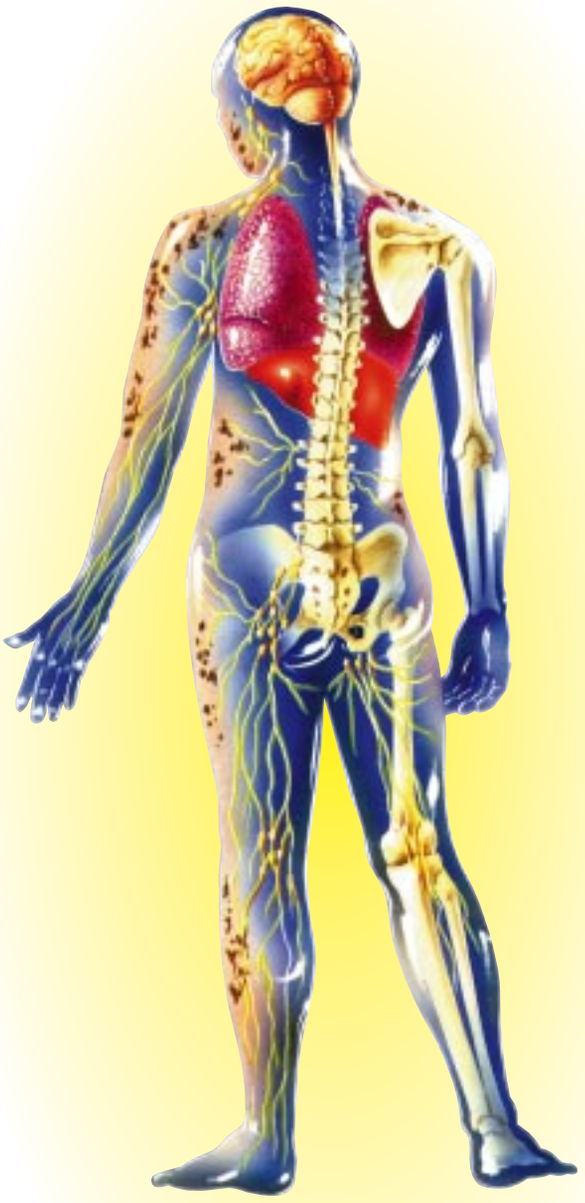
Imutec Pharma

IMUTEC CORPORATION

Annual Report 1996



DRIVEN BY DISCOVERY, REALIZING THE RESULTS,
FOR THE BENEFIT OF ALL

ACHIEVEMENTS: FISCAL 1996

July, 1995: Corporate restructuring begins as cost containment program is implemented and the Medical and Scientific Advisory Board is strengthened and restructured.

July, 1995: A North American research network is established, immediately giving the company a respected and extensive R&D network, and a valuable sounding board for its drug development.

October, 1995: Twelve months of intensive work in Imutec Pharma's labs pays off when bioassay issues are resolved, and the applications to start clinical trials are prepared.

January, 1996: Imutec Pharma files an Investigational New Drug Application (IND) with Canada's Health Protection Branch for a clinical trial on patients with Kaposi's sarcoma.

February, 1996: The company files an IND with the United States Food and Drug Administration for a clinical trial on patients with pancreatic cancer.

March, 1996: The Health Protection Branch approves the Kaposi's sarcoma trial, which begins four months later.

April, 1996: The Food and Drug Administration approves the pancreatic cancer trial, which begins two months later.

May, 1996: Mr. Philippe Lacaille is appointed President and CEO of Imutec Pharma.

June, 1996: Changes to the Board of Directors are announced as Mr. Donald W. Paterson is elected Chairman of the Board and Mr. Peter J. Campbell is appointed a member of the board. The company proceeds to implement guidelines of The Toronto Stock Exchange's committee on corporate governance and boards of directors.

August, 1996: Imutec Pharma concludes an agreement on key research project with NaPro BioTherapeutics of Boulder, Colorado.

October, 1996: Mr. Joel S. Marcus is nominated as a member of the board.

MILESTONES: 1997

Fourth calendar quarter, 1996: A New Drug Application to market Virulizin™ for malignant melanoma will be filed in Mexico.

Second calendar quarter, 1997: The completion and results of the Phase I/II trial in pancreatic cancer will be announced.

Third calendar quarter, 1997: The completion and results of the Phase I/II trial in Kaposi's sarcoma will be announced.

Third calendar quarter, 1997: A strategic alliance is expected to be concluded with a global pharmaceutical company.

Fourth calendar quarter, 1997: New drug applications will be filed in certain countries to market Virulizin™ for malignant melanoma.

Fourth calendar quarter, 1997: A new product will be added to the existing product pipeline.

Fourth calendar quarter, 1997: An IND will be filed with the FDA in the United States for a pivotal Phase III clinical trial in pancreatic cancer.

Fourth calendar quarter, 1997: Completion of pre-clinical trials of Virulizin™ in combination with chemotherapeutic drugs.

Imutec Pharma

Imutec Pharma Inc. is a biopharmaceutical company engaged in the development, manufacturing and commercialization of biological products targeted for use in the treatment of cancer and other diseases associated with immune system disorders.

Imutec's strategy is to build a technology platform of immunotherapeutic drugs with the company's lead candidate, VIRULIZIN ™, as the foundation. Through in-licensing and acquisition, a product portfolio of discovery stage drugs will be clinically developed to proof of concept. Thereafter, late stage clinical development and marketing will be accomplished in cooperation with strategic partners.

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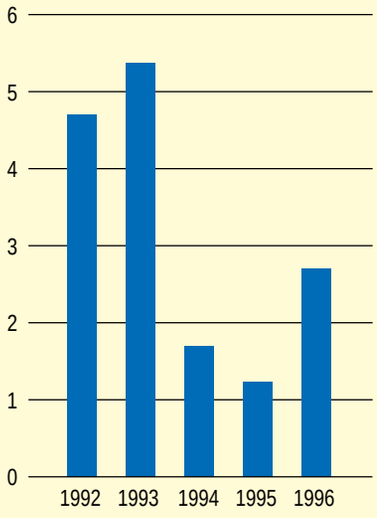
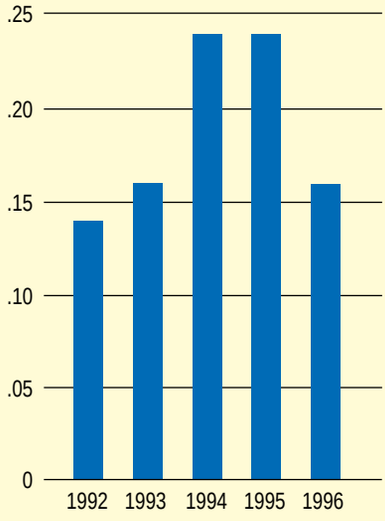
FINANCIAL HIGHLIGHTS

	1992	1993	1994	1995	1996
Cash and cash equivalents	$ 4,695,574	$ 5,368,854	$ 1,694,799	$ 1,236,972	$ 2,699,248
Research and Development expenses	$ 2,449,466	$ 4,375,943	$ 5,747,919	$ 6,252,294	$ 4,390,018
Loss for the period	$ 2,302,794	$ 3,196,955	$ 5,381,587	$ 5,854,126	$ 4,201,869
Loss per common share	$ 0.14	$ 0.16	$ 0.24	$ 0.24	$ 0.16

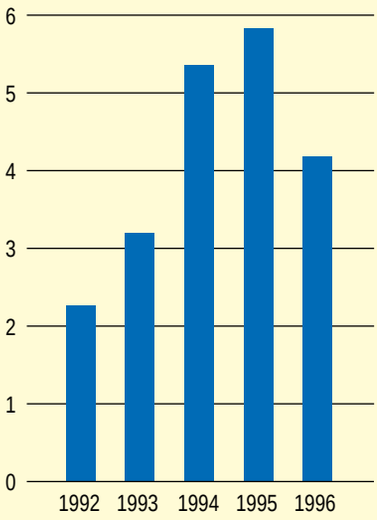
Cash and cash equivalents
(In millions of dollars)



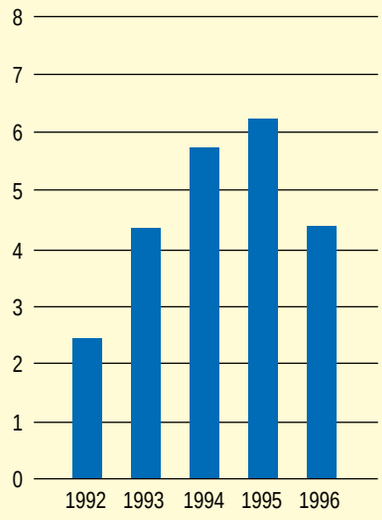
Loss per common share
(In dollars)



Loss for the period
(In millions of dollars)



Research and development expenses
(In millions of dollars)



CHAIRMAN'S REPORT

I am pleased to report that Imutec Pharma made considerable progress during the past year.

