

Consolidated Financial Statements

(Expressed in thousands of United States (U.S.) dollars)

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

CARDIOME PHARMA CORP.

As at and for the years ended December 31, 2012 and 2011

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Cardiome Pharma Corp. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements and related notes have been prepared by management in accordance with generally accepted accounting principles used in the United States of America, and where appropriate, reflect management's best estimates and assumptions based upon information available at the time that these estimates and assumptions were made.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

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

The company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with Canadian generally accepted auditing standards and express their opinion thereon.

/s/Dr. William Hunter
Interim President and CEO

March 14, 2013

/s/Jennifer Archibald
Chief Financial Officer

March 14, 2013

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Cardiome Pharma Corp.

We have audited the accompanying consolidated financial statements of Cardiome Pharma Corp., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cardiome Pharma Corp. as at December 31, 2012 and December 31, 2011, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with U.S. generally accepted accounting principles.

“SIGNED: KPMG LLP”

Chartered Accountants

March 14, 2013
Vancouver, Canada

CARDIOME PHARMA CORP.

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except share amounts)

(Prepared in accordance with U.S. GAAP)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (note 5)	\$ 41,267	\$ 48,644
Accounts receivable	978	1,248
Prepaid expenses and other assets	771	628
	<u>43,016</u>	<u>50,520</u>
Property and equipment (note 6)	271	1,967
Intangible assets (note 7)	1,506	1,548
	<u>\$ 44,793</u>	<u>\$ 54,035</u>

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 4,434	\$ 3,188
Current portion of long-term debt (note 10)	32,500	-
Current portion of deferred leasehold inducement (note 9)	-	116
	<u>36,934</u>	<u>3,304</u>
Deferred leasehold inducement (note 9)	-	445
Long-term debt (note 10)	-	25,000
	<u>36,934</u>	<u>28,749</u>
Stockholders' equity:		
Common stock (note 11)	262,439	262,097
Authorized - unlimited number with no par value		
Issued and outstanding – 62,351,691 (2011 – 61,129,091)		
Additional paid-in capital	32,754	32,208
Deficit	(305,519)	(287,204)
Accumulated other comprehensive income	18,185	18,185
	<u>7,859</u>	<u>25,286</u>
	<u>\$ 44,793</u>	<u>\$ 54,035</u>

Nature of operations (note 1)

Commitments and contingencies (notes 13 and 18)

Related party transactions (note 17)

Subsequent event (note 20)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ Peter W. Roberts
Director

/s/ Harold H. Shlevin
Director

CARDIOME PHARMA CORP.

Consolidated Statements of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2012, 2011 and 2010

(Expressed in thousands of U.S. dollars, except share and per share amounts)

(Prepared in accordance with U.S. GAAP)

	December 31, 2012	December 31, 2011	December 31, 2010
Revenue:			
Licensing and other fees (note 14)	\$ 463	\$ 453	\$ 65,234
Research collaborative fees (note 14)	326	1,052	830
	789	1,505	66,064
Expenses:			
Research and development	6,017	15,224	15,339
General and administration	9,611	11,549	12,875
Restructuring (note 16)	10,040	-	-
Amortization	1,229	1,095	1,154
Gain on disposition of property and equipment	(148)	-	-
Loss on write-down of intangible assets	-	95	25
	26,749	27,963	29,393
Operating income (loss)	(25,960)	(26,458)	36,671
Other expenses (income):			
Interest expense	4,268	2,218	1,975
Other income	(695)	(756)	(803)
Gain on settlement of debt (note 10)	(11,218)	-	-
	(7,645)	1,462	1,172
Net income (loss) and comprehensive income (loss)	\$ (18,315)	\$ (27,920)	\$ 35,499
Income (loss) per share (note 12)			
Basic and Diluted	\$ (0.30)	\$ (0.46)	\$ 0.58
Weighted average common shares outstanding			
Basic	61,272,730	61,125,804	60,813,604
Diluted	61,272,730	61,125,804	61,321,263

See accompanying notes to the consolidated financial statements.

CARDIOME PHARMA CORP.

Consolidated Statements of Stockholders' Equity
 For the years ended December 31, 2012, 2011 and 2010
 (Expressed in thousands of U.S. dollars)
 (Prepared in accordance with U.S. GAAP)

	Common stock	Additional paid-in capital	Deficit	Accumulated other comprehensive income	Total stockholders' equity
Balance at December 31, 2009	\$256,711	\$29,669	\$(294,783)	\$18,185	\$9,782
Net income	-	-	35,499	-	35,499
Common stock issued upon exercise of options	2,359	-	-	-	2,359
Reallocation of additional paid-in capital arising from stock-based compensation related to exercise of options	2,484	(2,484)	-	-	-
Stock-based compensation expense recognized	-	3,277	-	-	3,277
Balance at December 31, 2010	\$ 261,554	\$ 30,462	\$ (259,284)	\$ 18,185	\$ 50,917
Net loss	-	-	(27,920)	-	(27,920)
Common stock issued upon exercise of options	358	-	-	-	358
Reallocation of additional paid-in capital arising from stock-based compensation related to exercise of options	185	(185)	-	-	-
Stock-based compensation expense recognized	-	1,931	-	-	1,931
Balance at December 31, 2011	\$ 262,097	\$ 32,208	\$ (287,204)	\$ 18,185	\$ 25,286
Net loss	-	-	(18,315)	-	(18,315)
Issuance of common stock (note 16)	342	-	-	-	342
Stock-based compensation expense recognized	-	546	-	-	546
Balance at December 31, 2012	\$ 262,439	\$ 32,754	\$ (305,519)	\$ 18,185	\$ 7,859

See accompanying notes to the consolidated financial statements.

CARDIOME PHARMA CORP.

