

## 8. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which, as applied in these consolidated financial statements, conform in all material respects to United States generally accepted accounting principles ("U.S. GAAP"), except as more fully described in Note 12 to the financial statements of September 30, 2001.

Material variations impacting the Consolidated Statements of Loss and Deficit under U.S. GAAP would be as follows:

(in thousands of CDN\$, except per share data)

	3 Months Ended December 31,	
	2001	2000
	\$	\$
Loss for the period, CDN GAAP		
[prior year restated - see Note 3]	(3,211)	(2,480)
Adjustment for stock based compensation	(123)	(11)
Adjustment for medical technologies expense & amortization	276	383
Loss before cumulative effect of change in accounting principal for the period, U.S. GAAP	(3,058)	(2,108)
Cumulative effect of a change in accounting principal	-	(2,292)
Loss for the period, U.S. GAAP	(3,058)	(4,400)
Adjustment for short-term investments, unrealized gain	167	-
Loss and comprehensive loss for the period, U.S. GAAP	(2,891)	(4,400)
Loss per common share, U.S. GAAP:		
Loss before change in accounting principle	(0.19)	(0.14)
Cumulative effect of a change in accounting principal	-	(0.15)
Loss per common share, U.S. GAAP	(0.19)	(0.29)
Weighted average number of common shares, U.S. GAAP (in thousands)	15,557	15,326

Material variations in Consolidated Balance Sheet items under U.S. GAAP would be as follows:

(in thousands of CDN\$)	December 31 2001	September 30 2000
	\$	\$
Short-term investments	67,964	152,884
Medical technologies	-	-
Total assets	154,784	158,214
Contributed surplus	3,091	4,617
Deficit	(50,567)	(47,509)
Other accumulated comprehensive income	167	-
Recent Pronouncements:		

The Financial Accounting Standards Board has issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This pronouncement is effective for the Company's first quarter commencing October 1, 2002. The Company has not yet determined the impact of SFAS 144 on its consolidated financial statements.

## 9. COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform with the presentation adopted in the current period.

*Statements contained herein that are not based on historical fact, including without limitation statements containing the words "believes," "may," "will," "estimate," "continue," "anticipates," "intends," "expects" and words of similar import, constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; technology changes; competition; changes in business strategy or development plans; the ability to attract and retain qualified personnel; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the Company; and other factors referenced in the Company's filings with the Securities and Exchange Commission. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.*

Angiotech Pharmaceuticals, Inc., is a Canadian pharmaceutical company dedicated to the development of medical device coatings and treatments for chronic inflammatory diseases through reformulation of the anticancer drug, paclitaxel.



Advancing the Potential of Proven Medicines™



## Angiotech Pharmaceuticals, Inc.

Consolidated Financial Statements for  
the First Quarter  
Ended December 31, 2001

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The first quarter of fiscal 2002 continued with the clinical evolution of our drug-coated stent program, underscored by key clinical data reported by both corporate partners, Boston Scientific and Cook Incorporated. The quarter also saw further progression of the Company's secondary progressive multiple sclerosis (SPMS) and severe psoriasis programs, as well as a key addition to Angiotech's senior management team.

Angiotech started the first quarter in October by proudly bringing home our drug-coated stent technology to Canada, with Boston Scientific's enrollment of the first Canadian patients in the international TAXUS II clinical study. Boston Scientific received approval from Health Canada to conduct the study at six hospitals across the country.

November was a highly anticipated month of clinical results from our drug-coated stent program with news from the American Heart Association's (AHA) Scientific Sessions in Anaheim, California. Cook launched a stream of positive reviews for paclitaxel-coated stents with a reported 3.1% rate of binary restenosis in the highest dose arm of its 192-patient, dose-ranging European ELUTES study. Together with the 4% restenosis rate in the high dose arm of Cook's Asian ASPECT trial reported in September, the results confirmed the reproducible and transferable nature of the drug across different stent platforms. We were encouraged to see that the degree of tissue overgrowth could indeed be "dialed in" since it is critical to have the supporting stent covered and incorporated into the vessel walls, rendering it invisible to the blood flowing by. The ELUTES study data was used in Cook's recent filing for CE mark approval, which will allow Cook to market a paclitaxel-coated coronary stent in Europe.