One of the most important events in 1996 was the appointment of Philippe G. Lacaille as President and Chief Executive Officer. Mr. Lacaille joined the company from BioChem Pharma Inc., where he was President of IAF BioVac Inc., a wholly-owned subsidiary of BioChem Pharma. He was previously the Executive Vice President and Chief Operating Officer of BioChem Pharma, and contributed to its growth into one of the world's 10 largest biopharmaceutical companies.

Before his tenure with the BioChem Group, Mr. Lacaille spent 12 years with the Swedish multinational pharmaceutical company, Pharmacia. He worked in Europe and in Canada, in a variety of positions ranging from sales and marketing to general management. Mr. Lacaille is a member of a number of trade and professional associations, and is actively involved in organizations dealing with health care issues.

"Imutec Pharma is committed to developing marketable products and the steps we took last year will help us to deliver on that commitment. We ended the year well-positioned to meet the goals that we have set, and are optimistic about our prospects for continued success."

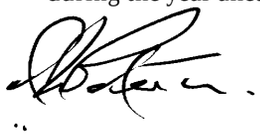
We are indeed fortunate to have Mr. Lacaille as the leader of our team. We are confident that his experience in operations, strategic partnering and international drug development will lead Imutec Pharma to its next level of growth and to achieve its goals.

In October, 1996, we also announced that Joel S. Marcus will be proposed for election to the company's Board of Directors at the annual meeting on November 27, 1996. Mr. Marcus is a founder, Vice Chairman and Chief Operating Officer of Health Science Properties Inc., the first health science real estate investment trust in the United States. He has extensive international experience in corporate finance, corporate partnering and mergers and acquisitions. Mr. Marcus' direct involvement in a broad range of health science sectors will be a tremendous asset to Imutec Pharma as the company moves closer to a strategic alliance with a global pharmaceutical partner.

I would also like to take this opportunity to welcome Peter J. Campbell, who joined our Board of Directors this year. Mr. Campbell is the former President of Connaught Laboratories
Limited. He was recently appointed to the Rockefeller Foundation and the World Bank, where he will work with global vaccine manufacturers that supply emerging countries. Mr. Campbell's advice will be extremely valuable in helping Imutec Pharma with its initiatives to form a strategic alliance and to launch Virulizin™ around the world.

During the year, we also implemented changes in our corporate governance that complied with The Toronto Stock Exchange's guidelines on the composition and mandate of boards of directors. As part of those changes, we separated the roles of Chairman of the Board, and President and CEO. We formed an Environmental Committee to ensure the personal safety of staff in our workplace and to put in place an environmental code of conduct in our research and manufacturing facility. And we changed the way we report information. You will find a copy of Imutec Pharma's Corporate Governance Statement in the accompanying Information Circular.

On behalf of the Board of Directors, I would like to extend my thanks to our shareholders for their support during the past year. I look forward to your continued support during the year ahead.



Donald W. Paterson
Chairman of the Board
Imutec Pharma Inc.

A NEW BEGINNING

Milestones reached, a vision refined

This is my first opportunity to offer my comments in an annual report since I joined the company on May 1 and I am pleased to do so.

I was especially pleased when I was offered the opportunity to become the President of Imutec Pharma. I knew the company, the progress that it had made, and the prospects that it had. I knew as well the challenges that it faced.

In the past year, I had the opportunity to work closely with all of our employees, and it was a pleasure to observe such dedicated and passionate individuals. Their commitment, to their work and to Imutec Pharma, helped us refine our vision and put in place a clear strategy and plan of action to meet the challenges that we face. I would like to acknowledge our employees' dedication and to thank them sincerely for their contribution to shaping your company, the new Imutec Pharma.

"While 1996 was a year of accomplishment, it was also a year of transition. Imutec Pharma evolved from an entrepreneurial venture into a more mature and structured organization, one guided by a vision, driven by goals and compelled to perform."

The past year was the most significant in the company's history. For the first time in that history, Imutec Pharma met every one of its milestones. Each one is a critical component of the sound foundation that we are building.

In almost every way, 1996 was a year of profound and positive change, as senior management set out to transform the company. We developed a strategy, the primary goal of which is to focus and intensify our approach to drug development. We renewed our commitment to bring drugs to the market promptly. We also established an impressive research network of recognized oncologists and immunologists, and increased our depth by hiring key management professionals. Finally, we leveraged our financial resources by implementing strict cost controls.

As you may have noticed, we have two names on the cover of this report, an indication of management's desire to change the company's name to Imutec Pharma. In recognition of this change, you will be asked to vote on the proposed new name at the annual meeting. For consistency, the balance of this report will refer to the company as Imutec Pharma.

Building partnerships, broadening horizons

Our new name signifies substantive and sweeping changes. It represents our desire to establish a presence in the global pharmaceutical market and a worldwide distribution network for our products. It represents as well our intention to become a diversified drug development company with a more substantial presence in the biopharmaceutical market. To achieve these goals, we need access to capital and expertise that will complement our own. We will acquire these assets by concluding a strategic alliance with a major pharmaceutical company. We hope to announce that alliance during the coming year.

The name Imutec Pharma also reflects our goal to expand not just our reach but our product line as well, by becoming a multi-drug company. In these and other important ways, our proposed name signifies a dynamic, new company. It signifies why 1996 was indeed a new beginning and why we enter the year ahead poised for growth.

During the past year, our proudest and most important accomplishments were the approvals of our applications to initiate clinical trials of Virulizin™. In the United States, we received approval from the Food and Drug Administration to proceed to Phase I/II clinical trials in patients with pancreatic cancer. This is our first trial in the United States and it marks a major success for Imutec Pharma. Moreover, our application to the FDA was approved without questions, a very rare occurrence and one that adds to our confidence in Virulizin™.

Philippe G. Lacaille
President and
Chief Executive Officer

"The name Imutec Pharma reflects our goal to expand not just our reach but our product line as well, by becoming a multi-drug company."

In Canada, we received approval from the Health Protection Branch to proceed to a Phase I/II clinical trial on AIDS patients with Kaposi's sarcoma. These achievements have created a momentum that we will capitalize on and sustain. In Mexico for example, the Bureau of Drug Control has asked us to file for approval to market Virulizin™. That request is the direct result of the compelling clinical data that we gathered in a previous trial on patients with malignant melanoma. Imutec Pharma will file for that approval by the end of this calendar year. We will also file to have Virulizin™ approved in other countries where new therapies to treat malignant melanoma are expedited promptly.

To strengthen and reinvigorate our science program, we established a formal North American research network. Alliances were formed with leading immunologists and oncologists at major institutions in the United States, Canada and Mexico. The Network is an impressive infrastructure that gives Imutec Pharma access to a virtual wealth of research expertise. As well, the Network is responsive and accountable, and will allow us to identify key opportunities as they emerge.

The Network also leverages the resources we have available for research, and provides the company with a highly respected sounding board to evaluate new products and technologies. Establishing the Network has already produced dividends by helping us obtain the two trial approvals in the United States and Canada.

Refocused, restructured, relaunched

Imutec Pharma's clinical successes were preceded by substantial re-organizational initiatives. Decisions were made to focus the company's research and development activities on biotherapeutic drugs with an emphasis on oncology, and to target markets with significant potential, such as pancreatic cancer. Countries that facilitate prompt access to their markets have also been targeted.

The foundation of the new Imutec Pharma is a more structured and managed approach to predictive drug development, one that is designed to accelerate the release of our products in the attractive market for cancer drugs. Resources are now managed more carefully, management and staff performance are benchmarked and evaluated regularly, and no resource is deployed unless it can move our drugs through the product pipeline faster. The results are employees with renewed purpose and commitment, and a company that is driven, focused and accountable.

A strategy for success

Imutec Pharma's goal is to become a key player in the Canadian biopharmaceutical industry and to establish a global presence by forming an alliance with an international pharmaceutical company. To achieve that goal, we have developed a comprehensive, four-part strategy. First, we will complete the current clinical trials so that we can launch Virulizin™ on the international market. Second, we will combine Virulizin™ with conventional chemotherapeutic agents to position Imutec Pharma in the market for combination therapies. This strategy reflects our conviction that Virulizin™ has the potential to be a key component of the various combination therapies that will be used to treat cancer in the years ahead.

The third element of our strategy for success is to forge a strategic alliance with a global pharmaceutical organization. Greater cash resources, access to expertise in sophisticated international product approval processes and a worldwide distribution network are just some of the benefits that Imutec Pharma will realize. Negotiations are proceeding, and I am confident that the company will form an alliance during the next year.

