ADVANCING

cancer therapy

LORUS THERAPEUTICS INC. IS A PHARMACEUTICAL COMPANY

focused on the development of cancer therapies.

Lorus' goal is to capitalize on its pre-clinical, clinical and regulatory expertise by developing new drug candidates that can be used, either alone, or in combination, to successfully manage cancer. Through an active acquisition and in-licensing program, the Company is building a portfolio of promising cancer drugs. Late stage clinical development and marketing will be done in cooperation with strategic pharmaceutical partners.

ADVANCING our organization

LORUS

Advancing cancer therapy The introduction of Lorus Therapeutics is an important step towards fulfilling our vision of building a successful, dynamic and strong company focused on advancing cancer therapy.

With strong networks in the scientific community, a core capability in the drug development process, a valuable pipeline, and a business model focused on maximizing shareholder value, Lorus Therapeutics is a company that is positioned for growth.

We underwent an exhaustive process to decide what name would best exemplify the values, core competencies and spirit of the Company.

We chose Lorus Therapeutics Inc. Lorus is derived from Lorum and Laurel. Laurel is the crown of victory, and signifies Lorus' pursuit of excellence in the development of effective cancer therapies. Lorum is the latin word for reins, signifying Lorus' skill in managing both business and science.

Lorus' pursuit of excellence and its skill in managing both the business and scientific processes create a strong foundation for future growth.

Fiscal 1998 Highlights

In 1998 Lorus Therapeutics made significant progress by in-licensing several novel anti-cancer compounds that show significant promise; entering into productive partnerships with highly regarded medical and scientific institutions; and obtaining approval for Virulizin® in Mexico.

IN-LICENSE OF NOVEL ANTI-CANCER COMPOUNDS

Novel anti-cancer compounds (NC analogues), discovered at Harvard Medical School, were in-licensed in November 1997.

KEY PARTNERSHIP AGREEMENTS

Harvard Medical School

The Company entered into a research agreement with Harvard Medical School to develop the NC analogues. This program is designed to generate additional new drug candidates for Lorus Therapeutics to add to its pipeline.

U.S. National Cancer Institute

The Company entered into an agreement with the U.S. National Cancer Institute (NCI) for the screening of Lorus' NC analogues. The screening agreement will enhance the pre-clinical development of the compounds, and the data from these pre-clinical tests will assist us in selecting the most promising compounds for animal efficacy studies.

LATE BREAKING NEWS

"Virulizin® is at least as good as what has been reported for gemcitabine, in previously treated patients, with a much better safety profile."

MARKETING APPROVAL

The Company received marketing approval of Virulizin® in Mexico for the treatment of malignant melanoma.

KEY PATENT ALLOWANCES

Two Notices of Allowance were granted by the Canadian Intellectual Property Office. The allowances encompass several claims and cover both the composition and use of Virulizin® in the treatment of cancer.

ENCOURAGING CLINICAL RESULTS

In November 1997 the Company announced positive interim results from its Phase I/II pancreatic cancer trial. In March 1998 it was reported that patient enrollment for the trial was complete.

RESTRUCTURED MEDICAL & SCIENTIFIC ADVISORY BOARD (MSAB)

The MSAB was restructured to reflect the Company's stage of development and its focus on cancer therapeutics. By inviting internationally recognized experts in the field of oncology to join our Advisory Board, we have not only strengthened the expertise of our development team, but have also opened new channels into several prestigious academic and government institutions in our search for promising new compounds.

BUILDING *THE* FOUNDATION

for future growth

Philippe G. Lacaille
President and Chief
Executive Officer

As you will have noticed, we have been using a new name throughout this annual report. This reflects our wish to change the company name from Imutec Pharma Inc. to Lorus Therapeutics Inc. As shareholders, you will be asked to vote on the proposed new name at the Annual Shareholders Meeting. However, for consistency, this report will refer to the Company as Lorus Therapeutics Inc.

A new name for the next stage This new name is a reflection of how far our Company has come in the past few years, and the strategic direction for the future. It also captures the essence and spirit of the Company: a company that pursues excellence in the development of cancer therapies – a company that has skill in managing both science and business.

