Imutec Pharma

Growth Through Partnership

1997

ANNUAL REPORT

Mission Statement

Imutec Pharma Inc. is a biopharmaceutical company engaged in the research, development and commercialization of innovative pharmaceutical products for the treatment of cancer and certain viral diseases. Through an active acquisition and in-licensing program, Imutec Pharma's goal is to build and clinically develop a portfolio of innovative drugs targeted at life-threatening diseases. Thereafter, late stage clinical development and marketing will be accomplished in cooperation with strategic pharmaceutical partners. Founded in 1986, Imutec Pharma Inc. is a public company listed on the Toronto Stock Exchange and the Montreal Exchange under the symbol IMT and on the NASDAQ system under the symbol IMUTF.

Working closely with its international network of leading scientists and research institutes, and with strategic development/marketing alliances within the global pharmaceutical industry, Imutec Pharma is dedicated to bringing new and better cancer drug products to world markets.

Through sound management and adherence to its corporate strategy, Imutec Pharma Inc. is committed to the pursuit of leadership in the field of cancer drug development, ongoing growth and profitability.

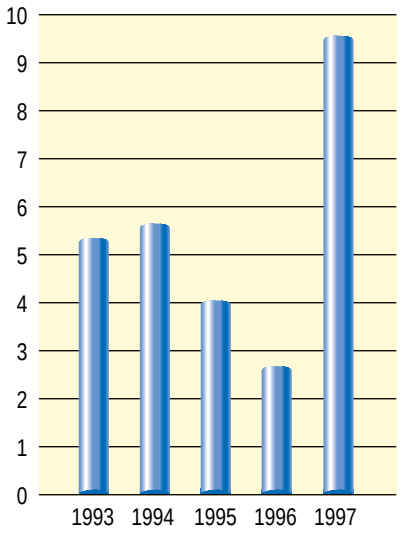
Imutec il Pharma

Financial Highlights

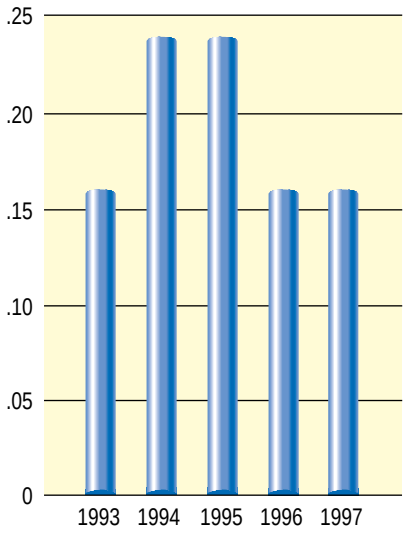
	1993	*1994*	*1995*	*1996*	*1997*
Cash and short-term investments*	$ 5,368,854	$ 5,647,759	$ 4,056,874	$ 2,699,248	$ 9,572,399
Research and Development expenses*	$ 1,800,523	$ 3,925,525	$ 4,250,442	$ 2,474,856	$ 2,887,877
Loss for the period	$ 3,196,955	$ 5,381,587	$ 5,854,126	$ 4,201,869	$ 4,837,761
Loss per common share	$ 0.16	$ 0.24	$ 0.24	$ 0.16	$ 0.16

**Restated to conform with 1997 presentation*

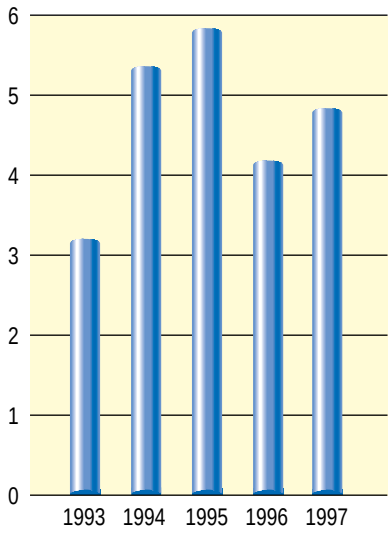
Cash and short-term investments
(In millions of dollars)



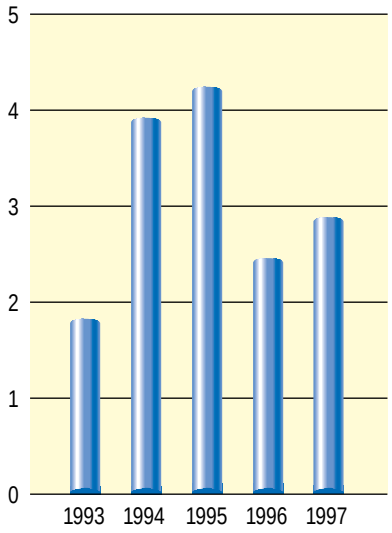
Loss per common share
(In dollars)



Loss for the period
(In millions of dollars)



Research and development expenses
(In millions of dollars)



President's Message

A Year of Progress

The past year has been one of significant progress for Imutec Pharma, as the Company continued to build on the achievements of the previous year, moving steadily forward towards its short- and long-term goals.

In last year's annual report, I outlined the profound and positive changes the Company had undergone. I recounted our successes and, perhaps more importantly, outlined our new corporate goals for 1997. Foremost among these was the mandate to solidify our position within the Canadian biopharmaceutical industry and establish a presence in the global marketplace. Today, I can proudly report that Imutec Pharma is well on the way to realizing these objectives.

I am also pleased to report that Imutec Pharma significantly improved its financial situation in 1997. The Company's working capital was enhanced by $8.4 million in the fourth quarter, through two major private placements from the Canadian and European investment communities. These investments in Imutec Pharma are both long-term, and serve as firm indicators of growing confidence in the Company, its future direction and its overall potential within the pharmaceutical industry. We are pleased to welcome these new investors, and look forward to a long, mutually beneficial relationship.

This improvement in working capital has allowed Imutec Pharma to move confidently ahead with its corporate strategy. It allows the Company to proceed at full speed with product development and additional clinical trials, to strengthen our position in partnership negotiations and to explore additional promising opportunities that are in keeping with our strategy. Overall, it allows Imutec Pharma to continue to build on the achievements of the past year.

Our success in the past 12 months can be measured in a number of ways. One method is to review our record in achieving the 1997 milestones that we set at the beginning of the year. Another is to summarize our achievements in other important areas and bring you up-to-date with our overall progress in terms of the refocused strategy we implemented last year.

A Major Milestone

One of our key objectives for 1997 was to file a New Drug Application (NDA) in Mexico to market our lead drug Virulizin® for the treatment of advanced malignant melanoma. I am pleased to report that this was achieved, ahead of schedule, in the fourth quarter of 1996.

This event is particularly exciting and significant for Imutec Pharma. The Company's strategy to pursue approval in Mexico was based on several factors. While multinational companies, in general, tend not to give a high priority to these niche markets, these territories offer favorable business environments and opportunities to specialty companies such as Imutec Pharma. Mexico, in particular, is a favorable and growing market that proved ideal for Imutec Pharma to begin the process of global commercialization of Virulizin®.

The favorable regulatory environment for innovative cancer products has allowed Virulizin® to move rapidly through the approval process. The review of Virulizin® has now been completed, and the Company anticipates a decision by December of this year. If approved, this will mark a major milestone in Imutec Pharma's history.

For the first time, the Company would have a product on the market, generating revenue. This would contribute to Imutec Pharma's progress and the continued implementation of our corporate plan.

Looking ahead, I believe that the coming year will see Imutec Pharma make even greater strides forward. There are five key areas in which we have set our corporate goals for the new year. Each of these goals, on achievement, will considerably strengthen the Company and position it for sustained growth in the global biopharmaceutical industry.