The final part of our strategy is to evolve into a multi-drug company. We will be opportunistic with new product or technology opportunities but not to the detriment of reaching our other corporate objectives. Specifically, we will build on our core expertise in oncology and immunology, by developing licensed biotherapeutic products with large market potential, a strong patent position, and that are a fit for our current Good Manufacturing Practice (cGMP) manufacturing facility.

The Imutec Pharma culture

The best companies today are those where employees share common values. At Imutec Pharma, every one of us shares certain common attributes and values. We are engaged fully in our work, and in fact are passionate about it. Our personal commitment is strong and deep, and each day it drives us to approach both the task at hand and our longer-term goals with discipline, energy and enthusiasm.

"We are engaged fully in our work, and in fact are passionate about it. Our personal commitment is strong and deep, and each day it drives us to approach both the task at hand and our longer-term goals with discipline, energy and enthusiasm."

All of us at Imutec Pharma also share a belief that we affect the lives of more than our shareholders and our staff. We affect as well the lives of patients with cancer, by providing safe drugs that can prolong their lives, and by improving the quality of the lives that they have. That is our mission, and every employee and professional connected with Imutec Pharma shares and believes in that mission.

Poised for growth

During the past year, Mr. Donald W. Paterson was elected Chairman of the Board of Directors. Mr. Paterson served as Managing Director of the company before I joined. He has been a director since 1991 and we are fortunate to have access to his experience as we move into this new period of growth.

I would also like to personally thank Dr. Phil Gold, who served Imutec Pharma for many years. Dr. Gold resigned from the company's Board of Directors, but I am pleased to report that he will remain an active member of the company's Medical and Scientific Advisory Board.

As we begin our new year, we do so with a renewed commitment, born of our success this past year, and fueled by our vision for the years ahead. We have built the foundation for continued success and, as we go forward, we do so confidently, poised for growth. I look forward to a year in which we will continue our progress, one in which we are determined to shape your company into one of the leaders in Canada's biopharmaceutical industry.

I thank our shareholders for their support during the past year, and I look forward to reporting our progress to you in the months ahead.

Philippe G. Lacaille
President and Chief Executive Officer

MEDICAL AND SCIENTIFIC ADVISORY BOARD

THE IMUTEC PHARMA ADVANTAGE

Flexible, responsive and accountable research is the foundation of Imutec Pharma's drug development program. What makes Imutec Pharma's research truly distinctive is not so much the distinguished names and stature of its scientists. Rather, it is an approach and a network that are dynamic and responsive, and driven by the challenge of scientific discovery, instead of the strict demands of a fee-for-service operation. Nevertheless, that challenge is driven by the imperatives of the market, and directed by research scientists dedicated to solving the most complex and intractable of diseases.

Imutec Pharma's Medical and Scientific Advisory Board (MSAB) includes leading physicians and research scientists from the fields of oncology, immunology, pharmacology and molecular biology. Members of the MSAB provide the company with strategic guidance on its research and product development programs, as well as help in recruiting external research collaborators. Members also offer consultation on specific issues as well as general advice on the appropriateness and directions of scientific inquiries. The MSAB also assesses the appropriateness of new products and technology opportunities.

Dr. Donald Braun, Ph.D

"Flexible, responsive and accountable research is the foundation of Imutec Pharma's drug development program."

Dr. Donald Braun, Ph.D
Chairman, Imutec Pharma Medical and Scientific Advisory Board
Professor of Medicine and Immunology
Rush Medical College
Director, Scientific Program Development
Rush Cancer Institute
Chicago, Illinois

Dr. Jules Harris, MD
Associate Chairman, Imutec Pharma Medical and Scientific Advisory Board
Professor of Medicine and Immunology
Chair of Medical Oncology
Rush Medical College

Dr. Phil Gold, CC, MD, Ph.D
Past Chairman, Imutec Pharma Medical and Scientific Advisory Board
Professor of Medicine, Physiology and Oncology, McGill University
Director, Clinical Investigative Unit
The Montreal General Hospital

Dr. J. de la Garza Salazar, MD
Director General
National Cancer Institute
Mexico City, Mexico

Dr. Mark Manning, Ph.D
Professor of Pharmaceutical Chemistry
University of Colorado
Health Sciences Center
Boulder, Colorado

Dr. Howard Gebel, Ph.D
Professor of Immunology and General Surgery
Rush Medical College

Dr. Dolph Adams, MD, Ph.D
Professor of Pathology
Director, Laboratory of Cell and Molecular Biology
Duke University Medical Center
Durham, North Carolina

Dr. Paul B. Percheson, MD, M.Sc.
Vice President, Medical and Regulatory Affairs
Imutec Pharma

Dr. Gary L. Yewey, Ph.D
Vice President, Scientific Affairs
Imutec Pharma

IMUTEC PHARMA RESEARCH AND DEVELOPMENT PROGRAM

Imutec Pharma has established a strong and cohesive network of specialized research laboratories throughout North America. The network's success in its studies on the *in vivo* and *in vitro* properties of Virulizin™ has shown that it is a dynamic, responsive and cost-effective research group. As described on the previous page, the network gives the company access to recognized scientific expertise in immunological research, from basic scientific research (e.g. mechanism of action) to applied research (e.g. animal models of cancer).

Macrophage activity and apoptosis

At the Rush Cancer Institute, Rush-Presbyterian-St. Luke's Medical Center, Dr. Donald Braun is evaluating Virulizin's™ effect on the immune system with cells obtained from pancreatic cancer patients treated with the drug. In addition, at the Rush Medical Center HLA laboratory, Dr. Howard Gebel is analyzing clinical samples to measure macrophage activation following Virulizin™ therapy.

Recent studies in the laboratories of Dr. Janet Plate at the Rush Cancer Institute have demonstrated that Virulizin™ induces apoptosis or programmed cell death in acute and chronic myelogenous leukemia cells from cancer patients. Additional research to study the apoptotic activity of Virulizin™ has been initiated in Dr. Plate's laboratory. Research also continues in the laboratories of Dr. Dolph Adams and Dr. James Lewis at Duke University Medical Center to determine the effects of Virulizin™ in immune cell activities in mice.

Virulizin™ and tumors

Research studies regarding the therapeutic potential and mechanism of action of Virulizin™ have been initiated in established animal models of cancer.

The anti-tumor effect and immunomodulatory activity of Virulizin™ in a murine tumor model is under investigation by Dr. Morgalit Mokyr at the University of Illinois, Chicago.

Imutec Pharma has also entered into an agreement with NaPro Biotherapeutics Inc. and Dr. Mark Manning of the University of Colorado Health Sciences Center. The agreement is to study the efficacy of Virulizin™ as a single agent, and in combination with Paclitaxel for the treatment of lung cancer in an animal model.

As well, the effect of Virulizin™ in combination with Cisplatin is being evaluated in an animal model of mammary carcinoma by Dr. Stephen Withrow of the Comparative Oncology Unit at the Colorado State University Veterinary Teaching Hospital.

" Imutec Pharma has established a strong and cohesive network of specialized research laboratories throughout North America."

PATENT STATUS AND MANUFACTURING

"Imutec Pharma is fully committed to the manufacture of biotherapeutic drug products of the highest purity and quality."

IMUTEC PHARMA AND VIRULIZIN™

Patent status

Imutec Pharma has applied for a number of patents in North America and around the world.

In the United States, Imutec Pharma filed an application for a pharmaceutical composition with the Patent and Trademark Office in September, 1993. The application was for the use of Virulizin™ and its functional derivatives and analogues as a biological response modifier.

A similar application was also filed in the Mexican Patent Office, and as an International Patent Application under the Patent Cooperation Treaty. The international application has since been converted into national patent applications in more than 15 countries. The application was published in March, 1995 and claims the use of Virulizin™ in the prevention and treatment of diseases requiring modulation of the immune response, including cancer and infectious diseases.

In March, 1995, Imutec Pharma filed a second patent application with the United States Patent and Trademark Office that included additional characterization and therapeutic applications of the company's macrophage activation products. This second application was also filed as an International Patent Application, and designated all of the member patent offices of the Patent Cooperation Treaty. It was published in September, 1996.

Manufacturing

Imutec Pharma is fully committed to the manufacture of biotherapeutic drug products of the highest purity and quality. This commitment is reflected by the state-of-the-art manufacturing pilot plant, used for the production of drug supplies. Each lot of Virulizin™ is produced under exacting controls and undergoes rigorous testing before it is released into clinical trials.

Imutec Pharma's manufacturing facilities and procedures conform to the cGMP guidelines for finished pharmaceuticals. These guidelines cover the production of injectable drugs for use in clinical trials, which are regulated in Canada under the Food and Drugs Act, and in the United States under the Food, Drug and Cosmetic Act. The guidelines also establish the criteria and methods required to manufacture drugs and assure the safety, strength, identity and purity of the final product.

