Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

# CARDIOME PHARMA CORP.

Periods ended September 30, 2009 and 2008

(Unaudited)

# CARDIOME PHARMA CORP.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

| | As at | |
|---|---|---|
| | September 30, 2009 (Unaudited) | December 31, 2008 (Restated - note 2(a)) |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 84,386 | $ 37,142 |
| Accounts receivable | 7,466 | 595 |
| Prepaid expenses and other assets | 604 | 1,324 |
| | 92,456 | 39,061 |
| Property and equipment | 3,016 | 3,725 |
| Intangible assets | 16,868 | 18,535 |
| Other assets (note 8(b)) | 771 | - |
| | $ 113,111 | $ 61,321 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | $ 10,957 | $ 11,503 |
| Deferred revenue (note 5) | 61,626 | - |
| Current portion of deferred leasehold inducement | 222 | 206 |
| | 72,805 | 11,709 |
| Deferred leasehold inducement | 779 | 893 |
| Shareholders' equity: | | |
| Common shares | 330,019 | 327,986 |
| Preferred shares (note 4(a)) | 25,181 | 25,181 |
| Contributed surplus | 27,569 | 24,955 |
| Deficit | (343,242) | (329,403) |
| | 39,527 | 48,719 |
| | $ 113,111 | $ 61,321 |

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Director

Director

# CARDIOME PHARMA CORP.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in thousands of Canadian dollars except share and per share amounts)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) |
| Revenue: | | | | |
| Licensing and other fees | $ 20,972 | $ - | $ 29,154 | $ 224 |
| Research collaborative fees | 97 | 536 | 761 | 970 |
| | 21,069 | 536 | 29,915 | 1,194 |
| Expenses: | | | | |
| Research and development | 10,275 | 8,524 | 24,328 | 39,600 |
| General and administration | 4,657 | 4,819 | 13,764 | 13,337 |
| Amortization | 809 | 884 | 2,457 | 2,884 |
| | 15,741 | 14,227 | 40,549 | 55,821 |
| Operating income (loss) | 5,328 | (13,691) | (10,634) | (54,627) |
| Other income (expenses): | | | | |
| Interest and other income | 50 | 164 | 132 | 586 |
| Foreign exchange gain (loss) | (5,742) | 1,746 | (3,337) | 1,931 |
| | (5,692) | 1,910 | (3,205) | 2,517 |
| Net loss for the period | (364) | (11,781) | (13,839) | (52,110) |
| Other comprehensive income, net of income taxes: | | | | |
| Reclassification adjustment for realized loss included in net loss | - | - | - | 10 |
| Comprehensive loss for the period | $ (364) | $ (11,781) | $ (13,839) | $ (52,100) |
| Basic and diluted loss per common share[(1)] | $ (0.01) | $ (0.18) | $ (0.22) | $ (0.82) |
| Weighted average number of common shares outstanding | 64,107,616 | 63,761,915 | 63,889,446 | 63,744,885 |

(1) Basic and diluted loss per common share based on the weighted average number of common shares outstanding during the period.

See accompanying notes to the consolidated financial statements.

# CARDIOME PHARMA CORP.

Consolidated Statements of Shareholders' Equity
(Unaudited)
(Expressed in thousands of Canadian dollars)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) |
| Common shares: | | | | |
| Balance, beginning of period | $ 328,350 | $ 327,966 | $ 327,986 | $ 327,835 |
| Issued upon exercise of options | 1,669 | 13 | 1,991 | 121 |
| Reallocation of contributed surplus arising from stock-based compensation related to the exercise of options | - | 7 | 42 | 30 |
| Balance, end of period | 330,019 | 327,986 | 330,019 | 327,986 |
| Preferred shares: | | | | |
| Balance, beginning of period | 25,181 | - | 25,181 | - |
| Issuance of preferred shares, net of share issuance costs | - | 25,409 | - | 25,409 |
| Balance, end of period | 25,181 | 25,409 | 25,181 | 25,409 |
| Contributed surplus: | | | | |
| Balance, beginning of period | 25,733 | 23,875 | 24,955 | 21,927 |
| Stock option expense recognized | 1,836 | 524 | 2,656 | 2,495 |
| Stock option expense reclassified to share capital account upon exercise of stock options | - | (7) | (42) | (30) |
| Balance, end of period | 27,569 | 24,392 | 27,569 | 24,392 |
| Deficit: | | | | |
| Balance, beginning of period | (342,878) | (309,370) | (329,403) | (269,041) |
| Net loss for the period | (364) | (11,781) | (13,839) | (52,110) |
| Balance, end of period | (343,242) | (321,151) | (343,242) | (321,151) |
| Accumulated other comprehensive income (loss): | | | | |
| Balance, beginning of period | - | - | - | (10) |
| Other comprehensive income for the period | - | - | - | 10 |
| Balance, end of period | - | - | - | - |
| Total shareholders' equity | $ 39,527 | $ 56,636 | $ 39,527 | $ 56,636 |

