the primary economic environment in which we operate. The change in functional currency is accounted for prospectively from January 1, 2010 and prior year financial statements have not been restated for the change in functional currency. As a result of the change, foreign operations have been translated to U.S. dollars using the temporal method on a prospective basis. Monetary assets and liabilities are translated into U.S. dollars using the exchange rate in effect at the end of the period, and non-monetary assets and liabilities are translated into U.S. dollars using the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at the average rate during the period. Foreign exchange gains and losses are included in our consolidated statement of operations and comprehensive income (loss).

We have also elected to adopt U.S. dollars as our reporting currency effective January 1, 2010 to better reflect our business and to improve comparability of our financial information with other publicly traded businesses in the life sciences industry. Prior year financial statements and all comparative financial information contained in our interim consolidated financial statements have been recast to reflect our results as if they had been historically reported in U.S. dollars. All revenues, expenses and cash flows for each period were translated into the reporting currency using average rates for the period, or the rates in effect at the date of the transaction for significant transactions. Assets and liabilities were translated using the exchange rate at the end of the period and shareholders' equity was translated at historical rates. The resulting translation adjustment is recorded as cumulative translation adjustment in accumulated other comprehensive income.

The cumulative impact of the change in reporting currency was to increase accumulated other comprehensive income by $18.2 million as at December 31, 2009.

Impact of Accounting Pronouncements Affecting Future Periods

International Financial Reporting Standards:

In February 2010, the U.S. Securities and Exchange Commission (SEC) approved a new timeline regarding the potential use of International Financial Reporting Standards (IFRS) by SEC issuers. Under this timeline, the earliest date SEC issuers could be required to prepare financial statements under IFRS is fiscal 2015. We expect to adopt IFRS as our primary reporting standard when the SEC requires its domestic registrants in the U.S. to transition to IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We have not assessed the impact of this potential change on its consolidated financial statements.

Multiple-Deliverable Revenue Arrangements:

In October 2009, the Financial Accounting Standards Board (FASB) provided amendments to the criteria for separating consideration in multiple-deliverable arrangements, established a selling price hierarchy for determining the selling price of a deliverable, and eliminated the residual method of allocation of consideration by requiring that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. FASB also requires expanded disclosures related to multiple-deliverable revenue arrangements, including information about the significant judgments made and changes to those judgments, as well as how the application of the relative selling-price method affects the timing and amount of revenue recognition. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years

beginning on or after June 15, 2010. We do not expect the adoption of the amendments to have a material impact on the Company's financial position, results of operations or cash flows.

Milestone method of revenue recognition:

In April 2010, FASB published guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones that should be evaluated individually. The amendments are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the impact of adoption of the amendments on the Company's financial position, results of operations and cash flows.

RESULTS OF OPERATIONS

We recorded a net income of $22.8 million ($0.37 per common share) for the three months ended September 30, 2010 (Q3-2010), compared to $0.2 million ($0.00 per common share) for the three months ended September 30, 2009 (Q3-2009). On a year-to-date basis, we recorded a net income of $42.8 million ($0.70 per common share) for the nine months ended September 30, 2010, compared to a net loss of $9.7 million ($(0.15) per common share) for the nine months ended September 30, 2009. The increase in net income for the current quarter and year-to-date was largely due to recognition of the $30 million milestone payment from Merck related to the marketing approval in Europe of vernakalant (iv) in Q3-2010 and decreased research and development expenditures related to vernakalant (iv), vernakalant (oral) and GED-aPC clinical activities. On a year-to-date basis, there was also revenue recognized from the payments from Merck in 2009 pursuant to the collaboration and licence agreement. The deferred revenue related to the payments received pursuant to the Merck collaboration and license agreement has been fully recognized.

We will earn royalty revenue from Merck from the sale of vernakalant (iv) in Europe in the fourth quarter of 2010. Operating costs are expected to remain at current levels for the remainder of the year. We will continue to incur costs related to conducting early stage research.