The approval in Mexico would also open doors to new markets. Particularly, it would allow us to file for fast-track approval in a host of other countries. On approval, these would further add to the Company's revenue. As such, we are already moving towards filing additional NDAs for Virulizin® in Latin America, and market opportunities in many other countries are currently being reviewed.

And finally, the post-marketing data collected in Mexico would be invaluable in preparing new submissions for other international markets.

Achieving Objectives and Moving Forward

As stated last year, one of our ongoing objectives is to follow up on the success of Virulizin® with the development of additional innovative pharmaceutical products for the treatment of cancer.

In keeping with this strategy, the Imutec Pharma team has been working diligently to build a balanced portfolio of innovative cancer products. In this regard, I look forward to announcing the acquisition of an exciting new cancer therapy technology within the near future. This acquisition is expected to be followed by other promising new products in 1998, as Imutec Pharma continues to emphasize expansion and diversification of its intellectual property portfolio.

Pre-clinical work on Virulizin® in combination therapy with chemotherapeutic agents in different tumor models is progressing well. This work has been enhanced by our strengthened research network, and we are excited about opportunities in this area.

Responding to the Realities of the Global Industry

It is also important to review our other stated milestones for 1997. Specifically, to comment on our progress in these areas within the overall context of the global pharmaceutical industry and Imutec Pharma's corporate strategy.

The completion of patient enrollment for the US Phase I/II clinical trial of Virulizin® in the treatment of pancreatic cancer is anticipated shortly. Although we originally hoped for completion in the second calendar quarter of 1997, due to the unpredictable nature of patient enrollment, the trial is slightly behind schedule.

The progress of this trial is dependent on the timely enrollment of appropriate patients – a factor generally beyond the control of the trial team. This type of delay is common at this level of drug development. In spite of this delay, however, we will be in a position to communicate interim results of this clinical trial this fall.

Naturally, this has subsequently delayed Imutec Pharma's filing of an Investigational New Drug (IND) submission for the initiation of the pivotal clinical program for Virulizin® in pancreatic cancer – since the incorporation of data from the Phase I/II trial is critical to this stage.

Imutec Pharma plans to proceed with the trial filing on completion and review of positive data from the Phase I/II trial. We now anticipate this review early in calendar 1998.

We are currently reviewing the status of our Canadian Phase I/II trial of Virulizin® in AIDS-related Kaposi's sarcoma. Over the past few years, changes in the treatment of AIDS have shifted the therapeutic emphasis. Kaposi's sarcoma is a condition that develops late in the progression of AIDS. Success with the current triple-therapy approach to AIDS treatment has positively impacted the progression of the disease in patients and, subsequently, the development of Kaposi's sarcoma. This has consequently reduced the patient population for the Imutec Pharma trial.

While results of the Kaposi's sarcoma trial have been favorable and the clinicians involved enthusiastically support Imutec Pharma's product, an expansion of these trials would be required in order to continue. This decision will be made over the next months based on important clinical, business and partnering considerations.

Setting New Goals, Continuing to Build

Looking ahead, I believe that the coming year will see Imutec Pharma make even greater strides forward. There are five key areas in which we have set our corporate goals for the new year. Each of these goals, on achievement, will considerably strengthen the Company and position it for sustained growth in the global biopharmaceutical industry.

- As previously discussed, we anticipate the start of the pivotal clinical program for Virulizin® in pancreatic cancer in 1998 based on positive results in our current Phase I/II clinical trial. This program would be conducted in numerous centers across North America under US Food and Drug Administration (FDA) protocols. This would mark a major step toward the filing of a NDA for Virulizin®, the formation of a strategic alliance and the marketing of Virulizin® for this indication.
- Our mandate is to introduce a minimum of two new products into our product pipeline in 1998. This pipeline is a vital component of the Company's growth and future success. To this end, our staff have worked diligently, liaising with leading researchers in universities, institutes and the biotechnology industry across North America to identify and in-license compounds which fulfill Imutec Pharma's scientific and business criteria. We are targeting small molecules, primarily in the field of oncology. Our evaluation process will include factors such as: the originality of the compound, the patent situation, the size of the market it will serve, competition in that marketplace, partnership opportunities and the product's projected time-to-market. At present, a number of promising compounds are under evaluation in the search for the next generation of Imutec Pharma products.
- In order to move forward, it is vital for Imutec Pharma to establish a solid, continuous revenue stream. With the filing for marketing approval for Virulizin® in Mexico, as well as development partnerships currently in final negotiation, we anticipate establishing an early flow of revenue into the Company in 1998. This will allow us to continue to fuel the growth of the Company.
- Partnerships with regional and global pharmaceutical companies have been identified as one of the major components of our corporate plan. In 1998, we will strive to have such alliances in place. Our strategy for Virulizin® will center around partnering with medium-sized, aggressive and flexible local pharmaceutical organizations, as well as regional subsidiaries of multi-national companies. Our partners will be selected for their expertise and ability to bring products to the local market quickly and cost effectively.
- Time-to-market is a critical component of drug development and directly affects return on investment. To expedite development, careful evaluation of products, the application of good science and the ability to perform short, clinically sound studies are all essential. Imutec Pharma will provide the scientific and medical expertise, experience and resources to ensure products move quickly through the development pipeline to final clinical trials, approvals and marketing.

Strengthening the Imutec Pharma Team

To achieve these goals, we have considerably strengthened our scientific expertise – both internally and externally. Imutec Pharma is proud to be associated with a number of prestigious scientific and medical institutes. I would particularly like to welcome to our Medical and Scientific Advisory Board Dr. Gregory Curt, Dr. Robert Kerbel and Dr. Lesley Seymour.

We have also strengthened the infrastructure and management team of Imutec Pharma. We have added a wealth of drug development expertise and experience. The team now in place, has between them, over 60 years of drug development experience, and successfully taken over a dozen pharmaceutical products through the difficult development process to the international marketplace. At this time, Imutec Pharma is also pleased to announce the appointment of Robert Béchard as a new member of the Board of Directors. Mr. Béchard is presently an Investment Manager with SOFINOV, an affiliate of the Caisse de dépot et placement du Québec, involved in investing in Knowledge Based Industries including biotechnology and information technology. Prior to joining SOFINOV, Mr. Béchard worked in Corporate and Commercial Banking with the CIBC for several years.

As 1998 begins, I can confidently report that Imutec Pharma is stronger and more effective in all aspects of its operations – from scientific and management expertise, to the Company's overall financial position.

Everyone involved in Imutec Pharma shares the corporate goals and dedication to the development of better pharmaceutical products that provide significant benefits to patients. Our aim is to develop products that not only go well beyond bringing a return to the Company and its investors but that also contribute to survival rates, prognosis and improved quality of life for those who suffer from various forms of cancer and other life-threatening conditions.

On behalf of the Board of Directors, I would like to thank all the employees of Imutec Pharma for their hard work, devotion and commitment in continuing to build our Company; and our shareholders for their ongoing support of our efforts.

As we move into a year in which Imutec Pharma will continue to build on its successes and target many more exciting milestones, I look forward to reporting our progress.

Philippe G. Lacaille
President and Chief Executive Officer

Operational Report

Drug Development
Malignant Melanoma

In late 1996, Imutec Pharma filed a New Drug Application (NDA) with the Mexican health authorities to market Virulizin®, its lead cancer therapeutic product, for the treatment of advanced malignant melanoma.

This event marked the first such filing for Imutec Pharma and moved Virulizin® significantly closer to the marketplace. A final decision is anticipated by December, 1997.