See accompanying notes to the consolidated financial statements.

# CARDIOME PHARMA CORP.

Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of Canadian dollars)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) | September 30, 2009 | September 30, 2008 (Restated-note 2(a)) |
| Cash provided by (used in): | | | | |
| Operations: | | | | |
| Net loss for the period | $ (364) | $ (11,781) | $ (13,839) | $ (52,110) |
| Add items not affecting cash: | | | | |
| Amortization | 809 | 884 | 2,457 | 2,884 |
| Stock-based compensation | 1,836 | 524 | 2,656 | 2,495 |
| Deferred leasehold inducement | (27) | (7) | (98) | 3 |
| Foreign exchange (gain) loss | 5,620 | (1,726) | 3,221 | (2,613) |
| Write-off of property and equipment | 7 | 11 | 15 | 54 |
| | 7,881 | (12,095) | (5,588) | (49,287) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | | | |
| Accounts receivable | (7,276) | 242 | (7,522) | 1,476 |
| Prepaid expenses and other assets | 843 | 259 | 711 | (205) |
| Accounts payable and other liabilities | 3,503 | (2,586) | 508 | (4,590) |
| Deferred revenue | 2,582 | - | 61,626 | (224) |
| | 7,533 | (14,180) | 49,735 | (52,830) |
| Financing: | | | | |
| Issuance of common shares and exercise of stock options | 1,669 | 13 | 1,991 | 121 |
| Net proceeds from the issuance of preferred shares | - | 25,409 | - | 25,409 |
| Deferred costs relating to tender offer (note 8(b)) | (771) | - | (771) | - |
| | 898 | 25,422 | 1,220 | 25,530 |
| Investing: | | | | |
| Purchase of property and equipment | (56) | (25) | (96) | (304) |
| Sale of short-term investments | - | - | - | 157 |
| | (56) | (25) | (96) | (147) |
| Foreign exchange gain (loss) on cash and cash equivalents held in foreign currencies | (6,014) | 1,462 | (3,615) | 3,138 |
| Increase (decrease) in cash and cash equivalents during the period | 2,361 | 12,679 | 47,244 | (24,309) |
| Cash and cash equivalents, beginning of period | 82,025 | 31,000 | 37,142 | 67,988 |
| Cash and cash equivalents, end of period | $ 84,386 | $ 43,679 | $ 84,386 | $ 43,679 |
| Supplemental cash flow information: | | | | |
| Interest paid | $ 4 | $ 4 | $ 11 | $ 12 |
| Interest received | 2 | 141 | 36 | 721 |

See accompanying notes to the consolidated financial statements.

## 1. Basis of presentation:

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (Canadian GAAP) on a basis consistent with Cardiome Pharma Corp's (the Company) annual audited consolidated financial statements for the year ended December 31, 2008, except as described in note 2 below. These unaudited interim consolidated financial statements do not include all note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008 filed with the appropriate securities commissions. The results of operations for the three-month and nine-month periods ended September 30, 2009 and 2008 are not necessarily indicative of the results for the full year.

The Company has financed its cash requirements primarily from share issuances, payments from research collaborators and licensing fees. 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.

## 2. Changes in accounting policies:

(a) Goodwill and Intangible Assets

On January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets,* which replaced Section 3062, *Goodwill and Other Intangible Assets,* and Section 3450, *Research and Development Costs.* The new standard, which applies to fiscal years beginning on or after October 1, 2008, clarifies the recognition of intangible assets, including internally generated assets. The standard reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. The standard also provides guidance on the recognition and measurement of internally generated assets, including assets developed from research and development activities.