Consolidated Statements of Cash Flows
 For the years ended December 31, 2012, 2011, and 2010
 (Expressed in thousands of U.S. dollars)
 (Prepared in accordance with U.S. GAAP)

	December 31, 2012	December 31, 2011	December 31, 2010
Cash flows from operating activities:			
Net income (loss) for the year	\$ (18,315)	\$ (27,920)	\$ 35,499
Items not affecting cash:			
Amortization	1,229	1,095	1,154
Restructuring costs settled by share issuance (note 16)	342	-	-
Stock-based compensation	546	1,931	3,277
Deferred leasehold inducement	(561)	(123)	(193)
Gain on settlement of debt	(11,218)	-	-
Unrealized foreign exchange gain	(133)	(61)	(180)
Impairment of property and equipment	717	-	-
Loss on write-down of intangible assets	-	95	25
Changes in operating assets and liabilities:			
Accounts receivable	270	(506)	711
Prepaid expenses and other assets	14	372	(505)
Accounts payable and accrued liabilities	2,011	(2,492)	(1,914)
Deferred revenue	-	-	(35,197)
Net cash provided by (used in) operating activities	(25,098)	(27,609)	2,677
Cash flows from investing activities:			
Purchase of property and equipment	(141)	(676)	(274)
Purchase of intangible assets	(292)	(343)	(310)
Net cash used in investing activities	(433)	(1,019)	(584)
Cash flows from financing activities:			
Issuance of common stock upon exercise of stock options	-	358	2,359
Proceeds from sale of property and equipment	70	-	-
Proceeds from draws of long-term debt (note 10)	25,000	-	25,000
Repayment of long-term debt (note 10)	(7,000)	-	-
Net cash provided by financing activities	18,070	358	27,359
Effect of foreign exchange rate changes on cash and cash equivalents			
Equivalents	84	26	166
Increase (decrease) in cash and cash equivalents during the year	(7,377)	(28,244)	29,618
Cash and cash equivalents, beginning of year	48,644	76,888	47,270
Cash and cash equivalents, end of year	\$ 41,267	\$ 48,644	\$ 76,888
Supplemental cash flow information:			
Interest paid	\$ 2,238	\$ 2,241	\$ 1,991
Interest received	22	22	16

See accompanying notes to the consolidated financial statements.

CARDIOME PHARMA CORP.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars except share and per share amounts and where otherwise indicated)

(Prepared in accordance with U.S. GAAP)

As at and for the years ended December 31, 2012 and 2011

1. Nature of operations:

Cardiome Pharma Corp. (the Company) was incorporated under the Company Act (British Columbia) on December 12, 1986 and was continued under the laws of Canada on March 8, 2002. The Company is a biopharmaceutical company dedicated to the discovery, development and commercialization of new therapies that will improve the health of patients around the world.

The Company has financed its cash requirements primarily from share issuances, payments from research collaborators, licensing fees, and draws from a credit facility that was available under a collaborative agreement (note 10). The Company's ability to realize the carrying value of its assets is dependent on successfully bringing its technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It may be necessary for the Company to raise additional funds for the continuing development of its technologies. These funds may come from sources which include entering into strategic collaboration arrangements, issuance of shares, or alternative sources of financing. However, there can be no assurance that the Company will successfully raise funds to continue the development of all its technologies.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with U.S. GAAP and are presented in United States dollars. The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Cardiome Pharma Corp. and its wholly-owned subsidiaries, Rhythm-Search Developments Ltd. (incorporated in Canada), Cardiome, Inc. (incorporated in the United States), Artesian Therapeutics, Inc. (incorporated in the United States), Cardiome Development AG (a company continued under the laws of Switzerland), and Cardiome UK Limited (incorporated in the United Kingdom). Intercompany accounts and transactions have been eliminated on consolidation.

(b) Use of estimates:

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Significant areas requiring the use of estimates relate to the assessment of net recoverable value and amortization period of intangible assets, accrual of clinical trial and research expenses, reporting of revenue recognition, and accounting for stock-based compensation expense. The reported amounts and note disclosure are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from those estimates.

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2. Significant accounting policies (continued):

(c) Foreign currency translation:

The Company and its subsidiaries translate monetary assets and liabilities denominated in foreign currency into U.S. dollars using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates during the period. Foreign exchange gains and losses related to available-for-sale financial assets are recognized as part of other comprehensive income (loss) until realized. All other foreign exchange gains and losses are included in the determination of net income.

(d) Financial instruments:

Fair value measurements of financial instruments are determined by using a fair value hierarchy that prioritizes the inputs to valuation techniques into three levels according to the relative reliability of the inputs used to estimate the fair values.

The three levels of inputs used to measure fair value are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical financial instruments;

Level 2 - Inputs other than quoted prices that are observable for the financial instrument either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

In determining fair value measurements, we use the most observable inputs when available. The fair value hierarchy level at which a financial instrument is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

(e) Cash and cash equivalents:

The Company considers all highly liquid investments with an original maturity of 90 days or less, when acquired, to be cash equivalents, which are carried at fair value and are designated as held for trading.

(f) Short-term investments:

The Company considers all highly liquid financial instruments with an original maturity greater than 90 days and less than one year to be short-term investments. Short-term investments are determined to be either held for trading or available-for-sale at the time of purchase and are carried at fair value. Subsequent to initial measurement, changes in fair value of held for trading financial instruments are included in the determination of net income and changes in fair value of available-for-sale financial instruments are recognized as other comprehensive income or loss.

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2. Significant accounting policies (continued):

(g) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method over the following terms:

Asset	Rate
Laboratory equipment	5 years
Computer equipment	3 years
Office equipment	5 years

Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful life or the initial lease term.