Revenues

Revenue for Q3-2010 was $30.2 million, an increase of $11.0 million from $19.2 million in Q3-2009. Revenue in Q3-2010 consisted of $30 million (Q3-2009 - $19.1 million) in licensing fees and $0.2 million (Q3-2009 - $0.1 million) in research and collaborative fees. On a year-to-date basis, revenue for the nine months ended September 30, 2010 and 2009 was $65.7 million and $26.8 million respectively. Year-to-date revenue consisted of $65.1 million (2009 - $26.1 million) in licensing fees and $0.6 million (2009 - $0.7 million) in research and collaboration fees.

Licensing fees represent milestone payments and the amortization of deferred revenue related to upfront and other payments from our collaborative partners. In Q3-2010, we recognized as revenue a $30 million milestone payment from Merck related to the marketing approval in Europe of vernakalant (iv). In 2009, we received from Merck an upfront payment of $60 million, a MAA milestone payment of $15 million and proceeds from shipment of clinical supplies. These payments were recorded as deferred revenue and

amortized over a period of time. In Q2-2010, we recorded the final amortization of deferred revenue related to these payments.

Research and collaborative fees are comprised of contract research fees and project management fees from our collaborative partners. We will continue to earn research and collaborative fees from our collaborative partners.

In future periods, we will earn royalty revenue from our collaborative partner Merck from the sale of vernakalant (iv) in Europe. We may also earn additional milestone revenue from Merck for the development of vernakalant. In addition, depending on the results and timing of a decision by the FDA, we may earn additional milestone payments and royalties from our collaborative partner Astellas.

Research and Development Expenditures

Research and development (R&D) expenditures were $3.5 million for Q3-2010 compared to $9.3 million for Q3-2009. We incurred total R&D expenditures of $10.9 million for the nine months ended September 30, 2010, compared to $20.8 million for the same period in fiscal 2009.

(in millions of dollars)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
Project	2010 $	2009 (Adjusted)[(1)] $	2010 $	2009 (Adjusted)[(1)] $
Vernakalant (oral)	0.5	1.0	1.1	5.5
Vernakalant (iv)	2.5	5.1	6.6	10.1
GED-aPC	0.0	2.6	0.7	4.0
Other projects	0.5	0.6	2.5	1.2
Total research and development expenses	3.5	9.3	10.9	20.8

(1) Adjustments relate to the adoption of U.S. GAAP as our primary reporting standard and U.S. dollars as our reporting currency as of January 1, 2010.

The decrease of $5.8 million in R&D expenditures in Q3-2010 compared to Q3-2009 was primarily due to reduced expenditures for vernakalant (iv) related to the completion of the AVRO Phase 3 comparator study in Q4-2009 and for GED-aPC related to the completion of the Phase 1 clinical trial in Q3-2009 and the fact we have not initiated further clinical development for GED-aPC. In Q3-2010, spending on vernakalant (iv) primarily related to our funding of the ACT 5 clinical trial and was $2.6 million lower compared to R&D costs in Q3-2009, which were primarily related to the AVRO comparator trial. The R&D expenditures related to vernakalant (oral) decreased in Q3-2010 compared to Q3-2009, as future costs of development for this program are the responsibility of Merck. Spending on other projects in both periods was largely related to internal pre-clinical research and development work.

The decrease of $9.9 million in R&D expenditures for the nine months ended September 30, 2010 compared to the same period in 2009 was primarily due to reduced expenditures for (i) vernakalant (oral) as costs of development for this program are the responsibility of Merck subsequent to the collaboration and license agreement with Merck announced in Q2-2009, (ii) vernakalant (iv) due to the completion of the AVRO Phase 3 comparator study and (iii) GED-aPC due to the completion of the phase 1 clinical trial. This was partially offset by an increase in spending on vernakalant (iv) related to our funding of the ACT 5 clinical trial.

For the remainder of the year, we may continue to incur costs related to the ACT 5 trial for vernakalant (iv) depending on the result and timing of a review by the FDA to restart the trial. We will also continue to incur costs related to the continued development of other pre-clinical projects.

General and Administration Expenditures

General and administration (G&A) expenditures for Q3-2010 were $3.5 million compared to $4.2 million in Q3-2009. The decrease of $0.7 million in G&A expenditures in Q3-2010 as compared to Q3-2009 was primarily due to decreased stock-based compensation expense.

