

Dear Shareholders:

This past year was an exceptional year for Angiotech and it is our pleasure to provide this report on the Company's progress during 1997.

The two most significant events for the year were the signing of our first corporate licensing agreement and the completion of our Initial Public Offering.

On July 10, 1997, Angiotech entered into a \$32 million co-exclusive, worldwide license with Boston Scientific Corporation and Cook Incorporated, two multinational medical device companies. The co-exclusive agreement grants Boston Scientific and Cook the right to use paclitaxel and related compounds as coatings for stents and in combination with other endoluminal devices for the treatment of vascular and gastrointestinal diseases. Angiotech will receive milestone payments and royalties, while Boston Scientific and Cook will also make financial commitments to product development and marketing. In addition, both companies demonstrated their commitment to the Company by making equal equity investments in Angiotech. This co-exclusive license is unique as Boston Scientific and Cook, who are historical competitors, have independently committed to develop our technology. At present, both companies are competing to be the first to initiate Human Safety Studies of paclitaxel-coated coronary stents during 1998.

1997 also represented a turning point for Angiotech as we made our transition from a private company to a publicly traded one. On December 18, 1997, we completed our \$22 million Initial Public Offering on the Toronto Stock Exchange (trading symbol "ANP") at \$10 per share. The Offering was exceptionally well received in a most challenging market environment. The lead investor was International Biotechnology Trust (managed by the Rothschild Bioscience Unit), which made its first Canadian investment, committing \$7 million to Angiotech. Subsequent to the Offering, in January 1998, the Company's underwriters exercised their over allotment option and purchased an additional 250,000 Common shares at \$10 per share.

The Company's other research programs have continued to yield promising results. Clinically, we have completed enrollment of the Human Safety Study at Guy's Hospital in London, UK, for paclitaxel-coated stents in esophageal cancer. In preclinical studies, the paclitaxel psoriasis, rheumatoid arthritis, multiple sclerosis (MS) and perivascular programs have produced significant results, thereby positioning the Company to plan and initiate Phase I Clinical Studies

over the next 12 months. In addition, we have developed a novel lead vanadium compound with potential applications for the treatment of cancer, rheumatoid arthritis and other related indications.

The Company has continued to strengthen its intellectual property position during the last year through both internal scientific development and in-licensing from internationally renowned investigators and academic institutions. The paclitaxel cardiovascular program (stent coatings, vascular grafts) has been enhanced through exclusive in-licensing of one issued patent and related applications from the National Institutes of Health (NIH) (for the use of paclitaxel and other similar compounds for vascular disease), three issued patents from Harvard (for antiproliferative agents applied to the outer wall of body passageways) and one patent application from the University of Washington (for unidirectional drug delivery to the outside of a blood vessel wall). Angiotech was also granted allowance of US and European patents for stents with paclitaxel and the use of paclitaxel in rheumatoid arthritis. These patents and applications are a significant addition to Angiotech's strong intellectual property portfolio protecting our core products under development.

Angiotech is pleased that Company-sponsored research conducted at the NIH on the paclitaxel-coated coronary stent was presented at the American Heart Association meeting in Orlando, Florida. Our scientists and collaborators have also published or presented other data on products under development throughout the year. In addition, Angiotech presented at the First Marathon Investor Conference in Canada and the Robertson Stephens Investor Conference in the US and was enthusiastically received at both venues.

Also during 1997, Angiotech was awarded a \$131,265 Medical Research Council of Canada Grant for our MS program, a \$36,000 BC Science Council Grant for our perivascular drug delivery program and the BC Science Council Gold Medal for industrial innovation for the Coated Stent Program.

On a final note, we are thrilled with the new location of our office and laboratory at The University of British Columbia (UBC). Last summer, we moved our office from downtown Vancouver to our new site on UBC's campus. With both the office and lab in same building, we are able to work more closely together in a team environment.

None of these accomplishments would have been possible without the dedication of our employees and collaborators and the support of our shareholders. To all of those who have believed in Angiotech and our vision — thank you. We appreciate everyone's commitment and we look forward to continued growth and success in 1998.

Yours very truly,

ANGIOTECH PHARMACEUTICALS, INC.

