

**ANGIOTECH PHARMACEUTICALS, INC.  
BALANCE SHEETS**

As at	December 31, 1998	September 30, 1998
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	10,873,674	3,504,998
Short term investments	13,802,708	21,992,403
Accounts receivable	92,942	191,955
Prepaid expenses and other assets	267,025	132,658
<b>Total current assets</b>	<b>25,036,349</b>	25,822,014
Capital assets	977,862	934,421
Medical technology	2,449,594	751,419
	<u>28,463,805</u>	<u>27,507,854</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	844,463	766,710
<b>Total current liabilities</b>	<b>844,463</b>	766,710

**Shareholders' equity**

Share capital		
Common shares:		
December 31, 1998 – 11,792,435		
September 30, 1998 – 11,728,589	45,151,685	44,382,910
Contributed surplus	60,059	60,059
Deficit	(17,592,402)	(17,701,825)
<b>Total shareholders' equity</b>	<b>27,619,342</b>	26,741,144
	<u>28,463,805</u>	<u>27,507,854</u>

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**  
Three Months Ended December 31  
(Unaudited)

	1998 \$	1997 \$
<b>REVENUE</b>		
Research contract and licensing	3,118,360	81,443
Interest and other income	289,603	258,972
	<u>3,407,963</u>	<u>340,415</u>
<b>EXPENSES</b>		
Research and development	2,434,272	1,064,081
Amortization and depreciation	118,599	104,512
General and administrative	745,669	717,863
	<u>3,298,540</u>	<u>1,886,456</u>
<b>(Income) Loss for the period</b>	<b>(109,423)</b>	1,546,041
<b>Deficit, beginning of period</b>	<b>17,701,825</b>	10,971,247
<b>Deficit, end of period</b>	<b>17,592,402</b>	12,517,288
<b>Income (Loss) per share</b>	<b>0.01</b>	(0.16)
<b>Weighted average number of shares outstanding</b>	<b>11,733,447</b>	9,384,222

**ANGIOTECH PHARMACEUTICALS, INC.  
STATEMENTS OF CASH FLOWS**  
Three Months Ended December 31  
(Unaudited)

	1998 \$	1997 \$
<b>OPERATING ACTIVITIES</b>		
Income (Loss) for the period	109,423	(1,546,041)
Add items not involving cash:		
Amortization	118,599	104,512
Net change in non-cash working capital items related to operations:		
Accounts receivable	99,013	(94,300)
ITC receivable	-	765,000
Prepaid expenses and other assets	(134,367)	(92,290)
Accounts payable and accrued liabilities	77,753	(77,387)
<b>Cash provided by (used in) operating activities</b>	<b>270,421</b>	(940,506)
<b>INVESTING ACTIVITIES</b>		
Purchase of short term investments	(13,210,305)	(10,999,032)
Proceeds from short term investments	21,400,000	-
Purchase of capital assets	(144,415)	(79,387)
Cost of medical technology	(947,025)	(226,300)
<b>Cash provided by (used in) investing activities</b>	<b>7,098,255</b>	(11,304,719)
<b>FINANCING ACTIVITIES</b>		
Deferred share issue costs	-	27,000
Issuance of Common shares on Initial Public Offering, net of issue costs	-	20,301,156
Proceeds from stock options exercised	-	177,900
<b>Cash provided by financing activities</b>	<b>-</b>	20,506,056
<b>Net increase in cash position during the period</b>	<b>7,368,676</b>	8,260,831
<b>Cash position, beginning of period</b>	<b>3,504,998</b>	8,820,482
<b>Cash position, end of period</b>	<b>10,873,674</b>	17,081,313

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

The net income for the three months ended December 31, 1998 was \$109,423 (\$0.01 per share) as compared to a net loss of approximately \$1.5 million (\$0.16 per share) for the same period in 1997. Revenue for the quarter was \$3,407,963, which represents a significant increase from 1997 of \$340,415. This was due primarily to an increase in research contract and licensing revenue of \$3,118,360 for the period as compared to \$81,443 for the same period in 1997, and an increase in interest income due to higher interest rates in the current period.

Net research and development expenses increased 129% to \$2.43 million as compared to \$1.06 million in 1997. The increase was related primarily to licensing activities and expenditures attributable to the ongoing phase I clinical trials for multiple sclerosis and rheumatoid arthritis as well as commencement of the phase I

clinical trials for psoriasis. General and administrative expenses were comparable to that of the same period for 1997. Amortization expense relates to the amortization of capital assets and licenses and is comparable to 1997.

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998 the Company had working capital of \$24.2 million and cash and cash equivalents and short-term investments totaling \$24.7 million. The Company made payments valued at \$1.7 million in cash and share equity on license agreements executed during the quarter. In addition, the Company received upfront license fees pursuant to an exclusive worldwide license and development agreement with C.R. Bard, Inc.

*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.*

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ANGIOTECH  
Pharmaceuticals, Inc.

### FIRST QUARTER REPORT (Ended December 31, 1998)

Dear Shareholders:

The first quarter of 1999 has been an exciting time for Angiotech as we commenced two psoriasis clinical studies and entered into a \$30 million corporate alliance with C.R. Bard, Inc. for the treatment of restenosis associated with vascular surgery.

In December, the Company initiated two clinical studies using our topical paclitaxel gel to treat patients diagnosed with mild to moderate psoriasis. The first study is fully enrolled and is being conducted at Massachusetts General Hospital. In this study, patients receive daily topical applications of the drug for a two-week period to determine the safety and topical absorption profile of the paclitaxel gel. The second clinical study examines longer-term application of the gel and is being conducted at the Skin Care Centre at the University of British Columbia. Of note, the animal data supporting these psoriasis studies was recently presented at the 9th International Conference of the Inflammation Research Association in Hershey, Pennsylvania. The presentation, entitled, "Evaluation of Topical Paclitaxel Gel as Potential Treatment for Psoriasis," was well received by experts in the field.

Our other two ongoing clinical studies (systemic paclitaxel treatments for rheumatoid arthritis and multiple sclerosis) continue to proceed on schedule and we look forward to announcing the results of all of these studies later in 1999.

During the past quarter, the Company continued to expand its corporate presence in the field of medical device coatings. In December, we signed a \$30 million exclusive, worldwide license and development agreement with the world's second largest vascular graft company, C.R. Bard, Inc. and its vascular graft subsidiary IMPRA, Inc. The alliance provided for the use of paclitaxel and other related compounds for the perivascular treatment of restenosis associated with vascular surgery. This alliance further compliments the non-exclusive option issued earlier in the year to W.L. Gore & Associates (the world's largest vascular graft company); however, the option is for the use of drugs other than paclitaxel. Angiotech is now working in association with the world's two largest synthetic vascular graft manufacturers developing treatments based on Angiotech's research.

In conclusion, we are very pleased with the accomplishments of this quarter and we anticipate that the upcoming quarter will be as eventful.

Yours very truly,

**ANGIOTECH PHARMACEUTICALS, INC.**

William L. Hunter, MD, MSC  
Chairman and Chief Executive Officer  
February 26, 1999

Donald E. Longenecker, PhD  
President and COO