Financial Statements

Angiotech Pharmaceuticals, Inc.

September 30, 2000

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.

Ernst & Young LLP

Vancouver, Canada,
November 2, 2000.

Chartered Accountants

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

BALANCE SHEETS
(expressed in Canadian dollars)

As at September 30

	2000 $	1999 $
ASSETS		
Current		
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
Total current assets	**160,477,964**	31,554,067
Capital assets *[note 5]*	**1,192,395**	1,043,831
Medical technology *[note 6]*	**4,258,522**	2,766,164
	165,928,881	35,364,062
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11(f)]*	**2,380,706**	1,010,063
Total current liabilities	**2,380,706**	1,010,063
Commitments and contingencies *[notes 9 and 10]*		
Shareholders' equity		
Share capital *[note 7(b)]*	**192,980,932**	60,980,645
Contributed surplus *[note 7(d) and (e)]*	**74,035**	962,962
Deficit	**(29,506,792)**	(27,589,608)
Total shareholders' equity	**163,548,175**	34,353,999
	165,928,881	35,364,062

See accompanying notes

On behalf of the Board:

Director Director

Angiotech Pharmaceuticals, Inc.

STATEMENTS OF LOSS AND DEFICIT

(expressed in Canadian dollars)

Years ended September 30

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

See accompanying notes

Angiotech Pharmaceuticals, Inc.

STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

Years ended September 30

	2000 **$**	1999 $	1998 $
OPERATING ACTIVITIES			
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)
Cash used in operating activities	**(6,118,260)**	(8,246,065)	(5,637,692)
INVESTING ACTIVITIES			
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)
Cash used in investing activities	**(125,037,973)**	(5,003,037)	(22,332,621)
FINANCING ACTIVITIES			
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)
Cash provided by financing activities	**129,177,614**	15,831,288	22,654,829
Net increase (decrease) in cash and cash equivalents during the year	**(1,978,619)**	2,582,186	(5,315,484)
Cash and cash equivalents, beginning of year	**6,087,184**	3,504,998	8,820,482
Cash and cash equivalents, end of year	**4,108,565**	6,087,184	3,504,998
Supplemental disclosure			
Common shares issued for medical technology	**2,833,750**	769,350	125,000

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)

September 30, 2000

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

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

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 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.

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

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.

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

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 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 volatlity 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** $
2000			
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**
	2,846,142	**1,653,747**	**1,192,395**
1999			
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

(expressed in Canadian dollars)

6. MEDICAL TECHNOLOGY

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

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].

NOTES TO FINANCIAL STATEMENTS

(expressed in Canadian dollars)

September 30, 2000

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 $
Common shares		
Balance, September 30, 1997	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)
Balance, September 30, 1998	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)
Balance, September 30, 1999	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)
Balance, September 30, 2000	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 ($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.

7. SHARE CAPITAL (cont'd.)

[b] Issued and outstanding

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).

[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.

(expressed in Canadian dollars)

7. SHARE CAPITAL (cont'd.)

[c] Stock options (cont'd.)

Details of the stock options are summarized as follows:

	No. of optioned shares	Weighted average exercise price $
Balance, September 30, 1997	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
Balance, September 30, 1998	753,400	8.95
Granted	290,100	12.04
Forfeited	(1,000)	15.00
Balance, September 30, 1999	1,042,500	9.81
Granted	613,575	39.18
Exercised	(104,034)	7.01
Forfeited	(9,298)	20.41
Balance, September 30, 2000	1,542,743	21.62

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

NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)

September 30, 2000

7. SHARE CAPITAL (cont'd.)

[c] Stock options (cont'd.)

The options outstanding are exercisable as follows:

	Options outstanding September 30, 2000			Options exercisable September 30, 2000	
Range of exercise prices $	**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

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.

7. SHARE CAPITAL (cont'd.)

[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.

(expressed in Canadian dollars)

7. SHARE CAPITAL (cont'd.)

[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 carryforwards** $
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.

NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)

September 30, 2000

8. INCOME TAXES (cont'd.)

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

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

(expressed in Canadian dollars)

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].

9. COMMITMENTS AND CONTINGENCIES (cont'd.)

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.

10. AGREEMENTS (cont'd.)

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

Pursuant to the BSC/Cook License Agreement, each of BSC and Cook has agreed to reimburse the Company for certain research and development expenses, make future milestone payments upon achievement of certain critical clinical and commercial development milestones, devote stated amounts for product research, development and marketing and pay royalties on net product sales. The payments and commitments pursuant to the BSC/Cook License Agreement, including an equity investment of $5,366,001, 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, 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.

(expressed in Canadian dollars)

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

[f] Accounts payable and accrued liabilities comprise:

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

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

NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)

September 30, 2000

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

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

	2000 **$**	1999 $	1998 $
Medical technology	**—**	—	—
Total assets	**161,670,359**	32,597,898	26,756,435
Share capital	**195,376,146**	61,078,285	44,456,310
Deficit	**(36,160,528)**	(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	**(6,118,260)**	(8,288,103)	(5,384,250)
Adjustment for medical technology expense	**(720,504)**	(1,049,350)	(427,600)
Cash used in operating activities, U.S. GAAP	**(6,838,764)**	(9,337,453)	(5,811,850)
Cash used in investing activities, Canadian GAAP	**(125,037,973)**	(4,808,097)	(22,827,515)
Adjustments for medical technology	**720,504**	1,049,350	427,600
Cash used in investing activities, U.S. GAAP	**(124,317,469)**	(3,758,747)	(22,399,915)

(expressed in Canadian dollars)

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

[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, 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:

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

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

[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.].