William L. Hunter, MD
Chairman and Chief Executive Officer

Donald E. Longenecker, PhD
President and COO

February 16, 1998

FINANCIAL STATEMENTS

ANGIOTECH PHARMACEUTICALS, INC.
(formerly Angiogenesis Technologies, Inc.)

September 30, 1997

AUDITORS' REPORT

To the Shareholders of
Angiotech Pharmaceuticals, Inc.

We have audited the balance sheets of **Angiotech Pharmaceuticals, Inc.** as at September 30, 1997 and 1996 and the statements of loss and deficit and changes in financial position for each of the years in the five year period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the five year period ended September 30, 1997 in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada
November 14, 1997
(except as to note 8(a)
which is as of December 9, 1997)

Chartered Accountants

Angiotech Pharmaceuticals, Inc.
 Incorporated under the laws of British Columbia

BALANCE SHEETS

As at September 30

	1997	1996
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	8,820,482	1,799,305
Short-term investment	—	1,473,530
Accounts receivable	40,211	96,507
Investment tax credit receivable	1,583,000	765,000
Prepaid expenses and deposits	85,444	34,250
Total current assets	10,529,137	4,168,592
Deferred share issue costs [note 8(a)]	27,000	—
Capital assets [note 3]	882,904	705,993
Medical technology [note 4]	248,269	129,964
	11,687,310	5,004,549
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	887,417	805,621
Unearned revenue	81,000	—
Total current liabilities	968,417	805,621
Shareholders' equity		
Share capital [note 5(b)]	21,664,932	9,208,167
Contributed surplus [note 5(e)]	25,208	25,208
Deficit	(10,971,247)	(5,034,447)
Total shareholders' equity	10,718,893	4,198,928
	11,687,310	5,004,549

See accompanying notes

On behalf of the Board:

Director

Director

Angiotech Pharmaceuticals, Inc.

STATEMENTS OF LOSS AND DEFICIT

Year ended September 30

	1997	1996	1995	1994	1993
	\$	\$	\$	\$	\$
REVENUE					
Research contract	457,665	—	—	—	—
Government grants	28,785	20,616	107,224	98,027	15,000
Interest income	208,215	58,700	4,918	4,573	2,347
Other- foreign exchange	176,977	40,949	—	—	—
	<u>871,642</u>	<u>120,265</u>	<u>112,142</u>	<u>102,600</u>	<u>17,347</u>
EXPENSES					
Research and development					
Contract services	1,515,746	1,286,164	725,481	210,075	244,031
Consumable supplies	505,170	184,462	344	1,569	2,969
Amortization	207,809	50,201	12,834	3,305	1,590
Occupancy costs	157,709	145,233	33,929	15,669	12,423
Operating costs	329,193	229,713	38,952	39,319	4,293
Patents	477,374	349,875	72,910	31,622	17,123
Preclinical studies	443,379	—	—	—	—
Professional Services	130,879	—	—	—	—
Salaries and benefits	1,690,004	966,732	223,676	159,050	23,021
	<u>5,457,263</u>	<u>3,212,380</u>	<u>1,108,126</u>	<u>460,609</u>	<u>305,450</u>
Less: Investment tax credits	(786,000)	(724,659)	(260,000)	(92,220)	(82,490)
	<u>4,671,263</u>	<u>2,487,721</u>	<u>848,126</u>	<u>368,389</u>	<u>222,960</u>
General and administration					
Amortization	111,156	36,599	—	—	—
Occupancy costs	178,867	117,112	32,336	6,595	4,000
Operating costs	379,042	135,842	18,911	1,400	520
Professional services	291,626	330,828	71,314	6,582	3,505
Salaries and benefits	1,176,488	451,760	112,799	24,413	—
	<u>2,137,179</u>	<u>1,072,141</u>	<u>235,360</u>	<u>38,990</u>	<u>8,025</u>
Loss for the year	<u>5,936,800</u>	<u>3,439,597</u>	<u>971,344</u>	<u>304,779</u>	<u>213,638</u>
Deficit, beginning of year	5,034,447	1,594,850	623,506	214,727	1,089
Premium paid on cancellation of share subscription	—	—	—	104,000	—
Deficit, end of year	<u>10,971,247</u>	<u>5,034,447</u>	<u>1,594,850</u>	<u>623,506</u>	<u>214,727</u>

