

CONSOLIDATED FINANCIAL STATEMENTS

ANGIOTECH PHARMACEUTICALS, INC.

First quarter ended March 31, 2007

(Unaudited)

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED BALANCE SHEETS
(All amounts expressed in thousands of U.S. dollars)

(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$98,038	\$99,332
Short-term investments <i>[note 6]</i>	-	9,285
Accounts receivable <i>[note 7]</i>	32,920	25,231
Inventories <i>[note 8]</i>	37,039	33,619
Deferred income taxes, current portion	9,134	5,372
Prepaid expenses and other current assets	6,114	6,303
Assets from discontinued operations, current portion <i>[note 4]</i>	3,466	2,365
Total current assets	186,711	181,507
Long-term investments <i>[note 6]</i>	30,240	53,840
Property, plant and equipment <i>[note 9]</i>	59,136	59,783
Intangible assets <i>[note 10]</i>	243,379	244,954
Goodwill	641,944	630,770
Deferred income taxes	5,036	4,804
Deferred financing costs	15,087	14,845
Other assets	729	255
Assets from discontinued operations <i>[note 4]</i>	5,065	15,116
Total assets	\$1,187,327	\$1,205,874
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 11]</i>	\$49,906	\$48,982
Income taxes payable	11,987	11,724
Interest payable on long-term debt	2,550	6,614
Deferred revenue, current portion	211	630
Deferred income taxes, current portion	4,957	2,598
Liabilities from discontinued operations, current portion <i>[note 4]</i>	1,499	1,994
Total current liabilities	71,110	72,542
Deferred revenue	1,368	1,421
Deferred leasehold inducement	2,973	2,631
Deferred income taxes	63,141	69,215
Other tax liabilities	4,888	-
Long-term debt <i>[note 12]</i>	575,000	575,000
Liabilities from discontinued operations <i>[note 4]</i>	2,232	2,232
Total non-current liabilities	649,602	650,499
Commitments and contingencies <i>[note 15]</i>		
Stockholders' equity		
Share capital <i>[note 13]</i>		
Authorized:		
200,000,000 Common shares, without par value		
50,000,000 Class I Preference shares, without par value		
Common shares issued and outstanding:		
March 31, 2007 – 85,013,983		
December 31, 2006 – 84,983,735	470,269	470,190
Additional paid-in capital	28,623	27,564
Accumulated deficit	(57,981)	(41,022)
Accumulated other comprehensive income	25,704	26,101
Total stockholders' equity	466,615	482,833
Total liabilities and stockholders' equity	\$1,187,327	\$1,205,874

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(All amounts expressed in thousands of U.S. dollars, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
REVENUE		
Royalty revenue	\$33,000	\$41,090
Product sales, net	42,486	802
License fees	472	53
	75,958	41,945
EXPENSES		
License and royalty fees	5,441	6,513
Cost of products sold	22,792	634
Research and development	13,763	9,655
Selling, general and administration	23,455	10,374
Depreciation and amortization	8,155	2,166
In-process research and development	-	1,042
	73,606	30,384
Operating income	2,352	11,561
Other income (expenses):		
Foreign exchange gain	102	171
Investment and other income	8,802	2,704
Interest expense on long-term debt	(12,799)	(989)
Loss on redemption of available-for-sale securities	(8,157)	(1,477)
Total other income (expenses)	(12,052)	409
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting policy	(9,700)	11,970
Income tax expense (recovery)	(4,900)	4,389
Income (loss) from continuing operations before cumulative effect of change in accounting policy	(4,800)	7,581
Loss from discontinued operations, net of income taxes <i>[note 4]</i>	(9,084)	(445)
Cumulative effect of change in accounting policy	-	399
Net (loss) income	\$(13,884)	\$7,535
Basic net (loss) income per common share:		
Continuing operations	\$(0.06)	\$0.09
Discontinued operations	(0.11)	-
Total	\$(0.17)	\$0.09
Diluted net (loss) income per common share:		
Continuing operations	\$(0.06)	\$0.09
Discontinued operations	(0.11)	-
Total	\$(0.17)	\$0.09
Basic weighted average number of common shares outstanding (in thousands)		
	85,002	84,534
Diluted weighted average number of common shares outstanding (in thousands)		
	85,497	85,853

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(All amounts expressed in thousands of U.S. dollars, except share data)
(Unaudited)