The Company reviews long-lived depreciable assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company determines whether the carrying value of a long-lived depreciable asset or asset group is recoverable based on its estimates of future asset utilization and undiscounted expected future cash flows the assets are expected to generate. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset. The Company primarily uses the income approach when determining the fair value of assets.

(h) Intangible assets:

Intangible assets are comprised of patent costs which are associated with the preparation, filing, and obtaining of patents. Maintenance costs of patents are expensed as incurred. Patents are capitalized and amortized on a straight-line basis over the useful lives of the underlying technologies and patents, usually for a period not exceeding 10 years.

The Company evaluates the recoverability of patents based on the expected utilization of the underlying technologies. If the estimated net recoverable value, calculated based on undiscounted estimated future cash flows, is less than the carrying value of the underlying technology, then the carrying value is written down to its fair value. The amounts shown for patent costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights.

(i) Leases:

Leases have been classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to the ownership of assets to the Company are accounted for as if there was an acquisition of an asset and incurrence of an obligation at

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2. Significant accounting policies (continued):

(i) Leases (continued):

the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

(j) Deferred leasehold inducements:

Deferred leasehold inducements represent tenant improvement allowances and rent-free periods. These inducements, with the exception of the repayable tenant improvement allowances, are amortized on a straight-line basis over the terms of the leases as a reduction of rent expense.

(k) Revenue recognition:

The Company earns revenue from collaboration arrangements that provide for non-refundable payments as follows:

- upfront fees at the commencement of the arrangement;
- milestone payments upon meeting certain milestones as contained in the related collaboration arrangements; and
- fees based on the number of full time research staff assigned to related research activities and the recovery of related research and development costs.

The Company also earns royalty revenue from a collaboration and license agreement from the commercial sale of an approved product.

Collaboration arrangements entered into by the Company may be revenue arrangements with multiple deliverables. The Company reviews multiple deliverable arrangements and treats elements as separate units of accounting if the following criteria are met:

- delivered item(s) has standalone value; and
- if a general right of return exists relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in control of the vendor.

Revenue is allocated among the separate units at inception based on their relative selling price. If vendor-specific objective evidence or third-party evidence of selling price does not exist then revenue is allocated using estimated selling prices of deliverables. Revenue from a multiple deliverable arrangement is recognized as a single unit of accounting when the elements in the arrangement do not meet the criteria for separation.

Revenue recognized as a single unit of accounting during the period of ongoing involvement is deferred and amortized on a straight-line basis over the period of ongoing involvement. To the extent that the Company is entitled to upfront, milestone or other lump-sum payments during the period of ongoing involvement, the payments are deferred and amortized on a

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2. Significant accounting policies (continued):

(k) Revenue recognition (continued):

straight-line basis over the remaining period of ongoing involvement. During this period, the Company will recognize revenue prospectively from the time milestone payments are achieved, services are performed or delivery criteria are met. Changes in estimates are recognized prospectively when changes to the expected term are determined.

Subsequent to the period of ongoing involvement of the Company, milestone payments and fees based on the number of full time research staff are recognized as detailed below:

- (i) Milestone payments are recognized as revenue when they are achieved and are collectible.
- (ii) Fees based on the number of full time research staff assigned to related research activities and the recovery of related research and development costs are recognized in income as research and collaborative fees to the extent the services are performed, are collectible, and represent the fair value of those services.

Royalty revenue is recognized on an accrual basis when earned in accordance with the agreement terms and when royalties from the collaborative partner are determinable and collectibility is reasonably assured, such as upon the receipt of a royalty statement from the collaborative partner.

(l) Research and development costs:

Research and development costs are expensed in the period incurred.

(m) Clinical trial expenses:

Clinical trial expenses are a component of research and development costs and include fees paid to contract research organizations, investigators and other vendors who conduct certain product development activities on our behalf. The amount of clinical trial expenses recognized in a period related to service agreements are based on estimates of the work performed using an accrual basis of accounting. These estimates are based on patient enrollment, services provided and goods delivered, contractual terms and experience with similar contracts. The Company monitors these factors to the extent possible and adjusts our estimates accordingly. Prepaid expenses or accrued liabilities are adjusted if payments to service providers differ from estimates of the amount of service completed in a given period.

(n) Stock-based compensation and other stock-based payments:

The Company grants stock options to executive officers and directors, and employees pursuant to its stock option plan. The Company uses the fair value method of accounting for all stock-based awards granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period.

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As at and for the years ended December 31, 2012 and 2011

2. Significant accounting policies (continued):

(o) Deferred income taxes:

The Company accounts for income taxes using the liability method of tax allocation. Deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income when a change in tax rates is enacted. Deferred income tax assets are evaluated periodically and if realization is not considered more likely than not, a valuation allowance is provided.

(p) Basic and diluted income per share:

Basic income per share is calculated using the weighted average number of common shares outstanding during the period.

Diluted income per share is calculated using the weighted average number of common shares outstanding during the period, adjusted to include the number of incremental common shares that would have been outstanding if all dilutive potential common shares had been issued. The incremental common shares related to stock options are calculated using the treasury stock method, whereby the potential proceeds from the exercise of dilutive stock options are used to purchase the Company's common shares at the average market price during the period.

3. Changes in significant accounting policies:

(a) Fair Value Measurements:

On January 1, 2012, the Company prospectively adopted amendments issued by the Financial Accounting Standards Board (FASB) to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). These amendments provide clarification and/or additional requirements relating to the following: a) application of the highest and best use and valuation premise concepts, b) measurement of the fair value of instruments classified in an entity's shareholders' equity, c) measurement of the fair value of financial instruments that are managed within a portfolio, d) application of premiums and discounts in a fair value measurement, and e) disclosures about fair value measurements. The adoption of the amendments did not have a material impact on the Company's financial position, results of operations or cash flows for the periods presented.