Also at the AHA meeting, Boston Scientific reported final six-month findings from its 61-patient European TAXUS I clinical trial: zero restenosis and zero thrombosis. The angiographic analysis demonstrated the absence of any deleterious edge effect at either end of the stent. The IVUS results showed that there was an optimal balance of controlled tissue overgrowth, just enough to incorporate the stent into the vessel wall while maintaining it open for healthy blood flow.

Progression in our pharmaceuticals programs was noted in November, when we announced two study extensions, one for each of our severe psoriasis and SPMS clinical studies. Patients in the Pilot Phase 2, severe psoriasis clinical study exhibited a 50% to 75% improvement in disease severity and PAXCEED™ was determined to be safe and well tolerated in the patient group. Up to 13 additional patients may be enrolled in the study extension that may administer intravenous infusions once every 2 weeks. In the following week, we received clearance to extend the Phase 2 SPMS clinical study for another year. Approximately 100 patients will be enrolled in this 1-year, open-label, extended Phase 2 study. The primary objective of the study extension is to assess the safety of PAXCEED™ with and without premedications. Pharmacokinetic analysis is also being assessed to determine the paclitaxel dose levels in the body. To date, there have been no drug-related unexpected and serious adverse events reported in the initial Phase 2 study and results from this study are expected toward the end of February.

In December, Dr. Rui Avelar joined Angiotech as Vice President, Investor Relations and Communications. His knowledge of the healthcare industry coupled with his expertise as a physician makes him the perfect candidate to showcase Angiotech's current and developing products to the healthcare and investment community.

This is a very exciting time for Angiotech, as we expect key data release from our Phase 2 SPMS study in our fiscal second quarter, followed by the approval and launch of the first of our partner's coated stent products in fiscal third quarter. Thank you again for your support and we look forward to announcing these critical events in the coming quarters.

Yours very truly,  
ANGIOTECH PHARMACEUTICALS, INC.



William L. Hunter, MD, MSc  
Chairman and CEO

February 12, 2002



Donald E. Longenecker, PhD  
President and COO

During the period, 30,000 warrants vested and the Company recorded \$319,000 as contributed surplus and medical technologies due to an increase in the estimated fair value of the 30,000 warrants.

In November 2001, the Company issued 25,064 common shares for the cashless exercise of the 30,000 common share purchase warrants. Accordingly, \$1,968,000 was transferred from contributed surplus to share capital.

6. SEGMENTED FINANCIAL 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 CDN\$)	3 Months Ended December 31,	
	2001	2000
	\$	\$
Revenue <sup>(1)</sup>		
Medical device coatings	422	173
Therapeutics	-	-
Total revenues for reportable segments	422	173
Net loss		
Medical device coatings	1,972	1,438
Therapeutics	2,554	3,237
Total loss for reportable segments	4,526	4,675

<sup>(1)</sup> Revenues are all attributable to the United States based on the location of the Company's collaborators.

Reconciliation of loss (income) for the period:

(in thousands of CDN\$)	3 Months Ended December 31,	
	2001	2000
	\$	\$
Total loss for reportable segments	4,526	4,675
Non-allocable corporate expenses	1,010	167
Total other (income)	(2,325)	(2,362)
Loss for the period	3,211	2,480

7. 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 could result in revocation of our patent or a narrowing of the scope of protection afforded by the patent. The outcome of this appeal is uncertain at this time.

**1. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the Company's annual consolidated financial statements for the year ended September 30, 2001. These financial statements conform in all material respects, with United States generally accepted accounting principles, except as disclosed in Note 8.