	Common Shares		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Comprehensive income	Total stockholders' equity
	Shares	Amount					
	#	\$	\$	\$	\$	\$	\$
Balance at December 31, 2005	84,291,517	463,639	21,929	(45,607)	22,719		462,680
Exercise of stock options for cash	359,685	3,107					3,107
Stock-based compensation			1,500				1,500
Cumulative effect of change in accounting principle			(399)				(399)
Net unrealized gain on available-for-sale securities, net of taxes					9,448	9,448	9,448
Reclassification of net unrealized loss on available-for-sale securities, net of taxes					677	677	677
Net income				7,535		7,535	7,535
Comprehensive income						17,660	
Balance at March 31, 2006	84,651,202	466,746	23,030	(38,072)	32,844		484,548

	Common Shares		Additional paid in capital	Accumulated Deficit	Accumulated other comprehensive income (loss)	Comprehensive loss	Total Stockholders' Equity
	Shares	Amount					
	#	\$	\$	\$	\$	\$	\$
Balance at December 31, 2006	84,983,735	470,190	27,564	(41,022)	26,101		482,833
Adjustment for the adoption of FASB Interpretation No. (FIN) 48				(3,075)			(3,075)
Exercise of stock options for cash	30,248	79					79
Stock-based compensation			1,059				1,059
Net unrealized loss on available-for-sale securities, net of taxes					(3,253)	(3,253)	(3,253)
Reclassification of net unrealized loss on available-for-sale securities, net of taxes					3,097	3,097	3,097
Cumulative translation adjustment					(241)	(241)	(241)
Net loss				(13,884)		(13,884)	(13,884)
Comprehensive loss						(14,281)	
Balance at March 31, 2007	85,013,983	470,269	28,623	(57,981)	25,704		466,615

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts expressed in thousands of U.S. dollars)

(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
OPERATING ACTIVITIES		
Net (loss) income	\$(13,884)	\$7,535
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	9,251	2,247
Loss on disposal of property and equipment	-	24
Loss on redemption of available-for-sale securities	647	1,477
Unrealized foreign exchange gain	-	(28)
Impairment of assets from discontinued operations	8,879	-
Deferred leasehold inducements	(57)	(52)
Deferred income taxes	(7,072)	(681)
License fees	(419)	-
Stock-based compensation expense	1,059	1,500
Deferred revenue	(53)	(53)
Non-cash interest expense	558	-
In-process research and development	-	1,042
Cumulative effect of change in accounting principle	-	(399)
Net change in non-cash working capital items relating to operations [note 17]	(11,796)	(13,920)
Cash used in operating activities	(12,887)	(1,308)
INVESTING ACTIVITIES		
Purchase of short-term investments	-	(50,571)
Proceeds from short-term investments	9,396	130,340
Purchase of long-term investments	(5,000)	-
Proceeds from long-term investments	15,454	126,022
Purchase of property, plant and equipment	(1,311)	(971)
Purchase of intangible assets	(5,250)	-
Acquisition of business, net of cash acquired	-	(774,202)
In-process research and development	-	(42)
Other assets	(101)	(137)
Cash provided by (used in) investing activities	13,188	(569,561)
FINANCING ACTIVITIES		
Proceeds from long term obligations	-	600,000
Deferred financing costs on long-term obligations	(1,674)	(12,535)
Proceeds from stock options exercised	79	3,107
Cash (used in) provided by financing activities	(1,595)	590,572
Net (decrease) increase in cash and cash equivalents	(1,294)	19,703
Cash and cash equivalents, beginning of period	99,332	62,163
Cash and cash equivalents, end of period	\$98,038	\$81,866

See accompanying notes to the consolidated financial statements

Angiotech Pharmaceuticals, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts expressed in thousands of U.S. dollars, except share and per share data)

(Unaudited)

Angiotech Pharmaceuticals, Inc. (the "Company"), is incorporated under the Business Corporations Act (British Columbia). The Company is a specialty pharmaceutical and medical device company that discovers, develops and markets innovative technologies and medical products primarily for local diseases or for complications associated with medical device implants, surgical interventions and acute injury.

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission for the presentation of interim financial information. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. These consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2006 included in the Company's Annual Report filed with the appropriate securities commissions.

In the opinion of management, all adjustments (which include reclassification and normal recurring adjustments) necessary to present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows at March 31, 2007 and for all periods presented, have been made. The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results for the full year ending December 31, 2007.

All amounts herein are expressed in U.S. dollars unless otherwise noted. The year end balance sheet data was derived from audited financial statements but does not include all of the disclosures required under U.S. GAAP.

2. SIGNIFICANT ACCOUNTING POLICIES

Other than the change in accounting policy described further in note 3 to these interim consolidated financial statements, all accounting policies are the same as described in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2006 included in the Company's 2006 Annual Report filed with the appropriate securities commissions.