IMMUNOTHERAPY, MACROPHAGES AND VIRULIZIN™

Immunotherapy

Major advances in cancer therapy have been made in the past two decades. One of the most significant advances has been the emergence of immunotherapy, or biological therapy, a clinical approach that stimulates the body's natural defenses against cancer using Biological Response Modifiers (BRM).

Clinical data have indicated that solid tumors have antigens that are recognized by cells of the immune system, including a certain type of white blood cell called a macrophage. When macrophages are activated, they are believed to enhance the immune system's rejection of tumors by producing cytokines, or proteins. These cytokines can either kill tumor cells directly or stimulate the anti-tumor activity of other cell types.

Macrophages

Macrophages are located throughout the body and serve as an important line of defense in several ways. One of their most crucial roles is to protect the body against the development of cancer. Scientists still do not fully understand the control of this macrophage-mediated tumor cell destruction, a fact that has slowed the development of successful immunotherapy for many types of cancer.

Virulizin™

Virulizin™ is a potent and unique activator of human macrophages and may have significant potential in the immunotherapy of cancer patients. The drug is purified from bovine bile through a proprietary production process at Imutec Pharma's cGMP facility.

"Virulizin™ is a potent and unique activator of human macrophages and may have significant potential in the immunotherapy of cancer patients."

Virulizin™ has been shown *in vitro* to directly stimulate certain macrophages to express a tumor-killing function. Virulizin's™ function, or cytocidal capacity, has been shown to be as potent as other, more conventional macrophage activators. Additional evidence suggests that Virulizin™ has potential as an immunotherapeutic drug in the treatment of many forms of cancer.

Even more important is the finding that macrophages taken from cancer patients can be activated by Virulizin™ despite the inability of these same macrophages to respond to other conventional activators. In other *in vitro* studies, Virulizin™ has been shown to stimulate the macrophage-mediated destruction of tumors obtained from patients undergoing chemotherapy.

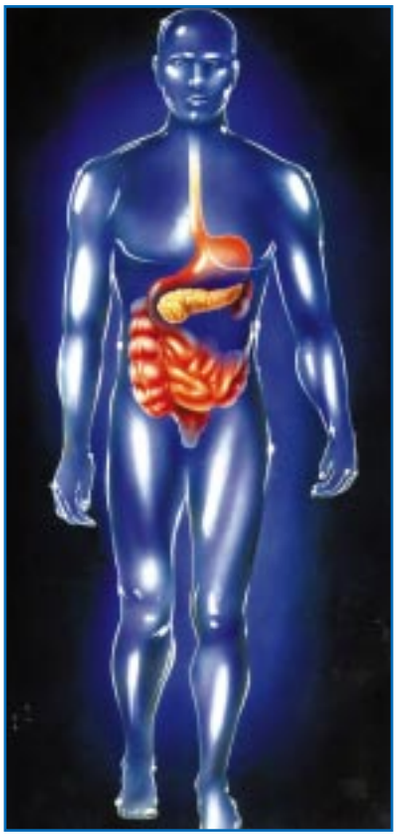
In the last eight years, Virulizin™ has been evaluated in over 400 patients who received more than 10,000 injections of the drug. Preliminary results suggest that Virulizin™ immunotherapy may be associated with prolonged patient survival and an improved quality of life. Moreover, patients with pancreatic cancer and malignant melanoma have survived longer, compared to historical controls, when they have been administered Virulizin™. Imutec Pharma intends to confirm these preliminary results in its current clinical trials and to move promptly toward the global commercialization of Virulizin™.

Imutec Pharma: clinical trial program

Imutec Pharma is clinically developing Virulizin™ for the treatment of three types of cancers – pancreatic adenocarcinoma, malignant melanoma and Kaposi's sarcoma. While the status of these trials is detailed elsewhere in this report, a description of each trial and the current therapies are provided on the following pages.

PANCREATIC CANCER

The disease



Pancreatic Cancer affected areas: Pancreas, liver, lymphatic system, gastrointestinal.

Pancreatic cancer is the second most common gastrointestinal cancer and the fourth leading cause of death from cancer in the United States. According to the American Cancer Society, there will be an estimated 28,000 new cases of pancreatic cancer next year and more than 95 per cent of those people will die.

Cancer of the pancreas is considered a silent disease, one that shows no symptoms until it is in the advanced stage. It usually begins in the exocrine pancreas, the area of the organ that produces the fluids that help digestion. Symptoms often include nausea, loss of appetite and involuntary weight loss, and the disease is often difficult to diagnose because the pancreas is hidden behind other organs.

There is little conclusive evidence that early detection increases survival. The current five-year survival rate for localized pancreatic cancer is five per cent. This is only slightly higher than the five-year survival rate with regional metastases, four per cent, and distant metastases, one per cent.

Conventional treatment

Surgery, radiation therapy and chemotherapy are the three most common forms of treatment for patients with pancreatic cancer. Surgery is used in only nine per cent of the patients. Treatment that combines radiation therapy and chemotherapy has shown little effect on survival, though the treatment is occasionally used to palliate patients. However, clinical trials with new compounds are now considered appropriate alternatives for treatment of patients with any stage of disease and are suggested before a palliative approach is used.

Imutec Pharma and Virulizin™

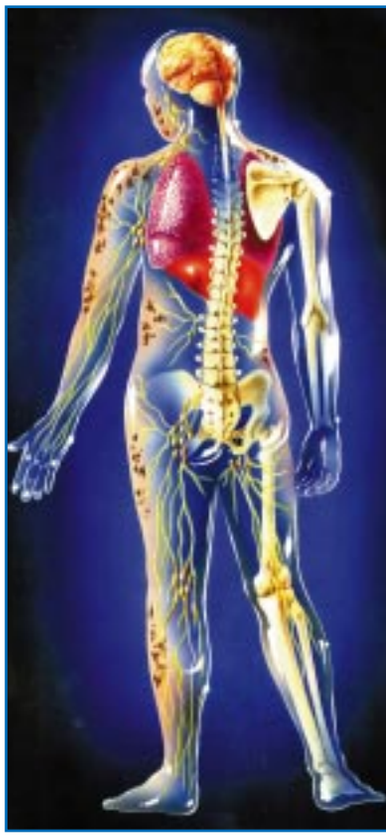
Preliminary data have shown that pancreatic cancer patients injected with Virulizin™ survive longer than those who do not receive the drug. Patients also have an improved quality of life. In June, 1996, Imutec Pharma initiated a Phase I/II clinical trial of Virulizin™ in the treatment of pancreatic cancer at the Rush-Presbyterian-St. Luke's Medical Center in Chicago. In the 12-month trial, Imutec Pharma hopes to confirm the earlier results, and to study Virulizin's™ safety and anti-tumor activity. Twenty patients with advanced pancreatic cancer are participating in the trial, which is expected to be completed by May, 1997.

"Preliminary data have shown that pancreatic cancer patients injected with Virulizin™ survive longer than those who do not receive the drug."

MALIGNANT MELANOMA

The disease

Melanoma is the eighth most common type of cancer. In the United States, it occurs in approximately 38,300 people each year and leads to about 7,300 deaths (or one death every hour and 12 minutes). The incidence of melanoma outside the United States varies greatly with the country. In Europe, for example, the incidence of melanoma is two cases per 100,000 people, while in Australia the number climbs to 45 cases per 100,000 people. The number of new cases has increased 300 per cent in the past 40 years, the fastest rate of any human cancer. Since 1973, melanoma in the United States has been increasing four to five per cent each year. If that rate of increase remains the same, the lifetime risk of melanoma will be about one per cent within the next decade.



Malignant Melanoma affected areas: Skin, lymphatic system, liver, lung, bone, brain.

Conventional treatment

Treatment for malignant melanoma includes surgery, but additional therapies can include chemotherapy and immunotherapy with biological response modifiers.

Many factors determine the survival of patients with malignant melanoma. The most crucial is the extent of the disease when it is diagnosed. The five-year survival rate for clinical Stages I and II (primary tumor, no clinical evidence of the disease elsewhere), is about 85 per cent. For clinical Stage III (clinically palpable regional nodes that contain tumor), the five-year survival rate is about 50 per cent when one node is involved, and about 15-20 per cent when four or more nodes are involved. The five-year survival rate for clinical Stage IV melanoma, characterized by distant metastases, is less than five per cent. Approximately 80 per cent of patients are diagnosed with Stage I or Stage II of the disease.

Imutec Pharma and Virulizin™

Imutec Pharma has performed Phase II clinical trials with Stage IV malignant melanoma patients. In these trials, Virulizin™ was able to extend one-year survival to 42 per cent, three times higher than historical controls. The data are encouraging, and Imutec Pharma has submitted them and other data to Mexico's Bureau of Drug Control to support the licensing of Virulizin™ to treat malignant melanoma. In 1997, Imutec Pharma expects to file additional applications in countries where malignant melanoma has become a national health concern. The company is also searching for a partner that will allow it to continue the clinical development of Virulizin™ to treat patients with malignant melanoma.