If approved, this would allow Imutec Pharma to partner with an established pharmaceutical company for the marketing of Virulizin® in Mexico and other countries, and would provide the Company, for the first time in its history, with a source of ongoing revenue.

Also in Mexico, Imutec Pharma may expand its clinical trial program to investigate the use of Virulizin® in combination therapies in malignant melanoma, as well as other indications including cervical uterine cancer, the most common form of cancer in women.

Malignant melanoma was pursued in Mexico for several reasons. Promising treatments for this condition are given priority by health authorities, moving relatively quickly through the complex drug approval process. This shortened time-to-market is a significant advantage for Imutec Pharma and potential marketing partners. It provides a faster return on investment, as well as providing critical post-marketing data for the ongoing development of Virulizin®, both for additional indications and for future filings in other parts of the world where malignant melanoma is a serious health concern.

Mexican health authorities are well respected and influential throughout Central and South America. As such, the Virulizin® submission in Mexico will form the basis of future filings in numerous other countries.

These initiatives are in keeping with Imutec Pharma's regulatory approval strategy, which is essentially to ensure that Virulizin®, as well as future Imutec Pharma products, are expediently approved for marketing in multiple countries in the most cost-effective manner.

Initial investigations are currently underway towards filing for approval of Virulizin® for malignant melanoma in other parts of the world, including the Pacific Rim and other regions.

In addition, Imutec Pharma is also planning discussions with American medical research institutions towards establishing a clinical program for malignant melanoma in the US.

On the international front, Imutec Pharma is actively seeking partners to develop Virulizin® in Australia, South East Asia and South Africa.

Pancreatic Cancer

Towards the end of 1997, patient enrollment for the current Phase I/II clinical trial of Virulizin® in pancreatic cancer will be completed.

Pancreatic cancer is the second most common form of gastrointestinal cancer in the US. It is the fourth most common cause of cancer death and the America Cancer Society estimates that as many as 28,000 Americans will be diagnosed with the disease this year.

Imutec Pharma's clinical trial of Virulizin® in the treatment of this life-threatening condition is being conducted in the US according to FDA guidelines. Based on positive results from the current Phase I/II clinical trial, the Company plans to initiate a multi-center pivotal clinical program. This multi-center program would involve clinical sites across North America.

It is anticipated that data collected in this North American clinical program would form the basis, not only of the eventual filling of a NDA with the FDA, but also of a New Drug Submission (NDS) with the Health Protection Branch (HPB) in Canada. Due to the serious nature of pancreatic cancer, a filing based on favorable data would be conducive to a fast-track approval process in both countries.

In addition, these data would form the basis of submissions to relevant authorities in the European Community and other markets.

AIDS-Related Malignancies

Imutec Pharma's Canadian Phase I/II clinical trial of Virulizin® in the treatment of AIDS-related Kaposi's sarcoma, previously expected to conclude in the third quarter of 1997, is being re-evaluated due to the declining incidence of the disease and the resulting slowdown in patient enrollment. Despite the delays, the trial team at the Immune Deficiency Treatment Centre, Montreal General Hospital has been very encouraged by the preliminary results. Imutec Pharma is currently evaluating options for completing the trial or amending the protocols to include more patients. Discussions in this regard are underway with a leading AIDS organization.

Combination Therapies

Imutec Pharma continues to conduct ongoing animal studies on the effects of Virulizin® on other cancers, including breast cancer and lung cancer – two of the most common and deadliest forms. These studies are evaluating Virulizin® alone and in combination with various chemotherapeutic agents.

Early results of *in vitro* studies of some combination therapies have been encouraging, including Gemcitabine, a relatively new chemotherapeutic agent, for the treatment of pancreatic cancer.

Research and Development

Imutec Pharma's stated mission is the identification and development of effective and innovative pharmaceutical products for the treatment of cancer. In order to fulfill this mission, highly specialized, leading-edge research and development capabilities are essential. Imutec Pharma has established a dynamic, responsive research network. This network includes leading scientists working in renowned hospitals, institutions and research laboratories across North America.

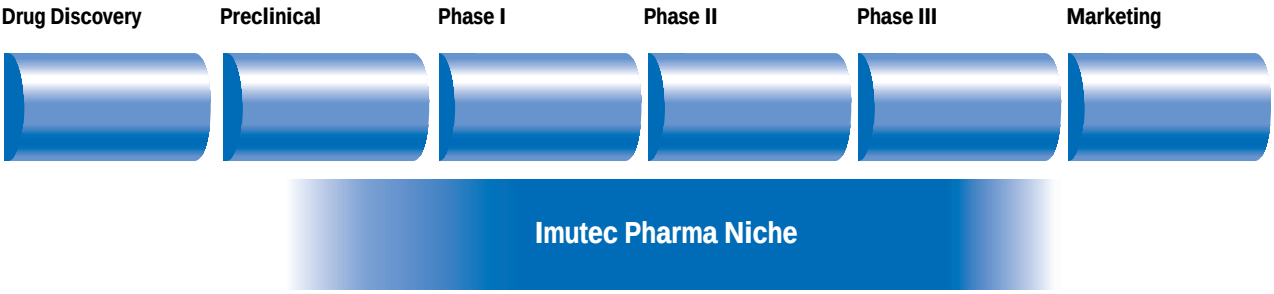
The focus of this network, and of the Company, is the vital development stage of pharmaceutical products. This involves taking promising original molecules and compounds identified by research scientists in universities, hospitals, biotech companies and other institutions; and providing the specialized expertise and resources necessary to evaluate, enhance and perfect the product, eventually taking it through crucial clinical trials. Imutec Pharma's strategy is then to enter into a strategic alliance with leading pharmaceutical companies, which will provide the additional resources to take the product through final clinical development and, ultimately, international approval and marketing.

This focused approach allows Imutec Pharma to capitalize on its scientific expertise and resources, and strategically positions the Company within the global biopharmaceutical industry.

In 1997, Imutec Pharma considerably expanded its drug development expertise. Enhancements were made both internally and externally. The Company added several distinguished names to its Medical and Scientific Advisory Board. Additional specialized scientific staff were hired and the drug development infrastructure strengthened.

The Company also established new R&D relationships with internationally respected cancer research institutions in Canada and the United States.

The Imutec Pharma Pipeline



Imutec Pharma's strategy is to focus on the crucial development stage of pharmaceutical products, taking promising compounds and applying the specialized scientific and clinical expertise necessary to develop the products through to pivotal Phase III trials.

Imutec Pharma's commitment to investment in R&D is crucial to one of the Company's primary mandates: the development of a strong and balanced pipeline of exciting, innovative products.

This pipeline is a vital component of Imutec Pharma's corporate strategy and the key to the Company's long-term growth. The pipeline will provide the Company with a continuous flow of promising products, eliminate the risks associated with a single product, attract advantageous alliances with global pharmaceutical partners and ensure additional sources of revenue.

Imutec Pharma is committed to establishing a strong pipeline of innovative, high potential cancer pharmaceutical products at various stages of development, and to ensuring these products move quickly and smoothly through the pipeline towards strategic partnerships and eventual commercialization.

In 1997, Imutec Pharma took major strides forward in this critical area. Through expansion of the research network, new alliances with leading academic and goverment institutions, and other initiatives, the foundation of a balanced development pipeline has been established. During the past year, the Company's new business development team evaluated many opportunities, resulting in the identification of a number of promising new compounds. The Company anticipates the acquisition of the first of these compounds within the near future.

Within the next year, Imutec Pharma anticipates introducing two additional highly promising cancer-specific pharmaceutical compounds into its development pipeline.

