

# two thousand

Angiotech Pharmaceuticals, Inc. **y2k** annual report



We've come a long way.

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There's more to look forward to.

We're 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.

This Annual Report to Shareholders contains forward-looking statements, including statements regarding product development and discovery, regulatory approvals, operating results and capital requirements and other statements that are not historical facts. These forward-looking statements are based on the opinions and estimates of our management at the time the statements are made. They are subject to risks and uncertainties that could cause our actual results, performance or achievements, and those of our corporate partners, to be materially different from those expressed or implied by the forward-looking statements. A number of factors could cause or contribute to such differences, including the risks described in the section entitled "Management Discussion and Analysis of Financial Condition and Results of Operations – Risks and Uncertainties" and those listed from time to time in our public disclosure filings with the U.S. Securities Exchange Commission, The Nasdaq, The Toronto Stock Exchange and relevant Canadian securities commissions, copies of which are available from our investor relations department or by visiting [www.sedar.com](http://www.sedar.com). You should not unduly rely on these forward-looking statements, which apply only as of the date of this Annual Report. We assume no obligation to update any forward-looking statements as new information becomes available.

## jan

Received \$1.8M milestone payment from Cook, Inc. (Cook initiated safety study for paclitaxel-coated coronary stent).

## feb

Listed on NASDAQ National Market ("ANPI").

—  
Reported promising preliminary treatment extension results from Phase 1/2 secondary progressive multiple sclerosis clinical study.

## mar

Received \$1.8M milestone payment from Boston Scientific for paclitaxel-coated coronary stent program.

—  
Appointed Kenneth Galbraith and David Howard to the Board of Directors.

—  
Raised \$137.8M public offering (1,750,000 Common shares at \$78.77 per share).

## may

Signed license agreement with Alcon for use of paclitaxel in a polymeric carrier as a therapeutic agent in proliferative ophthalmic conditions.

## june

Jeanne Bertonis joined the Company as Vice President, Corporate Development — over a decade of experience building high profile pharmaceutical and medical device companies.

## aug

Reported Phase 1 psoriasis clinical study results.

## sept

Provided continued access to secondary progressive multiple sclerosis treatment through extension of Phase 1/2 clinical study for ethical and compassionate purposes.

## oct

Reported encouraging Phase 1 rheumatoid arthritis clinical study results.

—  
Boston Scientific initiated safety study for paclitaxel-coated coronary stent — 60-patient study at 2 sites in Germany.

## nov

David McMasters joined the Company as Vice President, Intellectual Property & General Counsel — formerly Managing Director & CEO of leading U.S. intellectual property law firm.

—  
Initiated Pilot, Phase 2 clinical study for systemic (intravenous) Micellar Paclitaxel in patients with severe psoriasis.

Note: All dollar references in this annual report are in expressed in Canadian dollars (CDN\$) unless otherwise indicated.

“Great things are not done by impulse. . .

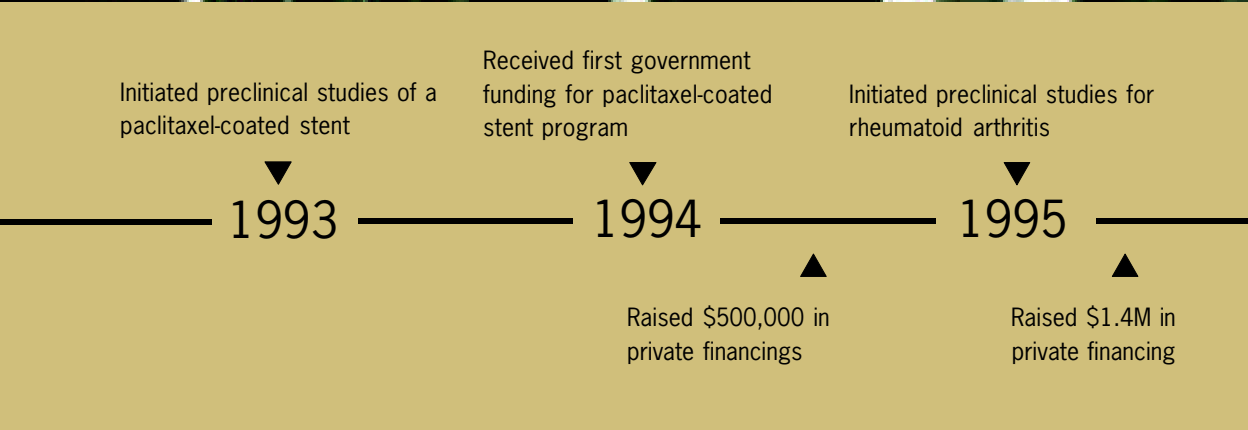
Discovered that paclitaxel is an inhibitor of angiogenesis-dependent and chronic inflammatory diseases

Where it all began\* >>>1992

Raised \$340,000 in seed financing

No. of employees:

Angiogenesis Technologies, Inc. founded —  
Principal Scientist & Founder, William Hunter, MD, MSc,  
current Chairman & CEO



2

6

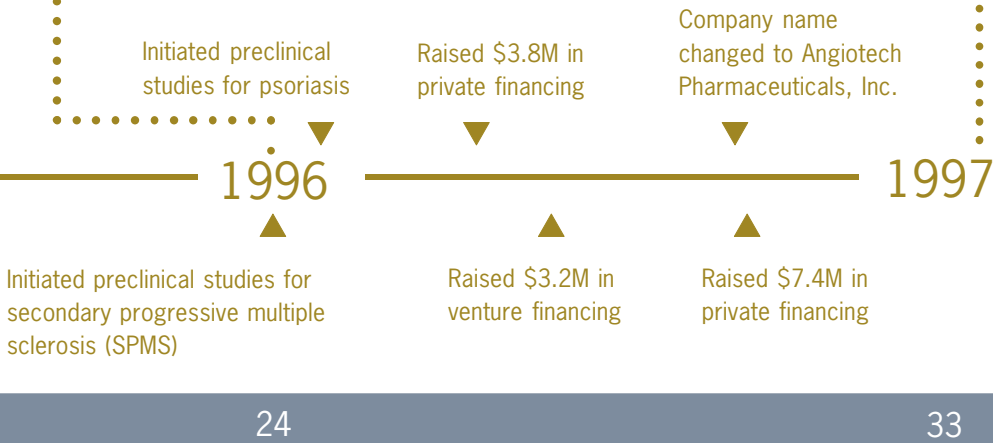
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...but by a **series** of small things brought together.” — Vincent van Gogh

# Our people are what make us work>

Signed co-exclusive license agreement with Boston Scientific Corp. (BSC) and Cook, Inc. for paclitaxel-coated stents — parties acquired 4% of the Company

Appointed Donald Longenecker, PhD, as President and Chief Operating Officer



Closed \$24.5M Initial Public Offering (2.45M shares at \$10.00 per share) and listed on the Toronto Stock Exchange (TSE:ANP)



Initiated Phase 1  
rheumatoid arthritis study  
using Micellar Paclitaxel

1998

Initiated Phase 1/2 SPMS study  
using Micellar Paclitaxel

39

Initiated Phase 1 U.S. and  
Phase 1/2 Canadian psoriasis  
studies using Topical Paclitaxel

1999

Closed \$17.2M public  
offering (1.49M shares at  
\$11.50 per share)

45

Reported positive results from  
Phase 1/2 SPMS study

Initiated Phase 2  
SPMS study using  
Micellar Paclitaxel

⋮  
Signed license and development  
agreement with C.R. Bard, Inc. for  
paclitaxel-loaded vascular wraps

Our patients. . .