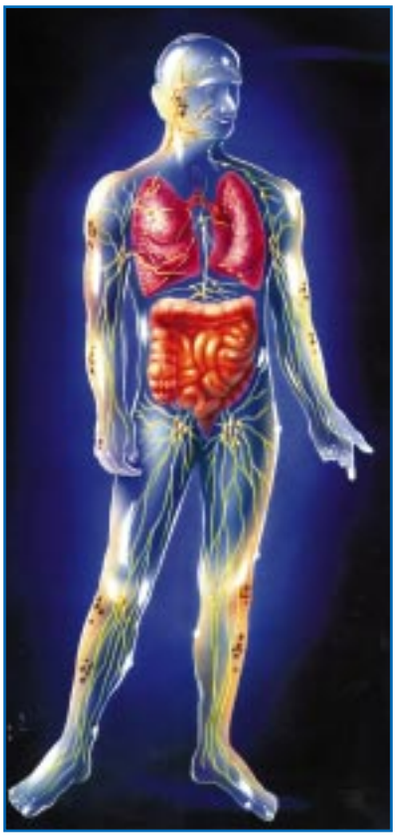
"In 1997, Imutec Pharma expects to file additional applications in countries where malignant melanoma has become a national health concern."

KAPOSI'S SARCOMA

The disease

Kaposi's sarcoma (KS) was first described in 1872 by the Austro-Hungarian dermatologist, Moritz Kaposi. KS remained rare, at least until the current Human Immunodeficiency Virus (HIV) disease epidemic identified with AIDS.

Approximately 26,000 new cases of AIDS-related epidemic KS are diagnosed in North America each year. Approximately 42,000 people in North America and Europe currently have the disease, and about 95 per cent of all these cases occur in homosexual or bisexual men. Approximately 26 per cent of all homosexual males with HIV will develop KS during their illness. Epidemic KS is usually characterized by widespread lesions, but most patients die of one or more opportunistic infections rather than KS itself.



Kaposi's Sarcoma affected areas: Skin, lymphatic system, gastrointestinal, lung.

Conventional treatment

Surgery, chemotherapy, radiation therapy and biological therapy are the four current treatments for patients with KS. The disease, however, is unique, and patients are considered appropriate candidates for clinical trials evaluating new drugs or biologicals.

Imutec Pharma and Virulizin™

Imutec Pharma has initiated a Phase I/II clinical trial of Virulizin™ in the treatment of drug-resistant HIV-related Kaposi's sarcoma in patients infected with HIV. The trial is based on the results of *in vitro* studies which have demonstrated the ability of Virulizin™ to stimulate macrophages, or white blood cells that kill tumors in KS patients. The trial is also based on the clinical response in several KS patients who have been treated with Virulizin™ on a compassionate basis. Imutec Pharma will also collect additional immunological data from these patients to assess Virulizin's™ effect on the patients' immune system and on the HIV virus.

The 14-month trial will be conducted at the Immune Deficiency Treatment Centre at the Montreal General Hospital. The trial's purpose is to determine the anti-tumor activity of Virulizin™ in the treatment of drug-resistant KS patients who are severely immunocompromised and are unlikely to respond to other treatment.

" Approximately 26,000 new cases of AIDS-related epidemic KS are diagnosed in North America each year. Approximately 42,000 people in North America and Europe currently have the disease."

VIRULIZIN™ – CLINICAL TRIAL SUMMARY

Imutec Pharma is currently conducting two clinical trials, one in the United States, the other in Canada. The trials are evaluating the effect of Virulizin™ on patients with two types of cancer – pancreatic adenocarcinoma and Kaposi's sarcoma. The completion and results of the trials are expected to be announced in the second and third quarters of 1997.

The Rush Cancer Institute
Rush-Presbyterian-St. Luke's Medical Center, Chicago, Illinois

This clinical trial has been designed as a Phase I/II, open-label, non-comparative, escalating-dose, single-center study. Headed by Dr. Jules Harris, the study team will evaluate the safety, efficacy and biological activity of Virulizin™ in patients with advanced pancreatic adenocarcinoma. Scientists will examine the tumor response by state-of-the-art imaging techniques and blood tests. Virulizin's™ effect on the quality of life will be assessed, and patients will be monitored to evaluate their survival. Twenty patients will eventually participate in the study.

The Immune Deficiency Treatment Centre
Montreal General Hospital, Montreal, Quebec

This trial has been designed as an open-label, non-comparative, fixed-dose, single-center study. Headed by Dr. Chris Tsoukas, the study team will determine the safety and anti-tumor activity of Virulizin™ when administered to HIV-infected patients with Kaposi's sarcoma who have become resistant to conventional chemotherapeutic treatment. The patients' quality of life will be assessed, as will their tumor response and survival. Virulizin's™ effect on the underlying disease will also be examined.

"A program to study the potential of Virulizin™ in the treatment of endometriosis has been initiated at Rush-Presbyterian-St. Luke's Medical Center."

VIRULIZIN™ AND ALTERNATIVE CLINICAL INDICATIONS

Preliminary data generated in Dr. Braun's laboratory suggest Virulizin™ may have application in the treatment of endometriosis, the leading cause of infertility in women. Extensive data reported in scientific literature implicate macrophage function in the etiology of endometriosis. Dr. Braun's research shows activation of macrophages from patients with the disease. A program to study the potential of Virulizin™ in the treatment of endometriosis has been initiated at Rush-Presbyterian-St. Luke's Medical Center.

In conjunction with independent research collaborators, Imutec Pharma's scientists are also conducting preclinical research in the use of Virulizin™ in combination with known cytotoxic, or chemotherapeutic agents in the treatment of lung and breast cancer. These studies, if successful, will lead the Company to file separate IND applications to treat these diseases in human clinical trials in the United States.

In Imutec Pharma's own laboratories, work to develop semi-synthetic Virulizin™ formulations is proceeding based on the results of extensive biochemical analyses conducted over the last year. Potential second generation products will be screened for enhanced activity utilizing the new potency assay and other in-house techniques.

VIRULIZIN™ – CLINICAL DEVELOPMENT PROGRAM

Indication	Protocol	Jurisdiction	Research	Preclinical	Phase I	Phase II	Phase III	NDS/NDA
Pancreatic Cancer	Monotherapy	United States						Est. 1999
	Monotherapy	Canada						Est. 1999
	Combination – Cytotoxic	United States						
	Combination – Mab	United States						
Malignant Melanoma	Monotherapy	Mexico						Est. 1996
Kaposi's Sarcoma	Monotherapy	Canada						
Breast Cancer	Combination – Cytotoxic	United States						
Lung Cancer	Combination – Cytotoxic	United States						
Endometriosis	Monotherapy	United States						

CLINICAL OUTLOOK

While the data being gathered in our current clinical trials will add to our knowledge of how Virulizin™ works, additional clinical trials will need to be done. Before we proceed, however, Imutec Pharma's Medical and Scientific Advisory Board will approve our clinical priorities, which are described below.

We are currently evaluating the effect of Virulizin™ as a single agent therapy for pancreatic cancer, and we will continue that focus. We believe that the next clinical trial for pancreatic cancer will be a pivotal one. It will be conducted in the United States and/or Canada in late 1997. We have said elsewhere in this report that Imutec Pharma will pursue the development of combination therapies. Yet if we are to compare the activity of combinations, we will need further information about the efficacy of Virulizin™ as a single agent.

We believe that combination therapies will produce the best clinical results, and the most likely focus of these trials will be pancreatic cancer. The Phase III trial is expected to start in late 1997. Currently, one of the most promising candidates for combination is Gemcitabine, a cytotoxic drug recently licensed in the United States. Combining Virulizin™ with Gemcitabine could have two results. First, it could become easier for immune cells to penetrate the tumor. Secondly, it could make the tumor more susceptible to immunologically mediated tumor destruction.

Another option is to combine Virulizin™ with monoclonal antibodies (Mabs). We believe that administering a Mab would be one way of targeting activated macrophages and other immune cells to the tumor.

In the months ahead, we will continue to carry out the pre-clinical work on combination therapies and the use of monoclonal antibodies. Clinical trials will follow once Imutec Pharma has concluded a strategic alliance with a major pharmaceutical company.

"In the months ahead, we will continue to carry out the pre-clinical work on combination therapies and the use of monoclonal antibodies. Clinical trials will follow once Imutec Pharma has concluded a strategic alliance with a major pharmaceutical company."

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

The following discussion and analysis for the years ended May 31, 1996, 1995, and 1994, should be read in conjunction with the audited financial statements of Imutec Corporation that are included in the pages that follow. For the balance of this MD&A, Imutec Corporation shall be referred to Imutec Pharma.

Imutec Pharma is a biopharmaceutical company whose purpose is to develop drugs to treat diseases associated with immune system disorders, such as cancer, and to market those drugs in as many countries as possible, as promptly as possible.