The accompanying unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 2001 and for all periods presented.

These unaudited interim consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2001 included in the Angiotech Pharmaceuticals, Inc. Annual Report filed with the appropriate securities commissions. The results of operations for the three-month period ended December 31, 2001 are not necessarily indicative of the results for the full year. All amounts herein are expressed in Canadian dollars unless otherwise noted.

**2. PRINCIPLES OF CONSOLIDATION**

These consolidated financial statements include the accounts of the Company and its four wholly-owned subsidiaries. The wholly-owned subsidiaries consist of Angiotech Pharmaceuticals (US), Inc., incorporated in the State of Washington, U.S.A., and three companies incorporated in Switzerland: Angiotech International GmbH, Angiotech Rx International GmbH, and Angiodevice International GmbH. All intercompany transactions and balances have been eliminated in consolidation.

With respect to the Company's integrated foreign subsidiaries, monetary assets and liabilities are translated into Canadian dollars using the exchange rate at the balance sheet date. Revenue and expense items are translated at the average exchange rate in the period. Exchange gain and losses are included in the determination of net income (loss).

**3. CHANGE IN ACCOUNTING PRINCIPAL****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 to the consolidated financial statements of September 30, 2001. 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. This change has been applied retroactively with the following effect:

	As originally reported December 31, 2000 \$	As restated December 31, 2000 \$
License, option & research contract fees	-	173
Net loss	(2,653)	(2,480)
Net loss per common share	(0.17)	(0.16)
Deferred revenue	-	2,120
Accumulated deficit	(32,160)	(34,280)

**4. LOSS PER COMMON SHARE DATA**

Loss per common share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share has not been presented as the outstanding options are anti-dilutive.

**5. SHARE CAPITAL****a) Authorized and Issued Share Capital**

The authorized common share capital of the Company is 200,000,000 common shares and 50,000,000 Class I Preference shares. The common shares issued and outstanding as of December 31, 2001 were 15,578,129 for a total of \$197,650,448. There are no Class I Preference shares currently issued and outstanding.

**b) Stock Option Plan**

On March 6, 2001 the shareholders approved the adoption of an amended Stock Option Plan, the "2001 Stock Option Plan" which, among other matters, increased the number of authorized common shares available by 1,060,640 common shares for issuance under the 2001 stock option plan from 2,015,521 to 3,076,161 common shares.

**c) Stock Options and Warrants**

At December 31, 2001 the Company had 2,584,865 (September 30, 2001 - 2,106,622) stock options outstanding at a weighted average exercise price of \$48.54 (September 30, 2001 - \$39.31) per share and expiring at various dates from January 31, 2006 to December 6, 2011 (September 30, 2001 - January 31, 2006 to September 17, 2011).

During the three months ended December 31, 2001, 22,311 stock options were exercised for total proceeds of \$351,251. During the three months ended December 31, 2001, a total of 505,300 stock options were granted with a weighted average exercise price of \$85.55 per share and 4,746 options were forfeited with a weighted average exercise price of \$49.57.

This discussion and analysis covers Angiotech Pharmaceuticals, Inc.'s interim consolidated financial statements for the three month period ended December 31, 2001 prepared in accordance with Canadian generally accepted accounting principles. See note 8 of the interim consolidated financial statements for a reconciliation to United States generally accepted accounting principles. As well, it provides an update to the discussion and analysis contained in the Company's 2001 Annual Report. This discussion and analysis should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and the annual consolidated financial statements contained in the Company's 2001 Annual Report. All amounts following are expressed in Canadian dollars unless otherwise indicated.

**RESULTS OF OPERATIONS**

The Company's first quarter net loss from operations was \$3.2 million, or (\$0.21) per share, compared with a net loss of \$2.5 million, or (\$0.16) per share, during the same period in 2000. The net loss for the quarter ended December 31, 2001 includes a foreign exchange gain of \$1.0 million, or \$0.07 per share, versus a foreign exchange loss of \$200,000 during the same period in 2000.