# ...are what make us work **harder.**

Cook initiated clinical study  
of paclitaxel-coated stent

BSC initiated clinical study  
of paclitaxel-coated stent

Signed license agreement with  
Alcon for ophthalmic program

Received \$1.8M milestone  
payment from Cook for  
paclitaxel-coated stent program

Received \$1.8M milestone  
payment from BSC for  
paclitaxel-coated stent  
program

Provided continuous  
access to SPMS  
treatment

2000

Reported promising  
treatment extension results  
from Phase 1/2 SPMS study

Reported psoriasis  
safety study results

Reported encouraging  
results from Phase 1  
rheumatoid arthritis study

No. of employees: 49

Listed on NASDAQ National  
Market (NASDAQ:ANPI)

Closed \$137.8M public offering  
(1.75M shares at \$78.77 per share)

Initiated Pilot, Phase 2 psoriasis study  
using Micellar Paclitaxel



2000. A good year.  
And we've just scratched  
the surface >>>

# Accomplishments & Goals

	2000	2001
Corporate Development & Finance	<ul style="list-style-type: none"> <li>• Secured corporate partner in medical device field (Alcon)</li> <li>• Listed on NASDAQ National Market (“ANPI”)</li> <li>• Raised \$137.8M in follow-on offering</li> <li>• Appointed two new Board members</li> </ul>	<ul style="list-style-type: none"> <li>• To complete corporate alliance with medical device company</li> <li>• To license one new enabling technology</li> <li>• To license one new chemical entity for novel application</li> </ul>
Clinical Development	<ul style="list-style-type: none"> <li>• Completed &amp; reported efficacy assessment of study extension for Phase 1/2 SPMS clinical study</li> <li>• Further extended Phase 1/2 SPMS clinical study</li> <li>• Completed over 75% enrollment of Phase 2 SPMS clinical study</li> <li>• Completed &amp; reported efficacy assessment of Phase 1 rheumatoid arthritis clinical study</li> <li>• Completed &amp; reported safety assessment of Phase 1 (US) &amp; Phase 1/2 (Canada) psoriasis clinical studies</li> </ul>	<ul style="list-style-type: none"> <li>• To complete efficacy assessment for Phase 2 SPMS clinical study</li> <li>• To initiate Phase 2 rheumatoid arthritis clinical study</li> <li>• To complete enrollment of Pilot, Phase 2 severe psoriasis clinical study</li> </ul>
Research & Development	<ul style="list-style-type: none"> <li>• Completed preclinical studies of clinically suitable perivascular paclitaxel product</li> <li>• Completed final manufacturing process &amp; specifications for Micellar Paclitaxel</li> <li>• Developed &amp; characterized controlled release paclitaxel formulation for pericardial administration of paclitaxel for preclinical evaluation</li> <li>• Completed preliminary evaluation of new drugs for two inflammatory diseases</li> </ul>	<ul style="list-style-type: none"> <li>• To define cellular assays required to identify one drug for a novel application</li> <li>• To identify &amp; conduct proof of concept studies on several new technologies</li> </ul>

# Dear Shareholders:

The year 2000 was one of substantial growth and development both clinically and financially. The year was punctuated by the long anticipated entry of both the Boston Scientific (BSC) and Cook paclitaxel-coated stents into clinical studies in Europe. Substantial progress was made in our Phase 2 secondary progressive multiple sclerosis (SPMS) clinical study, while many patients first treated in 1997 as part of our Phase 1 SPMS study continued to receive therapy three years later. Finally, the Company began trading on NASDAQ National Market and completed a highly successful follow-on offering that raised \$137.8M (or US\$93.6M) at \$78.77 (or US\$53.50) per share.

## **Clinical Studies**

In January, the first of our stent partners, Cook, Inc. began clinical studies in Europe with a paclitaxel-coated coronary stent. After initiating what was planned to be a small safety study, Cook later elected to add more centers and enroll additional patients as the year progressed. Cook is now well on the way to completing a large scale European study designed to allow them to receive market approval for the product at the conclusion of the study. Depending on regulatory requirements, this study could be complete in the second half of 2001, with European product approval to follow.

In October, our second stent partner, BSC, began a 60-patient safety study in Germany with a paclitaxel-coated NIR<sup>®</sup> coronary stent. This study is designed to establish the safety and tolerability of both the drug and the drug-delivery coating. Should this data be favourable, BSC will enter into larger scale clinical studies in 2001.

Clearly, the fact that two different, multinational stent companies have elected to license a paclitaxel stent coating and have successfully developed it sufficiently to initiate human studies – when neither had developed such a product previously – represents a landmark event for Angiotech. We can think of no greater validation of our core technology than to have two of the world's premier medical device companies electing to apply paclitaxel coatings to their flagship coronary stent product lines. We believe drug-coated stents will change the landscape of interventional cardiology and that paclitaxel-coated stents could be at the forefront of this "Game Changing" technology.

Almost lost in the activity surrounding the stent program were continued encouraging results from the SPMS clinical study. In the first half of 2000, we reported results from the first treatment extension of the Phase 1/2 study. After 12 treatments over a 16-month period, 95% (21 out of 22) of the patients remained

stable (15) or improved (6) as measured by the Expanded Disability Status Scale (EDSS). The average EDSS score improved by 0.2 over the course of the 16-month time span. In addition to clinical benefits, favourable trends were observed in several MRI parameters of disease (burden of disease, gadolinium-enhancing lesions, validated lesion number, black holes and brain atrophy). Based on these encouraging results and for ethical and compassionate reasons, patients were given the option to continue long-term treatment assessing the safety and clinical benefits of Micellar Paclitaxel. We received clearance from Therapeutic Products Programme, Health Canada, to continue long-term treatment in this patient population with an annual safety review of the data.

Throughout this time we continued to enroll patients in our 189-patient, multicenter, placebo-controlled, Phase 2 study using Micellar Paclitaxel in SPMS. By the end of 2000, we will have over 75% of the total number of patients enrolled in the study. We anticipate that the study will be fully enrolled in Q1 2001, the patient treatment phase will be completed by Q3 2001, and that preliminary safety and efficacy results of the study will be announced before the end of 2001.

Angiotech also completed a Phase 1 rheumatoid arthritis (RA) study in September 2000. Micellar Paclitaxel was demonstrated to be safe and well-tolerated in all patients treated, while 25% of those that completed the study met the American College of Rheumatology (ACR) 20% improvement criteria. Given the safety profile of the treatment, the Company is planning a Phase 2 study in a larger number of patients to assess efficacy. This study is scheduled to begin in the second half of 2001.

The Company's psoriasis program advanced clinically on two fronts. In October, Angiotech announced results from two Phase 1 studies using Topical Paclitaxel Gel to treat patients with psoriasis. The formulation was considered safe, well-tolerated, and did not result in significant systemic absorption (*i.e.* into the bloodstream) of paclitaxel. The Company plans to further develop this program in association with a dermatology company. Angiotech is also evaluating intravenous Micellar Paclitaxel for the treatment of patients with severe psoriasis. This study, being conducted at the National Cancer Institute, began in November.

## **Corporate Collaborations**

Angiotech continued its practice of working with top tier partners in the pharmaceutical and medical device fields to provide novel solutions to difficult clinical

problems. In May, the Company announced that it was working with ophthalmic market leader, Alcon, to develop paclitaxel treatments for proliferative eye diseases. This worldwide license and development agreement provides an introduction for Angiotech into the field of ophthalmic medicine.

Throughout the year, we also continued preclinical development of our "vascular wrap" for the treatment of restenosis associated with peripheral vascular surgery. We have worked closely with our partner IMPRA (the vascular graft subsidiary of C.R. Bard) to advance this highly novel product through preclinical studies. We expect clinical advancement of this and other products in 2001.

## **Personnel**

Angiotech also added substantial expertise to its management team and board of directors in 2000. Jeanne Bertonis, MBA, previously of Genzyme and Guidant, joined the Company as Vice President, Corporate Development. David McMasters, the Company's Intellectual Property Attorney since its inception, joined us as Angiotech's Vice President, Intellectual Property & General Counsel. Kenneth Galbraith, the former CFO of QLT Therapeutics, and David Howard, President and CEO of Nutraceutix, Inc., joined the Company's Board of Directors this past year. The diversity and wealth of experience brought to the Company by these individuals can only be of assistance as we move the business forward in multiple areas.