See accompanying notes

Angiotech Pharmaceuticals, Inc.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended September 30

	1997	1996	1995	1994	1993
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Loss for the year	(5,936,800)	(3,439,597)	(971,344)	(304,779)	(213,638)
Add items not involving cash:					
Amortization	318,965	86,800	12,834	3,305	1,590
Gain on disposal of capital assets	(447)	—	—	—	—
Net change in non-cash working capital balances related to operations	(368,327)	(67,554)	(156,737)	(76,109)	(38,548)
Cash used in operating activities	(5,986,609)	(3,420,351)	(1,115,247)	(377,583)	(250,596)
INVESTING ACTIVITIES					
Purchase of capital assets	(905,024)	(555,390)	(18,129)	(21,373)	(6,196)
Proceeds on disposal of capital assets	4,315	—	—	—	—
Cost of medical technology	(125,100)	(28,834)	(92,330)	(10,800)	—
Cash used in investing activities	(1,025,809)	(584,224)	(110,459)	(32,173)	(6,196)
FINANCING ACTIVITIES					
Issue of shares - net	12,456,765	7,180,261	1,212,537	511,260	329,217
Research contract arrangements and investment tax credits relating to capital assets	130,300	40,341	—	—	—
Deferred share issue costs	(27,000)	—	—	—	—
Share subscriptions	—	(271,777)	271,777	(57,183)	57,183
Cancellation of share subscription	—	—	—	(104,000)	—
Cash provided by financing activities	12,560,065	6,948,825	1,484,314	350,077	386,400
Net increase (decrease) in cash position during the year					
Cash position, beginning of year	5,547,647	2,944,250	258,608	(59,679)	129,608
Cash position, end of year	8,820,482	3,272,835	328,585	69,977	129,656

Cash position comprises cash and cash equivalents and short term investment.

See accompanying notes

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

1. NATURE OF BUSINESS

Angiotech Pharmaceuticals, Inc. (the "Company"), was incorporated under the British Columbia Company Act on October 12, 1989. The Company changed its name to Angiotech Pharmaceuticals, Inc. on September 6, 1996. The Company is in the business of developing and commercializing new treatments for chronic inflammatory and angiogenesis dependent diseases.

The Company has financed its cash requirements primarily from share issuances, payments from collaborators, government grants and investment tax credits. The Company's ability to realize the carrying value of its assets is dependent on successfully bringing its new technologies to the market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It will be necessary for the Company to raise additional funds in the coming year for the continuing development of its technologies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used in the preparation of these financial statements.

Capital assets

Capital assets are recorded at cost less accumulated amortization, related investment tax credits and research contract arrangements. Amortization is provided using the straight-line method over the following terms:

Computer equipment	3 years
Research equipment	5 years
Office furniture and equipment	3 years
Leasehold improvements	Term of the lease

During 1997 the Company revised the estimate of the useful life of research equipment to 5 years from 2 years. The change in estimate has been applied prospectively.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

2. ACCOUNTING POLICIES (cont'd.)

Research and development costs

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortization. No development costs have been deferred to date.

Foreign currency translation

Monetary items denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate during the period. Exchange gains and losses are included in the determination of net income.

Investment tax credits

The benefits of investment tax credits for scientific research and development expenditures are recognized in the period the qualifying expenditure is made providing there is reasonable assurance of recoverability. The investment tax credit reduces the carrying cost of expenditures for capital assets and research and development. The investment tax credit receivable is subject to audit by Revenue Canada.

Medical technology

The costs of acquiring medical technology are capitalized and amortized on a straight line basis over a period of 5 years once commercial production of the related product commences or once the Company enters into a sub-licensing agreement.

If management subsequently determines that successful development of products to which medical technology costs relate is not reasonably certain, or that deferred medical technology costs exceed recoverable value, such costs are charged to operations.

Cash equivalents and short-term investment

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of these financial instruments approximates their market value.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

2. ACCOUNTING POLICIES (cont'd.)

Revenue recognition

Research contract revenue, research related grants and government assistance is recorded as revenue when earned. Amounts received in advance of being earned are recorded as unearned revenue. Amounts earned relating to capital expenditures are deducted from the cost of the related capital assets.