To date, the Corporation has invested substantially all of its financial and human resources in the development and marketing of Virulizin™, a biological immunotherapeutic drug for the treatment of cancer and other diseases.

While developing Virulizin™, the Corporation has incurred net losses in each of the periods discussed in this annual report. The Corporation has not been profitable since it was established. Imutec Pharma expects that losses will continue until an agreement to develop, market and distribute Virulizin™ is concluded with a strategic pharmaceutical partner, or regulatory approval is given to sell Virulizin™ and sufficient sales are realized.

Results of operations

Year ended May 31, 1996 compared to the year ended May 31, 1995

During the year ended May 31, 1996, the Corporation incurred research and development expenses of $4,390,018 compared to expenses of $6,252,294 also for research and development for the year ended May 31, 1995. The decrease is primarily the result of the corporate restructuring and cost control measures that the Corporation implemented in July, 1995.

During the year ended May 31, 1996, interest income decreased to $188,149 from $398,168 for the year ended May 31, 1995. The decrease was attributable to lower interest rates and a lower cash balance.

During the year ended May 31, 1996, depreciation and amortization increased to $299,890 from $293,362 for the year ended May 31, 1995.

During the year ended May 31, 1996, the Corporation's loss decreased to $4,201,869 from $5,854,126 for the year ended May 31, 1995. The primary reason was the decrease in expenses for research and development in 1996.

Year ended May 31, 1995 compared to the year ended May 31, 1994

During the year ended May 31, 1995, the Corporation incurred research and development expenses of $6,252,294 compared to expenses of $5,747,919 for research and development for the year ended May 31, 1994. The increase was due to the costs associated with the Corporation's scientific programs for the characterization, mechanism of action, active components and bioassay development for Virulizin™.

During the year ended May 31, 1995, interest income increased to $398,168 from $361,332 for the year ended May 31, 1994. The increase was attributable to the higher cash balances from issuing 2,305,000 special warrants of the Corporation in August, 1994.

During the year ended May 31, 1995, depreciation and amortization increased to $293,362 from $291,621 for the year ended May 31, 1994.

During the year ended May 31, 1995, the Corporation's loss increased to $5,854,126 from $5,381,587 in the year ended May 31, 1994. The main reason was the increase in research and development in 1995.

Liquidity and capital resources

Since it was established, the Corporation has financed its operating and investing activities with respect to the research and development of Virulizin™ through public offerings and private placements of equity securities, refundable ITCs and interest income.

Cash used in operating activities

During the year ended May 31, 1996, the Corporation incurred a cash outflow on operating activities of $4,095,244. This compared to a cash outflow of $5,372,033 for the year ended May 31, 1995, and $4,491,284 for the year ended May 31, 1994. The year-to-year changes are the result of fluctuating expenditures on research and development.

Cash used in investing activities

During the year ended May 31, 1996, the Corporation invested $97,282 in fixed assets. This compared to $118,352 that it invested in the year ended May 31, 1995, and $443,046 in 1994. The 1996 and 1995 additions were primarily for the in-house cell culture and analytical laboratory. The 1994 additions were primarily for the pilot manufacturing plant.

Cash provided from financing activities

During the year ended May 31, 1996, the Corporation incurred a cash inflow from financing activities of $2,834,900. This compared to a cash inflow of $3,899,500 for the year ended May 31, 1995, and $5,213,235 for the year ended May 31, 1994.

During fiscal 1996, the Corporation completed a $2.8 million public offering of 3,357,500 special warrants for net proceeds of $2.3 million. Each special warrant granted the holder the right to acquire, without any additional payment, one common share (stated capital $0.78 per common share) and one-half common share purchase warrant (stated capital $0.02 per one-half common share purchase warrant). Each common share purchase warrant entitles the holder to acquire one common share of the Corporation for $1.40 at any time on or before October 1, 1997. During the year ended May 31, 1996, the Corporation issued 250,000 common shares upon the exercise of stock options for net proceeds of $343,000, and a further 58,824 common shares for net proceeds of $50,000.

"In 1992, the U.S. market for immunotherapeutics totalled $1.8 billion. By 1995, sales rose to over $3.1 billion, a 20 per cent increase over the previous year. By 2002, sales of immunotherapeutics could drive market revenues as high as $13.0 billion."

Frost and Sullivan, 1996.

During fiscal 1995, the Corporation completed a $4.4 million public offering of 2,305,000 special warrants for net proceeds of $3.9 million.

During fiscal 1994, the Corporation completed a $5.7 million public offering of 1,900,000 common shares for net proceeds of $5.1 million. During the year ended May 31, 1994, the Corporation issued 39,253 common shares upon the exercise of stock options for net proceeds of $84,570.

As at May 31, 1996, the Corporation's current assets exceeded current liabilities by $2.7 million. This compared to $3.9 million as at May 31, 1995. The Corporation anticipates that its working capital will be sufficient to fund the budgeted operating expenses and expenditures on capital equipment until March, 1997. It will be necessary for the Corporation to raise additional capital or generate revenues by that time.

The precise timing of the application of the Corporation's working capital may vary depending on several factors. These include the period required by regulatory authorities to review the Corporation's submissions and applications; patient enrollment in clinical trials; changes to government regulations; the degree of advancements the Corporation makes in its scientific programs; product approvals by regulatory authorities, and the Corporation's success in negotiating strategic partnerships.

The Corporation expects that it will require additional capital to complete its research and development activities, to obtain regulatory approvals in jurisdictions where it seeks approval to market Virulizin™, and to broaden the application of the Corporation's technology. Accordingly, additional funds will be raised by issuing common shares, other financing instruments, or from a strategic partnership that may be formed from negotiating developmental, marketing and distribution agreements for the commercialization of Virulizin™.

AUDITORS' REPORT

To the Shareholders of IMUTEC Corporation

We have audited the consolidated balance sheets of IMUTEC Corporation as at May 31, 1996 and 1995 and the consolidated statements of loss and deficit and cash flows for each of the years then ended and the related consolidated statement of loss and deficit and cash flows for the period from inception on September 5, 1986 to May 31, 1996. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at May 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years then ended and for the period from inception on September 5, 1986 to May 31, 1996 in accordance with generally accepted accounting principles.

We did not audit the consolidated financial statements of IMUTEC Corporation as at, and for the year ended May 31, 1994, and for the period from inception on September 5, 1986 to May 31, 1994. Those consolidated financial statements were audited by other auditors who issued a report without reservation on July 8, 1994.

KPMG

Toronto, Canada,
July 10, 1996.

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at May 31	*1996*	*1995*
ASSETS		
Current		
Cash and cash equivalents	$ 2,699,248	$ 1,236,972
Short-term investments	–	2,819,902
Accounts receivable	258,355	179,715
Prepaids and supplies	327,105	365,646
Total current assets	3,284,708	4,602,235
Fixed assets *(note 4)*	1,142,350	1,344,958
	$ 4,427,058	$ 5,947,193
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *(notes 5 and 9)*	$ 562,638	$ 715,804
Total current liabilities	562,638	715,804
Shareholders' equity		
Share capital *(note 6)*		
Common shares		
(Issued: 1996 – 28,698,459; 1995 – 24,852,135)	27,125,343	24,396,568
Warrants	106,125	–
Deficit accumulated during development stage	(23,367,048)	(19,165,179)
Total shareholders' equity	3,864,420	5,231,389
	$ 4,427,058	$ 5,947,193

Commitments *(note 8)*

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Years ended May 31	*Period from inception on September 5, 1986 to May 31, 1996*	*1996*	*1995*	*1994*
EXPENSE				
Research and development	$ 27,126,653	$ 4,390,018	$ 6,252,294	$ 5,747,919
Less investment tax credits *(note 3)*	(2,708,762)	–	–	(5,000)
	24,417,891	4,390,018	6,252,294	5,742,919
Interest earned	(1,676,883)	(188,149)	(398,168)	(361,332)
Restructuring cost	626,040	–	–	–
Loss for the period	23,367,048	4,201,869	5,854,126	5,381,587
Deficit, beginning of period	–	19,165,179	13,311,053	7,929,466
Deficit, end of period	$ 23,367,048	$ 23,367,048	$ 19,165,179	$ 13,311,053
Loss per common share		$0.16	$0.24	$0.24
Weighted average number of common shares outstanding		26,351,829	24,467,968	22,503,450

