

ANGIOTECH PHARMACEUTICALS, INC.
BALANCE SHEETS
(Unaudited)

As at	June 30, 1998	September 30, 1997
ASSETS		
Current		
Cash and cash equivalents	\$4,941,859	\$8,820,482
Short-term investments	21,573,452	-
Investment tax credits receivable	818,000	1,583,000
Prepaid expenses and other assets	<u>219,019</u>	<u>125,655</u>
Total current assets	27,552,330	10,529,137
Deferred share issue costs	-	27,000
Capital assets	848,242	882,904
Medical technology	<u>792,802</u>	<u>248,269</u>
	\$29,193,374	\$11,687,310
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$569,093	\$887,417
Unearned revenue	-	81,000
Total current liabilities	<u>569,093</u>	<u>968,417</u>
Shareholders' equity		
Share capital		
Preference shares:		
June 30, 1998 – Nil		
September 30, 1997 – 8,340,833	-	21,541,142
Common shares:		
June 30, 1998 – 11,728,589		
September 30, 1997 – 405,189	44,390,565	123,790
Contributed surplus	65,305	25,208
Deficit	<u>(15,831,589)</u>	<u>(10,971,247)</u>
Total shareholders' equity	28,624,281	10,718,893
	\$29,193,374	\$11,687,310

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
Nine Months Ended June 30 (Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	1998	1997	1998	1997
REVENUE				
Research contract	\$75,260	\$-	\$275,840	\$-
Interest and other income	400,701	40,685	1,107,475	149,004
	<u>475,961</u>	<u>40,685</u>	<u>1,383,315</u>	<u>149,004</u>
EXPENSES				
Research and development	1,534,129	1,430,379	3,989,816	3,587,221
General and administrative	797,601	665,343	2,253,841	1,750,482
	<u>2,331,730</u>	<u>2,095,722</u>	<u>6,243,657</u>	<u>5,337,703</u>
Loss for the period	1,855,769	2,055,037	4,860,342	5,188,699
Deficit, beginning of period	13,975,820	8,168,107	10,971,247	5,034,445
Deficit, end of period	\$15,831,589	\$10,223,144	\$15,831,589	\$10,223,144
Loss per share	\$(0.16)	\$(0.26)	\$(0.45)	\$(0.70)
Weighted average number of shares outstanding	11,728,811	7,933,021	10,898,551	7,396,102

ANGIOTECH PHARMACEUTICALS, INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
Nine Months Ended June 30 (Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	1998	1997	1998	1997
OPERATING ACTIVITIES				
Loss for the period	\$(1,855,769)	\$(2,055,037)	\$(4,860,342)	\$(5,188,699)
Add items not involving cash:				
Amortization	89,070	124,279	305,156	331,703
Deferred income	-	-	(81,000)	-
Net change in non-cash working capital balances related to operations	<u>(93,364)</u>	<u>(229,158)</u>	<u>353,313</u>	<u>(294,663)</u>
Cash used in operating activities	(1,860,063)	(1,701,600)	(4,282,873)	(5,151,659)
INVESTING ACTIVITIES				
Purchase of capital assets	(104,792)	(185,551)	(238,668)	(445,290)
Proceeds from sales of short-term investments	17,661,672	-	17,661,672	-
Purchase of short-term investments	(15,785,932)	-	(39,235,124)	-
Cost of medical technology	<u>(174,200)</u>	<u>(42,000)</u>	<u>(576,360)</u>	<u>(83,100)</u>
Cash used in investing activities	1,596,748	(227,551)	(22,388,480)	(528,390)
FINANCING ACTIVITIES				
Deferred share issue costs	-	-	27,000	-
Issuance of Common shares pursuant to Initial Public Offering, net of issue costs	(158,423)	-	22,260,867	-
Common shares issued for medical technology	-	-	125,000	-
Common shares issued pursuant to stock options exercised	5,500	25,328	384,275	101,180
Shares repurchased and cancelled	(2,474)	(500)	(4,412)	(19,250)
Issuance of Common shares upon conversion of convertible Preferred shares	-	-	21,541,142	-
Conversion of Preferred shares	-	-	(21,541,142)	-
Issue of Preferred shares for cash, net of issue costs	-	(58,380)	-	6,892,302
Cash provided by financing activities	(155,397)	(33,552)	22,792,730	6,974,232
Net increase (decrease) in cash position	(418,712)	(1,962,703)	(3,878,623)	1,294,183
Cash position, beginning of period	5,360,571	6,529,721	8,820,482	3,272,835
Cash position, end of period	\$4,941,859	\$4,567,018	\$4,941,859	\$4,567,018

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The net loss for the nine months ended June 30, 1998 was \$4.8 million (\$0.45 per share) as compared to a net loss of \$5.2 million (\$0.70 per share) for the same period in 1997. Revenue for the nine-month period was \$1,383,315, which represents a significant increase from the prior year. This increase was due primarily to an increase in research contract revenue of \$275,840 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 nine-month period increased 11% as compared to the prior year. The rise in research and development expenditures reflects the increase in research and development activities during the period as well as initial expenditures on two phase I clinical studies. General and administrative expenses for the nine-month period increased by 29% 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 June 30, 1998 the Company had working capital of \$27.0 million and cash and short-term investments totaling \$26.5 million. During the quarter, working capital decreased by 7.5% from March 31, 1998 as a result of funding the Company's operations and capital expenditures.

Angiotech continues to undergo 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.

6660 N.W. Marine Drive, Vancouver B.C. V6T 1Z4 CANADA

Tel: 604.221.7676 Fax: 604.221.2330

E: info@angio.com

Web: www.angiotech.com

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

THIRD QUARTER REPORT (Ended June 30, 1998)

Dear Shareholders:

The third quarter of 1998 marked a major milestone for Angiotech as we saw two of our pharmaceutical programs enter clinical studies. This represented the first time in the Company's history that we have developed internally a pharmaceutical product from inception through to human investigations. The researchers at Angiotech and its collaborators at UBC, UCLA and The University of Toronto are to be congratulated for their efforts.

Specifically, in June, we announced that we had initiated a phase 1 clinical study for the use of micellar paclitaxel in the treatment of patients diagnosed with rheumatoid arthritis (RA) at the University of California, Los Angeles. The double-blinded study is currently enrolling fifteen patients that present with Class I to III disease severity. Patients will receive six months of treatment and an additional six months of follow-up will complete the study. The safety of this novel paclitaxel formulation will be evaluated in patients who have not responded to other treatments for RA.

A few weeks later, we announced the initiation of our phase 1 clinical study for the use of micellar paclitaxel in the treatment of patients diagnosed with multiple sclerosis (MS) at St. Michael's Hospital in Toronto, Ontario. This open-label study will enroll 30 patients that present with secondary progressive MS. Patients will receive micellar paclitaxel for six months, and 18 months of follow-up will complete the study. To date, no therapies have been demonstrated to be beneficial in patients with secondary progressive MS. We are excited that a drug that has been so successful for thousands of cancer patients will be examined in another group of patients who suffer from such a devastating disease.

Angiotech is pleased to have met these major developmental milestones, on or ahead of schedule, and looks forward to continuing success for the remainder of the year.

Yours very truly,

ANGIOTECH PHARMACEUTICALS, INC.



William L. Hunter, MD
Chairman and Chief Executive Officer



Donald E. Longenecker, PhD
President and COO

August 20, 1998