

Consolidated Financial Statements

Angiotech Pharmaceuticals, Inc.

September 30, 2001

AUDITORS' REPORT

To the Shareholders of
Angiotech Pharmaceuticals, Inc.

We have audited the consolidated balance sheets of **Angiotech Pharmaceuticals, Inc.** as at September 30, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended September 30, 2001. 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 Canadian and U.S. 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, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended September 30, 2001 in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for income taxes, as explained in note 3 to the financial statements on a consistent basis.

As discussed in note 3 to the financial statements, effective July 1, 2001, the Company retroactively changed its accounting policies for revenue recognition and determining loss per common share.

Ernst & Young LLP

Vancouver, Canada,
November 6, 2001.

Chartered Accountants

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

CONSOLIDATED BALANCE SHEETS
(expressed in thousands of Canadian dollars)

As at September 30

	2001	2000
	\$	\$
		<i>[Restated - see note 3]</i>
ASSETS		
Current		
Cash and cash equivalents <i>[note 5]</i>	3,210	4,109
Short-term investments <i>[note 5]</i>	152,884	156,186
Amounts receivable	180	56
Prepaid expenses and deposits	511	127
Total current assets	156,785	160,478
Capital assets <i>[note 6]</i>	1,429	1,192
Medical technologies <i>[notes 7 and 8(e)]</i>	4,489	4,259
	162,703	165,929
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	4,173	2,381
Total current liabilities	4,173	2,381
Deferred revenue	1,602	2,292
Commitments and contingencies <i>[notes 10 and 11]</i>		
Shareholders' equity		
Share capital <i>[note 8(b)]</i>	195,331	192,981
Contributed surplus <i>[notes 8(d) and (e)]</i>	1,723	74
Deficit	(40,126)	(31,799)
Total shareholders' equity	156,928	161,256
	162,703	165,929

See accompanying notes

On behalf of the Board:



Director



Director

Angiotech Pharmaceuticals, Inc.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(expressed in thousands of Canadian dollars except per share information)

Years ended September 30

	2001 \$	2000 \$	1999 \$
		<i>[Restated - see note 3]</i>	<i>[Restated - see note 3]</i>
REVENUE			
License, option and research contract fees <i>[note 11]</i>	1,123	4,765	689
Government grants	8	6	16
	1,131	4,771	705
EXPENSES			
Research and development	15,122	9,614	9,503
General and administration	7,336	4,357	3,543
Amortization <i>[notes 6 and 7]</i>	2,112	1,655	1,158
	24,570	15,626	14,204
Operating loss	(23,439)	(10,855)	(13,499)
OTHER INCOME (EXPENSE):			
Foreign exchange gain (loss) <i>[note 4]</i>	5,976	3,285	(153)
Investment and other income	9,136	5,925	1,200
Total other income	15,112	9,210	1,047
Loss for the year	(8,327)	(1,645)	(12,452)
Deficit, beginning of year	(31,799)	(30,154)	(17,702)
Deficit, end of year	(40,126)	(31,799)	(30,154)
Loss per common share	(0.54)	(0.11)	(1.03)
Weighted average number of common shares outstanding (in thousands)	15,414	14,332	12,106

See accompanying notes

Angiotech Pharmaceuticals, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of Canadian dollars)

Years ended September 30

	2001 \$	2000 \$	1999 \$
		<i>[Restated - see note 3]</i>	<i>[Restated - see note 3]</i>
OPERATING ACTIVITIES			
Loss for the year	(8,327)	(1,645)	(12,452)
Add items not involving cash:			
Amortization of capital assets and medical technologies	2,112	1,655	1,158
Unrealized foreign exchange (gain) loss	(2,475)	(3,167)	93
Gain on disposal of capital assets	—	(2)	—
Deferred revenue	(690)	(272)	2,564
Net change in non-cash working capital items relating to operations:			
Accrued interest on short-term investments	(1,523)	(4,048)	102
Amounts receivable	(124)	39	97
Prepaid expenses and deposits	(384)	15	(10)
Accounts payable and accrued liabilities	1,620	1,307	202
Cash used in operating activities	(9,791)	(6,118)	(8,246)
INVESTING ACTIVITIES			
Purchase of short-term investments	(215,330)	(157,712)	(43,706)
Proceeds from short-term investments	222,001	33,970	40,274
Amortization of bond premium	629	—	—
Purchase of capital assets	(644)	(578)	(522)
Proceeds on disposal of capital assets	—	2	—
Cost of medical technologies	(114)	(720)	(1,049)
Cash provided by (used in) investing activities	6,542	(125,038)	(5,003)
FINANCING ACTIVITIES			
Issuance of common shares - net of issue costs	—	128,449	15,832
Proceeds from stock options exercised	2,350	730	—
Common shares repurchased and cancelled	—	(1)	(1)
Cash provided by financing activities	2,350	129,178	15,831
Net (decrease) increase in cash and cash equivalents during the year	(899)	(1,978)	2,582
Cash and cash equivalents, beginning of year	4,109	6,087	3,505
Cash and cash equivalents, end of year	3,210	4,109	6,087
Supplemental disclosure			
Common shares issued for medical technologies	—	2,834	769