3. CAPITAL ASSETS

	Cost	Accumulated depreciation	Net book Value
	\$	\$	\$
1997			
Computer equipment	388,531	143,439	245,092
Research equipment	651,344	177,100	474,244
Office furniture and equipment	186,482	56,910	129,572
Leasehold improvements	35,487	1,491	33,996
	<u>1,261,844</u>	<u>378,940</u>	<u>882,904</u>
1996			
Computer equipment	257,165	43,701	213,464
Research equipment	411,497	38,837	372,660
Office furniture and equipment	109,753	12,000	97,753
Leasehold improvements	32,107	9,991	22,116
	<u>810,522</u>	<u>104,529</u>	<u>705,993</u>

Investment tax credits and research contract arrangements for the year ended September 30, 1997 of \$162,300 [1996 - \$40,341] have been applied to reduce the cost of capital assets.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

4. MEDICAL TECHNOLOGY

	1997	1996
	\$	\$
License fees, cost	255,064	129,964
Less: Accumulated amortization	(6,795)	—
	<u>248,269</u>	<u>129,964</u>

Medical technology includes payments under the following assignment and licensing agreements:

- (a) Assignment agreement dated July 11, 1994 between the Company and McMaster University relating to all rights, title and interest in intellectual property in anti-angiogenic compositions and methods of use. The Company paid an assignment fee of \$10,800 upon execution of the agreement.
- (b) License agreement dated April 25, 1995 between the Company and Mount Sinai Hospital Corporation (the "MSHC") (the "MSHC Agreement") pursuant to which the Company was granted an exclusive, worldwide, royalty-bearing license to vanadate compounds and derivatives or analogues thereof for the treatment of proliferative disorders, metastases and drug resistant tumors (the "MSHC Technology"). MSHC has agreed to collaborate with the Company in further research, development and testing of the licensed technology.

Under the MSHC agreement, the Company paid MSHC a license issue fee of \$10,000 and issued 25,000 Class A preference shares to MSHC at a deemed value of \$2.75 per share [see note 5]. In addition, the Company may be required to make further payments of cash and/or shares (shares to be issued at the option of the Company) to MSHC upon the attainment of certain milestones relating to the commercial development of MSHC Technology. The aggregate costs to the Company including the license issue fee, shares and all development milestones, will not exceed \$300,000. Milestones payments will only be required to the extent that the consideration paid to the date of the milestone (including any increased value of any shares issued to MSHC) is less than the total consideration required to be provided to MSHC as of the attainment of the milestone.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

4. MEDICAL TECHNOLOGY (cont'd.)

- (c) License agreement dated August 1, 1995 between the Company and the Regents of the University of California ("UCLA") (the "UCLA Agreement") pursuant to which the Company was granted an exclusive, worldwide royalty-bearing license to use certain technologies of UCLA (the "UCLA Technology") for the use of paclitaxel and derivatives or analogues thereof in the treatment of rheumatoid arthritis.

Under the UCLA Agreement, the Company paid UCLA a license fee of \$30,000 U.S. In addition, the Company must make further payments of cash and/or shares (shares to be issued at the option of UCLA) to UCLA upon the attainment of certain milestones relating to the commercial development of the UCLA Technology. The aggregate costs to the Company, including the license issue fee and all development milestones, will not exceed \$230,000 U.S. At September 30, 1997 the Company has made payments of \$180,000 U.S. under UCLA agreements which have been charged to operations.

- (d) Option agreement dated November 15, 1996 between the Company and the University of British Columbia ("UBC") (the "UBC Option Agreement") pursuant to which the Company was granted an exclusive option to obtain a worldwide, exclusive license to use and exploit vanadium compounds (the "UBC Technology"). Under the UBC Option Agreement, the Company is required to pay a monthly option fee of \$1,000 until they exercise the option. At September 30, 1997 the Company has made total payments of \$21,000 [see note 8].