3. CHANGE IN ACCOUNTING POLICIES

Accounting for Uncertainty in Income Taxes

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 is designed to reduce diversity and provide consistent accounting practices and criteria for how companies should recognize, measure, present, and disclose in their financial statements all significant uncertain tax positions.

As a result of the adoption, the Company increased its existing reserves for uncertain tax positions by \$4.9 million. Approximately \$3.1 million of this increase was recorded as a cumulative effect adjustment to the Company's opening deficit balance, \$1.2 million to goodwill and the remainder was recorded as a current expense. If recognized in future periods, the unrecognized tax benefits of \$4.9 million will have a favourable effect on the effective income tax rate in those periods. The increase for uncertain tax positions includes accrued interest expense of \$0.4 million. In accordance with the Company's accounting policies, accrued interest and penalties, if incurred, relating to unrecognized tax benefits are recognized as a component of income tax expense.

The taxation years 2002 - 2006 remain open to examination by the Canada Revenue Agency and taxation years 2003 - 2006 remain open to examination by the Internal Revenue Service. The Company files income tax returns in Canada, the U.S., and various foreign jurisdictions including the U.K., Denmark, Puerto Rico and Switzerland.

4. DISCONTINUED OPERATIONS

In the third quarter of 2006, the Company determined that certain operating subsidiaries acquired through the American Medical Instruments Holdings, Inc. (“AMI”), acquisition were not aligned with the Company’s current business strategy and, consequently, began actively looking to dispose of these operations. These operations have been categorized as discontinued and include the following AMI subsidiaries: American Medical Instruments, Inc. located in Dartmouth, Massachusetts; Point Technologies, Inc. located in Boulder, Colorado; and Point Technologies S.A. located in Costa Rica. The assets and liabilities of these operations have been shown separately on the balance sheet as current and long-term assets and current and long-term liabilities from discontinued operations and the net losses for these operations have been shown separately on the statements of income. Included in long-term assets from discontinued operations are intangible assets of \$5.6 million and goodwill of \$9.6 million relating to the medical products reportable segment. Management reviewed the carrying value of the discontinued operations and recorded impairment charges of \$7.7 million and \$8.9 million for the year ended December 31, 2006 and three month period ended March 31, 2007, respectively. The impairment charges were determined based on management’s best estimates of net proceeds on ultimate disposition and has been allocated proportionately to the assets from discontinued operations.

In the fourth quarter of 2005, the Company decided to close down the offices of its subsidiary, NeuColl, Inc., and to terminate its distribution agreements. As a result of this decision, the results of operations from the NeuColl subsidiary for the current and prior periods were reported as discontinued operations in the Company’s Consolidated Statements of Income.

The assets and liabilities of the AMI subsidiaries included in discontinued operations are presented in the Company’s Consolidated Balance Sheets under the captions “Assets from discontinued operations, current portion”, “Assets from discontinued operations”, “Liabilities from discontinued operations, current portion” and “Liabilities from discontinued operations.” The carrying amounts of the major classes of these assets and liabilities are as follows:

	As of March 31, 2007	As of December 31, 2006
ASSETS		
Current assets		
Accounts receivable	\$1,716	\$1,136
Inventories	1,580	1,142
Prepaid expenses and other current assets	170	87
Current assets from discontinued operations	3,466	2,365
Property, plant and equipment, primarily building and equipment held for sale at March 31, 2007	1,493	4,545
Intangible assets, net	1,298	3,874
Goodwill	2,231	6,664
Other assets	43	33
Assets from discontinued operations	\$8,531	\$17,481
LIABILITIES		
Accounts payable and accrued liabilities	\$1,499	\$1,994
Deferred income taxes	2,232	2,232
Liabilities from discontinued operations	\$3,731	\$4,226

The operating results of discontinued operations are included in the Consolidated Statements of Operations as “Loss from discontinued operations, net of income taxes.” The amounts for the three month periods ended March 31, 2007 and 2006 are summarized as follows:

	Three months ended March 31,	
	2007	2006
Revenues	\$3,042	\$(4)
Operating loss	(483)	(434)
Other expenses	-	(11)
Impairment charge	(8,879)	-
Loss before income taxes	(9,362)	(445)
Income tax recovery	(278)	-
Loss from discontinued operations	\$(9,084)	\$(445)
Loss per common share:		
Basic	\$(0.11)	\$ -
Diluted	\$(0.11)	\$ -
Shares used in computing loss per share:		
Basic	85,002	84,534
Diluted	85,497	85,815

