

# ANGIOTECH PHARMACEUTICALS, INC.

## BALANCE SHEETS

(Unaudited)

As at	March 31, 1998 \$	September 30, 1997 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	5,360,571	8,820,482
Short-term investments	23,449,192	-
Investment tax credits receivable	818,000	1,583,000
Repaid expenses and other assets	273,098	125,655
<b>Total current assets</b>	<b>29,900,861</b>	<b>10,529,137</b>
Deferred share issue costs	-	27,000
Capital assets	820,005	882,904
Medical technology	631,118	248,269
	<b>31,351,984</b>	<b>11,687,310</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	716,537	887,417
Earned revenue	-	81,000
<b>Total current liabilities</b>	<b>716,537</b>	<b>968,417</b>
<b>Shareholders' equity</b>		
Share capital		
Preference shares:		
March 31, 1998 - Nil		
September 30, 1997 - 8,340,833	-	21,541,142
Common shares:		
March 31, 1998 - 11,721,672		
September 30, 1997 - 405,189	44,563,096	123,790
Contributed surplus	48,171	25,208
Deficit	(13,975,820)	(10,971,247)
<b>Total shareholders' equity</b>	<b>30,635,447</b>	<b>10,718,893</b>
	<b>31,351,984</b>	<b>11,687,310</b>

On behalf of the Board:



William L. Hunter, MD, MSc  
Chairman and Chief Executive Officer



Donald E. Longenecker, PhD  
President and COO

# ANGIOTECH PHARMACEUTICALS, INC.

## STATEMENTS OF LOSS AND DEFICIT

Six Months Ended March 31 (Unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	1998 \$	1997 \$	1998 \$	1997 \$
<b>REVENUE</b>				
Research contract	119,137	-	200,580	-
Interest and other income	447,802	71,737	706,774	108,319
	<b>566,939</b>	<b>71,737</b>	<b>907,354</b>	<b>108,319</b>
<b>EXPENSES</b>				
Research and development	1,314,673	1,075,158	2,455,687	2,156,842
General and administrative	710,798	590,746	1,456,240	1,085,139
	<b>2,025,471</b>	<b>1,665,904</b>	<b>3,911,927</b>	<b>3,241,981</b>
<b>Loss for the period</b>	<b>1,458,532</b>	<b>1,594,167</b>	<b>3,004,573</b>	<b>3,133,662</b>
<b>Deficit, beginning of period</b>	<b>12,517,288</b>	<b>6,573,940</b>	<b>10,971,247</b>	<b>5,034,445</b>
<b>Deficit, end of period</b>	<b>13,975,820</b>	<b>8,168,107</b>	<b>13,975,820</b>	<b>8,168,107</b>
<b>Loss per share</b>	<b>(0.13)</b>	<b>(0.20)</b>	<b>(0.29)</b>	<b>(0.44)</b>
<b>Weighted average number of shares outstanding</b>	<b>11,607,046</b>	<b>7,930,349</b>	<b>10,483,421</b>	<b>7,127,643</b>

## ANGIOTECH PHARMACEUTICALS, INC. STATEMENTS OF CHANGES IN FINANCIAL POSITION

Six Months Ended March 31 (Unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	1998 \$	1997 \$	1998 \$	1997 \$
<b>OPERATING ACTIVITIES</b>				
Loss for the period	(1,458,532)	(1,594,167)	(3,004,573)	(3,133,662)
Add items not involving cash:				
Amortization	111,574	115,024	216,086	207,424
Deferred income	(81,000)	-	(81,000)	-
Net change in non-cash working capital balances related to operations	(54,346)	(160,999)	446,677	(523,821)
<b>Cash used in operating activities</b>	<b>(1,482,304)</b>	<b>(1,640,142)</b>	<b>(2,422,810)</b>	<b>(3,450,059)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(54,489)	(107,102)	(133,876)	(259,739)
Purchase of short-term investments	(23,449,192)	-	(23,449,192)	-
Cost of medical technology	(175,860)	-	(402,160)	(41,100)
<b>Cash used in investing activities</b>	<b>(23,679,541)</b>	<b>(107,102)</b>	<b>(23,985,228)</b>	<b>(300,839)</b>
<b>FINANCING ACTIVITIES</b>				
Deferred share issue costs	-	-	27,000	-
Issuance of Common shares pursuant to Initial Public Offering, net of issue costs	2,118,134	-	22,419,290	-
Common shares issued for medical technology	125,000	-	125,000	-
Common shares issued pursuant to stock options exercised	200,875	15,156	378,775	75,852
Common shares repurchased and cancelled	(1,938)	(18,750)	(1,938)	(18,750)
Issuance of Common shares upon conversion of convertible Preferred shares	-	-	21,541,142	-
Conversion of Preferred shares	-	-	(21,541,142)	-
Issuance of Preferred shares for cash, net of issue costs	-	(33,484)	-	6,950,682
<b>Cash provided by financing activities</b>	<b>2,442,071</b>	<b>(37,078)</b>	<b>22,948,127</b>	<b>7,007,784</b>
<b>Net increase (decrease) in cash position</b>	<b>(22,719,774)</b>	<b>(1,784,322)</b>	<b>(3,459,911)</b>	<b>3,256,886</b>
<b>Cash position, beginning of period</b>	<b>28,080,345</b>	<b>8,314,043</b>	<b>8,820,482</b>	<b>3,272,835</b>
<b>Cash position, end of period</b>	<b>5,360,571</b>	<b>6,529,721</b>	<b>5,360,571</b>	<b>6,529,721</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