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

4. MEDICAL TECHNOLOGY (cont'd.)

- (e) License agreement dated November, 1996 between the Company and the Public Health Service of the United States, through the National Institute of Health (“NIH”) (the “NIH Licensing Agreement”), pursuant to which the Company was granted a non-exclusive, worldwide royalty-bearing license to use certain technologies of the NIH (the “NIH Technology”) for the use of paclitaxel and derivatives or analogues thereof and other microtubule stabilizing agents in the treatment of fibroproliferative vascular diseases, such as restenosis and atherosclerosis. Under the NIH Licensing Agreement, the Company paid the NIH a license fee and, in addition, must make further payments upon the attainment of certain milestones relating to the NIH Technology. The aggregate cost to the Company of all such payments will not exceed \$530,000 U.S. The NIH Licensing Agreement remains in effect for the life of the last issued patent.
- (f) Subsequent to the NIH Licensing Agreement, in July 1997, the Company and Boston Scientific Corporation (“BSC”) and Cook Incorporated (“Cook”) entered into a licensing agreement and investment agreement (together the “BSC/Cook License Agreement”) which grants each of BSC and Cook a co-exclusive, worldwide right and license to use, manufacture, distribute, and sell certain technology of the Company for endoluminal vascular and gastrointestinal applications on or incorporated in stents and other drug delivery devices.

Pursuant to the BSC/Cook License Agreement, each of BSC and Cook has agreed to reimburse the Company for certain research and development expenses, make future milestone payments upon achievement of certain critical clinical and commercial development milestones, devote stated amounts for product research, development and marketing and pay royalties on net product sales. The total payments and commitments pursuant to the BSC/Cook License Agreement, including the equity investment, if the milestone payments are made and the other financial commitments are incurred, is approximately \$32 million excluding royalty payments. If neither BSC nor Cook meet any of the clinical or commercial development milestones, the Company will be entitled to the funds received to date of approximately \$6 million.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL

(a) Authorized

50,000,000 Common shares without par value

50,000,000 Class A Preference shares without par value

10,000,000 Class B Preference shares, issuable in series, without par value, of which 1,084,500 are designated as Class B Preference shares - Series I and 2,200,000 are designated as Class B Preference shares – Series II

50,000,000 Class C Preference shares, issuable in series, without par value, of which 380,564 are designated as Class C Preference shares - Series I

During the year ended September 30, 1997, 2,200,000 Class B Preference shares were designated as Class B Preference shares - Series II and 380,564 Class C Preference shares were designated as Class C Preference shares - Series I.

Preference shares

The Preference shares are voting.

Class A Preference shares

Holders of Class A Preference shares may convert their shares into Common shares on a one-for-one basis by giving written notice to the Company. These shares will be converted into Common shares on a one-for-one basis upon the closing of an initial public offering of the Company's Common shares.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL (cont'd.)

Class B Preference shares

The Class B Preference shares are issuable in Series. The directors may create additional series and create, define and attach special rights and restrictions as required.

Holders of Class B Preference shares - Series I and Series II may convert their shares into either fully paid Class A Preference shares or fully paid Common shares based upon a conversion price equal to \$3.00 or \$4.25 respectively, per Class A Preference or Common share, by giving written notice to the Company. The Class B Preference shares - Series I and Series II will be converted into Common shares based upon a conversion price equal to \$3.00 or \$4.25 respectively, per Common share, if either:

- [i] a bona fide offer is made to purchase all the outstanding Common shares and all the shares convertible into Common shares (and at least 90% of holders have agreed to accept this offer) at a price of at least \$6 per share if the purchase is made within 18 months of issue or at least \$9 per share thereafter, or
- [ii] the Common shares are unconditionally listed and posted for trading on a specified senior stock exchange immediately after completion of an initial public offering of its common shares at a price of at least \$9 per share raising net proceeds of at least \$10 million for the company.

In addition, the Class B Preference shares - Series I and Series II are retractable at their paid-in amounts plus declared and unpaid dividends upon the occurrence of certain events or at any time after five years from date of issue, in which case the retraction amount will include interest at 7% per annum of the paid-in amount. The Company may redeem the shares at their paid-in amount plus declared and unpaid dividends and interest at 7% per annum of the paid-in amounts any time after five years from date of issue.

Class C Preference shares

The Class C Preference shares are issuable in series. The directors may create additional series and create, define and attach special rights and restrictions as required.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL (cont'd.)