**REVENUES**

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 (SEC) in December 1999. Upfront fees and payments received 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 to the Company's September 30, 2001 consolidated financial statements. 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. The change has been applied retroactively and all prior periods reported herein have been adjusted accordingly. (See Note 3.)

No milestone or licensing revenue was received from the Company's corporate partners during the three month periods ended December 31, 2001 or December 31, 2000. However, deferred revenue related to upfront license fees was amortized into revenue in the amount of \$422,000 and \$173,000 for the quarters ended December 31, 2001 and 2000 respec-

tively. The Company expects to receive milestone payments in the future from existing collaborative arrangements.

**EXPENDITURES**

Research and development expenditures during the quarter ended December 31, 2001 decreased by 21% to \$2.7 million as compared to \$3.5 million for the same quarter in 2000. This decrease is primarily due to the prior year costs incurred for the enrollment of patients in the phase 2 clinical study for secondary progressive multiple sclerosis, which was substantially completed in fiscal 2001.

General and administrative expenses for the current quarter increased to \$2.5 million compared to \$1.0 million for the same period in 2000. The increase in the current quarter expenditures reflects costs associated with the addition of personnel, higher personnel costs, and increased professional services required to support increased business development and corporate activities. The increase in amortization expense of 47% from the same period in 2000 relates to the amortization of capital assets and medical technology acquired during fiscal 2001.

**INVESTMENT AND OTHER INCOME**

Interest income of \$1.3 million for the quarter ended December 31, 2001, decreased by \$1.3 million compared to the same period in 2000. This decrease is due to the decline in yields available on short term investments, declining to an average investment yield of 3.2% for the quarter ended December 31, 2001 from 6.3% for the same period in 2000.

The Company had a foreign exchange gain of \$1.0 million during the quarter ended December 31, 2001, compared to a foreign exchange loss of \$200,000 for the quarter ended December 31, 2000. As at December 31, 2001, \$423,000 of the foreign exchange gain related to the U.S. denominated short-term investments was unrealized, compared to an unrealized loss of \$389,000 for the quarter ended December 31, 2000. The foreign exchange gain during the current quarter was attributable to the effect of the strengthening U.S. dollar on the Company's U.S. dollar investment portfolio.

The Company expects that interest and foreign exchange will continue to fluctuate in relation to cash balances, interest yields and foreign exchange rates.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2001 the Company had working capital of approximately \$149.9 million and cash resources, comprising cash and cash equivalents and short-term investments totaling

**CONSOLIDATED BALANCE SHEETS**  
UNAUDITED

approximately \$152.2 million as compared to approximately \$152.6 million in working capital and approximately \$156.1 million in cash resources as at September 30, 2001. At December 31, 2001, the Company retained approximately U.S. \$77.4 million denominated in U.S. currency, or approximately \$123.2 million Canadian equivalent, compared to approximately U.S. \$78.8 million, or approximately \$124.4 million Canadian equivalent at September 30, 2001.

The Company's cash and cash equivalents increased by approximately \$81.3 million during the three months ended December 31, 2001. Of this increase, a net amount of \$80.2 million relates to the maturity of short-term investments that have been reinvested with less than 90 day terms due to the current yields available in the market place. The remaining increase is primarily the net effect of the proceeds from exercise of stock options by employees (\$0.4 million) and working capital change (\$3.8 million) offset by the Company's current operating loss, net of amortization and decrease in deferred revenue (\$2.9 million) and capital assets expenditures (\$0.2 million).

The Company does not believe that its results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to its investment portfolio, due to the relative short-term nature of the investments.

**RISKS AND UNCERTAINTIES**

Risks and uncertainties related to economic and industry factors as discussed in detail in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's 2001 Annual Report remain substantially unchanged.