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31	*Period from inception on September 5, 1986 to May 31, 1996*	*1996*	*1995*	*1994*
OPERATING ACTIVITIES				
Loss for the period	$(23,367,048)	$(4,201,869)	$(5,854,126)	$(5,381,587)
Add items not requiring a current outlay of cash				
Depreciation and amortization	1,228,927	299,890	293,362	291,621
Restructuring cost	626,040	–	–	–
Net changes in non-cash working capital balances related to operations *(note 7)*	(22,822)	(193,265)	188,731	598,682
Cash used in operating activities	(21,534,903)	(4,095,244)	(5,372,033)	(4,491,284)
INVESTING ACTIVITIES				
Purchase of fixed assets (net)	(2,371,277)	(97,282)	(118,352)	(443,046)
Maturity of short-term investments	–	2,819,902	3,952,960	–
Purchase of short-term investments	–	–	(2,819,902)	(3,952,960)
Cash provided by (used in) investing activities	(2,371,277)	2,722,620	1,014,706	(4,396,006)
FINANCING ACTIVITIES *(note 6)*				
Issuance of warrants	106,125	106,125	–	–
Issuance of common shares	26,499,303	2,728,775	3,899,500	5,213,235
Cash provided by financing activities	26,605,428	2,834,900	3,899,500	5,213,235
Increase (decrease) in cash and cash equivalents during the period	2,699,248	1,462,276	(457,827)	(3,674,055)
Cash and cash equivalents, beginning of period	–	1,236,972	1,694,799	5,368,854
Cash and cash equivalents, end of period	$ 2,699,248	$ 2,699,248	$ 1,236,972	$ 1,694,799

See accompanying notes

May 31, 1996

1. The Corporation and basis of presentation

IMUTEC Corporation ("IMUTEC" and the "Corporation") is a biopharmaceutical company engaged in the development, manufacturing and commercialization of biological products targeted for use in the treatment of cancer and other diseases associated with immune system disorders. The Corporation is considered to be in the development stage. Accordingly, the consolidated statements of loss and deficit and cash flows reflect the cumulative amounts of revenue, expense and cash flows from incorporation on September 5, 1986 to May 31, 1996.

The continuation of the Corporation's research and development activities and the commercialization of the targeted therapeutic product is dependent upon the Corporation's ability to successfully complete its research and development programs and finance its cash requirements through a combination of equity financings and payments from strategic partners. It is not possible to predict the outcome of future research and development programs or the Corporation's ability to fund its cash requirements over the term of the programs.

The Corporation's common shares trade in the United States on the North American Securities Dealers Automated Quotation System and in Canada on The Toronto Stock Exchange.

2. Significant accounting policies

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada and comply in all material respects with accounting principles generally accepted in the United States.

Fixed assets

Fixed assets are recorded at acquisition cost less any related refundable investment tax credits. The Corporation provides depreciation and amortization at rates which are expected to charge operations with the cost of the assets over their estimated useful lives as follows:

Furniture and equipment	20% declining balance
Leasehold improvements and pilot plant	straight-line over the term of the lease

Foreign currency translation

Expenses arising from foreign currency transactions are translated into Canadian dollars at the rates prevailing at the transaction dates. Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing at the balance sheet date. Gains or losses resulting from these transactions are accounted for in the loss for the period and are not material.

Research and development

Research and development expenditures (except for fixed assets) are charged to expense as incurred. Refundable investment tax credits prior to June 3, 1993 earned on scientific research and experimental development expenditures were recorded as a reduction of the related current period expense or as a reduction of the related fixed asset.

3. *Income taxes*

Carryforward amounts

As at May 31, 1996, the Corporation had losses of approximately $6,527,000 and unutilized investment tax credits of approximately $1,892,000. To the extent that these amounts are not utilized, they expire as follows:

Year of expiry	*Income tax losses*	*Investment tax credits*
1997	$ –	$ 11,000
1998	–	1,000
1999	381,000	–
2000	5,000	24,000
2001	–	117,000
2002	676,000	240,000
2003	2,640,000	1,000
2004	2,072,000	754,000
2005	753,000	404,000
2006	–	$ 340,000
	$ 6,527,000	$ 1,892,000

In addition, the Corporation has accumulated timing differences of approximately $17,339,000. The timing differences consist primarily of scientific research and development expenditures that are available to reduce taxable income in future years. The potential tax benefits that may result from the application of these carryforward amounts in future years have not been recognized in these financial statements.

The tax benefit of the above carryforward amounts to $10,160,000 which has been completely offset by a valuation allowance.

4. *Fixed assets*

As at May 31	*1996*	*1995*
COST		
Furniture and equipment	$ 1,320,380	$ 1,234,363
Leasehold improvements and pilot plant	989,735	978,470
	2,310,115	2,212,833
ACCUMULATED DEPRECIATION		
Furniture and equipment	(671,816)	(523,239)
Leasehold improvements and pilot plant	(495,949)	(344,636)
	(1,167,765)	(867,875)
	$ 1,142,350	$ 1,344,958

5. *Accounts payable and accrued liabilities*

As at May 31	*1996*	*1995*
Accounts payable	$ 299,658	$ 196,990
Accrued liabilities	262,980	518,814
	$ 562,638	$ 715,804

6. *Share capital and warrants*

(a) Authorized shares

The Corporation has authorized an unlimited number of authorized common shares.

(b) Issued and outstanding common shares

The Corporation's issued and outstanding common share transactions for the three years ended May 31, 1996 are summarized as follows:

	Number of common shares		
	1996	*1995*	*1994*
Balance, beginning of year	24,852,135	22,547,135	20,607,882
Exercise of special warrants *(note 6(c))*	3,537,500	2,305,000	–
Issued for cash *(note 6(d))*	–	–	1,900,000
Exercise of stock options *(note 6(e))*	250,000	–	39,253
Other issuances	58,824	–	–
Balance, end of year	28,698,459	24,852,135	22,547,135

	Stated value of common shares		
	1996	*1995*	*1994*
Balance, beginning of year	$ 24,396,568	$ 20,497,068	$ 15,283,833
Exercise of special warrants *(note 6(c))*	2,335,775	3,899,500	–
Issued for cash *(note 6(d))*	–	–	5,128,665
Exercise of stock options *(note 6(e))*	343,000	–	84,570
Other issuances	50,000	–	–
Balance, end of year	$ 27,125,343	$ 24,396,568	$ 20,497,068

The legal stated capital of the Corporation is $29,756,950 at May 31, 1996.

(c) Exercise of special warrants

On January 25, 1996, the Corporation completed a private placement of 3,537,500 special warrants for gross proceeds of $2,830,000 ($0.80 per special warrant) before deducting issue expenses of $388,100. Each special warrant granted the holder the right to acquire, without any additional payment, one common share (stated capital $0.78 per common share) and one-half common share purchase warrant (stated capital $0.02 per one-half common share purchase warrant). Each common share purchase warrant entitles the holder to acquire one common share of the Corporation for $1.40 at any time on or before October 1, 1997. On April 8, 1996, the proceeds from the sale of the special warrants were released from escrow following the issuance of a receipt for a final prospectus from the Ontario Securities Commission. By April 15, 1996, all of the special warrants were converted into common shares and common share purchase warrants. As at May 31, 1996, all of the 1,768,750 common share purchase warrants issued in connection with the above offering were outstanding.

The Corporation also granted 353,750 common share dealer purchase warrants (stated capital $0.10 per common share) to an agent of the Corporation as partial consideration for its services in connection with the completion of the above offering. Each common share dealer purchase warrant entitles the holder to acquire one common share of the Corporation for $0.88 at any time on or before April 1, 1998. As at May 31, 1996, 353,750 common share dealer purchase warrants were outstanding.

On August 15, 1994, the Corporation completed a private placement of 2,305,000 special warrants for gross proceeds of $4,379,500 ($1.90 per special warrant) before deducting issue expenses of $480,000. Each special warrant granted the holder the right to acquire, without any additional payment, one common share (stated capital $1.85 per common share) and one common share purchase warrant (stated capital $0.05 per common share purchase warrant). Each common share purchase warrant entitled the holder to acquire one common share of the Corporation for $2.25 at any time on or before February 28, 1995. On September 20, 1994, the proceeds from the sale of the special warrants were released from escrow following the issuance of a receipt for a final prospectus from the Ontario Securities Commission. By September 27, 1994, all of the special warrants were converted into common shares and common share purchase warrants. On February 28, 1995, all of the issued and outstanding common share purchase warrants expired unexercised.

(d) Issued for cash

On June 4, 1993, the Corporation completed a public offering of 1,900,000 common shares for cash consideration of $5,700,000 ($3.00 per common share) before deducting issue expenses of $571,335.

(e) Stock option plan

The Corporation has granted certain options for common shares to directors, officers and employees of the Corporation pursuant to the terms of a Stock Option Plan (the "Plan"). The aggregate number of common shares of the Corporation that may be issued and sold under the Plan is 2,254,713. Stock option transactions for directors, officers and employees for the three years ended May 31, 1996 are summarized as follows:

	Number of stock options		
	1996	*1995*	*1994*
Balance, beginning of year	1,860,962	2,042,496	2,038,685
Granted	1,025,888	335,027	188,322
Exercised	(250,000)	–	(39,253)
Cancelled	(804,123)	(516,561)	(145,258)
Balance, end of year	1,832,727	1,860,962	2,042,496

As at May 31, 1996, 983,897 of the total options outstanding were exercisable with option prices per share between $0.68 – $3.20. The weighted average option price per share approximated $1.21 as at May 31, 1996 for the 1,832,727 options outstanding. Expiration dates for these options range from October 28, 1996 to April 25, 2001.