The R&D infrastructure is already in place to expedite the progress of these products through the pipeline. In addition, strategic development partners are currently being identified and marketing opportunities explored.

The introduction of new, exciting products will enhance Imutec Pharma's reputation as a developer of innovative technology platforms and pharmaceutical products for the treatment of cancer.

Strategic Partnerships

In the evolving pharmaceutical industry, tremendous opportunities exist for specialized, efficient organizations, such as Imutec Pharma. Through specialization in the clinical development stage of pharmaceuticals for cancer, Imutec Pharma is positioned to play a key role in this rapidly growing industry.

This role will be fully realized through select industry alliances. As such, the creation of strategic development and marketing partnerships is an ongoing focus of Imutec Pharma's corporate plan.

At one end of the drug development spectrum, the Company has formed liaisons with leading academic and research institutions. These institutions provide the initial scientific investigation, drug discovery and pre-clinical work.

At the other end of the spectrum, Imutec Pharma is dedicated to securing partnerships with international pharmaceutical companies. These strategic alliances will provide the Company with the expertise and resources to move products into the final stages of clinical development, as well as provide the skills and infrastructure required to take the product successfully into the global marketplace.

Partnership Strategies

Imutec Pharma's strategy is to select corporate partners according to their expertise, experience and ability within the specific market sector. The challenge is to take the product to market quickly and efficiently. The partnership process is a crucial one, requiring careful research and deliberation. All efforts must be made to partner with the right organizations, and to ensure maximum benefit for Imutec Pharma within the alliance. Potential partners may come from smaller, regional organizations with local expertise, or from multinational pharmaceutical companies with global scope and resources. The emphasis will be on selecting the partner that can maximize the revenue potential of the specific Imutec Pharma product under development.

Virulizin® in Mexico

To maximize the opportunities presented by the Virulizin® NDA filing for malignant melanoma in Mexico, Imutec Pharma's strategy is to partner with a local independent organization or a subsidiary of a multi-national company. The Company believes these types of organizations have the flexibility and focus to move quickly. Also vital is their thorough understanding of the local regulatory approval requirements, as well as their marketing expertise within Latin America. Through this type of partnership, Imutec Pharma will ensure Virulizin® is brought to the market promptly and effectively.

This is in keeping with Imutec Pharma's overall strategy for Virulizin® in Mexico – a strategy based on securing quick market access. With the marketing of Virulizin® in Mexico, Imutec Pharma would gain several advantages. Marketing approval would pave the way for filing and approval in other Central and South American countries, and provide the Company with crucial data for future international filings. Also of prime consideration, sales of Virulizin® would provide Imutec Pharma with a revenue stream.

Successful market penetration in Mexico would provide Imutec Pharma with additional leverage in other partnerships.

Negotiations with potential partners for Virulizin® in Mexico have continued through 1997 and are nearing completion. The Company anticipates concluding an alliance in this area, as well as other development and marketing partnerships, in the near future.

Imutec Pharma is also continuing to investigate strategic alliances with other biotechnology companies with appropriate complementary expertise. Advantageous partnerships and in-licensing opportunities in this area will be explored.

Virulizin® – Drug Development Report

Indication	Jurisdiction	Research	Preclinical	Phase I	Phase II	Phase III	NDS/NDA	Marketing/ Approval
Pancreatic Cancer	United States						Est. 2000	
	Canada						Est. 2000	
Malignant Melanoma	Mexico							Est. 1997
Cervical/ Uterine	Mexico							
Kaposi's Sarcoma	Canada							
Breast Cancer	United States							
Lung Cancer	United States							

Management's Discussion & Analysis

of Operations and Financial Conditions

The following discussion and analysis for the years ended May 31, 1997, 1996 and 1995 should be read in conjunction with the audited consolidated financial statements of the Company included in this annual report.

Imutec Pharma Inc. 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 Company 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 Company has incurred net losses in each of the periods discussed in this annual report. The Company 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, 1997 Compared to the Year Ended May 31, 1996

During the year ended May 31, 1997, the Company incurred net research and development expenses of $2,887,877 compared to $2,474,856 for the year ended May 31, 1996. The increase results from the recommencement of the clinical trial program for Virulizin® during fiscal 1997.

During the year ended May 31, 1997, general and administrative expenses decreased to $1,511,328 from $1,615,272 for the year ended May 31, 1996. The decrease is mainly attributable to severance payments made during fiscal 1996.

During the year ended May 31, 1997, interest income decreased to $100,952 from $188,149 for the year ended May 31, 1996. The decrease was attributable to lower interest rates and a lower average cash balance during fiscal 1997.

During the year ended May 31, 1997, depreciation and amortization increased to $539,508 from $299,890 for the year ended May 31, 1996.

During the year ended May 31, 1997, the Company's loss increased to $4,837,761 from $4,201,869 for the year ended May 31, 1996. The primary reason was the increase in research and development expenses and depreciation during fiscal 1997.

Year Ended May 31, 1996 Compared to the Year Ended May 31, 1995

During the year ended May 31, 1996, the Company incurred research and development expenses of $2,474,856 compared to $4,250,442 for the year ended May 31, 1995. The significant decrease is the result of a corporate decision to place its clinical trial program on hold, while a quality control test issue was resolved, and to implement corporate restructuring and cost control measures in July 1995.

During the year ended May 31, 1996, general and administrative expenses decreased to $1,615,272 from $1,708,490 for the year ended May 31, 1995. The decrease is primarily the result of the corporate restructuring and cost control measures that the Company implemented in July 1995, partially offset by severance payments made during fiscal 1996.

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 average cash balance during fiscal 1996.

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 Company'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 during fiscal 1996.

Liquidity and Capital Resources

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

Cash Used in Operating Activities
During the year ended May 31, 1997, the Company incurred a cash outflow on operating activities of $3,580,920. This compared to a cash outflow of $4,095,244 for the year ended May 31, 1996, and $5,372,033 for the year ended May 31, 1995. The year-to-year change for fiscal 1997 relates to an improvement in non-cash working capital balances, partially offset by a slightly higher loss from operations for the period. The year-to-year change for fiscal 1996 is the result of a significant reduction in research and development expenditures during fiscal 1996 versus fiscal 1995.

Cash Used in Investing Activities
During the year ended May 31, 1997, the Company had a cash outflow from investing activities of $7,807,274 compared to cash inflows of $2,722,620 for the year ended May 31, 1996 and $1,014,706 for the year ended May 31, 1995. The fluctuation between years relates to the timing of purchases and maturities of short-term investments.

During the year ended May 31, 1997, the Company invested $26,033 in fixed assets. This compared to $97,282 that it invested in the year ended May 31, 1996, and $118,352 in 1995. The additions for all three years were primarily for the in-house cell culture and analytical laboratory and pilot manufacturing plant equipment.

Cash Provided from Financing Activities
During the year ended May 31, 1997, the Company incurred a cash inflow from financing activities of $10,480,104. This compared to a cash inflow of $2,834,900 for the year ended May 31, 1996, and $3,899,500 for the year ended May 31, 1995.

During fiscal 1997, the Company completed a $5,000,000 private placement of 3,571,429 common shares (stated capital $1.31 per common share) and 892,857 common share purchase warrants (stated capital $0.09 per one-quarter common share purchase warrant) for net proceeds of $4,871,228. The holder of the common share purchase warrants is entitled to purchase one common share at a price of $1.68 per share at any time on or before April 30, 2002. In addition, if at any time after the two-year anniversary of the closing and before the expiry date the closing price of the shares on the Toronto Stock Exchange has been $2.80 or greater for a period of 60 consecutive trading days, the Company will have the right to require the holder to exercise the warrants.