## **Stock Performance**

The past year was one of continuing enhancement of shareholder value. As mentioned, the Company listed on NASDAQ and raised capital at \$78.77 (or US\$53.50) per share in the first quarter of 2000. This financing was successfully completed at a substantial premium to our July 1999 financing (\$11.50 per share) and greatly strengthened the Company's cash position. The year 2000 was an extremely volatile year for investors as the broad indices fluctuated dramatically over the course of the year. However, as of writing, Angiotech was trading up 195% on the year (Angiotech's share price on the TSE closed 1999 at \$20.00 per share).

On March 17<sup>th</sup>, Angiotech was added to the TSE 300 Composite Index, a significant achievement for a Company which had only joined Canada's senior exchange 15 months (to the day) earlier. In addition, as of writing, Angiotech was the TSE 300's number two performer in share appreciation for the year.

# Shareholders' Letter

## Summary

In closing, 2000 was a tremendous year for Angiotech. We are pleased with our clinical and financial success over the last year, but not satisfied. We will continue with our development efforts in MS, RA and psoriasis, and anxiously await continued progress on the paclitaxel-coated stent by BSC and Cook. The Company also plans to advance at least two new additional programs into clinical studies in the coming year. 2001 should be another significant year for clinical news from the Company.

As always, management wishes to extend their gratitude to the employees of Angiotech. Our modestly sized, highly competent staff continues to accomplish feats that would be stretch objectives for a work force several times the size. Angiotech remains committed to minimizing costs until we reach profitability so that our shareholders' capital can be spent on areas with the highest returns – product development and clinical studies.

Once again we wish to thank our shareholders for their consistent support of Angiotech. The Company remains devoted to alleviating chronic illnesses through its multiple product development efforts. We anticipate that 2001 will be another important year in the progression towards attaining this goal.



A handwritten signature in black ink, appearing to read "W. Hunter". The signature is fluid and cursive, written over a light background.

William L. Hunter, MD, MSc  
Chairman and CEO

A handwritten signature in black ink, appearing to read "D. Longenecker". The signature is fluid and cursive, written over a light background.

Donald E. Longenecker, PhD  
President and COO



Beyond the stent.  
Discover our complete  
portfolio >>>



# Pharmaceuticals Program — Micellar Paclitaxel Treatments

## Multiple Sclerosis — The Disease

Multiple sclerosis (MS) is a chronic, progressive inflammatory disease with debilitating neurological symptoms. It disables patients by disturbing vision, strength, balance and sensation, as well as causing fatigue and cognitive problems. MS affects as many as 350,000 people in the U.S. and approximately 8,000 new cases are reported each year. Approximately 40% of all MS patients have secondary progressive multiple sclerosis (SPMS) — the most chronic form of the illness.

## Our Treatment

As with many other chronic inflammatory diseases, chemotherapeutic agents have been investigated for the treatment of MS patients. Angiotech has developed a systemic formulation, Micellar Paclitaxel, as a treatment for SPMS.

## Development Status

This year, Angiotech reported treatment extension results from its Phase 1/2 safety study:

- Of the 22 patients who continued treatment, favorable trends were shown in clinical disability and magnetic resonance imaging (MRI)-related outcome measures
- No drug-related, serious adverse events were reported in this patient population

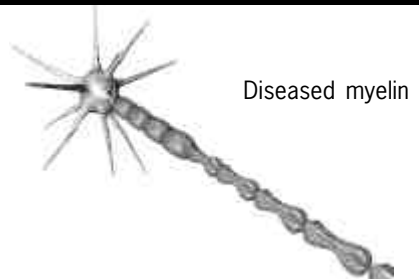
With these encouraging results and for ethical and compassionate reasons, the Company extended the treatment in the majority of patients to assess the long-term safety and clinical benefits of Micellar Paclitaxel.

Angiotech has initiated a Phase 2, double-blind, placebo-controlled, efficacy study:

- 189 patients (over 75% of patients are enrolled)
- Nine study sites throughout Canada include centers in: Vancouver, Calgary, Toronto, London, Ottawa, Montreal, Quebec City and Halifax
- Primary objective: to determine the difference in new lesion activity (as demonstrated by MRI) in the Micellar Paclitaxel treatment groups relative to the control group during the treatment phase

## Future Plans

Preliminary safety and efficacy results anticipated in late 2001.



## Rheumatoid Arthritis — The Disease

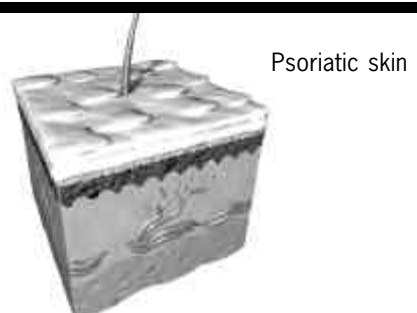
Rheumatoid arthritis (RA) is a debilitating, chronic inflammatory disease affecting 1% to 2% of the world's population. People with advanced RA have a mortality rate greater than some forms of cancer, resulting in treatment regimens shifting towards aggressive early disease-modifying antirheumatic drug (DMARD) therapy, including the use of anticancer drugs, to reduce irreversible joint damage.

Our Treatment	Development Status
<p>Angiotech has developed a systemic formulation, Micellar Paclitaxel, as a treatment for RA.</p>	<p>This year, Angiotech reported results from a Phase 1, randomized, double-blind, placebo-controlled, safety study:</p> <ul style="list-style-type: none"> <li>· 15 patients, failing at least one DMARD, such as methotrexate</li> <li>· Study sites: UCLA and the University of Arizona</li> <li>· The drug was determined to be safe and well-tolerated, and of those who completed the study, 25% showed improvement</li> <li>· No drug-related, serious adverse events occurred in this patient population</li> </ul>
Future Plans	
<p>A Phase 2 clinical study is planned to be initiated in 2001.</p>	

## Psoriasis — The Disease

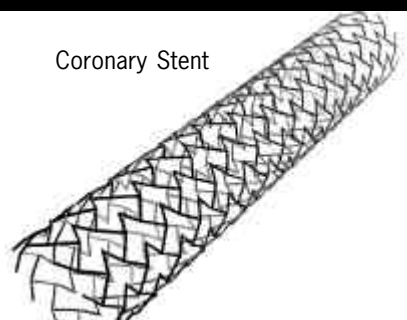
Psoriasis is a common, chronic, hyperproliferative, inflammatory disease of the skin that affects up to 3% of the population. Typically, patients present with a limited number of erythematous, scaly, well-demarcated plaques, and are treated with topical medication. Extensive body surface coverage with plaques, erythrodermic psoriasis, and pustular psoriasis represent less common and severe forms of psoriasis. For patients with severe psoriasis, immunomodulating systemic therapies (including chemotherapy) are often employed in treatment.