Our focus remains the same. Lorus concentrates on a specific niche of the drug development cycle – from early pre-clinical to Phase II clinical trials. We maximize the return on investment for our shareholders by bridging early-stage research to late-stage clinical trials and product approvals. We reduce the risks associated with early research by acquiring promising new technologies from research institutions and other companies, and we shift the larger financial burden that is necessary for Phase III trials and beyond to our global pharmaceutical partners.

Another year of steady progress 1998 was a year of steady progress for Lorus. The two key areas where we made the most progress were in building our product pipeline; with the addition of new anti-cancer compounds discovered at Harvard Medical School; and the

establishment of several strategic partnerships in research, clinical development and manufacturing – areas critical to the successful development of our products.

Building the product pipeline One of Lorus' long-term goals is to build a product pipeline that has breadth and depth. In November 1997 we significantly strengthened our product pipeline with the addition of a series of novel anti-cancer compounds that were discovered at Harvard Medical School. These anti-cancer compounds, referred to as NC analogues, are chemical derivatives of the parent molecule Clotrimazole.

Clotrimazole has been exhaustively studied and characterized. In research conducted at Harvard Medical School this molecule has shown anti-angiogenic and anti-proliferative properties. Both anti-angiogenesis and anti-proliferation are believed to be instrumental in the successful management of cancer. Harvard researchers believe the analogues of the parent molecule, and hence the compounds Lorus has in-licensed, will have the same anti-cancer properties. In fact, in *in vitro* studies the NC analogues have shown significantly more potent anti-proliferative activity than the parent molecule. The five most promising analogues were selected and have begun pre-clinical development. This research is being conducted through a series of collaborative research agreements with specific strategic partners.

In 1998 Lorus Therapeutics continued to build the foundation for future growth, with solid, positive clinical data, strategic alliances, product acquisitions, and a product approval.

Lorus has entered into many collaborative research agreements this year. These collaborative arrangements, as well as other partnering agreements, are a key part of our business strategy. By working with others we reduce our costs, increase our opportunities, and reduce the time-to-market for our products.

Partnering Agreements Last year, we entered into three partnering arrangements for the development of the NC analogues.

The five NC analogues that have shown the most promise are being screened by the U.S. National Cancer Institute (NCI). This screening process will enhance and expedite the pre-clinical development of the new compounds. The data derived from the study will be used to select which NC analogues will be given priority for entering further development.

In order to have an adequate supply of the compounds to conduct the screening, the compounds must be produced by an experienced contract manufacturer. Lorus entered into an agreement with Torcan Chemical Ltd. for the manufacture of several of the company's NC analogues, supplying the NCI with sufficient quantities for study.

Lorus also entered into an agreement with Harvard Medical School to assist in the development of Clotrimazole and its NC analogues. This program is designed to generate new drug candidates for Lorus through the screening of new analogues of the parent molecule.

Virulizin® In 1998 we continued the development of our lead product, Virulizin®. We received an approval for marketing the product in Mexico, released positive clinical results, were granted two patents, and continued our licensing negotiations with several potential pharmaceutical partners.

In keeping with our business strategy of taking a compound to the end of Phase II clinical trials, we have completed our involvement in the drug development process. To maximize value for our shareholders, we are seeking to out-license Virulizin® to a global pharmaceutical partner.

Our strategy for Virulizin® is to license the product to a global pharmaceutical partner, first in the Americas, and then potentially the rest of the world. A licensing agreement is expected to provide Lorus with an up-front payment, milestone payments and an ongoing royalty stream based on product sales. The patents that were granted to Lorus for Virulizin® by the Canadian Intellectual Property Office this year are an important component in our negotiations with potential partners.

In August 1998 we reported positive clinical results for our Phase I/II study of Virulizin® in the treatment of pancreatic cancer for which we had completed enrollment during fiscal 1997. Results showed increased efficacy and safety over historical controls, and improved quality of life. The overall median survival for all evaluable patients was 6.8 months, and the six-month survival rate was 58%. These results confirm and extend previous studies performed by Lorus in Canada in pancreatic cancer patients.

Commercial success in our business is driven by effectively combining science with business. Our management team and company are a reflection of this philosophy.

Gemcitabine (Gemzar® – Eli Lilly) is the standard for first-line treatment of pancreatic cancer. In the main Phase II trial of gemcitabine in patients with pancreatic cancer, the median survival was 3.85 months with a 6-month survival of 31%. The results of our current trial document that Virulizin® has clinical activity that is at least as good as what has been reported for gemcitabine, in previously treated patients, with a much better safety profile.