During fiscal 1997, the Company completed a $3,400,000 private placement of special warrants for net proceeds of $3,131,709. Each special warrant grants the holder the right to acquire, without any additional payment, one common share (stated capital $1.31 per common share) and one-quarter common share purchase warrant (stated capital $0.09 per one-quarter common share purchase warrant). Each common share purchase warrant entitles the holder to acquire one common share of the Company for $1.68 at any time on or before April 30, 1999.

During fiscal 1997, the majority (1,483,300 warrants) of the 1996 common share purchase warrants were also exercised for cash consideration of $2,002,555 or $1.35 per common share. A number (316,600 warrants) of the 1996 dealer common share warrants were also exercised for proceeds of $278,608 or $0.88 per common share. The Company also issued 247,638 common shares upon the exercise of stock options for net proceeds of $196,004.

During fiscal 1996, the Company completed a $2,830,000 public offering of 3,357,500 special warrants for net proceeds of $2,441,900. 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 Company for $1.40 at any time on or before October 1, 1997. During the year ended May 31, 1996, the Company 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.

During fiscal 1995, the Company completed a $4,379,500 public offering of 2,305,000 special warrants for net proceeds of $3,899,500.

As at May 31, 1997, the Company's current assets exceeded current liabilities by $8,877,888. This compared to $2,722,070 as at May 31, 1996. The Company anticipates that its working capital will be sufficient to fund the budgeted operating expenses and expenditures on capital equipment until February 1999.

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

The Company may require additional funding 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 Company'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 Pharma Inc.

We have audited the consolidated balance sheets of Imutec Pharma Inc. as at May 31, 1997 and 1996 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, 1997. These consolidated financial statements are the responsibility of the Company'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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1997 and 1996 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, 1997 in accordance with generally accepted accounting principles.

We did not audit the consolidated financial statements of Imutec Pharma Inc. 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, 1997

Chartered Accountants

Consolidated Balance Sheets

As at May 31 (Canadian Dollars)		*1997*		*1996*
ASSETS				
Current				
Cash and cash equivalents	$	1,791,158	$	2,699,248
Short-term investments		7,781,241		–
Accounts receivable		143,144		258,355
Prepaids and supplies		252,774		327,105
Total current assets		9,968,317		3,284,708
Fixed assets *(note 4)*		628,875		1,142,350
	$	10,597,192	$	4,427,058
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities *(note 5)*	$	1,090,429	$	562,638
Shareholders' equity				
Share capital *(note 6)*				
Common shares				
(Issued: May 31, 1997 – 34,317,426; May 31, 1996 – 28,698,459)		34,243,301		27,125,343
Warrants		3,468,271		106,125
Deficit accumulated during development stage		(28,204,809)		(23,367,048)
Total shareholders' equity		9,506,763		3,864,420
	$	10,597,192	$	4,427,058

Commitments *(note 8)*

Canadian and United States accounting policy differences *(note 11)*

Subsequent event *(note 6 (f))*

See accompanying notes

On behalf of the Board:

Philippe G. Lacaille
Director

Donald W. Paterson
Director

Consolidated Statements of Loss & Deficit

Years Ended May 31 (Canadian Dollars)	*Period from Inception on September 5, 1986 to May 31, 1997*	*1997*	*1996*	*1995*
EXPENSES				
Research and development	$ 20,798,744	$ 2,932,052	$ 2,474,856	$ 4,250,442
Less investment tax credits	(2,752,937)	(44,175)	–	–
	18,045,807	2,887,877	2,474,856	4,250,442
General and administrative	10,168,402	1,511,328	1,615,272	1,708,490
Depreciation	1,768,435	539,508	299,890	293,362
Interest earned	(1,777,835)	(100,952)	(188,149)	(398,168)
Net loss for the period	28,204,809	4,837,761	4,201,869	5,854,126
Deficit, beginning of period	–	23,367,048	19,165,179	13,311,053
Deficit, end of period	$ 28,204,809	$ 28,204,809	$ 23,367,048	$ 19,165,179
Loss per common share		$0.16	$0.16	$0.24
Weighted average number of common shares outstanding		30,532,767	26,351,829	24,467,968

See accompanying notes

Consolidated Statements of Cash Flows

Years Ended May 31 (Canadian Dollars)	*Period from Inception on September 5, 1986 to May 31, 1997*	*1997*	*1996*	*1995*
OPERATING ACTIVITIES				
Loss for the period	$ (28,204,809)	$ (4,837,761)	$ (4,201,869)	$ (5,854,126)
Add items not requiring a current outlay of cash				
Depreciation and amortization	1,768,435	539,508	299,890	293,362
Restructuring costs	626,040	–	–	–
Net change in non-cash working capital balances related to operations	694,511	717,333	(193,265)	188,731
Cash used in operating activities	(25,115,823)	(3,580,920)	(4,095,244)	(5,372,033)
INVESTING ACTIVITIES				
Maturity of short-term investments	–	–	2,819,902	3,952,960
Purchase of short-term investments	(7,781,241)	(7,781,241)	–	(2,819,902)
Purchase of fixed assets	(2,397,310)	(26,033)	(97,282)	(118,352)
Cash provided by (used in) investing activities	(10,178,551)	(7,807,274)	2,722,620	1,014,706
FINANCING ACTIVITIES				
Issuance of warrants	3,468,271	3,453,138	106,125	–
Exercise of warrants	–	(90,992)	–	–
Issuance of common shares	33,617,261	7,117,958	2,728,775	3,899,500
Cash provided by financing activities	37,085,532	10,480,104	2,834,900	3,899,500
Increase (decrease) in cash and cash equivalents during the period	1,791,158	(908,090)	1,462,276	(457,827)
Cash and cash equivalents, beginning of period	–	2,699,248	1,236,972	1,694,799
Cash and cash equivalents, end of period	$ 1,791,158	$ 1,791,158	$ 2,699,248	$ 1,236,972

See accompanying notes

Notes to Consolidated Financial Statements

May 31, 1997 and 1996

1. The Corporation and Basis of Presentation

Imutec Pharma Inc. ("Imutec" and the "Corporation") is a Canadian biopharmaceutical company engaged in the development of immunotherapeutic products, including biologic response modifiers ("BRMs"), for use in the treatment of cancer and certain viral diseases. Biologic response modifiers are substances that stimulate, modify or enhance the body's response to certain diseases. To date, the Company has focused its efforts on the development of Virulizin®, a potential new drug for the treatment of cancer.

The continuation of the Company's research and development activities and the commercialization of the targeted therapeutic product is dependent upon the Company'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 Company'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.

Certain prior years' figures presented in these financial statements have been reclassified to conform with the presentation adopted in the current year.

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, except as disclosed in note 11, Canadian and United States accounting policy differences.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from those estimates.

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	straight-line over five years
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 significant.

Research and Development

Research and development expenditures (except for fixed assets) are charged to expense as incurred. Refundable investment tax credits 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, 1997, the Corporation had losses of approximately $9,578,000 and unutilized investment tax credits of approximately $2,271,000. To the extent that these amounts are not utilized, they expire as follows:

Year of Expiry	*Income Tax Losses*	*Investment Tax Credits*
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	4,048,000	754,000
2005	828,000	404,000
2006	1,000,000	354,000
2007	–	376,000
	$ 9,578,000	$ 2,271,000

In addition, the Corporation has accumulated timing differences of approximately $19,071,000. 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 $12,065,000 which has been completely offset by a valuation allowance.