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3. Changes in significant accounting policies (continued):

(b) Comprehensive Income:

On January 1, 2012, the Company prospectively adopted amendments issued by the FASB on the presentation of comprehensive income. The amendments give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of the amendments did not have a material impact on the presentation of the Company's results of operations for the periods presented.

4. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and current portion of long-term debt. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate carrying values because of their short-term nature. The fair value of the current portion of long-term debt is described in note 10.

The Company's financial instruments are exposed to certain financial risks, including credit risk and market risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents and accounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company is subject to a concentration of credit risk related to its accounts receivable as they primarily are amounts owing from a collaborative partner. At December 31, 2012 and 2011, the outstanding accounts receivable were within normal payment terms and the Company had recorded no allowance for doubtful accounts.

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4. Financial instruments (continued):

(b) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

(i) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risks as a portion of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revenue, and operating expenses are denominated in other than U.S. dollars. The Company manages foreign currency risk by holding cash and cash equivalents in foreign currencies to support foreign currency forecasted cash outflows. The Company has not entered into any forward foreign exchange contracts.

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to interest rate risk include cash and cash equivalents and long-term debt.

The Company is exposed to interest rate cash flow risk on its cash and cash equivalents as these instruments bear interest based on current market rates.

The Company was also exposed to interest rate risk on its long-term debt bearing fixed and variable interest rates. The interest rate on the long-term debt was reset annually to a 12-month LIBOR plus 8%. On December 10, 2012, the Company entered into a debt settlement agreement (note 10). Pursuant to the agreement, interest ceased to accrue on the effective date of the agreement, eliminating the Company's future exposure to interest rate fluctuations.

5. Cash and cash equivalents:

At December 31, 2012, cash equivalents included approximately \$264 (2011 - \$420) of term deposits with an average interest rate of 0.22% (2011 - 0.21%), which were pledged as collateral for the repayable allowance related to the Company's lease (note 9). On December 28, 2012, the Company settled the outstanding balance.

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6. Property and equipment:

2012	Cost	Accumulated amortization	Net book value
Laboratory equipment	\$ 640	\$ 439	\$ 201
Computer equipment	84	65	19
Office equipment	28	3	25
Leasehold improvements	30	4	26
	\$ 782	\$ 511	\$ 271

2011	Cost	Accumulated amortization	Net book value
Laboratory equipment	\$ 3,645	\$ 3,228	\$ 417
Computer equipment	915	635	280
Office equipment	659	609	50
Leasehold improvements	3,185	1,965	1,220
	\$ 8,404	\$ 6,437	\$ 1,967

Amortization expense for the year ended December 31, 2012 amounted to \$895 (2011 - \$760; 2010 - \$838).

During the year ended December 31, 2012, as a result of its restructuring activities, the Company recorded impairment charges of \$717 relating to its leasehold improvements and certain computer and office equipment (note 16). The Company did not record any impairment charges on its property and equipment for the years ended December 31, 2011 and 2010.

7. Intangible assets:

2012	Cost	Accumulated amortization	Net book value
Patents	\$ 4,032	\$ 2,526	\$ 1,506

2011	Cost	Accumulated amortization	Net book value
Patents	\$ 3,739	\$ 2,191	\$ 1,548

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7. Intangible assets (continued):

Amortization expense for the year ended December 31, 2012 amounted to \$334 (2011 - \$335; 2010 - \$316).

The estimated aggregate amortization expense for intangible assets held at December 31, 2012, for each of the five succeeding years is expected as follows:

2013	\$	326
2014		292
2015		252
2016		164
2017		146
	\$	1,180

8. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities comprise of:

	December 31, 2012	December 31, 2011
Trade accounts payable	\$ 1,045	\$ 351
Accrued contract research	447	1,066
Employee-related accruals	808	746
Restructuring (note 16)	567	-
Interest payable (note 10)	1,334	-
Other accrued liabilities	233	1,025
	\$ 4,434	\$ 3,188

9. Deferred leasehold inducement:

At the inception of the Company's leases, the Company received cash tenant improvement allowances and rent-free periods amounting to \$1,840 from the landlord which were being amortized on a straight-line basis over the terms of the leases. Included in the leasehold inducement balance was a \$226 allowance collateralized with a letter of credit (note 5), and is repayable over 10 years with interest at 10% per annum on the declining balance at approximately \$37 per annum. On October 31, 2012, the Company terminated the lease agreement relating to certain redundant facilities and settled the balance of the allowance in December 2012 (note 13(a) and 16).

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10. Long-term debt:

Pursuant to a collaboration and license agreement (Agreement) with Merck Sharp & Dohme (Switzerland) GmbH and Merck Sharp & Dohme Corp. (formerly Merck & Co, Inc.) (Merck), Merck granted the Company an interest-bearing credit facility of up to \$100 million, secured by a first priority interest to the Company's patents and all associated proceeds. This credit facility could be accessed in amounts of up to \$25 million annually, subject to certain minimums, from January 1, 2010 to December 31, 2013, with each advance to be fully repaid on December 31st, six years after the year in which the Company provides Merck written notice to extend the credit under the credit facility. Interest accrues at LIBOR, which resets annually, plus 8% per annum and is payable at the end of each calendar quarter. The Company borrowed \$25 million under this facility during the year ended December 31, 2012 and \$25 million during the year ended December 31, 2010.

On September 25, 2012, Merck gave notice to the Company of its termination of the Agreement (note 14). As a result of the notice of termination, Merck does not have an obligation to make further advances under the credit facility. Terms of the existing advances made under the credit facility remain the same as prior to the notice of termination of the Agreement.