And finally, Lorus entered into a partnership with the Canadian HIV Clinical Trials Network (CTN) to conduct and support a Phase I/II trial in the treatment of AIDS-related cancers using Virulizin®. Currently operating one site in Montreal, the CTN is

considering opening additional trial sites in Canada. This expanded trial will be conducted at no additional cost to Lorus.

The year ahead We have accomplished much in the past year, and we intend to build on these achievements in the year ahead.

In fiscal 1999 we anticipate having results from the pre-clinical testing of the NC analogues. These analogues have already shown significant promise in initial *in vitro* studies, and we look forward to confirming these findings in animal models.

The in-licensing of the NC analogues was a significant step towards broadening Lorus' product pipeline, and we are currently evaluating a number of other promising opportunities. We look forward to reporting progress in this area during the upcoming year.

In the year ahead, Lorus will further its development of Virulizin® by continuing its Phase I/II clinical trials for AIDS-related cancer. In partnership with the Canadian HIV Trials Network, additional site recruitment is anticipated to take place. This broadened patient enrollment will expedite the completion of this clinical trial.

In fiscal 1999 we look forward to announcing a pharmaceutical partnership agreement for Virulizin®. With the significant strengthening of our patent estate this past year, and the strong clinical results from the U.S. Phase I/II trial in pancreatic cancer patients, we are in a better position than ever in our negotiations with potential partners. Once a partnership is established, the Company intends to initiate a pivotal clinical trial program for Virulizin® in pancreatic cancer.

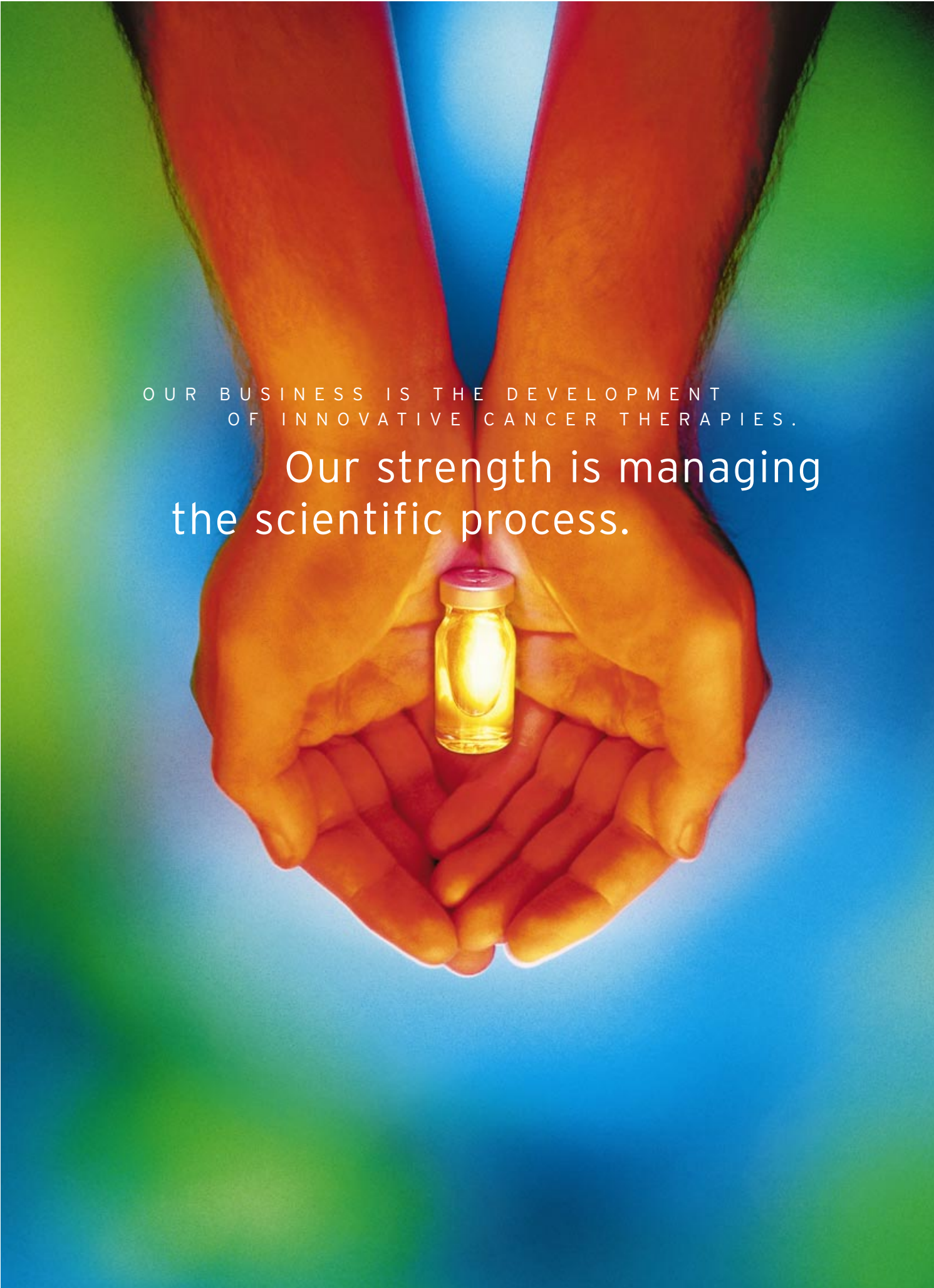
An important measure of a drug development company is its ability to attract high-quality partners. We made significant strides in this past year in expanding our network of partners.