See accompanying notes

Angiotech Pharmaceuticals, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

1. NATURE OF BUSINESS

Angiotech Pharmaceuticals, Inc. (the "Company"), was incorporated under the Company Act (British Columbia) on October 12, 1989. The Company is in the business of developing and commercializing new treatments for chronic inflammatory and angiogenesis dependent diseases based upon paclitaxel and related compound formulations.

The Company has financed its cash requirements primarily from share issuances, payments from collaborators, license, option and research contract arrangements and government grants. The Company's ability to realize the carrying value of its assets is dependent on successfully bringing its technologies to the market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It may be necessary for the Company to raise additional funds for the continuing development of its technologies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its accounts in accordance with Canadian generally accepted accounting principles. A reconciliation of amounts presented in accordance with United States generally accepted accounting principles is detailed in note 12. A summary of the significant accounting policies are as follows:

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Angiotech Pharmaceuticals (US), Inc., incorporated under the laws of the state of Washington, USA. Significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Actual results could differ from those estimates.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Foreign currency translation

The Company follows the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. All other assets and liabilities are translated at the rates prevailing at the date the assets were acquired or the liabilities incurred. Revenue and expense items are translated at the average exchange rate during the year. Exchange gains and losses are included in the determination of net loss for the year.

Cash equivalents

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are recorded at the lower of accrued cost and market.

Short-term investments

The Company considers all highly liquid financial instruments with an original maturity greater than three months to be short-term investments. Short-term investments are recorded at the lower of accrued cost and market.

Capital assets

Capital assets are recorded at cost less accumulated amortization, related investment tax credits, government grants and specific funding under 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

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Medical technologies

The costs of acquiring medical technologies, including those which are acquired in exchange for the issuance of equity instruments issued by the Company, are capitalized and amortized on a straight-line basis over the remaining useful life of the technologies up to 5 years once the Company enters into a sub-licensing agreement or once commercial production of the related product commences. Equity instruments issued in exchange for technologies are recorded at their fair value at the date of issuance.

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 based on estimated future undiscounted net cash flows, such costs are charged to operations.

Future income taxes

The Company accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Revenue recognition

Research contract fees and research related grants, which are non-refundable, are recorded as revenue as the related research expenditures are incurred pursuant to the terms of the agreement and provided collectibility is reasonably assured. Option fees are recognized when the Company has fulfilled its obligations in accordance with the provisions of the contractual arrangement. License fees comprise initial fees and milestone payments derived from collaborative licensing arrangements. Non-refundable milestone payments are recognized upon the achievement of specified milestones when the Company has no further involvement or obligation to perform under the arrangement and the related costs and effort are considered substantial. Initial fees and milestone payments received which require the ongoing involvement of the Company are deferred and amortized into income on a straight-line basis over the term of the relevant license or related underlying product development period of approximately five years.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Government grants

Government assistance toward current expenses is recorded as revenue in the period the expenses are incurred. Government assistance towards capital assets is deducted from the cost of the related capital asset.

Research and development costs

Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortization.

Loss per common share

Loss per common share has been calculated using the weighted average number of common shares outstanding during the year, excluding contingently issuable shares, if any. Fully diluted loss per common share has not been presented as the outstanding options and warrants are anti-dilutive.