On December 10, 2012, the Company reached an agreement with Merck to settle its debt obligation. Under the terms of the settlement agreement, the Company will pay Merck \$20 million on or before March 31, 2013 to settle its outstanding debt of \$50 million plus accrued interest of \$2 million owed to Merck. The settlement between the Company and Merck will terminate the credit facility and, upon payment of the \$20 million settlement amount, will release and discharge the collateral security taken in respect of the advances under the line of credit. Interest also ceased to accrue from the effective date of the settlement agreement. Prior to year-end, the settlement agreement was amended, which allowed the Company to pay \$7 million of the \$20 million settlement amount to Merck, settling \$17.5 million of the original outstanding debt obligation of \$50 million and \$718 of accrued interest. The Company recorded a gain on debt settlement of \$11,218.

The remaining balance of the Company's settlement amount of \$13 million must be paid on or before March 31, 2013 pursuant to the settlement agreement. The final settlement payment will extinguish the remaining \$32.5 million of debt. If the settlement amount is not paid by March 31, 2013, the remaining amounts outstanding under the facility become immediately due and payable. Consequently, as at December 31, 2012, the fair value of the Company's debt obligation approximates the final settlement amount of \$13 million. The debt obligation is classified as Level 2 of the fair value hierarchy.

Subsequent to year end, the settlement agreement was further amended, allowing the Company to pay the remaining balance of the settlement amount prior to March 31, 2013. On March 1, 2013, the Company paid the remaining \$13 million of the debt settlement amount to Merck, extinguishing all outstanding debt obligations, resulting in an additional gain on debt settlement of \$20,834. With this final payment, all outstanding debt obligations are extinguished and Merck has

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10. Long-term debt (continued):

released and discharged the collateral security taken in respect of the advances under the line of credit (note 20).

11. Stockholders' equity:

(a) Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value issuable in series.

(b) Issued and outstanding:

	Number of shares
Common stock	
Balance, December 31, 2009	60,513,911
Issued for cash upon exercise of options	442,694
Issued upon exercise of options in cashless transactions (note 11(c))	95,757
Balance, December 31, 2010	61,052,362
Issued for cash upon exercise of options	73,152
Issued upon exercise of options in cashless transactions (note 11(c))	3,577
Balance, December 31, 2011	61,129,091
Issuance of common stock (note 16)	1,222,600
Balance, December 31, 2012	62,351,691

(c) Stock options:

The Company's 2001 amended stock option plan (2001 Amended Plan) provides for the granting of options to executive officers and directors, employees, and consultants of the Company. The 2001 Amended Plan, as approved by the shareholders, permits the maximum aggregate number of common shares issuable to be 7,000,000 common shares. The shares available for issuance generally vest over periods of up to four years with a maximum term of five years. The 2001 Amended plan restricts the maximum number of stock options issuable to insiders to 10% of the issued and outstanding common shares of the Company.

On May 26, 2010, the shareholders approved amendments to the 2001 Stock Option Plan. These amendments (i) permit the cashless exercise of options without payment of cash consideration, where the option holder receives the intrinsic value of the exercised options in the form of common shares issued from treasury, and (ii) provide option holders, at the discretion of the Board of Directors or Chief Executive Officer, with a cash surrender right

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11. Stockholders' equity (continued):

(c) Stock options (continued):

which entitles the holder to surrender options and receive the intrinsic value of the surrendered options in cash.

Details of the stock option transactions for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

	Number	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (CAD\$)
Outstanding as at December 31, 2009	6,339,031	7.45		
Options granted	379,000	7.28		
Options exercised ⁽¹⁾	(772,483)	5.85		
Options forfeited	(183,832)	7.89		
Options expired	(52,667)	6.99		
Outstanding as at December 31, 2010	5,709,049	7.65	2.24	4,525
Options granted	559,000	4.28		
Options exercised ⁽¹⁾	(85,051)	4.84		
Options forfeited	(258,482)	7.82		
Options expired	(1,039,553)	8.81		
Outstanding as at December 31, 2011	4,884,963	7.05	1.99	Nil
Options granted	2,950,000	0.42		
Options forfeited	(1,302,132)	6.18		
Options expired	(942,250)	11.95		
Outstanding as at December 31, 2012	5,590,581	2.93	2.94	65
Exercisable as at December 31, 2012	3,882,209	3.97	2.23	26
Vested and expected to vest as at December 31, 2012	5,438,447	3.00	2.89	59

⁽¹⁾ During the year ended December 31, 2011, the Company issued 3,577 (2010 – 95,757) shares in exchange for 11,899 (2010 – 329,789) stock options in cashless exercise transactions.

The outstanding options expire at various dates ranging to December 11, 2017.

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11. Stockholders' equity (continued):

(c) Stock options (continued):

At December 31, 2012, stock options to executive officers and directors, employees and consultants were outstanding as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD\$)	Number	Weighted average exercise price (CAD\$)
\$0.34 to \$0.49	2,950,000	4.41	0.42	1,297,228	0.42
\$3.65 to \$4.94	2,148,604	1.41	4.63	2,102,704	4.63
\$6.09 to \$8.64	123,250	2.31	7.91	113,550	7.96
\$10.36 to \$12.95	368,727	0.34	11.42	368,727	11.42
	5,590,581	2.94	2.93	3,882,209	3.97

A summary of the Company's non-vested stock option activity and related information for the year ended December 31, 2012 is as follows:

	Number of options	Weighted average grant-date fair value (U.S.\$)
Non-vested options		
Non-vested at December 31, 2011	1,172,715	2.51
Granted	2,950,000	0.22
Vested	(2,007,029)	0.96
Forfeited	(407,314)	2.37
Non-vested at December 31, 2012	1,708,372	0.42

As of December 31, 2012, there was \$281 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 1.5 years.