Upon adoption of this new standard, patent costs previously capitalized did not meet the new criteria for capitalization. The impact on the financial position of the Company was a decrease in intangible assets and an increase in deficit at December 31, 2008 and 2007 of $1,816 and $1,974, respectively, relating to patent costs capitalized in prior periods. The impact on the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2008, was an increase in research and development costs of $128 and $362, respectively and a decrease in amortization of $62 and $225, respectively, resulting in an overall increase in net loss of $66 and $137, respectively. The basic and diluted loss per common share remained unaffected as a result of the retrospective restatement.

**2. Changes in accounting policies (continued):**

(b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Company adopted the Emerging Issues Committee (EIC) Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (EIC – 173). EIC – 173 requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The accounting treatment of this Abstract is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this Abstract did not have an impact on the Company's consolidated financial statements.

**3. Future changes in accounting policies:**

(a) International Financial Reporting Standards

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

(b) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaced Section 1581, *Business Combinations*. The new standard adopts relevant parts of IFRS 3, *Business Combinations*, in establishing standards for the accounting for a business combination. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company does not expect the adoption of the standard to have a material impact on its consolidated financial statements.

(c) Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, which together replaced Section 1600, *Consolidated Financial Statements*. The new standards establish accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company does not expect the adoption of the standard to have a material impact on its consolidated financial statements.

(Expressed in thousands of Canadian dollars except share and per share amounts and where otherwise indicated)

## 4. Share capital:

(a) Issuance of preferred shares:

On October 23, 2008, in connection with the issuance of 2,272,727 preferred shares, the Company filed a Canadian prospectus and related U.S. registration statement (the "registration statement") to register the shares issuable upon conversion of the Series A preferred shares. The registration statement became effective November 6, 2008. If the effectiveness of the registration statement is not maintained, the Company is subject to a registration payment arrangement under which it is required to pay an amount equal to 1.5% of the purchase price of the preferred shares on the thirtieth day following the failure to maintain the effectiveness requirement and for each thirtieth day thereafter until the earlier of reobtaining effectiveness or July 25, 2009. The Company did not incur any amount under the registration payment arrangement for failure to maintain the effectiveness requirement.

(b) Stock options:

Details of the stock option transactions for the nine months ended September 30, 2009 are summarized as follows:

| | Number of stock options outstanding | Weighted average exercise price ($) |
|---|---|---|
| Balance, December 31, 2008 | 4,828,562 | 8.30 |
| Options granted | 2,619,804 | 4.65 |
| Options exercised | (599,450) | 3.32 |
| Options forfeited | (91,506) | 8.92 |
| Balance, September 30, 2009 | 6,757,410 | 7.32 |

At September 30, 2009, stock options to officers and directors, employees and consultants were outstanding as follows:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number of common shares issuable | Weighted average remaining contractual life (years) | Weighted average exercise price($) | Number of common shares issuable | Weighted average exercise price ($) |
| $3.32 to $5.54 | 3,192,678 | 3.37 | 4.54 | 1,141,493 | 4.34 |
| $6.06 to $8.95 | 1,639,603 | 1.26 | 7.78 | 1,620,103 | 7.77 |
| $8.98 to $11.15 | 984,067 | 3.15 | 10.16 | 673,902 | 10.18 |
| $11.26 to $14.50 | 941,062 | 3.20 | 12.99 | 782,183 | 13.07 |
| | 6,757,410 | 2.80 | 7.32 | 4,217,681 | 8.21 |

(Expressed in thousands of Canadian dollars except share and per share amounts and where otherwise indicated)

**4. Share capital (continued):**

(c) Stock-based compensation:

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Research and development | $ 509 | $ 82 | $ 785 | $ 891 |
| General and administration | 1,327 | 442 | 1,871 | 1,604 |
| Total | $ 1,836 | $ 524 | $ 2,656 | $ 2,495 |

The weighted average fair value of stock options granted during the three and nine months ended September 30, 2009 was $2.16 per option (nine months ended September 30, 2008 was $3.61 per option). The Company did not grant any stock options during the three months ended September 30, 2008. The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Dividend yield | 0.0% | - | 0.0% | 0.0% |
| Expected volatility | 64.6% | - | 64.6% | 47.2% |
| Risk-free interest rate | 2.0% | - | 2.0% | 3.4% |
| Expected average life of the options | 3.4 years | - | 3.4 years | 4.5 years |