5. BUSINESS ACQUISITIONS

On June 26, 2006, the Company completed the acquisition of 100% of the outstanding stock of privately held Quill Medical, Inc. (“Quill”), a provider of specialized, minimally invasive aesthetic surgery and wound closure technology for \$40.3 million. The purpose of this acquisition was to acquire all of Quill’s technology and intellectual property, including the self-anchoring suture technology product line, which under its current license agreement is marketed and sold for use in wound closure, aesthetic and cosmetic surgery. The cost of the acquisition included initial cash consideration of \$40.0 million plus direct and incremental third party acquisition costs of \$0.3 million. The company may be required to make additional contingent payments of up to \$150 million upon the achievement of certain revenue growth and development milestones. These payments are primarily contingent upon the achievement of significant incremental revenue growth over a five year period, subject to certain conditions. As at March 31, 2007, the Company has recorded an additional \$10.0 million in goodwill relating to the achievement of certain of these milestones.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the assets, liabilities, revenues and expenses of Quill are consolidated with those of the Company from June 26, 2006. Total fair value of the consideration given, determined at that date of acquisition and updated based on a subsequent valuation procedures, was allocated to the assets acquired and liabilities assumed based upon their estimated fair values, as follows:

A valuation of Quill’s intangible assets was completed and the purchase price allocation is considered final as of March 31, 2007. The Company used the income approach to determine the fair value of the amortizable intangible assets. Total consideration of \$40.3 million, including acquisition costs, was allocated to the assets acquired and liabilities assumed based on fair values at the date of acquisition resulting in preliminary identifiable intangible assets of \$39.9 million and goodwill of \$13.1 million at the end of June 2006. Subsequent to the acquisition more detailed valuation procedures were performed on the assets acquired and additional information was obtained on allocations made at June 26, 2006 resulting in updated purchase price allocations to identifiable intangible assets of \$50.0 million and goodwill of \$7.0 million as of December 31, 2006. The increase in value allocated to identifiable intangibles was primarily the result of more detailed valuation procedures which identified an increase in fair value allocated to the technology and intellectual property acquired. The offset to the increase in identifiable intangible assets was an increase in the deferred income tax liability and a decrease to goodwill. During the three months ended March 31, 2007, goodwill was increased by \$10.0 million, the amount of the milestone payment discussed above.

	June 26, 2006
Accounts receivable	\$92
Other current assets	43
Equipment	323
Identifiable intangible assets	50,000
Goodwill	16,973
Deferred income tax asset	2,557
Current liabilities	(104)
Deferred income tax liability	(19,584)
	<u>\$50,300</u>
Consideration:	
Cash consideration	\$50,000
Direct acquisition costs	300
	<u>\$50,300</u>

The primary factors that contributed to the establishment of goodwill, included: the expected revenue growth over time that is attributable to expanded indications and increased market penetration from future products and customers; and the synergies expected to result from combining infrastructures, reducing combined operational spend and program reprioritization. The goodwill acquired in the Quill acquisition is not deductible for tax purposes.

The identifiable intangible assets are comprised of the technology and intellectual property acquired. These intangibles will be amortized over their estimated lives, which is between eight and nine years.

The Company had a pre-existing relationship with Quill at the time of the acquisition through an Exclusive Development, License and Distribution Agreement between Quill and a subsidiary of AML. This relationship was settled at fair value when compared to pricing for other current market transactions for similar arrangements and consequently, did not result in any gain or loss.

6. SHORT AND LONG-TERM INVESTMENTS

	Cost	Gross unrealized gains	Gross unrealized losses	Approximate market and carrying value
March 31, 2007				
Available-for-sale equity securities	\$11,591	\$2,026	\$-	\$13,617
Investments recorded at cost	16,623	-	-	16,623
	\$28,214	\$2,026	\$-	\$30,240
December 31, 2006				
Available-for-sale equity securities	\$44,598	\$6,564	\$(4,382)	\$46,780
Investments recorded at cost	16,345	-	-	16,345
	\$60,943	\$6,564	\$(4,382)	\$63,125

7. ACCOUNTS RECEIVABLE

	March 31, 2007	December 31, 2006
Trade accounts receivable	\$23,315	\$23,683
Other receivables	9,605	1,548
	\$32,920	\$25,231

8. INVENTORIES

	March 31, 2007	December 31, 2006
Raw materials	\$9,662	\$9,144
Work in process	13,594	13,738
Finished goods	13,783	10,737
	\$37,039	\$33,619