Our Treatment	Development Status
<p>Angiotech has developed a Topical Paclitaxel Gel and a systemic formulation, Micellar Paclitaxel, as treatments for psoriasis.</p>	<p>This year, Angiotech reported results from two Phase 1, double-blind, placebo-controlled, safety studies using Topical Paclitaxel Gel:</p> <ul style="list-style-type: none"> <li>· 20 patients per study with mild to moderate psoriasis</li> <li>· Study sites: Harvard University and the University of British Columbia</li> <li>· The drug was determined to be safe and well tolerated</li> <li>· No drug-related, serious adverse events occurred in this patient population</li> </ul> <p>Also in 2000, Angiotech initiated a Pilot, Phase 2 clinical study using systemic Micellar Paclitaxel:</p> <ul style="list-style-type: none"> <li>· Up to 13 patients with severe psoriasis</li> <li>· Study site: National Cancer Institute, Bethesda, MD</li> <li>· Primary objective: to determine clinical efficacy of Micellar Paclitaxel in patients with severe psoriasis as demonstrated by the psoriasis area severity index</li> </ul>
Future Plans	
<p>The Company plans to further develop the Topical Paclitaxel Gel program in association with a dermatology company.</p>	



Psoriatic skin

<b>Cardiovascular Disease</b>	<b>Development Status</b>
<p>Cardiovascular disease is the leading cause of death and disability in the developed world. One of the most common forms of vascular disease is coronary artery disease, accounting for 38% and 42% of deaths in Canada and the U.S., respectively. This condition occurs when the blood vessels that supply the heart become narrowed due to plaque buildup, reducing blood flow to the heart muscle.</p>	<p>Angiotech has a co-exclusive, worldwide license with Boston Scientific Corp. and Cook, Inc. for the use of paclitaxel and related compounds applied as coatings for stents in the treatment of vascular and gastrointestinal diseases. The value of this license to Angiotech is up to \$32M (exclusive of royalty payments).</p>
<p><b>Our Treatment: Paclitaxel-Coated Stent</b></p>	<p>This year the partners made milestone payments to Angiotech (\$1.8M each) as they both initiated clinical studies utilizing a paclitaxel-coated coronary stent.</p>
<p>For many patients, obstructed arteries are opened by way of balloon angioplasty and stent insertion, thereby avoiding coronary bypass surgery. Unfortunately, both angioplasty and stent insertion can produce a small injury to the artery wall. In a significant percentage of patients, scar tissue grows over top of the stent in response to this injury, leading to reblockage of the artery (a process called "restenosis"). To reduce the incidence of restenosis, Angiotech has developed a paclitaxel coating for stents to help keep the artery open.</p>	<p><b>Future Plans</b></p> <p>We anticipate study results from at least one of the partners by the end of 2001.</p>



<b>Restenosis — The Condition</b>	<b>Development Status</b>
<p>Restenosis does not only occur following angioplasty and stenting. In fact, restenosis can occur following any vascular surgical procedure where an artery is injured; for example, bypass surgery or hemodialysis access graft insertion. Arterial-venous (A-V) access grafts are used for hemodialysis patients who require repeated intravascular treatments to cleanse the blood of toxic compounds that build up as a result of kidney failure. However, the surgical procedure performed to place the graft and the resulting change in blood flow through the graft result in damage and scarring of the vessel wall leading to restenosis.</p>	<p>Angiotech entered into a \$30M exclusive, worldwide license and development agreement with C.R. Bard, Inc. and its 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.</p>
<p><b>Our Treatment: Paclitaxel-Loaded Wrap</b></p> <p>To reduce the incidence of restenosis following graft implantation, Angiotech has developed a paclitaxel-loaded wrap that can be applied to the outside of the vessel wall during surgery.</p>	<p><b>Future Plans</b></p> <p>Angiotech and its collaborators are formulating a prototype wrap that could be ready for clinical testing in 2001.</p>

<b>Ophthalmic Indications</b>
<p>Ophthalmic implant technology, similar to that described above, was exclusively licensed on May 10<sup>th</sup> to ophthalmic market leader Alcon for the delivery of paclitaxel to treat proliferative ophthalmic conditions.</p>
<p><b>Development Status</b></p>
<p>This worldwide license and development agreement with Alcon provided an upfront license fee as well as future milestone payments and royalties, while Alcon will assume all preclinical development and clinical study costs. Alcon also received a first right to negotiate a license for additional ophthalmic and otic applications.</p>



Vascular Graft with Wrap





# Financial Review



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the audited financial statements and related notes included herein which are prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These principles differ in certain respects from accounting principles generally accepted in the United States (U.S. GAAP). The differences as they affect the financial statements of the Company are described in Note 11 to the Company's audited 2000 financial statements. All amounts following are expressed in Canadian dollars unless otherwise indicated.

## RESULTS OF OPERATIONS

For the year ended September 30, 2000 ("fiscal 2000"), the Company recorded a net loss of \$1.9 million (\$0.13 per share). These results compare with a net loss of \$9.9 million (\$0.82 per share) and \$6.7 million (\$0.64 per share) for the fiscal years ended September 30, 1999 ("fiscal 1999") and 1998 ("fiscal 1998"), respectively. The results of operations for fiscal 2000 were in line with management expectations after taking out the effect of the foreign exchange gain of \$3.3 million for the year. The Company has incurred annual operating losses since inception. As at September 30, 2000, the Company had an accumulated deficit of \$29.5 million.

## REVENUES

License, option and research contract revenue increased to \$4.5 million for fiscal 2000 compared to \$3.3 million for fiscal 1999, and \$0.7 million for fiscal 1998. Milestone payments received from Cook, Inc. and Boston Scientific Corporation, two of the Company's licensees, contributed to the increase in license, option and research contract revenue. Fiscal 2000 was the first year the Company received milestone payments from its out-licensed technologies. During fiscal 1999, an initial license fee from one of the Company's licensees accounted for a significant portion of license, option and research contract revenue. The Company did not receive milestone payments or licensing fees in fiscal 1998.

The Company expects to receive licensing fees and milestone payments in the future from existing and new collaborative arrangements. The extent and timing of such additional licensing fees and milestone payments, if any, will be dependent upon the overall structure of current and proposed agreements and development progress of licensed technology. License, option and research contract revenue will fluctuate from year to year and cannot be predicted.

## EXPENDITURES

Research and development expenses in fiscal 2000 were comparable to fiscal 1999. Although overall costs were comparable to fiscal 1999, the costs associated with the ongoing Phase 1, and Phase 1/2 clinical studies in rheumatoid arthritis, multiple sclerosis and psoriasis, and Phase 2 multiple sclerosis clinical study increased by approximately \$1.8 million compared to fiscal 1999. This increase was offset by a decrease in preclinical study expenditures of approximately \$1.6 million. A reduction in period purchases of paclitaxel, the active drug used in the Company's development programs, also offset the increased costs of the ongoing clinical studies.

Research and development expenses increased approximately 69% in fiscal 1999 compared to fiscal 1998. The commencement of the Phase 1 and Phase 1/2 clinical studies in rheumatoid arthritis, multiple sclerosis and psoriasis as well as an increase in scientific personnel to support the Company's development programs and significant purchases of paclitaxel resulted in the increased expenses.

The Company expects to continue incurring substantial additional research and development expenses in the future, due to expansion of research and development programs; potential technology in-licensing and regulatory-related expenses; preclinical and clinical testing of the Company's various products under development; and manufacturing of products used in clinical studies. The Company believes that research

and development expenses for fiscal 2001 will increase mainly due to increased costs associated with the ongoing Phase 2 and the extension of the Phase 1/2 multiple sclerosis clinical studies. There will also be incremental costs associated with preparation for a Phase 3 multiple sclerosis clinical study, a Phase 2 rheumatoid arthritis clinical study, a Phase 2 severe psoriasis clinical study, as well as additional hiring of research and development personnel.

General and administrative expenses for fiscal 2000 were 23% higher compared to fiscal 1999. Contributing factors were an increase in personnel costs to support the Company's expanding business development activities, expenditures that related to the listing of the Company's Common shares in the U.S. on the NASDAQ stock exchange, and an increase in investor relations activities. In fiscal 1999, general and administrative expenses were approximately 18% greater than fiscal 1998. The increase in administrative personnel costs, corporate development and investor relations activities contributed to the increase from fiscal 1998 to fiscal 1999. For fiscal 2001, a moderate increase in general and administrative expenses is expected as activities increase in support of the Company's expanded research, product development and licensing operations.

Amortization expense relates to the amortization of property and equipment, and medical technology. The amortization expense for fiscal 2000 increased by approximately \$0.5 million (43%) compared to fiscal 1999. This increase is primarily due to additional amortization expense related to capitalization of medical technology (of approximately \$2.7 million) as a result of the exercise of two licensors' common share purchase warrants and rights. For fiscal 1999, amortization expense increased by approximately \$0.8 million compared to fiscal 1998 as a result of the incremental amortization impact of significant additions in 1998, and the write-down of certain acquired medical technology that was no longer being developed. The Company believes that amortization expense for fiscal 2001 will approximate that of fiscal 2000.