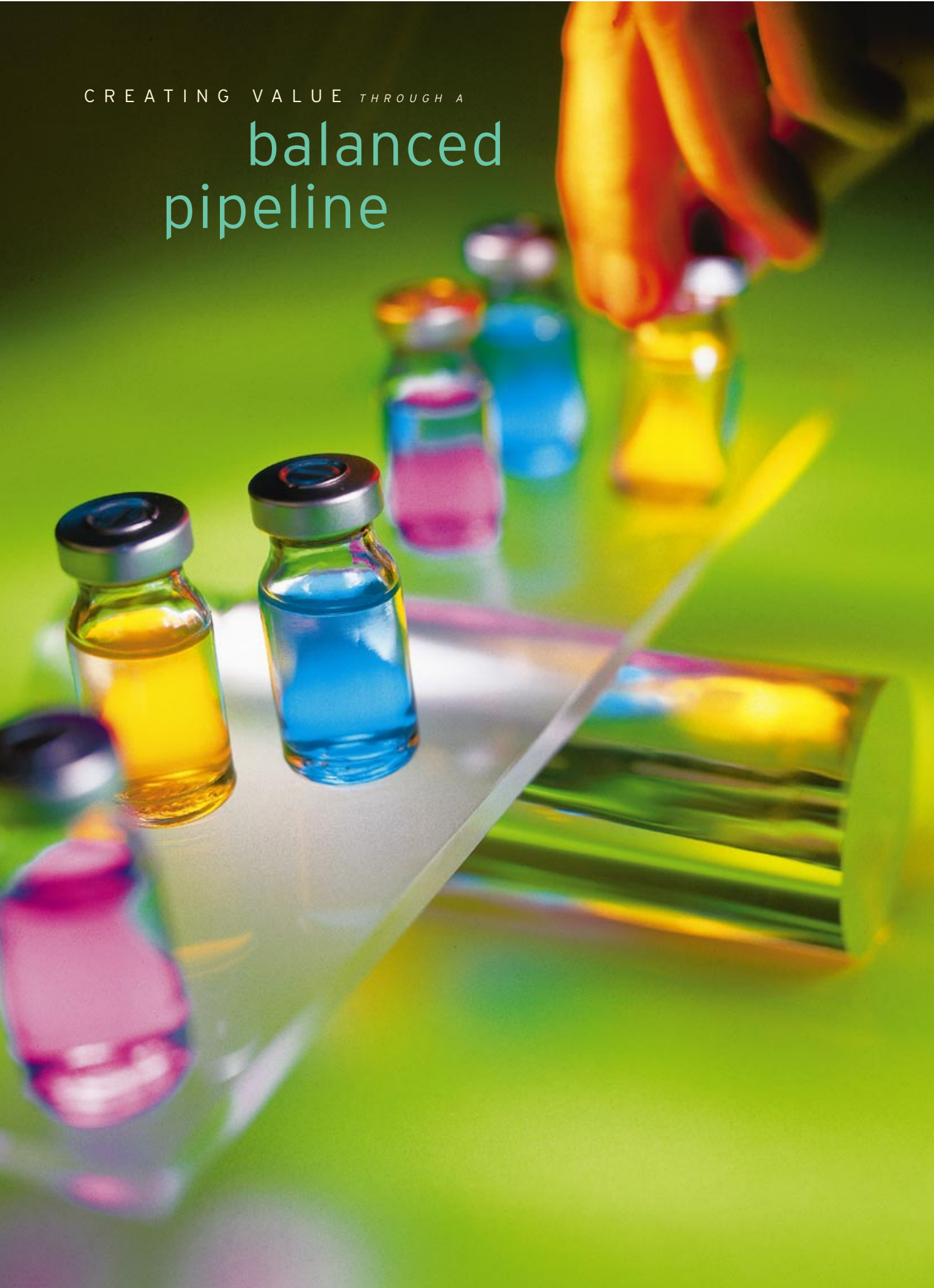
Building the foundation for growth Over the past couple of years, the senior management, Board of Directors, and employees have worked hard to build a solid foundation for this company and we would like to thank them for their dedication and hard work. We would also like to take this opportunity to thank our shareholders for their ongoing support.