On a year-to-date basis, G&A expenditures were $10.1 million for the nine months ended September 30, 2010, compared to $11.7 million for the same period in 2009. The decrease of $1.6 million in G&A expenditures on a year-to-date basis compared to the same period in 2009 was primarily due to higher costs in 2009 due to closing the collaboration and license agreement with Merck. For the remainder of the year, we expect our G&A expenditures to remain at current levels.

Other Income and Expense

Net interest expense for Q3-2010 and for the nine months ended September 30, 2010 was $0.6 million and $1.4 million, respectively, and related to interest payable on our $25 million advance on the Merck long-term debt. Net interest income in the same periods in 2009 was not significant.

Foreign exchange gain was $0.2 million for Q3-2010 compared to a foreign exchange loss of $5.2 million in Q3-2009. Foreign exchange loss was $0.1 million for the nine months ended September 30, 2010, compared to $3.2 million in the same period in 2009. Foreign exchange gains (losses) are primarily attributable to the translation of foreign currency denominated net monetary assets into our functional currency at period end. As our net monetary assets are primarily denominated in U.S. dollars, the change in our functional currency from Canadian dollars to U.S. dollars at January 1, 2010, has resulted in reduced fluctuations in our foreign exchange in 2010 compared to 2009.

SUMMARY OF QUARTERLY RESULTS

Set forth below is the selected unaudited consolidated financial data for each of the last eight quarters:

(In thousands of United States dollars except per share amounts)	3rd Quarter ended September 30, 2010	2nd Quarter ended June 30, 2010	1st Quarter ended March 31, 2010	4th Quarter ended (Adjusted)[1] December 31, 2009
Total revenue	30,221	12,424	23,045	23,437
Research and development	3,486	3,682	3,754	5,788
General and administration	3,505	3,272	3,358	3,366
Net income for the period	22,768	4,560	15,473	12,102
Income per common share				
Basic	0.37	0.08	0.26	0.20
Diluted	0.37	0.07	0.26	0.20

	3rd Quarter ended (Adjusted)[1] September 30, 2009	2nd Quarter ended (Adjusted)[1] June 30, 2009	1st Quarter ended (Adjusted)[1] March 31, 2009	4th Quarter ended (Adjusted)[1] December 31, 2008
Total revenue	19,198	7,345	220	338
Research and development	9,290	5,376	6,162	7,877
General and administration	4,193	4,226	3,320	3,116
Net income (loss) for the period	228	(732)	(9,244)	(5,905)
Loss per common share				
Basic and diluted	0.00	(0.01)	(0.14)	(0.09)

[1] Adjustments relate to the adoption of U.S. GAAP as our primary reporting standard and U.S. dollars as our reporting currency as of January 1, 2010.

The primary factors affecting the magnitude of our net income (losses) in the various quarters were licensing fee revenue, R&D expenditures associated with clinical development programs, stock-based compensation expense and foreign exchange gains and losses.

Net income for the last five quarters (Q3-2009 to Q3-2010) compared to net losses in the previous quarters is primarily due to licensing fee revenue from Merck. In addition, reduced R&D expenses for the last four quarters (Q4-2009 to Q3-2010) added to the net income for those periods. Revenue in Q3-2010 is mainly due to the recognition of the $30 million milestone payment from Merck related to the marketing approval in Europe of vernakalant (iv). Revenue from Q2-2009 to Q2-2010 is mainly due to the amortization of deferred revenue from Merck related to the upfront payment, the MAA milestone payment, and proceeds from shipment of clinical supplies. R&D expenses for the three quarters in 2010 were lower compared to previous quarters due to the completion of the AVRO Phase 3 comparator study for vernakalant (iv) and the payment by Merck of the continuing costs of development related to vernakalant (oral). The Q3-2009 net income included a foreign exchange loss of $5.2 million. The fluctuation in G&A

costs over the various quarters is primarily due to corporate governance activities, business development initiatives, stock-based compensation expense and our strategic process.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Our operational activities during the quarter were financed mainly by working capital carried forward from the preceding fiscal year and a $25 million advance on our line of credit from Merck. We believe that our cash position as of September 30, 2010, the receipt of the $30 million milestone payment from Merck in October 2010, the anticipated cash inflows from our collaborative partners, and available credit facilities will be sufficient to finance our operational and capital needs for at least 24 months. Our future cash requirements may vary materially from those now expected due to a number of factors, including the costs associated with clinical trials, revenues associated with collaborative and license arrangements with third parties and strategic opportunities.