## **OTHER INCOME**

Interest income in fiscal 2000 increased by approximately \$4.7 million compared to fiscal 1999 due to a significant increase in short-term investment balances arising from proceeds of the U.S. common share offering in March 2000 and an increase in the weighted average interest rate to 6.1% as compared to 4.9% in fiscal 1999. Interest income in fiscal 1999 was comparable to fiscal 1998. The Company expects that interest income will continue to fluctuate in relation to cash balances and interest yields. See "Liquidity and Capital Resources".

A foreign exchange gain was recorded during fiscal 2000 compared to a foreign exchange loss in fiscal 1999. Foreign exchange gains and losses result from the translation of U.S. dollar-denominated balances and transactions. The recorded foreign exchange gain in fiscal 2000 was a result of holding U.S. dollar-denominated balances against a weakening Canadian dollar during the year. Approximately \$3.1 million of the foreign exchange gain related to the increased balances in U.S. dollar-denominated cash and short-term investments resulting from proceeds of the U.S. common share offering in March 2000 and, as at September 30, 2000, was unrealized. In fiscal 1999, the foreign exchange loss was due to a stronger Canadian dollar against the US dollar while the opposite was the case in fiscal 1998. The Company expects continued fluctuation in the Canada/US dollar exchange rates during the 2001 fiscal year. See "Liquidity and Capital Resources".

## **LIQUIDITY AND CAPITAL RESOURCES**

Since inception the Company has financed technology acquisitions, research and development activities and capital expenditures primarily from public and private sales of equity securities. The Company has also received proceeds from the licensing of its technology, milestone payments, contract revenue from collaborative research and development agreements with industry partners, funding through government

grant programs and interest income. Through September 30, 2000, the Company had received approximately \$189.2 million in net proceeds from the issuance of its equity securities including approximately \$128.4 million in net proceeds from the U.S. share offering completed in March 2000.

At September 30, 2000, the Company had available cash resources of approximately \$160.3 million, comprised of cash, cash equivalents and short-term investment securities. In aggregate, the Company's cash resources increased from \$31.3 million at September 30, 1999 to \$160.3 million at September 30, 2000. The increase relates to the net effect of the net proceeds (\$128.4 million) of the U.S. common share offering of 1,750,000 Common shares at \$78.77 per share on March 22, 2000, proceeds from exercise of stock options (\$0.8 million) and working capital change (\$1.4 million) offset by the Company's annual operating loss, net of amortization (\$0.3 million), and capital assets and medical technology expenditures (\$1.3 million).

The Company is exposed to market risk related to changes in interest and foreign currency exchange rates. At the end of the year, the Company had an investment portfolio consisting of highly liquid, high-grade investment securities with maturity dates not exceeding nine 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 does not believe a sudden or significant change in foreign exchange rates would have a material effect on future operating results or cash flow.

The Company expects to improve its cash and working capital positions during fiscal 2001 by licensing certain of its technologies. However, no assurance can be given that additional license fees may be realized.

## **RISKS AND UNCERTAINTIES**

The Company believes that its available cash, expected interest income, and estimated funding from corporate partnerships, should be sufficient to finance its operations and capital needs through at least 2003, while maintaining sufficient cash reserves. The Company's funding needs may, however, vary depending upon a number of factors including progress of the Company's research and development programs, costs associated with completing clinical studies and the regulatory process, collaborative and license arrangements with third parties, opportunities to in-license complementary technologies, cost of filing, prosecuting and enforcing the Company's patent claims and other intellectual property rights and technological and market developments. Consequently, the Company may need to raise substantial additional funds to continue to conduct its research and development programs and to commence or to continue the preclinical studies and clinical studies necessary to obtain marketing approval. In such an event, the Company intends to seek additional funding through public or private financings, arrangements with corporate collaborators, and from other sources. No assurance can be given that additional funding will be available on favourable terms, or at all. If adequate capital is not available, the Company may have to substantially reduce or eliminate expenditures in its operations. Insufficient financing may also require the Company to relinquish rights to certain of its technologies that the Company would otherwise develop.

To the extent possible, management implements strategies to reduce or mitigate the risks and uncertainties associated with the Company's business. Operating risks include (i) the Company's ability to successfully complete preclinical and clinical development of its products, (ii) the Company's ability to obtain and enforce timely patent and other intellectual property protection for its technology and products, (iii) decisions, and the timing of decisions made by health regulatory agencies regarding approval of the Company's technology and products, (iv) the Company's ability to complete and maintain corporate alliances relating to the development and commercialization of its technology and products, (v) market acceptance of the Company's technology and products, (vi) the competitive environment and impact of technological change, and (vii) the continued availability of capital to finance the Company's activities.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and have been approved by the Board of Directors. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The financial statements include amounts, which are based on the best estimates and judgements of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, Ernst & Young LLP conduct an independent examination, in accordance with auditing standards generally accepted in Canada, and express their opinion on the financial statements. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

A handwritten signature in black ink, appearing to read 'D. Longenecker', followed by a vertical line.

Donald E. Longenecker  
President and COO

A handwritten signature in black ink, appearing to read 'D. Hall', written in a cursive style.

David M. Hall  
Senior Vice President, Finance

# AUDITORS' REPORT

To the Shareholders of  
Angiotech Pharmaceuticals, Inc.

We have audited the balance sheets of **Angiotech Pharmaceuticals, Inc.** as at September 30, 2000 and 1999 and the statements of loss and deficit and cash flows for each of the years in the three year period ended September 30, 2000. 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 auditing standards generally accepted in Canada. 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, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended September 30, 2000 in accordance with accounting principles generally accepted in Canada. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding years.

Vancouver, Canada,  
November 2, 2000

*Ernst + Young LLP*

Chartered Accountants

# BALANCE SHEETS

(expressed in Canadian dollars)

As at September 30	2000 \$	1999 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	4,108,565	6,087,184
Short-term investments	156,185,948	25,229,569
Amounts receivable	55,814	94,725
Prepaid expenses and deposits	127,637	142,589
<b>Total current assets</b>	<b>160,477,964</b>	<b>31,554,067</b>
Capital assets <i>[note 5]</i>	1,192,395	1,043,831
Medical technology <i>[note 6]</i>	4,258,522	2,766,164
	<b>165,928,881</b>	<b>35,364,062</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 11(f)]</i>	2,380,706	1,010,063
<b>Total current liabilities</b>	<b>2,380,706</b>	<b>1,010,063</b>
Commitments and contingencies <i>[notes 9 and 10]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 7(b)]</i>	192,980,932	60,980,645
Contributed surplus <i>[note 7(d) and (e)]</i>	74,035	962,962
Deficit	(29,506,792)	(27,589,608)
<b>Total shareholders' equity</b>	<b>163,548,175</b>	<b>34,353,999</b>
	<b>165,928,881</b>	<b>35,364,062</b>

See accompanying notes

On behalf of the Board:



William L. Hunter, MD, MSc  
Director



Donald E. Longenecker, PhD  
Director

# STATEMENTS OF LOSS AND DEFICIT

(expressed in Canadian dollars)

Years ended September 30	2000 \$	1999 \$	1998 \$
<b>REVENUE</b>			
License, option and research contract fees <i>[note 10]</i>	<b>4,492,821</b>	3,253,381	734,227
Government grants	<b>5,600</b>	15,825	46,006
	<b>4,498,421</b>	3,269,206	780,233
<b>EXPENSES</b>			
Research and development	<b>9,613,781</b>	9,503,280	5,608,785
General and administration	<b>4,357,002</b>	3,543,014	2,993,396
Amortization <i>[notes 5 and 6]</i>	<b>1,654,913</b>	1,158,074	405,445
	<b>15,625,696</b>	14,204,368	9,007,626
<b>Operating loss</b>	<b>11,127,275</b>	10,935,162	8,227,393
<b>OTHER (INCOME) EXPENSE:</b>			
Foreign exchange (gain) loss	<b>(3,285,059)</b>	152,902	(241,452)
Interest income	<b>(5,925,032)</b>	(1,200,281)	(1,255,363)
Total other income	<b>(9,210,091)</b>	(1,047,379)	(1,496,815)
<b>Loss for the year</b>	<b>1,917,184</b>	9,887,783	6,730,578
Deficit, beginning of year	<b>27,589,608</b>	17,701,825	10,971,247
<b>Deficit, end of year</b>	<b>29,506,792</b>	27,589,608	17,701,825
<b>Loss per share <i>[note 7(f)]</i></b>	<b>(0.13)</b>	(0.82)	(0.64)