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Net book value
March 31, 2007			
Land	\$10,620	\$-	\$10,620
Buildings	18,640	759	17,881
Leasehold improvements	10,720	2,851	7,869
Manufacturing equipment	19,076	2,928	16,148
Research equipment	5,110	2,950	2,160
Office furniture and equipment	3,371	1,550	1,821
Computer equipment	7,475	4,838	2,637
	\$75,012	\$15,876	\$59,136
December 31, 2006			
Land	\$10,635	\$-	\$10,635
Buildings	18,564	559	18,005
Leasehold improvements	10,671	2,626	8,045
Manufacturing equipment	18,230	2,226	16,004
Research equipment	5,086	2,766	2,320
Office furniture and equipment	3,353	1,380	1,973
Computer equipment	7,271	4,470	2,801
	\$73,810	\$14,027	\$59,783

10. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value
March 31, 2007			
Acquired technologies	\$126,578	\$30,725	\$95,853
Customer relationships	108,190	15,512	92,678
In-licensed technologies	54,802	12,327	42,475
Trade names and other	14,280	1,907	12,373
	<u>\$303,850</u>	<u>\$60,471</u>	<u>\$243,379</u>
December 31, 2006			
Acquired technologies	\$120,878	\$27,790	\$93,088
Customer relationships	108,190	13,194	94,996
In-licensed technologies	54,802	10,717	44,085
Trade names and other	14,280	1,495	12,785
	<u>\$298,150</u>	<u>\$53,196</u>	<u>\$244,954</u>

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2007	December 31, 2006
Trade accounts payable	\$11,877	\$11,221
Accrued license and royalty fees	817	6,511
Employee-related accruals	10,290	10,834
Accrued professional fees	8,662	8,832
Accrued contract research	1,143	2,114
Accrued milestone payment	10,000	5,000
Other accrued liabilities	7,117	4,470
	<u>\$49,906</u>	<u>\$48,982</u>

12. LONG-TERM DEBT

	March 31, 2007	December 31, 2006
Senior Floating Rate Notes	\$325,000	\$325,000
7.75% Senior Subordinated Notes	250,000	250,000
	<u>\$575,000</u>	<u>\$575,000</u>

13. SHARE CAPITAL

During the three month period ended March 31, 2007, the Company issued 30,248 common shares upon exercises of stock options. The Company issues new shares to satisfy stock option exercises.

*a) Stock Options**Angiotech Pharmaceuticals, Inc.*

In June 2006, the stockholders approved the adoption of the 2006 Stock Incentive Plan ("2006 Plan") which superseded the previous stock option plans. The 2006 Plan incorporated all of the options granted under the previous stock option plan and, in total, provides for the issuance of non-transferable stock-based awards to purchase up to 13,937,756 common shares to employees, officers, directors of the Company, and persons providing ongoing management or consulting services to the Company. The Plan provides for, but does not require, the granting of tandem stock appreciation rights that at the option of the holder may be exercised instead of the underlying option. When the tandem stock appreciation right is exercised, the underlying option is cancelled. The optionee receives shares of common stock with a fair market value equal to the excess of the fair value of the shares subject to the option at the time of exercise (or the portion thereof so exercised) over the aggregate option price of the shares set forth in the option agreement. The exercise of tandem stock appreciation rights is treated as the exercise of the underlying option. The exercise price of the options is fixed by the Board of Directors, but will generally be at least equal to the market price of the common shares at the date of grant, and for options issued under the 2006 Plan and the 2004 Plan, the term may not exceed five years. For options grandfathered from the stock option plans prior to the 2004 Plan, the term did not exceed 10 years. Options granted are also subject to certain vesting provisions. Options generally vest monthly after being granted over varying terms from 2 to 4 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of CDN\$ stock option transactions is as follows:

	No. of Optioned Shares	Weighted average exercise price (in CDN\$)	Weighted average remaining contractual term (years)	Aggregate intrinsic value (in CDN\$)
Outstanding at December 31, 2006	7,307,576	\$16.98		
Granted	1,115,000	8.90		
Exercised	(30,248)	3.07		
Forfeited	(677,951)	18.90		
Outstanding at March 31, 2007	7,714,377	\$15.69	3.86	\$2,248
Exercisable at March 31, 2007	5,858,224	\$16.47	3.73	\$2,248

These options expire at various dates from December 10, 2007 to December 17, 2012.

A summary of U.S.\$ stock option transactions is as follows:

	No. of Optioned Shares	Weighted average exercise price (in U.S.\$)	Weighted average remaining contractual term (years)	Aggregate intrinsic value (in U.S.\$)
Outstanding at December 31, 2006	211,968	\$15.81		
Granted	835,000	7.57		
Forfeited	(15,437)	8.15		
Outstanding at March 31, 2007	1,031,531	\$9.54	4.46	\$ -
Exercisable at March 31, 2007	124,939	\$16.21	3.12	\$ -

These options expire at various dates from January 26, 2010 to March 18, 2012.