**5. Collaborative and license agreement:**

On April 8, 2009, the Company entered into a collaboration and license agreement with Merck & Co., Inc. (Merck) for the development and commercialization of vernakalant. Pursuant to this agreement, effective May 19, 2009, the Company has granted Merck exclusive global rights to the oral formulation of vernakalant (vernakalant (oral)), and has granted a Merck affiliate, Merck Sharp & Dohme (Switzerland) GmbH, exclusive rights outside of the United States, Canada and Mexico to the intravenous formulation of vernakalant (vernakalant (iv)). The Company's agreement with Astellas Pharma U.S., Inc. for vernakalant (iv) in the United States, Canada and Mexico is unaffected by this agreement.

**5. Collaborative and license agreement (continued):**

Under the terms of the agreement, the Company received an upfront payment of $67 million (U.S.$60 million) and will be entitled to milestone payments of up to U.S.$200 million based on achievement of certain development and approval milestones associated with vernakalant products, and up to U.S.$100 million for milestones associated with approvals in other 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 U.S.$340 million based on achievement of significant sales thresholds. Under the agreement, the Company will ship up to U.S.$7.1 million of clinical supplies to Merck. Merck has also granted the Company a secured, interest-bearing credit facility of up to U.S.$100 million that can be accessed in tranches over several years commencing in 2010. The Company has also retained an option to co-promote vernakalant (oral) with Merck through a 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. Merck may also request the Company to perform additional development work for which the Company will receive additional payments.

In July 2009, the Company achieved the milestone of $16.2 million (U.S.$15 million) relating to the submission for regulatory approval in Europe of vernakalant (iv). As of September 2009, shipments of clinical supplies to Merck were substantially completed, amounting to $7.6 million (U.S.$7.0 million).

The collaboration and license agreement with Merck is a revenue arrangement with multiple deliverables. Under this type of arrangement, the identification of separate units of accounting is required if the deliverables have standalone value and if objective evidence of fair value for the undelivered items exists. Revenues are allocated among the separate units based on their relative fair values or are otherwise recognized as a single unit of accounting when the deliverables do not have standalone value or if fair values of the undelivered items are not determinable.

During the period of ongoing involvement of the Company with Merck, given the fair value of the undelivered items are not determinable, the upfront payment and revenue from other related deliverables under this agreement are being recognized as a single unit of accounting. To the extent that the Company is entitled to upfront, milestone or other lump-sum payments during the period of ongoing involvement, the payments will be deferred and amortized on a 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 criterion are met until the end of the amortization period. Subsequent to the period of ongoing involvement of the Company, milestone payments will be recognized as revenue when the milestones are achieved and these payments are due and are considered collectible. Revenues for services performed will be recognized as revenue when services are performed, the consideration is collectible, and the fees are considered to represent the fair value of those services.

**6. Related party transactions:**

The Company has incurred expenses for services provided by a law firm in which an officer is a partner. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the nine months ended September 30, 2009, the Company has incurred $1,168 of legal fees for services provided by the law firm relating to general corporate matters and review of partnership opportunities (nine months ended September 30, 2008 - $1,122). Included in accounts payable and other liabilities at September 30, 2009 is an amount of $372 (December 31, 2008 - $150) owing to the law firm.

**7. Comparative figures:**

Certain of the comparative figures have been reclassified to conform with presentation adopted in the current period.

**8. Subsequent events:**

(a) Conversion of preferred shares:

On October 6, 2009, the 2,272,727 Series A preferred shares were converted into common shares of the Company on a one-to-one basis at the option of CR Intrinsic Investments, LLC. No Series A preferred shares remain outstanding subsequent to the conversion.

(b) Tender offer:

On October 16, 2009, in connection with its modified “Dutch Auction” tender offer (the Offer), the Company announced it has accepted 6,470,588 of its common shares for purchase and cancellation at a purchase price of U.S.$4.25 per share, for an aggregate purchase price of U.S.$27.5 million. As of September 30, 2009, the Company incurred total legal and professional fees of $771 relating to the Offer, which have been recorded as other assets and were applied against share capital upon completion of the repurchase of shares.