Stock based compensation

The Company grants stock options to executive officers and directors, employees, consultants and clinical advisory board members pursuant to a stock option plan described in note 8[c]. No compensation is recognized for these plans when common shares or stock options are issued. Any consideration received on exercise of stock options or the purchase of stock is credited to share capital. If common shares are repurchased, the excess or deficiency of the consideration paid over the carrying amount of the common shares cancelled is charged or credited to contributed surplus or deficit.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Recent pronouncements

The Canadian Institute of Chartered Accountants approved a new Handbook Section 3062 and the Financial Accounting Standards Board has issued a similar standard (SFAS 142), both entitled Goodwill and Other Intangible Assets. Intangible assets other than goodwill acquired in a business combination or other transaction for which the acquisition date is after June 30, 2001 are to be amortized based on the useful life to an enterprise, unless the life is determined to be indefinite in which case the intangible asset will not be amortized. Section 3062 will be effective for the Company's fiscal year beginning October 1, 2002. The Company does not believe the adoption of Section 3062 will have a material effect on the consolidated financial statements.

The Canadian Institute of Chartered Accountants approved a new Handbook Section 3870 ("Stock-based Compensation and Other Stock-based Payments"). Section 3870 will be effective for the Company's fiscal year beginning October 1, 2002. The Company has not determined the impact of Section 3870 on the consolidated financial statements.

3. CHANGE IN ACCOUNTING PRINCIPLES

[a] Income taxes

Effective October 1, 1999, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes under the liability method. The change in accounting policy did not result in any adjustment in fiscal 2000, 1999 and as at October 1, 1998. Before the adoption of the new recommendations, the income tax expense was determined using the deferral method of tax allocation.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

3. CHANGE IN ACCOUNTING PRINCIPLES (cont'd.)

[b] Revenue recognition

Effective July 1, 2001, the Company changed its accounting policy for recognizing license, option and research contract fees to be consistent with U.S. GAAP, as clarified by Staff Accounting Bulletin 101 ("SAB 101") *Revenue Recognition in Financial Statements*, which was issued by the U.S. Securities and Exchange Commission in December 1999. Upfront fees and payments are deferred and amortized into revenue on a straight-line basis over the term of the relevant license or related underlying product development period, as described in note 2. Previously, the Company recognized upfront fees and payments as earned in accordance with the terms of the related agreement which was generally the period the payment was received. During the year ended September 30, 2001, the change resulted in a decrease in the net loss of \$690,370 from \$9,017,370 that would have been reported had the change not been made. This change has been applied retroactively with the following effect:

(in thousands of dollars)	<u>As originally reported</u>		<u>As restated</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
License, option and research contract fees	4,493	3,253	4,765	689
Net loss	(1,917)	(9,888)	(1,645)	(12,452)
Net loss per common share	(0.13)	(0.82)	(0.11)	(1.03)
Deferred revenue	—	—	2,292	2,564
Accumulated deficit	(29,507)	(27,590)	(31,799)	(30,154)

[c] Loss per common share

Effective July 1, 2001, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants Section 3500 ("Earnings per share") with respect to the calculation of loss per common share. The change in accounting policy has been applied retroactively and had no effect on fiscal 2001 or on the previously disclosed numbers.

Angiotech Pharmaceuticals, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

4. FINANCIAL INSTRUMENTS AND RISK

For certain of the Company's financial instruments, including cash equivalents, short-term investments, amounts receivable and accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short-term nature.

Financial risk is the risk to the Company's results of operations that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. Foreign exchange risk arises as the Company's investments which finance operations are substantially denominated in United States dollars and a significant portion of the Company's expenses are denominated in Canadian dollars. Interest rate risk arises due to the Company's investment in fixed interest securities.

For each of the years presented, the Company's foreign exchange gain (loss) comprises unrealized and realized gains (losses) as follows:

(in thousands of Canadian dollars)	2001 \$	2000 \$	1999 \$
Unrealized foreign exchange gain (loss)	2,475	3,167	(93)
Realized foreign exchange gain (loss)	3,501	118	(60)
Total unrealized and realized foreign exchange gain (loss)	5,976	3,285	(153)

5. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

At September 30, 2001, included in cash and cash equivalents is \$1,849,893 (US \$1,171,560) denominated in US dollars [2000 - \$1,510,377 (US \$1,002,241)].

Short-term investments, are substantially comprised of commercial debt with an average fixed interest rate of 5.7% [2000 - 6.4%] and maturities to June 2002 [2000 - June 2001]. Included in short-term investments at September 30, 2001 are investments of \$122,534,089 (US \$77,602,336) denominated in U.S. dollars [2000 - \$137,318,697 (US \$91,120,568)].