American Medical Instruments Holdings, Inc. ("AMI")

On March 9, 2006, AMI granted 304 stock options under AMI's 2003 Stock Option Plan which were subject to closing the acquisition of AMI by the Company. Each AMI stock option will convert into approximately 3,852 Angiotech shares upon exercise. All outstanding options and warrants granted prior to the March 9, 2006 grant were settled and cancelled upon acquisition. Under the AMI stock option plan, options to purchase common stock of AMI may be granted to certain employees and directors at an exercise price equal to the estimated fair market value of the underlying stock on the date of grant. All options have a term of ten years and vest over a six year graded vesting schedule with certain provisions for accelerated vesting. No further stock options will be granted out of AMI's 2003 Stock Option Plan. A total of 1,171,092 Angiotech shares were reserved to accommodate future exercises of the AMI options.

	No. of Optioned Shares (in millions)	Weighted average exercise price (in U.S.\$)	Weighted average remaining contractual term (years)	Aggregate intrinsic value (in U.S.\$)
Outstanding at December 31, 2006	874,468	\$15.44		
Forfeited	(84,751)	15.44		
Outstanding at March 31, 2007	789,717	\$15.44	8.95	\$ -
Exercisable at March 31, 2007	-	\$15.44	-	\$ -

These options expire on March 8, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

b) Stock-based compensation expense

The Company recorded stock-based compensation expense of \$1,059,000 for the three month period ended March 31, 2007 (\$1,500,000 for the three month period ended March 31, 2006) relating to awards granted under its stock option plan, modified or settled subsequent to October 1, 2002. The estimated fair value of the stock options granted is amortized to expense on a straight-line basis over the vesting period and was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants in the respective periods:

	Three months ended March 31,	
	2007	2006
Dividend Yield	Nil	Nil
Expected Volatility	36.4% - 44.9%	40.4% - 43.3%
Weighted Average Volatility	41.7%	40.7%
Risk-free Interest Rate	4.08% - 4.84%	4.01% - 4.50%
Expected Term (Years)	3	3 - 5

The weighted average fair value of stock options granted in the three month period ended March 31, 2007 and 2006 are presented below:

	Three months ended March 31,	
	2007	2006
CDN\$ options	\$3.07	\$5.86
U.S. options	\$2.34	\$6.51

A summary of the status of the Company's nonvested options as of March 31, 2007 (excluding the AMI stock options) and changes during the three month period ended March 31, 2007, is presented below:

Nonvested CDN\$ options	No. of Optioned Shares	Weighted average grant-date fair value (in CDN\$)
Nonvested at December 31, 2006	940,891	\$6.70
Granted	1,115,000	3.07
Vested	(139,910)	4.33
Forfeited	(59,828)	7.53
Nonvested at March 31, 2007	1,856,153	\$4.47

Nonvested U.S.\$ options	No. of Optioned Shares	Weighted average grant-date fair value (in U.S.\$)
Nonvested at December 31, 2006	117,032	\$5.50
Granted	835,000	2.34
Vested	(30,394)	3.79
Forfeited	(15,046)	2.34
Nonvested at March 31, 2007	906,592	\$2.70

As of March 31, 2007, there was \$7,817,000 of total unrecognized compensation cost related to nonvested stock options granted under the Angiotech Plan. These costs are expected to be recognized over a weighted average period of 3.35 years.

As of March 31, 2007, there was \$3,303,000 of total unrecognized compensation cost related to the nonvested AMI stock options. These costs are expected to be recognized over a period of 5.00 years on a straight-line basis as a charge to income. The total fair value of options vested during the three month period ended March 31, 2007 was \$nil as all the AMI stock options remain unvested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three month period ended March 31, 2007 and 2006 the following activity occurred:

(in thousands)	Three months ended	
	March 31,	
	2007	2006
Total intrinsic value of stock options exercised		
CDN\$ options	171	2,103
U.S.\$ options	-	361
Total fair value of stock awards vested	829	1,500

Cash received from stock option exercises for the three month period ended March 31, 2007 was \$79,000.

The Black-Scholes pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company's employee stock options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimate.

14. INCOME TAXES

For the three month period ending March 31, 2007, the Company is in an income tax recovery position as a result of a current period net loss from operations, the amortization of identifiable intangible assets and the impairment charge on discontinued operations. The income tax recovery also includes a charge of \$0.4 million related to an accrual under FIN 48. Refer to the FIN 48 discussion under *Change in Accounting Policies*.