7. *Changes in non-cash working capital balances*

Changes in non-cash working capital balances for each of the periods ended are summarized as follows:

Years ended May 31	*Period from inception on September 5, 1986 to May 31, 1996*	*1996*	*1995*	*1994*
(Increase) decrease				
Accounts receivable	$ (258,355)	$ (78,640)	$ 23,739	$ (117,302)
Prepaids and supplies	(327,105)	38,541	(2,312)	(193,067)
Deferred share issue costs	–	–	–	187,451
Investment tax credits receivable	–	–	5,000	903,836
Increase (decrease)				
Accounts payable and accrued liabilities	562,638	(153,166)	162,304	(182,236)
	$ (22,822)	$ (193,265)	$ 188,731	$ 598,682

8. *Commitments*

Under operating leases for premises and equipment, the Corporation is obligated to make minimum annual payments approximately as follows:

1997	$ 149,000
1998	137,000
1999	129,000
2000	123,000
	$ 538,000

During the year ended May 31, 1996, the amount of payments under operating leases was approximately $134,000 (1995 – $168,000 and 1994 – $147,000).

Under contracts for research and development, the Corporation is committed to make payments of approximately $611,875.

9. *Related party transactions*

During the year ended May 31, 1996, the Corporation paid consulting fees to individuals (or companies controlled by those individuals) who were either officers, directors or shareholders of the Corporation of $198,000 (1995 – $402,000 and 1994 – $254,000).

The Corporation also incurred professional fees payable to a law firm in which a director of the Corporation is a partner. These fees relate primarily to the issuance of common shares and consultations in the normal course of business for an aggregate of $161,000 for the year ended May 31, 1996 (1995 – $147,000 and 1994 – $102,000).

Amounts due to related parties at May 31, 1996 amount to $37,725 and are included in accounts payable and accrued liabilities (1995 – $12,080).

SHAREHOLDER INFORMATION

Corporate Counsel

Tory Tory DesLauriers & Binnington
Toronto, Canada

Skadden, Arps, Slate, Meagher & Flom
New York, U.S.A.

Auditors

KPMG
Suite 3300
Commerce Court West
P.O. Box 31, Stn. Commerce Court
Toronto, Canada
M5L 1B2
Tel: (416) 777-8500
Fax: (416) 777-8818

Transfer Agent and Registrar

Inquiries regarding transfer requirements, lost certificates and changes of address should be directed to the transfer agent.

Montreal Trust Company of Canada
151 Front Street West, 8th Floor
Toronto, Canada
M5J 2N1
Tel: (416) 981-9500
Fax: (416) 981-9800

Inquiries and Form 20-F, Annual and Quarterly Reports

Shareholders and prospective shareholders are invited to call or write us with questions or requests for additional information. The Form 20-F for 1996 filed with the Securities and Exchange Commission, copies of the 1996 Annual Report and future quarterly reports are available from:

Wayne D. Cockburn
Vice President, Corporate Development
1285 Morningside Avenue
Scarborough, Ontario
Canada M1B 3W2
Tel: (416) 724-1100 Ext. 269
Fax: (416) 724-1167
E-Mail: imutec@inforamp.net

Annual Meeting

The 1996 Annual Meeting of Shareholders will be held on Wednesday, November 27, 1996 at 10:00 a.m. at:

Canadian Bar Association
Education and Meeting Centre
20 Toronto Street
Second Floor
Toronto, Ontario
Canada M5C 2B8

Price range of the common shares and related shareholders' matters

Imutec's common shares (CUSIP number 453219 10 7) are listed on The Toronto Stock Exchange (Symbol – IMT) in Canada and the North American Dealers Automated Quotation System (Symbol – IMUTF) in the United States. Prior to June 4, 1993, the common shares traded in Canada on the Canadian Dealer Network (CDN), (Symbol – IMUTF). The high and low sales prices and volumes during each quarter of fiscal 1996 are as follows:

1996	***High***	***Low***	***Volume***	***Average Weekly Volume***
First Quarter	$1.15	$0.52	1,873,573	141,937
Second Quarter	$1.35	$0.70	1,029,921	79,225
Third Quarter	$1.00	$0.62	3,602,165	290,497
Fourth Quarter	$3.20	$0.81	7,004,389	538,799

GLOSSARY OF TECHNICAL TERMS

As used in this Annual Report, the following terms have the following meanings:

AIDS: Acquired Immune Deficiency Syndrome, the most severe manifestation of a wide spectrum of diseases caused by the Human Immunodeficiency Virus (see HIV)

analogue: a chemical compound with a structure similar to that of another but differing from it in respect to a certain component

antibody: a protein molecule produced by specific white blood cells which helps defend the body against infections due to viruses, bacteria or other foreign organisms

antigen: any substance capable of stimulating a specific immune response in the body

bioassay: a biological test that measures the relative potency of a drug

biological response modifier (BRM): a substance which stimulates, modifies or enhances the body's response, including the response of the body's immune and other protective cellular and molecular systems, to certain diseases

cGMP: current Good Manufacturing Practices, as mandated from time to time by the FDA and the HPB

clinical trials: research conducted with patients, usually to evaluate a new treatment. Each trial is designed to answer scientific questions and to find better ways to treat individuals with a specific disease. Phase I tests the drug for toxicity; Phase II tests the drug for efficacy and safety in a relatively small sample of patients; Phase III tests the drug for efficacy in larger numbers of patients and compares the drug with conventional therapies, usually in a blinded fashion

cytocidal: destructive to cells

cytokine: a generic term for a nonantibody protein released by a cell population (e.g. activated macrophages) on contact with a specific antigen, which acts as an intercellular mediator, as in the generation of an immune response

cytotoxic: pertaining to the destruction of cells

efficacy: the ability of a drug to produce a desired result

etiology: the study or theory of the factors that cause disease and the method of their introduction to the host

exocrine: secreting outwardly, via a duct; denoting such a gland or its secretion

FDA:	United States Food and Drug Administration, the government agency which regulates the use and sale of diagnostic and therapeutic drug products in the United States
HIV:	Human Immunodeficiency Virus, the virus which causes AIDS
HPB:	Health Protection Branch, Health Canada, the government agency which regulates the use and sale of diagnostic and therapeutic drug products in Canada
immune system:	the body system, made up of many organs and cells, that defends the body against infection, disease, and foreign substances
immunologic:	relating to the various phenomena of immunity, induced sensitivity, and allergy
immunotherapy:	treatment of disease by stimulating the body's own immune system
IND:	investigational new drug application
in vitro:	within the laboratory
in vivo:	within the living body
macrophage:	a large scavenger white blood cell that engulfs and digests invading microorganisms and cell debris, and also participates in many complex immunologic processes
metastases:	growth of cancer cells distant from the original site
monoclonal antibody:	an antibody produced in the laboratory that can target specific antigens
murine:	pertaining to or affecting mice or rats
oncology:	the branch of medicine concerned with cancer
pharmacology:	the science that deals with the origin, nature, chemistry, effects, and uses of drugs
preclinical testing:	testing that is conducted in the laboratory and with animals to help determine a product's activity, toxicity and chemical and pharmacologic characteristics
protein:	a complex organic compound of a high molecular weight comprised solely of amino acids in peptide linkages
sarcoma:	a malignant tumor originating from a specific type of tissue

BOARD OF DIRECTORS

Dr. Donald P. Braun
Professor of Medicine and Immunology,
Rush Medical College
Director, Scientific Program Development,
Rush Cancer Institute, Chicago

Peter J. Campbell[2]
Consultant, Health Care Industry
Aurora, Ontario

A. Ephraim Diamond[1]
President, Whitecastle Investments Limited,
Toronto

Philippe G. Lacaille
President and Chief Executive Officer,
Imutec Pharma Inc., Toronto

Donald W. Paterson[1, 2]
President, Cavandale Corporation, Toronto

Barry J. Reiter[1, 2]
Partner, Tory Tory DesLauriers & Binnington,
Toronto

[1]Member of the audit committee
[2]Member of the compensation committee

EXECUTIVE OFFICERS

Philippe G. Lacaille
President and Chief Executive Officer

Dr. Paul B. Percheson
Vice President, Medical and Regulatory Affairs

Dr. Gerald L. Yewey
Vice President, Scientific Affairs

Wayne D. Cockburn
Vice President, Corporate Development

Nancy Dhillon Gill
Comptroller

Imutec Pharma Inc.
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