4. *Fixed Assets*

As at May 31	*1997*	*1996*
COST		
Furniture and equipment	$ 1,324,961	$ 1,320,380
Leasehold improvements and pilot plant	1,010,003	989,735
	2,334,964	2,310,115
ACCUMULATED DEPRECIATION		
Furniture and equipment	(1,035,625)	(671,816)
Leasehold improvements and pilot plant	(670,464)	(495,949)
	(1,706,089)	(1,167,765)
	$ 628,875	$ 1,142,350

5. *Accounts Payable and Accrued Liabilities*

As at May 31	*1997*	*1996*
Accounts payable	$ 184,113	$ 299,658
Accrued liabilities	906,316	262,980
	$ 1,090,429	$ 562,638

6. *Share Capital and Warrants*

(a) Authorized Shares
The Corporation has authorized an unlimited number of common shares.

(b) Issued and Outstanding Common Shares
The Corporation's issued and outstanding common share transactions for the three years ended May 31, 1997 are summarized as follows:

	Number of Common Shares		
	1997	*1996*	*1995*
Balance, beginning of year	28,698,459	24,852,135	22,547,135
Exercise of warrants *(note 6 (d))*	1,799,900	3,537,500	2,305,000
Issued for cash *(note 6 (e))*	3,571,429	–	–
Exercise of stock options *(note 6 (g))*	247,638	250,000	–
Other issuances	–	58,824	–
Balance, end of year	34,317,426	28,698,459	24,852,135

	Stated Value of Common Shares		
	1997	*1996*	*1995*
Balance, beginning of year	$ 27,125,343	$ 24,396,568	$ 20,381,818
Exercise of warrants *(note 6 (d))*	2,372,155	2,335,775	3,899,500
Issued for cash *(note 6 (e))*	4,549,799	–	–
Exercise of stock options *(note 6 (g))*	196,004	343,000	–
Other issuances	–	50,000	115,250
Balance, end of year	$ 34,243,301	$ 27,125,343	$ 24,396,568

The legal stated capital of the Corporation is $37,003,680 at May 31, 1997 (1996 – $29,756,950).

(c) Issued and Outstanding Common Share Purchase Warrants
The Corporation's common share purchase warrant transactions for the three years ended May 31, 1997 are summarized as follows:

	Number of Common Share Purchase Warrants		
	1997	*1996*	*1995*
Balance, beginning of year	2,122,500	–	2,305,000
Expired, unexercised	–	–	(2,305,000)
Exercise of warrants *(note 6 (d))*	(1,799,900)	–	–
Issued for cash *(note 6 (e))*	892,857	2,122,500	–
Issued special warrants *(note 6 (f))*	2,428,571	–	–
Balance, end of year	3,644,028	2,122,500	–

	Stated Value of Common Share Purchase Warrants		
	1997	*1996*	*1995*
Balance, beginning of year	$ 106,125	$ –	$ 115,250
Expired, unexercised	–	–	(115,250)
Exercise of warrants *(note 6 (d))*	(90,992)	–	–
Issued for cash *(note 6 (e))*	321,429	106,125	–
Issued special warrants *(note 6 (f))*	3,131,709	–	–
Balance, end of year	$ 3,468,271	$ 106,125	$ –

(d) Exercise of 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 (the "1996 Warrants") entitles the holder to acquire one common share of the Corporation for up to a maximum of $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.

On November 1, 1996, the Company issued a supplemental to the 1996 Warrant Indenture which amended the 1996 Warrant exercise price from $1.40 to $1.35 to any holders of the 1996 Warrants, who exercised the 1996 Warrants prior to November 15, 1996.

On or prior to November 15, 1996, the majority (1,481,300 warrants) of the 1996 Warrants were exercised for cash consideration of $1,999,755 or $1.35 per common share. In March 1997, 2,000 1996 Warrants were exercised for cash consideration of $2,800 or $1.40 per common share. At May 31, 1997, 285,450 1996 Warrants are 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. During the year ended May 31, 1997, 316,600 common share dealer purchase warrants were exercised for cash consideration of $278,608 or $0.88 per common share. As at May 31, 1997, 37,150 common share dealer purchase warrants were outstanding.

(e) Issued for Cash
On April 30, 1997, the Company completed a private placement of 3,571,429 units for cash consideration of $5,000,001 ($1.40 per unit) before deducting issuance expenses of $128,773. Each unit granted the holder the right to acquire, without any additional payment, one common share (stated capital $1.31 per common share) and one-quarter of one warrant (stated capital $0.09 per one-quarter of one warrant). The holder of the warrants will be entitled to purchase one common share at a price of $1.68 per share at any time on or before April 30, 2002. In addition, if at any time after the two-year anniversary of the closing and before the expiry date the closing price of the shares on the Toronto Stock Exchange has been $2.80 or greater for a period of 60 consecutive trading days, the Company will have the right to require the holder to exercise the warrants. As at May 31, 1997, all of the common share purchase warrants issued in connection with the above offering were outstanding.

(f) Issued Special Warrants
On April 30, 1997, the Company completed a private placement of 2,428,571 special warrants for cash consideration of $3,399,999 ($1.40 per special warrant) before deducting issuance expenses of $268,290. Each special warrant granted the holder the right to acquire, without additional payment, one common share (stated capital $1.31 per common share) and one-quarter common share purchase warrant (stated capital $0.09 per one-quarter common share purchase warrant). Each common share purchase warrants entitles the holder to acquire one common share of the Corporation at a price of $1.68 per share at any time on or before April 30, 1999. As at May 31, 1997, all of the special warrants issued in connection with the above offering were outstanding.
On July 8, 1997, the special warrants were exercised for 2,428,571 common shares and 607,142 common share purchase warrants.

(g) 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 3,000,000. Stock option transactions for directors, officers and employees for the three years ended May 31, 1997 are summarized as follows:

	Number of Stock Options		
	1997	*1996*	*1995*
Balance, beginning of year	1,832,727	1,860,962	2,042,496
Granted	1,055,404	1,025,888	335,027
Exercised	(247,638)	(250,000)	–
Cancelled	(649,040)	(804,123)	(516,561)
Balance, end of year	1,991,453	1,832,727	1,860,962

As at May 31, 1997, 1,268,715 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 $1.16 as at May 31, 1997 for the 1,991,453 options outstanding. Expiration dates for these options range from November 1, 1997 to April 16, 2002.

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, 1997*	*1997*	*1996*	*1995*
(Increase) decrease				
Accounts receivable	$ (143,144)	$ 115,211	$ (78,640)	$ 23,739
Prepaids and supplies	(252,774)	74,331	38,541	(2,312)
Investment tax credits receivable	–	–	–	5,000
Increase(decrease)				
Accounts payable and accrued liabilities	1,090,429	527,791	(153,166)	162,304
	$ 694,511	$ 717,333	$ (193,265)	$ 188,731

8. *Commitments*

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

1998	$ 162,000
1999	153,000
2000	49,000
2001	13,000
	$ 377,000

During the year ended May 31, 1997, the amount of payments under operating leases was approximately $152,000 (1996 – $134,000 and 1995 – $168,000).

Under contracts for research and development, the Corporation is committed to make payments of approximately $185,000.

9. *Related Party Transactions*

During the year ended May 31, 1997, the Corporation paid consulting fees to individuals (or companies controlled by those individuals) who were either officers, directors or shareholders of the Corporation of $95,000 (1996 – $171,000 and 1995 – $402,000).

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 $245,000 for the year ended May 31, 1997 (1996 – $161,000 and 1995 – $147,000).

Amounts due to related parties as at May 31, 1997 are $117,000 and are included in accounts payable and accrued liabilities (1996 – $38,000).