See accompanying notes

# STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

Years ended September 30	2000 \$	1999 \$	1998 \$
<b>OPERATING ACTIVITIES</b>			
Loss for the year	(1,917,184)	(9,887,783)	(6,730,578)
Add items not involving cash:			
Amortization	1,654,913	1,158,074	405,445
Unrealized foreign exchange (gain) loss	(3,166,713)	93,001	(38,280)
Gain on disposal of capital assets	(2,015)	—	—
Net change in non-cash working capital items relating to operations:			
Accrued interest on short-term investments	(4,047,903)	101,939	(456,614)
Amounts receivable	38,911	97,230	(151,744)
Investment tax credits	—	—	1,583,000
Prepaid expenses and deposits	14,952	(9,931)	(47,214)
Accounts payable and accrued liabilities	1,306,779	201,405	(120,707)
Deferred income	—	—	(81,000)
<b>Cash used in operating activities</b>	<b>(6,118,260)</b>	<b>(8,246,065)</b>	<b>(5,637,692)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of short-term investments	(123,741,763)	(3,432,106)	(21,497,509)
Purchase of capital assets	(578,136)	(521,581)	(407,512)
Proceeds on disposal of capital assets	2,430	—	—
Cost of medical technology	(720,504)	(1,049,350)	(427,600)
<b>Cash used in investing activities</b>	<b>(125,037,973)</b>	<b>(5,003,037)</b>	<b>(22,332,621)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of Common shares - net of issue costs	128,448,438	15,831,646	22,274,966
Proceeds from stock options exercised	729,631	—	384,275
Common shares repurchased and cancelled	(455)	(358)	(4,412)
<b>Cash provided by financing activities</b>	<b>129,177,614</b>	<b>15,831,288</b>	<b>22,654,829</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(1,978,619)</b>	<b>2,582,186</b>	<b>(5,315,484)</b>
Cash and cash equivalents, beginning of year	6,087,184	3,504,998	8,820,482
<b>Cash and cash equivalents, end of year</b>	<b>4,108,565</b>	<b>6,087,184</b>	<b>3,504,998</b>
<b>Supplemental disclosure</b>			
Common shares issued for medical technology	2,833,750	769,350	125,000

See accompanying notes

# NOTES TO FINANCIAL STATEMENTS

(expressed in Canadian dollars)

## 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 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 accounting principles generally accepted in Canada. A reconciliation of amounts presented in accordance with accounting principles generally accepted in the United States is detailed in note 11. A summary of the significant accounting policies are as follows:

### Use of Estimates

The preparation of the financial statements in conformity with general 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.

### Capital Assets

Capital assets are recorded at cost less accumulated amortization, related investment tax credits, government assistance 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

### Cash Equivalents

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents which are recorded at amortized cost, which approximates market value. At September 30, 2000, included in cash equivalents are short term notes of \$1,510,377 (US \$1,002,241) denominated in US dollars [1999 - \$2,891,654 (US\$2,000,397)].

### Short-Term Investments

Short-term investments, which are substantially comprised of commercial paper with an average fixed interest rate of 6.4% [1999 - 4.7%] and maturities to June 2001 [1999 - June 2000] are recorded at cost plus accrued interest. The investments are written down to market value if the decrease is considered to be other than temporary. Included in short-term investments at September 30, 2000 are investments of \$137,318,697 (US\$91,120,568) denominated in U.S. dollars [1999 - \$3,129,740 (US\$2,153,244)].

### Foreign Currency Translation

The Company's functional and reporting currency is the Canadian dollar and all of the Company's operations are located in Canada. Monetary items denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. Revenue and expense items are translated

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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at the average exchange rate during the year. Exchange gains and losses are included in the determination of net income.

### **Government Assistance**

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. Government assistance received relating to capital assets are presented as financing activities in the statements of cash flows.

### **Loss per Share**

Loss per share has been calculated using the weighted average number of Common shares outstanding during the year. Fully diluted earnings per share has not been presented as the outstanding options and warrants are anti-dilutive.

### **Medical Technology**

The costs of acquiring medical technology, including that which is 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 technology 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 technology 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.

### **Research and Development Costs**

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

### **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. License fees comprise initial fees and milestone payments derived from collaborative licensing arrangements. Initial fees and options are recognized when the Company has fulfilled its obligations in accordance with the provisions of the contractual arrangement. Milestone payments are recognized according to the contract terms as the milestones are achieved, to the extent that no performance obligations remain.

### **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 7[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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

shares are repurchased, the excess or deficiency of the consideration paid over the carrying amount of the Common shares canceled is charged or credited to contributed surplus or retained earnings.

### 3. CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2000, the Company 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, 1998 and as at October 1, 1997. Before the adoption of the new recommendations, the income tax expense was determined using the deferral method of tax allocation.

### 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.

### 5. CAPITAL ASSETS

	Cost \$	Accumulated amortization \$	Net book value \$
<b>2000</b>			
Computer equipment	932,805	563,886	368,919
Research equipment	1,485,579	769,407	716,172
Office furniture and equipment	369,724	274,302	95,422
Leasehold improvements	58,034	46,152	11,882
	<b>2,846,142</b>	<b>1,653,747</b>	<b>1,192,395</b>
<b>1999</b>			
Computer equipment	640,119	408,601	231,518
Research equipment	1,202,536	513,597	688,939
Office furniture and equipment	311,868	209,661	102,207
Leasehold improvements	50,034	28,867	21,167
	2,204,557	1,160,726	1,043,831

### 6. MEDICAL TECHNOLOGY

	2000 \$	1999 \$
Medical technology, cost [note 10]	6,180,614	3,526,364
Less: accumulated amortization	(1,922,092)	(760,200)
	<b>4,258,522</b>	<b>2,766,164</b>

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

## 7. 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

	No. of shares	Amount \$
<b>Common shares</b>		
<b>Balance, September 30, 1997</b>	405,189	123,790
Issued for cash pursuant to initial public offering - net	2,450,000	22,247,965
Issued for cash upon exercise of stock options	530,400	384,275
Issued for acquisition of certain medical technology	12,500	125,000
Conversion of preferred shares [i]	8,340,833	21,541,142
Shares repurchased for cash	(10,333)	(39,262)
<b>Balance, September 30, 1998</b>	11,728,589	44,382,910
Issued for cash pursuant to public offering - net	1,495,000	15,831,646
Issued for acquisition of certain medical technology [note 10(a)]	63,846	769,350
Shares repurchased for cash	(715)	(3,261)
<b>Balance, September 30, 1999</b>	13,286,720	60,980,645
Issued for cash pursuant to public offering - net	1,750,000	128,448,438
Issued for acquisition of certain medical technology [note 6]	42,500	1,933,750
Issued upon exercise of Common share purchase warrants [note 7(e)]	74,252	900,000
Issued for cash upon exercise of stock options	104,034	729,627
Shares repurchased for cash [note 7(d)]	(909)	(11,528)
<b>Balance, September 30, 2000</b>	15,256,597	192,980,932

[i] Pursuant to an initial public offering of the Company's Common shares, effective December 18, 1997, the following issued and outstanding Preference shares were converted into 8,340,833 Common shares pursuant to their original terms; 5,129,187 Class A Preference shares - Series I (\$6,078,267), 1,084,500 Class B Preference shares Series I (\$3,227,177), 1,747,062 Class B Preference shares - Series II (\$6,869,697) and 380,084 Class C Preference shares - Series I (\$5,366,001). Effective June 16, 1998, the authorized Preference shares were cancelled and 50,000,000 Class I Preference shares without par value were authorized.