No options were exercised during the year ended December 31, 2012. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2011 and 2010 were \$140 and \$1,974, respectively.

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11. Stockholders' equity (continued):

(c) Stock options (continued):

The aggregate fair value of vested options during the year ended December 31, 2012 was \$1,924 (2011 - \$2,334; 2010 - \$3,973).

The Company did not receive any cash during the year ended December 31, 2012 related to the exercise of stock options. For the years ended December 31, 2011 and 2010, cash received relating to the exercise of stock options was \$358 and \$2,359, respectively.

(d) Stock-based compensation:

The estimated fair value of options granted from December 1, 2002 to executive officers and directors, and employees is amortized over the vesting period. Compensation expense is recorded in research and development expenses and general and administration expenses as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Research and development	\$ (128)	\$ 749	\$ 1,138
General and administration	674	1,182	2,139
Total	\$ 546	\$ 1,931	\$ 3,277

Compensation expense for the year ended December 31, 2012 also included a \$276 reversal of expenses relating to forfeiture of unvested options by terminated employees (note 16).

The weighted average fair value of stock options granted during the year ended December 31, 2012 was \$0.22 (2011 - \$2.20; 2010 - \$3.50). The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2012	December 31, 2011	December 31, 2010
Dividend yield	0%	0%	0%
Expected volatility	80.48%	63.8%	62.2%
Risk-free interest rate	1.2%	1.8%	2.3%
Expected average life of the options	3.3 years	4.2 years	4.1 years

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11. Stockholders' equity (continued):

(d) Stock-based compensation (continued):

The Company estimates forfeitures for unvested options as a percentage of stock-based compensation. For the period ended December 31, 2012, the Company applied an estimated percentage of 13.9%, which management considered to be a reasonable estimate of actual forfeitures.

There is no dividend yield as the Company has not paid, and does not plan to pay, dividends on its common shares. The expected volatility is based on the historical share price volatility of the Company's daily share closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from Canadian government bond yields with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on the contractual term of the options and on historical data of option holder exercise and post-vesting employment termination behaviour.

12. Basic and diluted income (loss) per share:

As the Company incurred a loss, all stock options were anti-dilutive and were excluded from the diluted weighted average shares.

Reconciliations of the income and weighted average number of common shares used in the calculations are set forth below:

	December 31, 2012	December 31, 2011	December 31, 2010
Net income (loss)	\$ (18,315)	\$ (27,920)	\$ 35,499
Weighted average number of common shares for basic income per share	61,272,730	61,125,804	60,813,604
Dilutive effect of options	-	-	507,659
Diluted weighted average number of common shares for diluted income per share	61,272,730	61,125,804	61,321,263
Basic and diluted income (loss) per share	\$ (0.30)	\$ (0.46)	\$ 0.58

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13. Commitments:

(a) Operating leases:

The Company entered into a lease agreement for office and laboratory space for a term of 10 years expiring through March 2014, with an option to extend for three additional two year periods (the Original Lease Agreement). The Company subsequently signed amendments to this agreement for additional office and laboratory space expiring through the same date.

On November 1, 2010, the Company entered into a new lease agreement for a term of 10 years effective March 15, 2011, with customary scheduled rent increases, escalation clauses and renewal options. As a result of the workforce reduction (note 16) during 2012, the Company terminated this lease agreement.

On November 1, 2012, the Company entered into a new lease agreement for a term of 2 years and 2 months expiring through December 2014. Future minimum annual lease payments under the lease are as follows:

2013	\$	614
2014		208
	\$	822

Rent expense, net of sublease income of \$618 (2011 - \$728; 2010 - \$722), for the year ended December 31, 2012 amounted to \$1,504 (2011 - \$1,575; 2010 - \$1,048).

(b) Research and development and other agreements:

The Company entered into various research and development and other agreements requiring it to fund future expenditures of approximately \$800 (2011 - \$591; 2010 - \$516) between 2013 and 2015.

Pursuant to the debt settlement agreement with Merck (note 10), the Company is committed to purchase \$3 million of vernakalant (IV) finished goods inventory as well as active pharmaceutical ingredients for vernakalant (IV) and vernakalant (oral) in 2013.

(c) License agreements:

(i) Pursuant to a license and option agreement, the Company is responsible for milestone payments of up to \$3 million based on the successful completion of the first Phase II clinical trial and the U.S. Food and Drug Administration's (the FDA's) approval of the first new drug application related to this license and option agreement, and the FDA's approval for marketing and commercialization of the product in a cardiovascular indication. The Company is also responsible for milestone payments of up to \$6 million based on FDA approval for marketing and commercialization of the product in a

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13. Commitments (continued):

(c) License agreements (continued):

hyperuricemic (gout) indication of the product and achievement of certain net sales of the product. The Company also has an obligation to pay royalties based on future net sales. The Company is no longer developing this technology. At December 31, 2012, no amounts were payable. Unless otherwise terminated, the license agreement will terminate upon the expiration of the licensor's obligation to pay royalties under its original license agreement with a third party.

(ii) On April 30, 2007, the Company signed an exclusive in-licensing agreement granting the Company exclusive worldwide rights for all indications for a clinical-stage drug candidate. Under the terms of the agreement, the Company paid an initial upfront payment of \$20 million. Additional payments not to exceed \$40 million are contingent upon the achievement of certain pre-defined late-stage clinical milestones. Pursuant to the development and license agreement, the Company was responsible for payment of royalties based on a percentage of revenue if the drug candidate is ultimately commercialized. During the year ended December 31, 2012, the agreement was terminated. As such, the Company no longer has any royalty or milestone payment obligations under this agreement.