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

6. CAPITAL ASSETS

(in thousands of Canadian dollars)	Cost \$	Accumulated amortization \$	Net book value \$
2001			
Computer equipment	1,342	790	552
Research equipment	1,792	1,022	770
Office furniture and equipment	442	338	104
Leasehold improvements	58	55	3
	3,634	2,205	1,429
2000			
Computer equipment	933	564	369
Research equipment	1,485	769	716
Office furniture and equipment	370	275	95
Leasehold improvements	58	46	12
	2,846	1,654	1,192

7. MEDICAL TECHNOLOGIES

(in thousands of Canadian dollars)	2001 \$	2000 \$
Medical technologies, cost <i>[note 11]</i>	7,944	6,181
Less: accumulated amortization	(3,455)	(1,922)
	4,489	4,259

During the year ended September 30, 2001, the Company included in amortization expense a charge to operations of \$nil with respect to certain medical technologies not being actively pursued [2000 - \$nil; 1999 - \$216,750].

Angiotech Pharmaceuticals, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

8. SHARE CAPITAL

[a] Authorized

200,000,000 Common shares without par value
50,000,000 Class I Preference shares without par value

On March 20, 2000, the shareholders approved an increase to the authorized common share capital of the Company from 50,000,000 common shares to 200,000,000 common shares.

The Class I Preference shares are issuable in Series. The directors may, by resolution, fix the number of shares in a series of Class I Preference shares and create, define and attach special rights and restrictions as required. None of these shares are currently issued and outstanding.

[b] Issued and outstanding

(in thousands of Canadian dollars, except share information)	No. of shares	Amount \$
Common shares		
Balance, September 30, 1998	11,728,589	44,383
Issued for cash pursuant to public offering - net	1,495,000	15,832
Issued for acquisition of certain medical technology [note 11(a)]	63,846	769
Shares repurchased for cash [note 8(d)]	(715)	(3)
Balance, September 30, 1999	13,286,720	60,981
Issued for cash pursuant to public offering - net	1,750,000	128,448
Issued for acquisition of certain medical technology [note 7]	42,500	1,934
Issued upon exercise of common share purchase warrants [note 8(e)]	74,252	900
Issued for cash upon exercise of stock options	104,034	730
Shares repurchased for cash [note 8(d)]	(909)	(12)
Balance, September 30, 2000	15,256,597	192,981
Issued for cash upon exercise of stock options	274,157	2,350
Balance, September 30, 2001	15,530,754	195,331

On March 22, 2000, pursuant to a public offering of the common shares of the Company, 1,750,000 common shares were issued at US \$53.50 per common share (CDN \$78.77 per share) for net proceeds of US \$87,241,227 (CDN \$128,448,348) (net of offering expenses of US \$6,383,773 (CDN \$9,399,062)).

On July 9, 1999, pursuant to a public offering of the common shares of the Company, 1,495,000 common shares were issued at \$11.50 per share for net proceeds of \$15,831,646 (net of offering costs of \$1,360,854).

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

8. SHARE CAPITAL (cont'd.)

[c] Stock options

In 1998, the Company established a Stock Option Plan ("1998 Plan"), whereby options to purchase shares of the Company's stock may be granted to executive officers and directors, employees, consultants and clinical advisory board members. The exercise price of the options is determined by the Board but generally will be at least equal to the market price of the common shares at the date of grant and the term may not exceed ten years. Options granted are also subject to certain vesting provisions. During the year ended September 30, 2000, the Company obtained shareholder approval to amend the number of stock options available for granting under the Plan from 1,768,865 common shares to 2,015,521 common shares. On March 6, 2001, the shareholders approved the adoption of the 2001 Stock Option Plan ("2001 Plan"), which supercedes the 1998 Plan and increased the number of stock options available for granting to 3,076,161 common shares. Accordingly, 3,076,161 [2000 - 2,015,521] common shares have been reserved for issuance at September 30, 2001 of which 806,848 [2000 - 584,244] are available for issuance pursuant to the 2001 Plan.

Details of the stock options are summarized as follows:

	No. of optioned shares	Weighted average exercise price \$
Balance, September 30, 1998	753,400	8.95
Granted	290,100	12.04
Forfeited	(1,000)	15.00
Balance, September 30, 1999	1,042,500	9.81
Granted	613,575	39.18
Exercised	(104,034)	7.01
Forfeited	(9,298)	20.41
Balance, September 30, 2000	1,542,743	21.62
Granted	855,500	61.61
Exercised	(274,157)	8.57
Forfeited	(17,464)	50.97
Balance, September 30, 2001	2,106,622	39.31

Of the total options outstanding at September 30, 2001, 51,566 were granted pursuant to a stock option and a discretionary plan superceded by the 2001 Plan.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

8. SHARE CAPITAL (cont'd.)

[c] Stock options (cont'd.)