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).

On December 18, 1997, pursuant to an initial public offering of the Common shares of the Company, 2,450,000 Common shares were issued at \$10.00 per share for net proceeds of \$22,247,965 (net of offering costs of \$2,252,035).

## 7. SHARE CAPITAL (CONT'D.)

### [c] Stock options

During the year ended September 30, 1998, the Company obtained shareholder approval to convert stock options for 186,000 Class A Preference shares exercisable at \$2.75 per share to incentive stock options exercisable for Common shares. The exercise price and expiration date were unchanged.

The Company established a Stock Option Plan ("Plan") in 1998, 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 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. Accordingly, 2,015,521 [1999 - 1,768,865] Common shares have been reserved for issuance of which 584,244 [1999 - 941,865] are available for issuance pursuant to the Plan.

Details of the stock options are summarized as follows:

	No. of optioned shares	Weighted average exercise price \$
<b>Balance, September 30, 1997</b>	513,042	0.38
Converted from Class A Preference share options	250,000	2.75
Granted	545,300	11.48
Exercised	(530,400)	0.72
Forfeited	(24,542)	0.38
<b>Balance, September 30, 1998</b>	753,400	8.95
Granted	290,100	12.04
Forfeited	(1,000)	15.00
<b>Balance, September 30, 1999</b>	1,042,500	9.81
Granted	613,575	39.18
Exercised	(104,034)	7.01
Forfeited	(9,298)	20.41
<b>Balance, September 30, 2000</b>	1,542,743	21.62

Of the total options outstanding at September 30, 2000, 159,500 were granted pursuant to a stock option and a discretionary plan superseded by the current Stock Option Plan.

The options outstanding under all plans are exercisable as follows:

Range of exercise prices \$	Options outstanding September 30, 2000			Options exercisable September 30, 2000	
	Number of common shares issuable	Remaining contractual life (years)	Weighted average exercise price \$	Number of common shares issuable	Weighted average exercise price \$
0.25	20,000	5.9	0.25	20,000	0.25
2.75	139,500	5.6	2.75	139,500	2.75
9.00-12.10	676,164	8.0	11.22	378,282	11.19
15.00-17.25	368,279	8.6	16.44	115,092	14.43
45.85	150,000	9.7	45.85	12,500	45.85
61.75-62.50	149,200	9.8	62.44	18,029	62.46
79.00	39,600	9.5	79.00	5,150	79.00
0.25-79.00	1,542,743	8.2	21.62	688,553	12.18

## **7. SHARE CAPITAL (CONT'D.)**

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These options expire at various dates from January 31, 2006 to September 11, 2010. 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 Stock Option Plan. During the year ended September 30, 2000, the Company accelerated the vesting of 46,583 stock options to an immediate vesting from approximately 2.5 years.

### **[d] Shares reacquired**

During the year ended September 30, 2000, the Company acquired 909 Common shares for cash of \$455 which were subsequently cancelled. The excess of \$11,073 has been allocated to contributed surplus. During the year ended September 30, 1999, the Company acquired 715 Common shares for cash of \$358 which were subsequently cancelled. The excess of \$2,903 has been allocated to contributed surplus. During the year ended September 30, 1998, the Company acquired 10,333 Common shares for cash of \$4,412 which were subsequently cancelled. The excess of \$34,851 has been allocated to contributed surplus.

### **[e] Common share purchase warrants and other**

Pursuant to a licensing agreement described in note 10[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 2, 2003 (30,000 of which are not exercisable until after November 2, 2002 and are cancellable if certain product development milestones are achieved prior to November 2, 2002). Of these warrants, 125,000 were exercisable at the price of \$8.50 per share and the remainder are exercisable at the price of \$11.54 per share. The estimated fair value of the 200,000 non-forfeitable warrants of \$900,000, determined using the Black-Scholes pricing model, was credited to contributed surplus.

In January 2000, a total of 200,000 Common share purchase warrants were exercised into 74,252 Common shares pursuant to the net share settlement provision. Upon exercise of the Common share purchase warrants, the \$900,000 previously recorded as contributed surplus was reclassified to share capital. At September 30, 2000, the 30,000 Common share purchase warrants, described above, are outstanding.

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] Loss per share**

The weighted average number of Common shares outstanding for the year ended September 30, 2000 was 14,332,087 [1999 - 12,106,288; 1998 - 10,494,926].

If the Class B Preference shares which were retractable had been converted October 1, 1997 [see note 7[b]], the loss per Common share for the year ended September 30, 1998 would have been \$(0.61).

### **[g] 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.

## 8. INCOME TAXES

At September 30, 2000 the Company has approximately \$12,043,000 of non-capital loss carryforwards and approximately \$4,166,000 of federal investment tax credits available to reduce taxable income for future years. These losses expire as follows:

	Federal investment tax credits \$	Non-capital loss carry forwards \$
2003	—	1,726,000
2004	—	3,192,000
2005	—	3,129,000
2006	84,000	3,996,000
2007	240,000	—
2008	900,000	—
2009	1,329,000	—
2010	1,613,000	—
	4,166,000	12,043,000

The Company also has provincial investment tax credits of approximately \$680,000 of which \$54,000 expires in 2009 and \$626,000 expires in 2010.

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

	2000 \$	1999 \$
<b>Deferred tax assets:</b>		
Book amortization in excess of tax CCA	<b>1,084,000</b>	1,365,000
Net operating loss carryforwards	<b>5,331,000</b>	5,979,000
Research and development deductions and credits	<b>13,536,000</b>	7,393,000
Share issue costs	<b>4,174,000</b>	1,228,000
Total deferred tax assets	<b>24,125,000</b>	15,965,000
Valuation allowance	<b>(23,086,000)</b>	(15,965,000)
Total deferred tax assets	<b>1,039,000</b>	—
<b>Deferred tax liabilities:</b>		
Unrealized foreign exchange gain	<b>(1,039,000)</b>	—
Total deferred tax liabilities	<b>(1,039,000)</b>	—
Net deferred 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, 2000 and 1999.

## 8. 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 44.62% statutory tax rate, at September 30 is:

	2000 \$	1999 \$
Income taxes at statutory rates	(930,000)	(4,511,000)
Amortization in excess of capital cost allowance for tax	634,000	429,000
Expenses not deductible for tax	15,000	15,000
Expenses capitalized for tax purposes	3,154,000	2,403,000
Income (expenses) not recognized for tax purposes	(1,154,000)	99,000
Non-capital losses generated (used)	(474,000)	1,978,000
Share issuance costs deducted for tax purposes	(1,245,000)	(408,000)
Other	—	(5,000)
	—	—

## 9. COMMITMENTS AND CONTINGENCIES

### Lease Commitments

The Company has entered into an operating lease agreement for office and laboratory space expiring in June 2002. Future minimum annual lease payments under this lease are as follows:

	\$
2001	522,000
2002	392,000
	914,000

Rent expense for the year ended September 30, 2000 amounted to \$484,260 [1999 - \$408,679, 1998 - \$319,674].

### 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 [see note 10].

### 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] Several oppositions have been filed against granted European patents relating to certain products. If the oppositions are successful, an adverse decision could result in revocation of the patents or a narrowing of the scope and protection afforded by the patent. The outcome of these oppositions is uncertain at this time.

## 10. 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 [see note 7[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 to date. 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.

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 \$5,366,001, if the milestone payments are achieved and the other financial commitments are incurred, excluding royalty payments, is approximately \$32 million, of which \$4.1 million and the equity investment has been received to date. 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.

### [d] Alcon Universal Ltd. ("Alcon")

In May 2000, the Company and Alcon entered into a licensing agreement ("Alcon License Agreement") that grants Alcon an exclusive, worldwide license to make, use, offer for sale and sell products incorporating certain technology of the Company relating to the use of paclitaxel as a therapeutic agent in proliferative ophthalmic conditions.