We are excited by the future of Lorus. We believe that this rebuilt and reinvigorated company is ready and willing to overcome challenges, capitalize on opportunity and deliver results.

September 2, 1998

Philippe G. Lacaille (signed)
President and Chief Executive Officer


OUR BUSINESS IS THE DEVELOPMENT
OF INNOVATIVE CANCER THERAPIES.
Our strength is managing
the scientific process.



CREATING VALUE *THROUGH A* balanced pipeline

Building a critical mass of products

Lorus' business model is built upon obtaining maximum value from its pipeline of products at a minimal risk. The development of a new drug or treatment is an inherently risky undertaking. That's why Lorus seeks to balance its pipeline in a number of ways. Lorus' goal is to have a variety of compounds at different stages of development, with different modes of action to treat cancer.

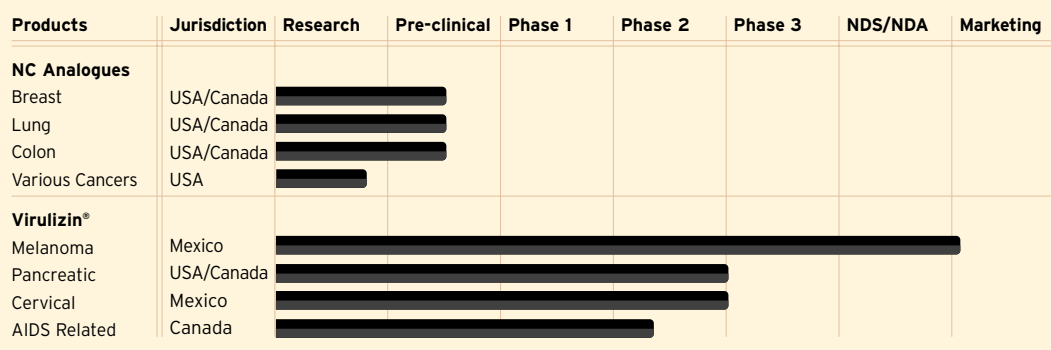
Value creation through diversification

Introducing a wide variety of promising compounds into the pipeline and moving them through the development process as quickly as possible creates value. A mix of compounds in the pipeline ideally balances the high risk/high reward compounds with those that may have less total potential but have a higher, swifter probability of success.

Lorus uses exacting criteria when evaluating a compound for potential in-licensing. It must be past the proof-of-concept stage with preliminary efficacy data in the area of oncology; the compound must be patented or patentable; it must act on indications for which there is a medical need with little competition; it must be amenable to low-cost development and manufacturing; and it must be attractive to global pharmaceutical partners.

Through value creation in diversification, assembling a critical mass of products and adhering to strict in-licensing criteria, Lorus Therapeutics is building a balanced and profitable pipeline of cancer products.

Product Pipeline



Our Business Model: Lorus is focused on the specific niche of the drug development cycle – pre-clinical to Phase II. Lorus in-licenses compounds at the pre-clinical stage of development and out-licenses the compounds during late stage development, leaving multi-centre trials, international registration, manufacturing, commercialization and marketing of these products to global pharmaceutical partners to leverage their resources and core competencies.

ATTACKING CANCER

with multiple therapies

What is cancer?