The options outstanding are exercisable as follows:

Range of exercise prices \$	Options outstanding September 30, 2001		Weighted average exercise price \$	Options exercisable September 30, 2001	
	Number of common shares issuable	Remaining contractual life (years)		Number of common shares issuable	Weighted average exercise price \$
0.25	10,000	4.9	0.25	10,000	0.25
2.75	41,566	4.6	2.75	41,566	2.75
9.00-12.10	551,056	7.0	11.22	434,937	11.09
15.00-17.25	320,600	7.6	16.52	165,659	16.25
45.85-59.35	758,400	8.8	55.80	140,199	54.42
61.75-79.00	425,000	9.3	68.01	116,089	67.32
	2,106,622	8.1	39.31	908,450	25.40

These options expire at various dates from January 31, 2006 to September 17, 2011. All of the shares available for issuance under the stock option plan are subject to vesting over a period of two to four years. With respect to certain common shares issued upon the exercise of incentive stock options prior to the Company's initial public offering in December 1997, the Company has a call option to repurchase, at the issue price of the common shares, those shares that have not vested at the time the optionee ceases to be a Service Provider as defined by the 2001 Stock Option Plan.

During the year ended September 30, 2001, the Company accelerated the vesting of 1,042 [2000 - 46,583; 1999 - nil] stock options to an immediate vesting from approximately 1.7 years [2000 - 2.5 years; 1999 - nil].

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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September 30, 2001

8. SHARE CAPITAL (cont'd.)

[d] Shares reacquired

During the year ended September 30, 2001, the Company acquired no common shares [2000 - 909; 1999 - 715] for cash of \$nil [2000 - \$455; 1999 - \$358] which were subsequently cancelled. The excess of \$nil [2000 - \$11,073; 1999 - \$2,903] has been allocated to contributed surplus.

[e] Common share purchase warrants and other

Pursuant to a licensing agreement described in note 11[a], during the year ended September 30, 1999, the Company granted 230,000 common share purchase warrants to acquire 230,000 common shares of the Company expiring November 1, 2003 (30,000 of which are not exercisable until after November 2, 2001 and are cancellable if certain product development milestones are achieved prior to November 2, 2001). During the year ended September 30, 2001, the Company recorded as contributed surplus and medical technologies, the estimated fair value of the 30,000 warrants [2000 - nil; 1999 - 200,000] of \$1,649,000 [2000 - \$nil; 1999 - \$900,000], determined using the Black Scholes pricing model.

In January 2000, the Company issued 74,252 common shares pursuant to the net share settlement provision in respect of 125,000 common share purchase warrants that were exercisable at a price of \$8.50 per share and 75,000 common share purchase warrants that were exercisable at a price of \$11.62 per share. Upon exercise of the 200,000 common share purchase warrants, the \$900,000 previously recorded as contributed surplus was reclassified to share capital.

At September 30, 2001, the 30,000 common share purchase warrants, described above, are outstanding and exercisable at \$11.62 per share [note 15].

Pursuant to the terms of a license agreement, the Company is required to pay royalties based on a percentage of its research contract fees. On February 2, 2000, the licensor exercised its right to reduce the royalty rate in exchange for the issuance of 42,500 common shares of the Company. The Company has recorded, as medical technology, the fair value of the common shares of \$1,933,750 on the commitment date.

[f] Shareholder rights plan

Pursuant to a shareholders rights plan (the "Plan") approved February 10, 1999, the holder of the right is entitled to acquire, under certain conditions, common shares of the Company at a 50% discount to the market upon a person or group of persons acquiring 20% or more of the common shares of the Company. The rights are not exercisable in the event of a Permitted Bid as defined in the Plan. The Plan is valid until the first shareholders meeting held after February 10, 2002.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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September 30, 2001

9. INCOME TAXES

As at September 30, 2001, the Company has approximately \$17,026,000 of non-capital loss carryforwards and approximately \$6,213,000 of federal investment tax credits available to reduce taxable income for future years. These losses expire as follows:

(in thousands of Canadian dollars)	Federal investment tax credits \$	Non-capital loss carryforwards \$
2003	—	1,755
2004	—	3,192
2005	—	3,129
2006	84	3,996
2007	240	—
2008	900	4,954
2009	1,329	—
2010	1,613	—
2011	2,047	—
	<u>6,213</u>	<u>17,026</u>

The Company also has provincial investment tax credits of approximately \$1,508,000 of which \$54,000 expires in 2009 and \$626,000 expires in 2010 and \$828,000 expires in 2011.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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September 30, 2001

9. INCOME TAXES (cont'd.)

Significant components of the Company's future tax assets as of September 30 are shown below.