At September 30, 2010, we had working capital of $79.1 million compared to $6.2 million at December 31, 2009. We had available cash reserves comprised of cash and cash equivalents of $53.4 million at September 30, 2010 compared to $47.3 million at December 31, 2009.

Cash used in operating activities for Q3-2010 was $5.0 million, a decrease of $11.6 million from cash provided by operating activities of $6.6 million for Q3-2009. Cash used in operating activities for the nine months ended September 30, 2010 was $20.7 million, a decrease of $64.2 million from cash provided by operating activities of $43.5 million for the same period in 2009. The decrease in cash provided by operating activities in Q3-2010 compared to the same period in 2009 was primarily due to the receipt of a $15 million MAA milestone payment from Merck, partially offset by higher R&D expenditures associated with the AVRO Phase 3 comparator study for vernakalant (iv) in Q3-2009. The decrease in cash provided by operating activities for the nine months ended September 30, 2010 compared to the same period in 2009 was primarily due to receipts of the $15.0 million MAA milestone and $60 million upfront payments from Merck in 2009, partially offset by higher R&D expenditures and costs associated with the AVRO Phase 3 comparator study for vernakalant (iv) and with closing the collaboration and license agreement with Merck in the nine months ended September 30, 2009.

Cash used in investing activities for the three and nine months ended September 30, 2010 and 2009 was not significant and consisted mainly of patents fees, as well as purchases of laboratory and computer equipment.

Cash provided by financing activities was $0.7 million for Q3-2010, and $27.4 million for the nine months ended September 30, 2010.The primary source of cash in Q3-2010 was cash receipts from the issuance of common shares upon exercise of stock options. The primary source of cash in the nine months ended September 30, 2010 was the $25 million advance on the Merck long-term debt. Cash provided by financing activities in Q3-2009 and the nine months ended September 30, 2009 was $0.8 million and $1.1 million, respectively. The primary source of cash in both periods of 2009 was cash receipts from the issuance of common shares upon exercise of stock options.

CONTRACTUAL OBLIGATIONS

As of September 30, 2010 and in the normal course of business we have the following obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual Obligations	Payment due by period						
(In thousands of dollars)	2010 $	2011 $	2012 $	2013 $	2014 $	There-after $	Total $
Other long-term obligations	7	28	31	34	6	Nil	106
Operating lease obligations	352	1,403	1,441	1,449	302	Nil	4,947
Commitments for clinical research agreements and other agreements	143	55	Nil	Nil	Nil	Nil	198
Long-term debt	Nil	Nil	Nil	Nil	Nil	25,000	25,000
Interest expense on long-term debt	566	2,244	2,244	2,244	2,244	4,488	14,030
Total	1,068	3,730	3,716	3,727	2,552	29,488	44,281

OUTSTANDING SHARE CAPITAL

As of November 10, 2010, we had 61,052,362 common shares issued and outstanding, and 5,581,094 common shares issuable upon the exercise of outstanding stock options (of which 3,732,787 were exercisable) at a weighted average exercise price of CAD $7.69 per share.

RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as of September 30, 2010 was $0.4 million (December 31, 2009 - $0.2 million) owing to a legal firm where our corporate secretary is a partner. The amounts charged were recorded at their exchange amounts and are subject to normal trade terms. For the nine months ended September 30, 2010, we incurred approximately $0.4 million (2009 - $1.0 million) of legal fees for services provided by this legal firm.

OFF-BALANCE SHEET ARRANGEMENTS

We have no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

FINANCIAL INSTRUMENTS AND RISKS

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates, each of which could affect the value of our current assets and liabilities. We invest our cash reserves in fixed rate, highly liquid and highly rated financial instruments such as treasury bills, commercial papers and banker's acceptances. At September 30, 2010, our cash and cash equivalents were primarily held as cash. 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, due to the relative short-term nature of the investments and our current ability to hold fixed income investments to maturity. At September 30, 2010, we hold a $25 million long term advance on the Merck credit facility,

which is interest bearing at a variable rate. As a result, interest rate changes could have a material effect on future operating results or cash flows. We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.