10. *Financial Instruments*

The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

11. *Canadian and United States Accounting Policy Differences*

These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In certain respects, GAAP as applied in the United States differs from that applied in Canada.

Accounting for Stock-Based Compensation
The Company accounts for its stock options under Canadian GAAP, which, in the Company's circumstances are not materially different from the amounts that would be determined under the provisions of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock-based compensation plan. Accordingly, no compensation expense has been recognized for its stock option plan.

The new United States accounting pronouncement, SFAS No. 123 encourages, but does not require, the recording of compensation costs for stock options to be valued at fair value. For companies choosing not to adopt the fair value measurement for stock based compensation, the pronouncement requires the Company to disclose pro forma net income and earnings per share information as if the Company had accounted for its stock options issued in 1996 and 1995 under the fair value method. The Company has elected not to adopt the recording of compensation cost for stock options at fair value and accordingly are complying with the disclosure requirements as outlined in SFAS No. 123.

Disclosure Requirements – SFAS No. 123
The Company may grant up to 3,000,000 options to purchase common shares of the Company to its employees and directors at an exercise price equal to the quoted market price of the Company's common shares on the date of grant. Options are granted, for an option period not to exceed five years, and vested upon the discretion of the Board of Directors. The maximum vesting period for options currently outstanding is three years.

The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for options granted in the years ended May 31, 1997 and 1996: (i) dividend yield of zero percent; (ii) expected volatility of sixty percent; (iii) risk-free interest rate of five percent and (iv) expected lives of five years. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. The weighted-average grant-date fair value of options issued in the years ended May 31, 1997 and 1996 was $0.74 and $0.48, respectively.

A summary of the pro forma impact on the consolidated statements of loss and deficit for the years ended May 31, 1997 and 1996 is shown in the table below:

	1997	*1996*
Loss for the year	$ 4,837,761	$ 4,201,869
Compensation expense related to the fair value of stock options	271,044	217,563
Pro forma loss for the period	$ 5,108,805	$ 4,419,432
Pro forma loss per common share	$ 0.17	$ 0.17

The following table contains a summary of the Company's stock option plan for the years ended May 31, 1997 and 1996:

	1997		*1996*	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding at beginning of year	1,832,727	$ 1.20	1,860,962	$ 1.75
Granted	1,055,404	$ 1.31	1,025,888	$ 0.85
Exercised	(247,638)	$ 0.79	(250,000)	$ 1.37
Forfeited	(649,040)	$ 1.66	(804,123)	$ 2.00
Outstanding at end of year	1,991,453	$ 1.16	1,832,727	$ 1.20
Options exercisable at end of year	1,268,715	$ 1.14	1,553,088	$ 1.24

The following table summarizes information about stock options outstanding at May 31, 1997:

	Options Outstanding			*Options Exercisable*	
Range of Exercise Prices	Options Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Options Exercisable	Weighted-Avg. Exercise Price
$0.68 to $0.99	601,500	3.52 years	$ 0.79	458,250	$ 0.75
$1.00 to $1.99	1,274,448	4.12 years	$ 1.24	694,960	$ 1.22
$2.00 to $3.20	115,505	.93 years	$ 2.22	115,505	$ 2.22
	1,991,453	3.75 years	$ 1.16	1,268,715	$ 1.14

Shareholder Information

Corporate Counsel

Tory Tory DesLauriers & Binnington
Toronto, Canada

Marusyk Bourassa Miller & Swain
Ottawa, Canada

Auditors

KPMG
Yonge Corporate Centre
4120 Yonge Street, Suite 500
North York, Ontario
M2P 2B8
Tel: (416) 228-7000
Fax: (416) 228-7123

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 to us with questions or requests for additional information. The form 20-F for 1997 filed with the Securities and Exchanges Commission, copies of the 1997 Annual Report and future quarterly reports are available from:

Paul W. Truscott, Jr.
Associate, Business Development
1285 Morningside Avenue
Scarborough, Ontario
Canada M1B 3W2
Tel: (416) 724-1100, Ext. 251
Fax: (416) 724-1167
E-mail: imutec@inforamp.net
Website: http://www.imutec.com

Annual Meeting

The 1997 Annual Meeting of Shareholders will be held on Monday, November 24, 1997 at 4:00 p.m. at:

Royal York Hotel
Salon 'B'
100 Front Street West
Toronto, Ontario

Statement of Corporate Governance Practices

The Board of Directors of the Corporation believes that sound corporate governance practices are essential to the well being of the Corporation and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. The following is a description of the Corporation's corporate governance practices prepared by the Board of Directors.

The by-laws of The Toronto Stock Exchange and a policy statement of the Montreal Exchange require that this Statement of Corporate Governance Practices relate the corporate governance practices of the Board of Directors to the "Guidelines for Improved Corporate Governance" contained in the December 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The headings which appear below address the principal matters relating to corporate governance practices discussed in the TSE Report.

In this Statement, the term "unrelated director" has the meaning given to it in the TSE Report – a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests arising from shareholding. All unrelated directors of the Corporation are also "independent directors" given that the Corporation does not have a significant shareholder.

Mandate of the Board

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation. In fulfilling its mandate, the Board, among other matters, is responsible for:

- overseeing and evaluating the strategic planning process;
- identifying and implementing appropriate systems to manage the Corporation's principal risks;
- ensuring that the Corporation operates within all applicable laws and regulations, and to the highest ethical and moral standards;
- appointing and evaluating senior management;
- developing the Corporation's communications policy;
- ensuring adequate and timely reporting of financial results and other significant developments and matters to the Corporation's shareholders; and
- ensuring the integrity of the Corporation's internal controls and management information systems.

Five meetings of the board are scheduled for fiscal 1998. There were five meetings of the Board during fiscal 1997. The frequency of meetings as well as the nature of agenda items change depending upon the state of the Corporation's affairs and in light of the opportunities or risks which the Corporation faces.

Board Composition

The Board of Directors is currently composed of eight members. The Board of Directors believes that seven of the current directors are "unrelated directors" and that one director is a "related director" within the meaning of the TSE Report. Accordingly, the Board of Directors is and will be constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report.

In deciding whether a particular director is a "related director" or an "unrelated director", the Board of Directors examined the factual circumstances of each director and considered them in the context of all relevant factors.

Mr. Philippe Lacaille, the President and Chief Executive Officer of the Corporation, is a director. The Board believes that his extensive knowledge of the Corporation's business is beneficial to the other directors and that his participation as a director contributes to the effectiveness of the Board.

Proportionate Representation

Given the absence of a significant shareholder of the Corporation, the Board believes that the membership of the Board of Directors fairly reflects the investment in the Corporation by all of its shareholders. The Board believes that all directors make a valuable contribution to the Board and the Corporation.

Independence from Management

Mr. Lacaille is President and Chief Executive Officer of the Corporation and serves as a director. Mr. Donald Paterson, who was interim Chief Executive Officer of the Corporation prior to the appointment of Mr. Lacaille, is Chairman of the Board of Directors. Given that the membership of the Board includes only two directors who are or have been executive officers of the Corporation, the Board believes that it is sufficiently independent of management.

Board Committees

During fiscal 1997, the Board of Directors had three committees: an Audit Committee, a Corporate Governance and Compensation Committee and an Environmental Committee. *Ad hoc* committees have also been established from time to time.

Audit Committee
The Audit Committee is composed entirely of unrelated directors. The committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls and the performance of the Corporation's external auditors. The committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the Board of Directors. The Audit Committee met four times during the past year. Its members are Mr. Paterson, Mr. Reiter, and Mr. Diamond.