For the three month period ending March 31, 2007, the effective tax rate was 50.5% compared to an effective tax rate of 36.7% for the same period in the prior year. The current year increase in the effective tax rate is the net result of an increase due to the impairment charge on discontinued operations, a decrease due to provincial income tax credits, international tax structures and the amortization of identifiable intangible assets acquired through business combinations.

15. COMMITMENTS AND CONTINGENCIES

(a) Commitments

- i) The Company committed to minimum commercialization expenditures of \$7.85 million in the first year and \$10.0 million in each of the second and third years on the products acquired from Quill.
- ii) The Company has entered into research and development collaboration agreements that involve joint research efforts. Certain collaboration costs and any eventual profits will be shared as per terms provided for in the agreements.

(b) Contingencies

- i) 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 financial position of the Company.
- ii) Boston Scientific Corporation, a licensee, is involved in several legal proceedings (for which the Company is not a party to) concerning challenges to its stent business. If parties opposing Boston Scientific Corporation were successful, royalty revenue would likely be significantly reduced. The ultimate outcome of these oppositions are uncertain at this time.
- iii) At the European Patent Office (EPO), various patents either owned or licensed by or to the Company are in opposition proceedings. On January 25, 2005, the European Patent Office Opposition Division announced a favorable ruling and maintained the validity of our European Patent No. EP0706376 with various claims, including claims to stents coated with a composition of paclitaxel and a polymeric carrier. None of the original parties to the proceedings filed an Appeal of this decision. Two non-parties to the Opposition (Conor Medsystems and Sahajanand Medical Technologies Pvt. Ltd. ("SMT")) subsequently submitted various documents to the European Patent Office, including Notices of Intervention and of Appeal. With respect to European Patent No. EP0711158 (which Angiotech licenses from the NIH) the European Patent Office has scheduled an Oral Hearing for October 25, 2007. The oppositions against European Patent Nos. EP0809515, EP0975340 and EP1155690 are at an early stage, with briefs being exchanged. On September 29, 2006 and October 4, 2006, oppositions were filed by three parties against European Patent No. EP1118325 (which Angiotech licenses from NIH), and the parties are waiting for the European Patent Office to take further action. Beginning on December 21, 2006, six parties filed oppositions to the grant of EP1407786, where Angiotech licenses this patent from Scimed Life Systems, Inc. The grant of European Patent No. EP0830100, which relates to our ePTFE vascular graft products, was opposed with an Oral Hearing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- conducted on September 28, 2006. At the end of the Hearing, the European Patent Office determined that an amended form of the patent was valid. The opponent appealed this decision.
- iv) On July 7, 2006, an Opposition was filed against our New Zealand Patent No. 523799, and we have indicated our intent to defend an amended form of this patent. On March 1, 2006, the Board of Appeals of the Japanese Patent Office issued a final order of revocation regarding certain claims of our Japanese Patent No. 3423317, directed to a stent coated with paclitaxel. Angiotech has appealed this decision to Japan's Intellectual Property High Court, and a hearing was held on December 11, 2006. As a result of that hearing, Angiotech and the Japanese Patent Office were each asked to file an additional brief with the court, and the next hearing date was scheduled for April 17, 2007.
 - v) In February 2005, the Company together with Boston Scientific Corporation commenced a legal action in the Netherlands against Conor Medsystems Inc. for patent infringement. In November 2005, Conor MedSystems Inc. commenced a legal action in the Netherlands against the Company, asserting that the NL member of the EP0706376 patent is invalid and should be revoked. Arguments in the *Conor v. Angiotech* litigation in the Netherlands were heard by the Court on October 27, 2006. On January 17, 2007, the Court issued their Judgment, finding that the broadest claim in the patent was not valid, however a narrower claim was valid, and furthermore Conor's CoStar stent was an infringement of this narrower claim. The Court requested that various submissions be made by April 18, 2007 in regard to potential claim amendments.
 - vi) In February 2005, a claim was filed by Conor Medsystems, Inc. in a court in the United Kingdom alleging that one of the Company's U.K. stent patents is invalid and was seeking to have that patent revoked. On February 24, 2006, a UK court ruled in favor of Conor, finding that Angiotech's EP (UK) Hunter Patent was invalid. Angiotech launched an appeal, which was heard on December 11-14, 2006. On January 16, 2007, the Court of Appeals dismissed Angiotech's appeal because it concluded that the trial court correctly found that the claimed invention was not patentable. The Company filed a Petition with the House of Lords to request that the House of Lords overrule the lower court decision.
 - vii) On March 31, 2005, a claim was filed by Conor MedSystems Inc. in a court in Australia, alleging invalidity of three of the Company's Australian patents. This claim was set to be heard by the Court in February 2007, however in December 2006 Conor advised the Court that CoStar may be coming onto the Australia market. Thereafter, the Court bifurcated the trial, agreeing to hear one issue (entitlement) on March 12-16, 2007, and all other issues at a second trial scheduled for September 17 through October 26, 2007. At the first trial on March 12, 2007, the Court determined that the issues would be heard jointly at the second trial.
 - viii) In April 2005, the Company together with Boston Scientific Corporation commenced a legal action in the Netherlands against Sahajanand Medical Technologies Pvt. Ltd. for patent infringement. The hearing was held in March 2006. In May 2006, the Dutch court ruled in favor of Angiotech, finding that Angiotech's EP (NL) Hunter patent was valid, and that SMT's Infinnium stent was infringing that patent. SMT has filed an appeal, and is currently enjoined from selling their stent in the Netherlands pending resolution of that appeal.
 - ix) In December 2005, the Company together with Boston Scientific Corporation commenced a Preliminary Injunction Proceeding in the Netherlands against Biosensors International Group Ltd. and six related companies including Occam International BV, requesting a preliminary injunction. In March 2006, a Dutch court ruled against Angiotech's request for a preliminary injunction against Occam and its distributor. An appeal was filed by Angiotech and may be heard late in 2007
 - x) The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into license agreements with third parties that include indemnification provisions in the ordinary course of business that are customary in the industry. Those indemnifications 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. However, the Company maintains liability insurance that limits the exposure and enables the Company to recover any future amounts paid (up to policy limits), less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