The Company is exposed to market risk related to changes in interest and foreign currency exchange rates. At the end of the quarter, the Company had an investment portfolio consisting of highly liquid, high grade investment securities with maturity dates not exceeding 6 months, selected based on the expected timing of expenditures for continuing operations and prevailing interest rates. The Company has not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. The Company is subject to foreign exchange rate changes that could have a material effect on future operating results or cash flow.

(in thousands of CDN \$)	As at	
	December 31, 2001 \$	September 30, 2001 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	84,466	3,210
Short term investments	67,797	152,884
Amounts receivable	128	180
Prepaid expenses and deposits	782	511
<b>Total current assets</b>	<b>153,173</b>	<b>156,785</b>
Capital assets	1,444	1,429
Medical technologies	4,213	4,489
	<b>158,830</b>	<b>162,703</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,263	4,173
<b>Total current liabilities</b>	<b>3,263</b>	<b>4,173</b>
Deferred revenue	1,180	1,602
<b>Shareholders' equity</b>		
Share capital [Note 5]		
Common shares issued:		
December 31, 2001-15,578,129		
September 30, 2001-15,530,754	197,650	195,331
Contributed surplus [Note 5]	74	1,723
Deficit	(43,337)	(40,126)
<b>Total shareholders' equity</b>	<b>154,387</b>	<b>156,928</b>
	<b>158,830</b>	<b>162,703</b>

See accompanying notes

On behalf of the Board:



William L. Hunter, MD, MSc  
Chairman and CEO



Donald E. Longenecker, PhD  
President and COO

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**  
UNAUDITED

(in thousands of CDN\$, except per share data)	3 Months Ended December 31,	
	2001 \$	2000 \$
<b>REVENUE</b>		
License, option & research contract fees	422	173
	422	173
<b>EXPENSES</b>		
Research & development	2,727	3,467
General & administration	2,476	1,035
Amortization	755	513
	5,958	5,015
<b>Operating loss</b>	<b>(5,536)</b>	<b>(4,842)</b>
<b>Other income (expense):</b>		
Foreign exchange gain (loss)	1,041	(200)
Investment income	1,284	2,562
Total other income	2,325	2,362
Loss for the period	(3,211)	(2,480)
<b>Deficit, beginning of period</b>	<b>(40,126)</b>	<b>(31,799)</b>
<b>Deficit, end of period</b>	<b>(43,337)</b>	<b>(34,279)</b>
<b>Loss per common share</b>	<b>(0.21)</b>	<b>(0.16)</b>
<b>Weighted average number of common shares outstanding (in thousands)</b>	<b>15,557</b>	<b>15,326</b>

See accompanying notes

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
UNAUDITED

(in thousands of CDN\$)	3 Months Ended December 31,	
	2001 \$	2000 \$
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(3,211)	(2,480)
Add items not involving cash:		
Amortization of capital assets & medical technologies	755	513
Unrealized foreign exchange (gain) loss	(423)	389
Deferred revenue	(422)	(173)
Net change in non-cash working capital items relating to operations:		
Accrued interest on short-term investments	4,933	3,300
Amounts receivable	52	1
Prepaid expenses & deposits	(271)	(287)
Accounts payable & accrued liabilities	(910)	397
<b>Cash provided by operating activities</b>	<b>503</b>	<b>1,660</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of short-term investments	(14,142)	(132,847)
Proceeds from short-term investments	94,392	153,952
Amortization of bond premium	327	-
Purchase of capital assets	(175)	(132)
<b>Cash provided by investing activities</b>	<b>80,402</b>	<b>20,973</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from stock options exercised	351	704
<b>Cash provided by financing activities</b>	<b>351</b>	<b>704</b>
<b>Net increase in cash &amp; cash equivalents during the period</b>	<b>81,256</b>	<b>23,337</b>
<b>Cash &amp; cash equivalents, beginning of period</b>	<b>3,210</b>	<b>4,109</b>
<b>Cash &amp; cash equivalents, end of period</b>	<b>84,466</b>	<b>27,446</b>

See accompanying notes