Holders of Class C Preference shares - Series I may convert their shares into either fully paid Class A Preference shares or fully paid Common shares based upon a conversion price equal to \$14.61 per Class A Preference or Common share, by giving written notice to the Company. The Class C Preference shares - Series I will be converted into Common shares based upon a conversion price equal to \$14.61 per Common share, if either:

- [i] a bona fide offer is made to purchase all the outstanding Common shares and all the shares convertible into Common shares (and at least 90% of holders have agreed to accept offer) at a price of at least \$9 per share, or
- [ii] the Common shares are unconditionally listed and posted for trading a specified senior stock exchange immediately after completion of an initial public offering of its common shares at a price of at least \$9 per share raising net proceeds of at least \$10 million for the Company.

Additional Class C Preference shares - Series I and Class B Preference shares - Series I and Series II (the "preferred shares") may under certain circumstances be issued for nominal consideration if the Company issues any Common shares or Class A Preference shares at a price per share less than the issue price of the preferred shares.

Upon dissolution, liquidation or winding up of the Company, all shares participate equally after (i) the holders of the Class C Preference shares receive \$9.00 per share and the holders of the Class B Preference shares receive their paid-in amounts and (ii) the holders of the Class A Preference shares receive \$2.75 per share ratably with the holders of the Class B Preference shares and the Class C Preference shares.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL (cont'd.)

(b) Issued and outstanding

	No. of shares	Amount \$
Class A preference shares		
Issued for cash on incorporation	100	100
Issued for cash pursuant to private placement	2,476,866	329,217
Balance, September 30, 1993	2,476,966	329,317
Issued for cash pursuant to a private placement	737,200	511,260
Balance, September 30, 1994	3,214,166	840,577
Issued for cash pursuant to a private placement	515,558	1,143,787
Issued for the acquisition of certain medical technology [note 4]	25,000	68,750
Balance, September 30, 1995	3,754,724	2,053,114
Issued for cash pursuant to a private placement	1,489,963	3,874,512
Issued for cash	4,545	12,500
Issued for services rendered	20,455	56,250
Shares repurchased for cash – net	(170,900)	(1,709)
Balance, September 30, 1996	5,098,787	5,994,667
Issued for services rendered	2,900	7,975
Issued for cash	2,500	6,875
Issued for cash pursuant to warrants exercised	25,000	68,750
Balance, September 30, 1997	5,129,187	6,078,267
Class B preference shares - Series I		
Issued for cash on September 12, 1996 pursuant to a private placement – net	1,084,500	3,213,500
Balance, September 30, 1996	1,084,500	3,213,500
Share issue costs recovery		13,677
Balance, September 30, 1997	1,084,500	3,227,177
Class B preference shares - Series II		
Issued for cash on December 23, 1996 pursuant to a private placement – net	1,747,062	6,869,697
Balance, September 30, 1997	1,747,062	6,869,697
Class C preference shares – Series I		
Issued for cash on July 14, 1997 pursuant to an investment agreement	380,084	5,366,001
Balance, September 30, 1997	380,084	5,366,001
Common shares		

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

Issued for cash upon exercise of stock options	502,689	148,165
Shares repurchased for cash	(97,500)	(24,375)
Balance, September 30, 1997	405,189	123,790
Total September 30, 1997	8,746,022	21,664,932
Total September 30, 1996	6,183,287	9,208,167

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL (cont'd.)

(c) Stock options

As of September 30, 1997, the Company has granted options to purchase shares of the Company's stock to various executive officers and directors, employees, consultants and collaborative advisory board members. Details of the stock options are summarized as follows:

	No. of optioned shares
<hr/>	
Class A Preference share options	
Balance, September 30, 1997 and 1996	250,000
<hr/>	
Common shares	
Balance, September 30, 1995	20,000
Expired	(20,000)
Granted	685,400
<hr/>	
Balance, September 30, 1996	685,400
Granted	374,100
Exercised	(502,689)
Cancelled	(43,769)
<hr/>	
Balance, September 30, 1997	513,042
<hr/>	
Total	763,042
<hr/>	

At September 30, 1997, the Company has 250,000 Class A Preference shares allotted for issuance on exercise of incentive stock options whereby options to purchase shares are outstanding and are exercisable at \$2.75 per share and expire on January 31, 2006. The Class A Preference shares, are convertible to Common shares.