(in thousands of Canadian dollars)	2001 \$	2000 \$
Future tax assets:		
Book amortization in excess of tax CCA	1,463	1,084
Non-capital loss carryforwards	6,746	5,331
Other assets	1,458	—
Research and development deductions and credits	14,858	13,536
Share issue costs	2,496	4,174
Total future tax assets	27,021	24,125
Valuation allowance	(26,512)	(23,086)
Total future tax assets	509	1,039
Future tax liabilities:		
Unrealized foreign exchange gain	(509)	(1,039)
Total future tax liabilities	(509)	(1,039)
Net future tax assets	—	—

The potential income tax benefits relating to these future tax assets have not been recognized in the accounts as their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. In prior periods the Company had concluded the realization of the loss carryforwards and tax credits under the deferral method of tax allocation did not meet the virtual certainty and reasonable assurance test. Accordingly, no future tax assets have been recognized as at September 30, 2001 and 2000.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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9. INCOME TAXES (cont'd.)

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expense (recovery), using a 44.87% [2000 - 45.62%] statutory tax rate, at September 30 is:

(in thousands of Canadian dollars)	2001 \$	2000 \$
Income taxes at statutory rates	(3,736)	(750)
Amortization in excess of capital cost allowance for tax	(209)	634
Expenses not deductible for tax	312	15
Expenses capitalized for tax purposes	4,770	3,154
Income not recognized for tax purposes	(1,823)	(1,334)
Non-capital losses generated (used)	2,223	(474)
Share issuance costs deducted for tax purposes	(1,221)	(1,245)
Other	(316)	—
	—	—

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

10. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company has entered into operating lease agreements for office and laboratory space which expire through May 2012, with an option to renew through 2017. Future minimum annual lease payments under these leases are as follows:

(in thousands of Canadian dollars)	\$
2002	671
2003	902
2004	1,315
2005	1,315
2006	1,315
Thereafter	7,017
	<u>12,535</u>

The Company's existing lease for its Canadian premises expires in 2002. The Company has entered into a long term lease for new premises, the minimum annual lease payments of which are included in the table above. The Company has budgeted approximately \$2 million for leasehold improvements.

Rent expense for the year ended September 30, 2001 amounted to \$552,576 [2000 - \$484,260, 1999 - \$408,679].

Other

Pursuant to various license agreements, the Company is responsible for the payment of royalties based on a percentage of revenue, subject to certain minimum annual royalties, and the payment of amounts upon the achievement of certain milestones. In addition, the Company is committed to future research and development expenses related to its clinical trials and research and development programs [note 11].

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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10. COMMITMENTS AND CONTINGENCIES (cont'd.)

Contingencies

- [a] The Company may, from time to time, be subject to claims and legal proceedings brought against them 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.
- [b] Oppositions have been filed with respect to a granted European patent that relates to certain products. The Opposition Division found that some of the claims in the patent, which do not recite stent devices, were invalid. The decision of the Opposition Division has been appealed to a Board of Appeal of the European Patent Office. An adverse decision by the Appeal Board may result in the narrowing or loss of claims. The outcome of this appeal is uncertain at this time.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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11. COLLABORATIVE AGREEMENTS

The Company's most significant agreements are:

[a] NeoRx Corporation ("NeoRx")

In December 1998, the Company entered into an exclusive license agreement with NeoRx whereby the Company was granted an exclusive, worldwide license to certain technologies of NeoRx relating to the use of paclitaxel and analogues and derivatives for non-oncological diseases. Pursuant to this license agreement, the company issued 63,846 common shares and 230,000 common share purchase warrants [note 8[e]].

[b] C.R. Bard, Inc. ("Bard")

In December 1998, the Company and Bard entered into an exclusive, worldwide, license and development agreement (the "Bard License Agreement") which grants Bard the right to use, manufacture, distribute and sell certain technology of the Company for peripheral perivascular applications in connection with peripheral vascular grafts and AV access grafts. Pursuant to the Bard License Agreement, Bard paid a license fee to the Company and has agreed to 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 Company is committed to a maximum of \$16.5 million (US \$11 million) of the joint research and development costs to be incurred by both parties. The payments and commitments of Bard pursuant to the Bard License Agreement, if all milestone payments are made and the other financial commitments are incurred, excluding royalty payments, is approximately \$30 million, of which \$3.1 million has been received as at September 30, 2001. The agreement may be terminated by the Company if certain milestones are not met or by Bard after the appropriate notice is provided. Unless otherwise terminated, the agreement expires upon the expiration of the last issued patent.