16. SEGMENTED INFORMATION

The Company operates in two reportable segments: (i) Pharmaceutical Technologies and (ii) Medical Products. Prior to the acquisition of AMI the Company reported its operations under one segment, drug-eluting medical devices and biomaterials.

The Pharmaceuticals Technologies segment includes royalty revenue generated from out-licensing technology related to the drug-eluting stent, biomaterials and other technologies. This segment also includes our internal and external research and development activities and our corporate activities.

The Medical Products segment includes the operations acquired through AMI, which are focused on the direct manufacturing and marketing of a wide range of single use, specialty medical devices including suture needles, biopsy needles / devices, micro surgical ophthalmic knives, drainage catheters, self-anchoring sutures and other specialty devices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company evaluates the performance of its segments based on operating income. Certain other income and expenses are not allocated to segments as they are not considered in evaluating the segment's operating performance. Unallocated income and expenses include foreign exchange, investment income and interest expense.

The following tables represent reportable segment information for the three month period ended March 31, 2007:

	Three months ended March 31,	
	2007	2006
Revenue		
Pharmaceutical Technologies	\$34,572	\$41,945
Medical Products	41,386	-
Total revenue	75,958	41,945
Operating income (loss)		
Pharmaceutical Technologies	4,887	11,561
Medical Products	(2,535)	-
Total operating income	2,352	11,561
Other income (expenses)	(12,052)	409
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting policy	\$(9,700)	\$11,970

During the three month period ended March 31, 2007, revenue from one licensee represented approximately 42% of total revenue (94% for the three month period ended March 31, 2006).

The following table represents total assets for each reportable segment at March 31, 2007 and December 31, 2006:

	March 31, 2007	December 31, 2006
Total assets		
Pharmaceutical Technologies	\$241,700	\$266,382
Medical Products	945,627	939,492
Total assets	\$1,187,327	\$1,205,874

The following table represents capital expenditures for each reportable segment at March 31, 2007 and 2006:

	March 31, 2007	March 31, 2006
Capital expenditures		
Pharmaceutical Technologies	\$151	\$971
Medical Products	1,160	-
Total capital expenditures	\$1,311	\$971

17. CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATING TO OPERATIONS AND SUPPLEMENTAL CASH FLOW INFORMATION

The change in non-cash working capital items relating to operations was as follows:

	Three months ended March 31,	
	2007	2006
Accrued interest on short-term and long-term investments	\$(278)	\$2,637
Accounts receivable	442	1,316
Income taxes receivable	-	(2,798)
Inventories	(3,472)	(39)
Prepaid expenses and other assets	169	(1,808)
Accounts payable and accrued liabilities	(4,885)	(7,479)
Income taxes payable	292	(6,738)
Interest payable	(4,064)	989
	\$(11,796)	\$(13,920)

Supplemental disclosure:

	Three months ended March 31,	
	2007	2006
Accrued milestone payment	\$10,000	\$-