The body is made up of many types of cells. Normally, cells grow, divide, and produce more cells to keep the body healthy and functioning properly. Sometimes, however, the process goes astray – cells keep dividing when new cells are not needed. The mass of extra cells forms a growth or tumour. Some of these tumours can be benign, some malignant. Malignant tumours are cancer.

Cancer may be treated in various ways: surgery, radiation therapy, chemotherapy, hormonal therapy, or immunotherapy. These methods can be used alone or in combination.

The new generation of drugs being developed to treat cancer are aimed at managing the disease. This is not unlike managing a disease such as diabetes: there is not currently a cure, but insulin allows patients to live long and relatively healthy lives.

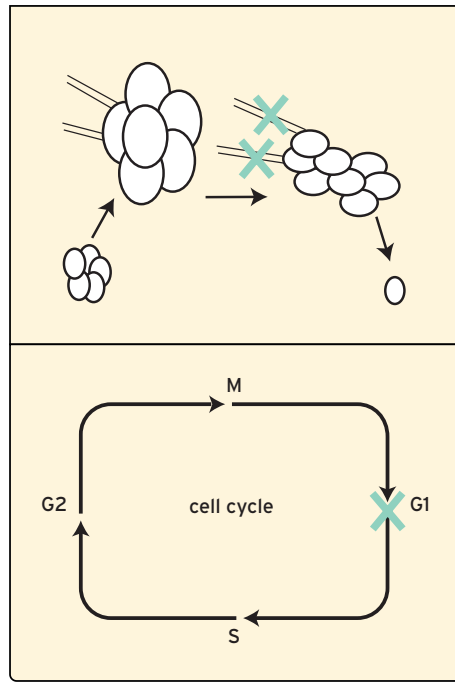
Lorus is focusing its efforts on developing therapies with different targets to provide tools for the management of the disease. Lorus will use a number of therapies to manage cancer, and hopefully allow patients to lead more productive, happier lives.

Small Molecule Program

Clotrimazole and the NC analogues have been shown, in *in vitro* and *in vivo* studies, to exhibit anti-cancer properties. Clotrimazole, a well-characterised anti-fungal agent, has demonstrated both anti-angiogenic and anti-proliferative properties *in vivo*. In *in vitro* studies its analogues have been shown to have anti-proliferative properties. Lorus hopes that further development and assessment will show that the NC analogues have anti-angiogenic properties as well.

Dual Mode of Action

The dual mode of action (anti-angiogenesis and anti-proliferation) illustrated in Clotrimazole has been shown to stop (cancer) cells from multiplying. This novel approach might be able to circumvent one of the key problems in cancer treatment – that of drug resistance. This problem affects many cancer patients – up to 50% of all of those undergoing chemotherapy.



Anti-Angiogenesis Cancer cells cannot grow beyond the size of a pinhead unless they have their own blood supply. Anti-angiogenesis is the prevention of the formation of blood vessels, therefore inhibiting tumour growth. The anti-angiogenic effect maintains tumours at a very small size. Managing the tumour size manages the disease.

Anti-Proliferation Cancer cells divide excessively to produce more cells, thereby allowing the cancer to spread. Anti-proliferation is the prevention of this cell division, thus inhibiting cancer's growth.

"Cancer is a *very* complex disease, seemingly having the ability to outsmart even the best approaches that are currently available. While therapies are being improved and getting better, there is seldom a cure for metastatic disease. Probably the most rational way of successfully managing most cancers in the future will be to utilize a combination of treatments involving drugs already available in conjunction with new drugs currently under development. Companies which are developing several new and different approaches to cancer therapy are most likely to be in the best position to serve this growing market in the future."