14. Collaborative agreements:

	December 31, 2012	December 31, 2011	December 31, 2010
Licensing and other fees:			
Astellas US LLC (note a)	\$ -	\$ -	\$ 10
Merck & Co. Inc. (notes a & b)	463	453	65,224
Total	\$ 463	\$ 453	\$ 65,234
Research collaborative fees:			
Astellas US LLC (note a)	\$ -	\$ 368	\$ 564
Merck & Co. Inc. (notes a & b)	326	684	266
Total	\$ 326	\$ 1,052	\$ 830

(a) Vernakalant (IV) in North America:

On October 16, 2003, the Company entered into a collaboration and license agreement with Astellas US LLC (Astellas), formerly Astellas Healthcare, Inc., for the co-development and commercialization of vernakalant as an intravenous formulation (vernakalant (IV)) for the treatment of atrial fibrillation and atrial flutter. Pursuant to this agreement, effective October 28, 2003, the Company granted Astellas an exclusive license to vernakalant and its related

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14. Collaborative agreements (continued):

(a) Vernakalant (IV) in North America (continued):

technology to develop, make and sell intravenous drugs in Canada, the United States, and Mexico (collectively, North America), including a right to sublicense to third parties. The Company retained the rights to vernakalant (IV) for markets outside North America and worldwide rights to the oral formulation of vernakalant for chronic atrial fibrillation.

On July 26, 2011, the Company granted consent for the transfer of rights for the development and commercialization of vernakalant (IV) in North America from Astellas to Merck & Co., Inc. ("Merck"). Merck now holds exclusive global rights to vernakalant (IV) for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults. All terms, responsibilities and payments that Astellas committed to under the original collaboration and license agreement are now assumed by Merck without change.

Pursuant to the agreement, the Company received upfront and milestone payments of \$26 million and is entitled to subsequent milestone payments of up to \$38 million based on achievement of specified development and commercialization milestones, as well as royalties based on future net sales and sublicense revenue. The Company is also entitled to further milestone payments with respect to any subsequent drugs developed under the agreement.

Under the terms of the agreement, Merck is responsible for 75% and the Company is responsible for 25% of eligible costs associated with the development of vernakalant (IV) in North America. Merck is also responsible for all future commercialization costs for vernakalant (IV) in North America.

(b) Vernakalant (IV) outside of North America and vernakalant (oral) globally:

On April 8, 2009, the Company entered into a collaboration and license agreement with Merck for the development and commercialization of vernakalant. Pursuant to this agreement, effective May 19, 2009, the Company granted Merck exclusive global rights to vernakalant (oral), and granted a Merck affiliate, Merck Sharp & Dohme (Switzerland) GmbH, exclusive rights outside of North America to vernakalant (IV).

Under the terms of the agreement, the Company received an upfront payment of \$60 million and will be entitled to milestone payments of up to \$200 million based on achievement of certain development and approval milestones associated with vernakalant products, and up to \$100 million for milestones associated with approvals in subsequent indications of both the intravenous and oral formulations. In addition, the Company will receive tiered royalty payments on sales of any approved products and have the potential to receive milestone payments of up to \$340 million based on achievement of significant sales thresholds. Merck has also granted the Company a secured, interest-bearing credit facility of up to \$100 million that can be accessed in tranches over several years commencing in 2011 (note 10). The Company has also retained an option to co-promote vernakalant (oral) with Merck through a

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14. Collaborative agreements (continued):

(b) Vernakalant (IV) outside of North America and vernakalant (oral) globally (continued):

hospital-based sales force in the United States. Merck will be responsible for all future costs associated with the development, manufacturing and commercialization of these candidates. In July 2009, the Company achieved a milestone of \$15 million relating to the submission for regulatory approval in Europe of vernakalant (IV). During the year ended December 31 2009, the Company shipped \$7.0 million of clinical supplies to Merck under the agreement.

The collaboration and license agreement with Merck is a revenue arrangement with multiple deliverables recognized as a single unit of accounting during the period of ongoing involvement. The initial upfront payment, \$15 million milestone payment and proceeds from shipment of clinical supplies were deferred and recognized as licensing and other revenue on a straight-line basis over the period of ongoing involvement of the Company with Merck. During this period, the Company recognized revenue prospectively from the time milestone payments were achieved, services were performed or delivery criteria were met until the end of the amortization period.

On September 2, 2010 the Company achieved a milestone of \$30 million relating to the marketing approval in Europe of vernakalant (IV), which was recognized immediately as licensing and other fees. The Company started earning royalty revenue during the year ended December 31, 2010, and continues to earn royalty revenue which is included in licensing and other fees.

Pursuant to two collaboration and license agreements with Merck, the Company granted Merck exclusive global rights for the development and commercialization of vernakalant (IV) and vernakalant (oral).

On March 19, 2012, the Company announced Merck's decision to discontinue further development of vernakalant (oral).

On September 25, 2012, Merck gave notice to the Company of its termination of both collaboration and license agreements. Pursuant to the terms of the collaboration and license agreements, the terminations will be effective after the notice periods. Upon the effective dates of the terminations, the Company will have exclusive global rights to vernakalant (IV) and vernakalant (oral). Depending on the timing of transition activities and regulatory approvals, the Company and Merck may agree to extend the notice periods.

15. Income taxes:

The amount of liability for unrecognized tax benefits under U.S. GAAP as of December 31, 2012 is nil.

The Company recognizes interest and penalties related to income taxes in interest and other income. To date, the Company has not incurred any significant interest and penalties.

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15. Income taxes (continued):

The Company is subject to taxes in Canada, the United States, United Kingdom and Switzerland. The tax years which remain subject to examination as of December 31, 2012 for Canada and Switzerland include 2004 to present, and 2008 to present, respectively.