Pursuant to the Alcon License Agreement, Alcon has agreed to reimburse the Company for certain costs and expenses incurred in the transfer of its know how of the above mentioned technology,

## 10. COLLABORATIVE AGREEMENTS (CONT'D.)

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make future milestone payments upon the achievement of certain clinical development milestones and pay royalties on net product sales. The total payments and commitments pursuant to the Alcon License Agreement if all milestone payments are made and the other financial commitments are incurred, excluding royalty payments, is approximately \$1.1 million, of which \$374,000 has been received to date. The agreement may be terminated by the Company if certain regulatory milestones are not met or by Alcon after the appropriate notice is provided. Unless otherwise terminated, the agreement expires at the latter of the expiration of the last issued patent or ten years from the resulting first commercial sale in the United States.

## 11. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares its financial statements in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which, as applied in these financial statements, conform in all material respects to those accounting principles generally accepted in the United States ("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.
- [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 \$531,000 [1999 - \$24,240; 1998 - \$19,100] in respect of options earned by the consultants during the year. 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, 2000, 1999 and 1998, respectively: risk free interest rates of 5.4%, 4.8% and 4.4%; dividend yields of 0%; volatility factors of the expected market price of the Company's Common stock of 1.17, 0.69 and 0.57; and a weighted average expected life of the options of six years [1999 and 1998 - nine years].
- [c] Under U.S. GAAP, the accelerated vesting of stock options must be recorded at the intrinsic value of the stock options on the acceleration date less the intrinsic value on the initial grant date. Accordingly, the Company has recorded compensation expense in the amount of \$1,766,574, which was calculated on the acceleration date using the intrinsic value method.
- [d] Under U.S. GAAP, amounts paid for medical technology 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:

	2000 \$	1999 \$
Trade accounts payable	<b>783,599</b>	735,809
Accrued contract research	<b>1,350,458</b>	120,377
Other accrued liabilities	<b>246,649</b>	153,877
	<b>2,380,706</b>	1,010,063

## 11. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONT'D.)

[g] If U.S. GAAP were followed:

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

	2000 \$	1999 \$	1998 \$
Loss for the year, Canadian GAAP	<b>1,917,184</b>	9,887,783	6,730,578
Adjustment for stock based compensation to non-employees	<b>531,000</b>	24,240	19,100
Adjustment for accelerated vesting of stock options	<b>1,766,574</b>	—	—
Adjustment for medical technology expense and amortization	<b>1,492,358</b>	2,014,745	503,150
Loss and comprehensive loss for the year, U.S. GAAP	<b>5,707,116</b>	11,926,768	7,252,828
Loss per share, U.S. GAAP	<b>(0.40)</b>	(0.99)	(0.69)
Weighted average number of shares, U.S. GAAP	<b>14,332,087</b>	12,106,288	10,494,926

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

	2000 \$	1999 \$	1998 \$
Medical technology	—	—	—
Total assets	<b>161,670,359</b>	32,597,898	26,756,435
Share capital	<b>195,376,146</b>	61,078,285	44,456,310
Deficit	<b>(36,160,528)</b>	(30,453,412)	(18,526,644)

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

	2000 \$	1999 \$	1998 \$
Cash used in operating activities, Canadian GAAP	<b>(6,118,260)</b>	(8,246,065)	(5,637,692)
Adjustment for medical technology expense	<b>(720,504)</b>	(1,049,350)	(427,600)
Cash used in operating activities, U.S. GAAP	<b>(6,838,764)</b>	(9,295,415)	(6,065,292)
Cash used in investing activities, Canadian GAAP	<b>(125,037,973)</b>	(5,003,037)	(22,332,621)
Adjustments for medical technology	<b>720,504</b>	1,049,350	427,600
Cash used in investing activities, U.S. GAAP	<b>(124,317,469)</b>	(3,953,687)	(21,905,021)

[h] 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, 2000, 1999, and 1998,

## 11. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONT'D.)

respectively: risk free interest rates of 5.4%, 4.8% and 4.4%; dividend yields of 0%; volatility factors of the expected market price of the Company's Common stock of 1.17, 0.67 and 0.57; and a weighted average expected life of the options of six years [1999 and 1998 - 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, 2000 was \$33.00 [year ended September 30, 1999 - \$9.00; year ended September 30, 1998 - \$7.79].

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

	<b>2000</b>	1999	1998
	<b>\$</b>	\$	\$
Net loss, U.S. GAAP	<b>(5,707,116)</b>	(11,926,768)	(7,252,828)
Less: SFAS 123 Expense	<b>531,000</b>	24,240	19,100
Add: SFAS 123 Expense	<b>(4,267,400)</b>	(1,373,480)	(439,796)
Pro forma loss, U.S. GAAP	<b>(9,443,516)</b>	(13,276,008)	(7,673,524)
Pro forma loss per share, U.S. GAAP	<b>(0.66)</b>	(1.10)	(0.73)

[i] Recent pronouncements:

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101) as amended by SAB 101A and SAB 101B, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements of all public registrants. The provisions of SAB 101 are effective for transactions beginning in the Company's fourth quarter of fiscal year 2001. The Company has not determined the impact of SAB 101, if any, on the financial statements.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) effective for the Company's fiscal quarter beginning October 1, 2000. The Company has not determined the impact of SFAS 133, if any, on the financial statements.

## 12. SEGMENTED INFORMATION

The Company operates primarily in one business segment with substantially all of its assets and operations located in Canada. All of the Company's revenues are generated in Canada. During the year ended September 30, 2000, 50% and 41% of license, option and research contract fees was earned from two major collaborators in the U.S. [1999 - 94% from one major collaborator in the U.S.; 1998 - 46%, 26.5% and 26.5% from three collaborators in the U.S.].

# Notes

## BOARD OF DIRECTORS

JEREMY CURNOCK COOK, MA (Hon.)<sup>(2)(3)</sup>  
Former Managing Director  
Rothschild Bioscience Unit

KENNETH H. GALBRAITH, CA<sup>(1)(2)(3)</sup>  
Former Sr. Vice President, Chief Financial Officer  
QLT PhotoTherapeutics, Inc.

DAVID T. HOWARD<sup>(1)(2)(3)</sup>  
President & Chief Executive Officer  
Nutraceutix, Inc.

JOHN McDERMOTT, MBA<sup>(1)(2)(3)</sup>  
President  
IMPRA, Inc.

WILLIAM L. HUNTER, MD, MSc  
Chairman, Chief Executive Officer

DONALD E. LONGENECKER, PhD  
President, Chief Operating Officer

## CORPORATE HEADQUARTERS

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## LEGAL COUNSEL (CANADA)

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# Corporate Information

## MANAGEMENT

WILLIAM L. HUNTER, MD, MSc  
Chairman, Chief Executive Officer

DONALD E. LONGENECKER, PhD  
President, Chief Operating Officer

THOMAS S. SPENCER, PhD  
Chief Scientific Officer

DAVID E. HARTNETT, MBA, MSc  
Senior Vice President, Operations

DAVID M. HALL, BA, BComm  
Senior Vice President, Finance  
Secretary & Treasurer

JEANNE M. BERTONIS, MBA  
Vice President, Corporate Development

DAVID D. MCMASTERS  
Vice President, Intellectual Property &  
General Counsel

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## PATENT COUNSEL

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## TRANSFER AGENT & REGISTRAR

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Montreal Trust Centre  
510 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3S9

The NASDAQ National Market (symbol "ANPI")  
The Toronto Stock Exchange (symbol "ANP")

The Annual Meeting of Shareholders will be held at  
the Four Seasons Hotel in Vancouver at 9:00 a.m. on  
Tuesday, March 6, 2001.

<sup>(1)</sup> member of the Audit Committee

<sup>(2)</sup> member of the Executive Compensation Committee

<sup>(3)</sup> member of the Board Nominating Committee

## Advancing the Potential of Proven Medicines

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