[c] Boston Scientific Corporation ("BSC") and Cook Incorporated ("Cook")

In July 1997, the Company, BSC and 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.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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11. COLLABORATIVE AGREEMENTS (cont'd.)

[c] Boston Scientific Corporation ("BSC") and Cook Incorporated ("Cook") (cont'd.)

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 payments and commitments pursuant to the BSC/Cook License Agreement, including an equity investment of \$5.4 million, if the milestone payments are achieved and the other financial commitments are incurred, excluding royalty payments, is approximately \$32 million, of which \$4.5 million and the equity investment has been received as at September 30, 2001. The agreement may be terminated by either party if regulatory milestones are not met. Unless otherwise terminated, the agreement expires upon the expiration of the last issued patent.

**12. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which, as applied in these financial statements, conform in all material respects to United States generally accepted accounting principles ("U.S. GAAP"), except as follows:

[a] For reconciliation purposes to U.S. GAAP, the Company has elected to follow the intrinsic value approach of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) in accounting for stock options granted to employees and directors. Under APB 25, since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized.

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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September 30, 2001

**12. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES (cont'd.)**

- [b] Under U.S. GAAP, stock based compensation to non-employees must be recorded at the fair market value of the options on the earlier of the date at which a performance commitment is reached or the vesting date of the options. For purposes of reconciliation to U.S. GAAP, the Company recorded additional compensation expense of approximately \$449,000 [2000 - \$531,000; 1999 - \$24,240] in respect of options earned by the consultants during fiscal 2001. The fair value of these options was estimated using a Black-Scholes pricing model with the following weighted average assumptions for the years ended September 30, 2001, 2000 and 1999, respectively: risk free interest rates of 4.4%, 5.4% and 4.8%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 0.74, 1.17 and 0.69; and a weighted average expected life of the options of six years, six years and nine years.
- [c] Under U.S. GAAP, the accelerated vesting of stock options granted to employees must be recorded at the intrinsic value of the stock options on the acceleration date less the intrinsic value on the initial grant date, to the extent an employee benefits from the acceleration. Accordingly, the Company has recorded compensation expense in the amount of \$49,000 [2000 - \$1,766,574; 1999 - \$nil].
- [d] Under U.S. GAAP, amounts paid for medical technologies used solely in research and development activities and with no alternative future use, would be expensed.
- [e] Under U.S. GAAP, short-term investments are classified as available for sale and carried at market values with unrealized gains or losses reflected as a component of other comprehensive income.
- [f] Accounts payable and accrued liabilities comprise:

(in thousands of Canadian dollars)	2001	2000
	\$	\$
Trade accounts payable	1,678	784
Accrued contract research	1,428	1,350
Other accrued liabilities	1,067	247
	4,173	2,381

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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September 30, 2001

12. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.)

[g] For purposes of Canadian GAAP, the effect of the change in accounting principle described in note 3[b] is applied retroactively and all prior years have been restated.

For purposes of U.S. GAAP, the accounting principle described in note 3[b] is applied as a cumulative effect adjustment to the current year's reported net loss.

If U.S. GAAP were followed:

[i] the effect on the Statements of Loss and Deficit would be:

(in thousands of Canadian dollars except per share information)	2001 \$	2000 \$	1999 \$
Loss for the year, Canadian GAAP <i>[restated - see note 3]</i>	(8,327)	(1,645)	(12,452)
Adjustment to eliminate retroactive change in accounting principle	—	(272)	2,564
Adjustment for stock based compensation to non-employees	(449)	(531)	(24)
Adjustment for accelerated vesting of stock options	(49)	(1,767)	—
Adjustment for medical technology expense and amortization	(231)	(1,492)	(2,015)
Loss before cumulative effect of change in accounting principle for the year, U.S. GAAP	(9,056)	(5,707)	(11,927)
Cumulative effect of a change in accounting principle	(2,292)	—	—
Loss and comprehensive loss for the year, U.S. GAAP	(11,348)	(5,707)	(11,927)
Loss per common share, U.S. GAAP:			
Loss before change in accounting principle	(0.59)	(0.40)	(0.99)
Cumulative effect of a change in accounting principle	(0.15)	—	—
Loss per common share, U.S. GAAP	(0.74)	(0.40)	(0.99)
Weighted average number of common shares, U.S. GAAP (in thousands)	15,414	14,332	12,106

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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12. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.)