Corporate Governance and Compensation Committee
The Corporate Governance and Compensation Committee is composed entirely of unrelated directors and makes recommendations to the Board on, among other things, the compensation of senior executives and the compensation policies and practices for all employees of the Corporation. The committee also reviews and implements succession plans.

The Corporate Governance and Compensation Committee is responsible for evaluating the performance of the Board, and reviewing the adequacy and form of compensation of directors to ensure that they accurately reflect the responsibilities and risks involved in being an effective director.

During fiscal 1997, the Committee reviewed the TSE report on Responsible Corporate Disclosure and based on the recommendations from the TSE report has developed new guidelines for all employees regarding Confidentiality, Disclosure and Employee Trading as well as a new process for the issuance of press releases to ensure involvement of the appropriate officers and directors.

The Corporate Governance and Compensation Committee held two meetings in fiscal 1997 during which time its members were Mr. Campbell, Mr. Paterson and Mr. Reiter.

Environmental Committee
The Corporation is committed to environmental compliance and implementing sound environmental policies. Accordingly, in October 1996, the Corporation established an Environmental Committee chaired by Mr. Peter Campbell, a director of the Corporation. The other members of the Committee include a senior officer and several employees of the Corporation.

The mandate of the Environmental Committee is to ensure that the Corporation's management and employees comply with environmental laws and minimize risk, to ensure that management and employees are made aware of environmental laws, as well as good management practices, to promote environmental awareness among employees, and to encourage practices that protect the environment.

The Environmental Committee meets and reports monthly to the Corporation, and on a quarterly basis provides a written report to the Board of Directors. The Board of Directors monitors the progress of the action plan through regular reports from the Environmental Committee.

The following are highlights of the reports to the Board:

During fiscal 1997, the Environmental Committee developed a communication plan and training schedule for all employees of the Corporation. Several employees of the Corporation underwent extensive training in order to comply with the Corporation's Environmental, Health and Safety Management Program. Two employees have completed Certification Training, two employees have completed First Aid and CPR Training, and two employees are currently completing WHMIS "Train the trainer" Training.

The Committee also commissioned an independent audit of the Corporation's facility and environmental policies and practices and has implemented an action plan to address issues raised in the audit report. The EHSC has evaluated compliance and found that all but one of the report's recommendations have already been met. Steps have been taken to ensure the remaining recommendation will be implemented promptly. Furthermore, the EHSC completed the Legislative Compliance Questionnaire on Health and Safety and reported 80% compliance. Most of the non-compliance is based on WHMIS related issues. These will be resolved once the above mentioned WHMIS training is complete.

The Committee is proud to state that since its inception, there have been no Environmental or Health and Safety incidents reported.

Decisions Requiring Board Approval

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any material expenditure. Management is also required to consult with the Board before pursuing capital projects or strategic ventures which are beyond the Corporation's existing businesses. The Board approves all changes in senior management.

Board Performance

It is the responsibility of the Chairman to ensure the effective operation of the Board. The Chairman is responsible for ensuring the effectiveness of the process the board follows and the quality of information provided to directors by management. The Chairman will also meet at least once each year on an individual basis with every member of the Board to discuss that director's contribution to Board and committee deliberations and any other matters which the individual directors wish to raise with the Chairman. The Chairman also oversees the orientation of new directors.

Shareholder Feedback

The Corporation maintains an investor relations capability which the Board believes is important and highly effective. Every shareholder inquiry receives a prompt response from an appropriate officer of the Corporation.

Expectations of Management

The information which management provides to the Board is highly important to the ability of the board to function effectively. Directors must have confidence in the data gathering, analysis and reporting functions of management. The Chairman of the Board monitors the nature of the information requested by and provided to the Board.

Periodically, the Board meets without the presence of the directors who are members of senior management. The Board also meets regularly with the senior officers responsible for the Corporation's operations to discuss key issues or strategies related to their areas of responsibility. The Board met with all the senior officers to review the five-year strategic and financial plan of the Corporation.

Together with the President and Chief Executive Officer of the Corporation, the Board has developed descriptions for itself and for the Chief Executive Officer involving the delineation of management's responsibilities. Based upon the recommendations of the Corporate Governance and Compensation Committee, the Board also develops and approves the objectives of the Corporation and management.

From time to time, the Board has engaged outside advisers at the Corporation's expense to provide advice to the Board on matters relevant to the Corporations activities.

Directors & Officers

Board of Directors

Robert Béchard
Investment Manager, SOFINOV (Société Financière D'Innovation), Montréal

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

Peter J. Campbell[2, 3]
Executive Advisor, Health Care Industry, Aurora

A. Ephraim Diamond[1]
Chairman and Chief Executive Officer, Whitecastle Investments Limited, Toronto

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

Joel S. Marcus
Managing Partner, Health Science Capital Partners, Los Angeles

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
[3]Member of the environmental committee

Executive Officers

Philippe G. Lacaille,
President and Chief Executive Officer

Bin Huang, PhD, MBA
Vice President, Research and Development

Guy Ely, MD
Vice President, Clinical and Medical Affairs

Wayne D. Cockburn
Vice President, Corporate Development

Nadir Harjee
Vice President, Industrial Operations

Kerri L. Golden, CA
Vice President, Finance and Chief Financial Officer

Medical and Scientific Advisory Board (MSAB)

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

Dr. Gregory Curt, MD
US Department of Health and Human Services, Betheseda, Maryland

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

Dr. Howard Gebel, PhD
Professor of Immunology and General Surgery, Rush Medical College, Chicago, Illinois

Dr. Phil Gold, CC, MD, PhD
Professor of Medicine, Physiology and Oncology, McGill University, Montréal, Québec

Dr. Jules Harris, MD
Chair of Medical Oncology and Professor of Medicine and Immunology, Rush Medical College, Chicago, Illinois

Dr. Robert Kerbel, PhD
Director, Division of Cancer Biology Research, Sunnybrook Health Sciences Centre, Toronto, Ontario

Dr. Mark Manning, PhD
Associate Professor of Pharmaceutics, University of Colorado Health Sciences Center, Boulder, Colorado

Dr. Lesley Seymour, MBBCh, FCP (SA)
Clinical Trials Group, National Cancer Institute of Canada, Kingston, Ontario

Glossary of Technical Terms

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)

BRM:
Biological Response Modifier, 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 safety; 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

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 submitted to the regulatory authorities for approval to conduct clinical trials

in-licensing:
the act of acquiring rights to intellectual property, usually in exchange for an up-front fee, milestone payments, and royalties on future sales

in vitro:
outside the living body (usually in a culture dish)

in vivo:
within the living body

Kaposi's sarcoma:
a malignant skin disease that develops during the progression of AIDS

macrophage:
a large scavenger white blood cell that engulfs and digests invading microorganisms and cell debris, and also participates in many complex immunologic processes

malignant melanoma:
a form of skin cancer, usually associated with sun damage

oncology:
the branch of medicine concerned with cancer

NDA:
New Drug Application submitted to the US regulatory authorities (FDA) in order for a drug to gain marketed approval

NDS:
New Drug Submission submitted to the Canadian regulatory authorities (HPB) in order for a drug to gain marketed approval

pharmacology:
the science that deals with the origin, nature, chemistry, effects, and uses of drugs

pre-clinical testing:
testing that is conducted in the laboratory *(in vitro)* and with animals *(in vivo)* to help determine a product's activity, toxicity and chemical and pharmacologic characteristics

Virulizin®:
a biological immunotherapeutic drug classified as a BRM developed for the treatment of cancer and other diseases

WHMIS:
Workplace Hazardous Materials Information System, a legislated system of classifying and labeling compounds, in order to promote employee health and safety

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