In addition, 513,042 Common shares are allotted for issuance on exercise of incentive stock options pursuant to a stock option plan to purchase shares, and are outstanding and are exercisable at prices ranging from \$0.25 to \$0.50 per share and expire at various dates from September 5, 2006 to September 14, 2007. All of the shares available for issuance under the stock option plan are subject to vesting over a period of two to four years. The Company has a call option to repurchase at the issue price the Common shares that have not vested at the time the optionee dies or for any reason ceases to be a Service Provider as defined by the Stock Option Plan.

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

5. SHARE CAPITAL (cont'd.)

(d) Agents warrants

Pursuant to a private placement during the year ended September 30, 1996, warrants were issued entitling the agent to acquire 25,000 Class A Preference shares for \$2.75 per share. As at September 30, 1997, all the warrants had been exercised and 25,000 Class A Preference shares were issued.

(e) Shares reacquired

During the year ended September 30, 1997 the Company acquired 97,500 Common shares for a cost of \$24,375 which were subsequently cancelled. During the year ended September 30, 1996, the Company acquired 368,100 Class A Preference shares for a cost of \$3,681. Subsequently, the Company resold 188,000 of these shares for proceeds of \$1,880, and reissued 9,200 shares in exchange for services rendered at a deemed value of \$25,300. The excess of \$25,208 over the cost of these shares has been allocated to contributed surplus. At September 30, 1996 the Company held 170,900 of these shares at a cost of \$1,709 which were cancelled during the year ended September 30, 1997.

6. INCOME TAXES

At September 30, 1997 the Company has non-capital loss carryforwards for income tax purposes available to reduce taxable income for future years. These losses expire as follows:

	\$
2000	277,000
2001	166,000
2002	497,000
2003	1,838,000
2004	3,117,000
	<hr/> 5,895,000 <hr/>

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

6. INCOME TAXES (cont'd.)

In addition, the Company has timing differences relating primarily to capital assets and scientific research and experimental development expenditures of approximately \$5,600,000 which may be used to reduce future taxable income. The income tax benefits relating to these losses, timing differences and tax balances have not been recognized in the accounts as their realization is not reasonably assured.

7. COMMITMENTS

Lease commitments

The Company has entered into an operating lease agreement for office and laboratory space. Future minimum annual lease payments under this lease are as follows:

	\$
1998	306,658
1999	306,658
2000	229,994
	<u>843,310</u>

Research contracts

Under the terms of various research contracts, the Company is committed to making the following known annual payments and milestone amounts:

	\$
1998	806,735
1999	544,496
	<u>1,351,231</u>

Angiotech Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 1997

8. SUBSEQUENT EVENTS

The following events occurred subsequent to the September 30, 1997.

- [a] On December 9, 1997, the Company entered into an underwriting agreement for the purchase of 2,200,000 Common shares at a price of \$10 per share pursuant to a prospectus dated December 9, 1997. The estimated proceeds of the offering will be \$20,030,000 (net of the estimated underwriting fee of \$1,375,000 and estimated other expenses of 595,000).

Upon completion of the public offering the 5,129,187 Class A preference shares, 1,084,500 Class B preference share – Series I, 1,747,062 Class B preference shares – Series II and 380,084 Class C preference shares – Series I will be converted into Common shares as indicated in note 5(a).

- [b] The Company has entered into five separate exclusive license agreements with third parties to acquire worldwide rights to certain technology. Pursuant to the license agreements the Company is required to pay license fees and development milestone payments upon the attainment of certain milestones in an aggregate amount of approximately \$4,800,000 and to issue 45,000 Common shares to two of the third parties upon the attainment of certain milestones. In addition, the Company is required to make royalty payments based on net sales relating to the agreements.
- [c] The Company issued 449,900 Common shares for a total of \$177,900 upon the exercise of stock options, granted options to acquire 7,400 Common shares at a price of \$0.50 per share to October 16, 2007 and cancelled options to acquire 24,542 Common shares at prices between \$0.25 and \$0.50 per share.