The net loss for the six months ended March 31, 1998 was \$3.0 million (\$0.29 per share) as compared to a net loss of \$3.1 million (\$0.44 per share) for the same period in 1997. Revenue for the six month period was \$907,354, which represents a significant increase from the prior year. This increase was due primarily to an increase in research contract revenue of \$200,580 for the period as compared to Nil for the same period in 1997, and an increase in interest income due to significantly higher cash balances in the current period.

Net research and development expenses for the six-month period increased 14% as compared to the prior year. The rise in research and development expenditures reflects the increase in research and development activities during the period. General and administrative expenses for the six-month period increased by 34% as compared to 1997. This increase was attributable to higher operating costs associated with larger premises and an

increase in staff and expenses to support the research and development programs, as well as an increase in corporate communication costs.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1998 the Company had working capital of \$29.2 million and cash and short-term investments totaling \$28.8 million. On January 30, 1998, the Company received additional gross proceeds of \$2.5 million from the exercise of the Underwriters' Over-allotment option from the Initial Public Offering in December, 1997.

Angiotech is currently undergoing Year 2000 compliance testing. The Company does not anticipate that additional compliance costs will have a material impact on its business operations or its financial condition.

*This Quarterly Report contains forward-looking statements concerning, among other things, the Company's plans and objectives for future operations which are based on various factors and assumptions. All such forward-looking statements are, by necessity, only estimates of future results and actual results may differ materially from these statements due to a number of factors, including (i) the Company's ability to successfully complete independent clinical trials, (ii) decisions, and the timing of decisions, made by health regulatory agencies regarding approval of the Company's products, (iii) the Company's ability to complete and maintain corporate alliances relating to the development and commercialization of its technologies and products and (iv) the Company's ability to further develop in-house R&D expertise and facilities. The Company assumes no obligation to update these forward-looking statements to reflect actual results, changes and assumptions or changes in other factors affecting such statements.*

#### Angiotech Pharmaceuticals, Inc.

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A N G I O T E C H  
Pharmaceuticals, Inc.

### SECOND QUARTER REPORT (Ended March 31, 1998)

Dear Shareholders:

During the second quarter, Angiotech continued to stay on track with its goals and milestones set for 1998.

The three most significant events for the quarter were the issuance of our stent patent, the granting of a license-agreement option to W.L. Gore & Associates (Gore) and the appointment of Jeremy Curnock Cook to our Board of Directors.

On February 10, the U. S. Patent and Trademark Office issued a patent to Angiotech for the use of paclitaxel-coated stents in the treatment of body passageway narrowings. The lead product under development is a paclitaxel-coated coronary stent designed to reduce the incidence of restenosis, a common result of balloon angioplasty and stent insertion. This product is being developed pursuant to the \$32M co-exclusive license agreement with Boston Scientific Corporation and Cook Incorporated.

Perhaps the most significant event of the quarter occurred on March 24, when Angiotech granted a two-year option for an undisclosed amount to Gore to obtain a non-exclusive license to Angiotech's technology for delivering drugs to the outer surface of blood vessels (perivascular drug delivery). Gore is presently conducting research on proprietary applications of this technology.

Finally, Angiotech is pleased to announce the appointment of Jeremy Curnock Cook to its Board of Directors. Mr. Curnock Cook is the Managing Director and Team Leader of the Rothschild Bioscience Unit where he helps oversee more than \$500 million dedicated to healthcare technology. He is also responsible for the portfolio management of International Biotechnology Trust plc (IBT), a UK investment vehicle launched by Rothschild Asset Management to invest in mid-stage biotechnology companies (IBT made its first Canadian investment in Angiotech's December 1997 IPO, committing \$7 million). Angiotech welcomes Mr. Curnock Cook's contacts within, and knowledge of, the pharmaceutical and biotechnology industries.

Angiotech looks forward to continuing the development of its pharmaceutical programs and to initiating several phase 1 clinical studies in the coming quarters.

Yours very truly,

**ANGIOTECH PHARMACEUTICALS, INC.**

William L. Hunter, MD, MSc  
Chairman and Chief Executive Officer

Donald E. Longenecker, PhD  
President and COO

May 27, 1998