At December 31, 2012, the Company has investment tax credits of \$18,398 (2011 - \$16,994) available to reduce deferred income taxes otherwise payable. The Company also has total loss carryforwards of \$253,493 (2011 - \$223,538) available to offset future taxable income in Canada (\$170,515), the United States (\$44,555), Switzerland (\$38,362), and United Kingdom (\$61).

The investment tax credits and non-capital losses for income tax purposes expire as follows:

	Investment tax credits	Non-capital losses
2015	\$ 359	\$ 12,668
2016	1,064	8,243
2017	975	3,755
2018	159	2,507
2019	501	11,189
Thereafter	15,340	215,131
	\$ 18,398	\$ 253,493

Significant components of the Company's deferred tax assets and liabilities are shown below:

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Tax loss carryforwards	\$ 60,784	\$ 55,699
Research and development deductions and credits	14,198	13,413
Tax values of depreciable assets in excess of accounting values	2,871	4,619
Share issue costs and other	38	158
Total deferred tax assets	77,891	73,889
Valuation allowance	(77,891)	(73,889)
Total deferred tax assets	-	-
Deferred tax liabilities	-	-
Net tax asset	\$ -	\$ -

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15. Income taxes (continued):

The reconciliation of income tax computed at statutory tax rates to income tax expense (recovery), using a 25% (2011 – 26.50%; 2010 – 28.5%) statutory tax rate, is:

	December 31, 2012	December 31, 2011	December 31, 2010
Tax recovery at statutory income tax rates	\$ (4,579)	\$ (7,399)	\$ 10,117
Change in valuation allowance	4,001	7,852	(8,540)
Permanent differences and other	562	(580)	(2,947)
Tax rate differences	16	127	1,370
Deferred income tax recovery	\$ -	\$ -	\$ -

The Company is subject to assessments by various taxation authorities which may interpret tax legislations and tax filing positions differently from the Company. The Company provides for such differences when it is likely that a taxation authority will not sustain the Company's filing position and the amount of the tax exposure can be reasonably estimated. As at December 31, 2012 and 2011, no provisions have been made in the financial statements for any estimated tax liability.

16. Restructuring:

On March 19, 2012, the Company reduced its workforce in response to Merck's decision to discontinue further development of vernakalant (oral). On July 9, 2012, the Company further reduced its workforce by eliminating positions focused on internal research activities along with certain supporting functions.

The Company estimated costs relating to employee severance and benefit arrangements, net of reversal of \$276 of stock-based compensation relating to forfeiture of unvested options by terminated employees, to total \$5,553. Such costs have been fully recognized during the year ended December 31, 2012. As at December 31, 2012, \$320 of the recognized charges remained in accounts payable and accrued liabilities and is expected to be paid by the end of the first quarter of 2013.

As a result of the workforce reductions, the Company exited certain redundant leased facilities and terminated certain contracts. Idle-use expense and other charges recognized in the year ended December 31, 2012 were \$3,770. These charges included \$342 of lease termination costs settled by the issuance of common shares (note 11) and other non-cash items, and were partially offset by the immediate recognition of \$426 of deferred leasehold inducement. Total idle-use expense and other charges of \$247 accrued at December 31, 2012 are expected to be settled by the end of the second quarter of 2013, with the exception of the liability associated with the Company's redundant leased-facility, which will be substantially settled by the end of the first quarter of 2014.

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16. Restructuring (continued):

Total asset impairment charges of \$717 recorded in the year ended December 31, 2012 relate to leasehold improvements and certain computer and office equipment impaired as a result of the workforce reductions (note 6). The Company also accelerated its depreciation of leasehold improvements on certain leased facilities terminated in advance of the expiration date (note 13 (a)) and included these charges as part of amortization.

The following table summarizes the provisions related to the restructuring for the year ended December 31, 2012:

	Employee termination benefits	Idle-use expense and other charges	Asset impairments	Total
Restructuring expense recognized	5,553	3,770	717	10,040
Payments made	(5,509)	(3,462)	-	(8,971)
Non-cash items	276	(61)	(717)	(502)
Total restructuring accrual as of December 31, 2012	320	247	-	567

17. Related party transactions:

Prior to October 15, 2012, a partner of a law firm served as the Company's corporate secretary. Services provided by the law firm primarily related to general corporate matters. Amounts charged for these services were recorded at their exchange amounts and were subject to normal trade terms. Total expenses for services provided for the year ended December 31, 2012 were \$794 (year ended December 31, 2011 - \$642; year ended December 31, 2010 - \$574). Amounts included in 2012 related to services rendered until the date the partner ceased to serve as the Company's corporate secretary. As at December 31, 2011, included in accounts payable and accrued liabilities was \$59 owing to the law firm.

18. Contingencies:

- The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.
- The Company entered into indemnification agreements with all officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains appropriate liability insurance that limits the exposure and enables the Company to recover any future amounts paid, less

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Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars except share and per share amounts and where otherwise indicated)

(Prepared in accordance with U.S. GAAP)

As at and for the years ended December 31, 2012 and 2011

18. Contingencies (continued):

- any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.
- (c) The Company has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These indemnification provisions generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.
- (d) The Company was party to a proceeding related to its use of certain intellectual property. The proceeding has been resolved and did not result in any material impact on the Company's consolidated financial position.

19. Segmented information:

The Company operates primarily in one business segment with substantially all of its consolidated assets located in Canada and operations located in Canada, the United States, Switzerland and the United Kingdom. During the years ended December 31, 2012, 2011 and 2010, 100% of total revenue was derived from our collaborative partners (note 14).

20. Subsequent events:

On March 1, 2013, the Company paid the remaining \$13 million of the debt settlement amount to Merck (note 10).