[ii] Balance Sheet items which would vary under U.S. GAAP are as follows:

(in thousands of Canadian dollars)	2001 \$	2000 \$
Medical technology	—	—
Total assets	158,214	161,670
Deferred revenue	1,602	—
Contributed surplus	4,617	2,469
Deficit	(47,509)	(36,161)

[iii] Statements of Cash Flow items which would vary are as follows:

(in thousands of Canadian dollars)	2001 \$	2000 \$	1999 \$
Cash used in operating activities, Canadian GAAP	(9,791)	(6,118)	(8,246)
Adjustment for medical technology expense	(114)	(721)	(1,049)
Cash used in operating activities, U.S. GAAP	(9,905)	(6,839)	(9,295)
Cash provided by (used in) investing activities, Canadian GAAP	6,542	(125,038)	(5,003)
Adjustments for medical technology	114	721	1,049
Cash provided by (used in) investing activities, U.S. GAAP	6,656	(124,317)	(3,954)

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2001

**12. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES (cont'd.)**

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standard No. 123 "Accounting for Stock Based Compensation", for stock options granted to employees and directors under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes pricing model with the following weighted average assumptions for the years ended September 30, 2001, 2000, and 1999, respectively: risk free interest rates of 4.4%, 5.4% and 4.8%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 0.74, 1.17 and 0.67; and a weighted average expected life of the options of five years, six years and nine years.

The Black Scholes options valuation model was developed for use in estimating the fair value of trade 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. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted-average fair value of options granted during the year ended September 30, 2001 was approximately \$40 [year ended September 30, 2000 - \$33; year ended September 30, 1999 - \$9].

Applying the above, supplemental disclosure of pro forma loss and loss per share is as follows:

(in thousands of Canadian dollars)	2001 \$	2000 \$	1999 \$
Net loss, U.S. GAAP	(11,348)	(5,707)	(11,927)
Add: SFAS 123 Expense	(14,487)	(3,736)	(1,349)
Pro forma loss, U.S. GAAP	(25,835)	(9,443)	(13,276)
Pro forma loss per share, U.S. GAAP	(1.68)	(0.66)	(1.10)
Weighted average number of common shares, U.S. GAAP (in thousands)	15,414	14,332	12,106

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**NOTES TO CONSOLIDATED
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13. SEGMENTED INFORMATION

The Company operates in two segments: medical device coatings/implants and therapeutics. Medical device coatings/implants comprise the research and development of drug loaded coatings for medical devices and drug loaded medical implants. Therapeutics comprise the research and development of pharmaceuticals for the treatment of chronic inflammatory diseases such as multiple sclerosis, rheumatoid arthritis and psoriasis.

Total assets and capital assets are not allocable between segments. However, amortization of capital assets is allocated to the segments based on estimated usage. Capital assets are substantially located in Canada.

(in thousands of Canadian dollars)	Years ended September 30		
	2001	2000	1999
	\$	\$	\$
		<i>[Restated - see note 3]</i>	<i>[Restated - see note 3]</i>
Revenue ⁽¹⁾			
Medical device coatings/implants	1,123	4,765	689
Therapeutics	8	6	16
Total revenues for reportable segments	1,131	4,771	705
Net loss			
Medical device coatings/implants	6,313	236	4,059
Therapeutics	14,584	9,397	7,057
Total loss for reportable segments	20,897	9,633	11,116

(1) Revenues are all attributable to the U.S. based on the location of the Company's collaborators.

Reconciliation of loss for the years ended September 30:

(in thousands of Canadian dollars)	2001	2000	1999
	\$	\$	\$
		<i>[Restated - see note 3]</i>	<i>[Restated - see note 3]</i>
Total loss for reportable segments	20,897	9,633	11,116
Non-allocable corporate expenses	2,542	1,222	2,383
Total other income	(15,112)	(9,210)	(1,047)
Loss for the year	8,327	1,645	12,452

Angiotech Pharmaceuticals, Inc.

**NOTES TO CONSOLIDATED
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14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted during the year ended September 30, 2001.

15. SUBSEQUENT EVENT

Subsequent to September 30, 2001, the Company issued 25,064 common shares for the exercise of 30,000 common share purchase warrants [note 8[e]].