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

Cancer Management

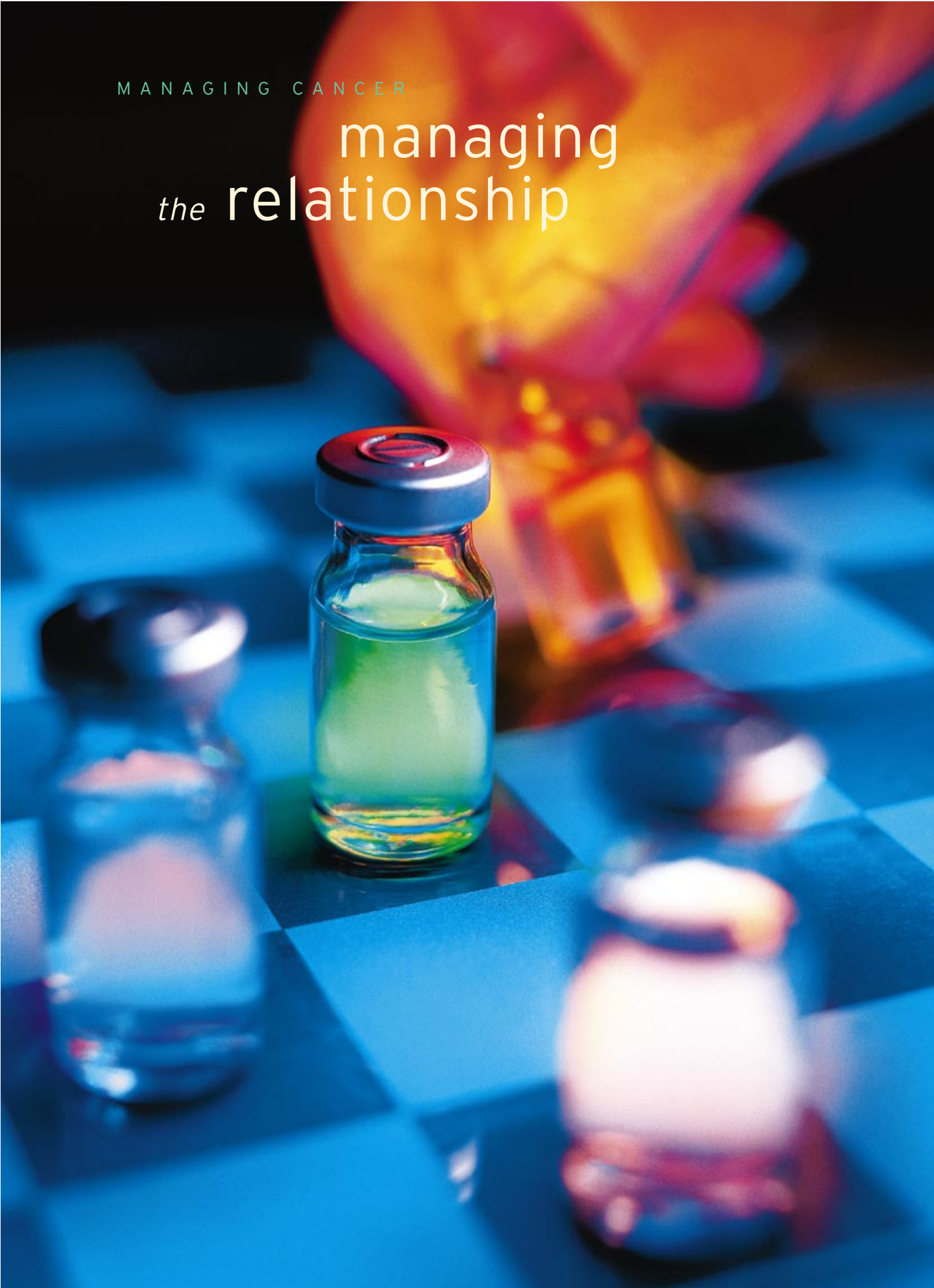
Cancer Medical Therapy

- **Hormonal Therapies**
- **Cytotoxic Agents**
- **Cytostatic Agents**
- **Immunotherapy**
- **Miscellaneous**

There are many different approaches to cancer therapy. By treating patients with drugs from several different therapeutic areas, using each drug alone or in combination, the chances of successfully managing cancer can be increased significantly. Lorus is currently developing cytostatic and immunotherapy drug candidates and will continue to look for products in different areas.

MANAGING CANCER

managing *the* relationship



Our business is the development of innovative cancer therapies. Our strength is managing the scientific process.

Strategic partnerships are a critical component of our business strategy. Our core expertise is in identifying high-quality drug candidates, and managing the development of these compounds through a series of partnerships.

We will continue to build relationships with many key organizations. Through these strategic partnerships, we will leverage the expertise and experience of others in the research, development, international registration, manufacturing and sales & marketing of our drugs.

Harvard Medical School Lorus Therapeutics is funding a large project in the laboratory of Dr. José Halperin, Associate Professor of Medicine, researching the mode of action and *in vivo* efficacy of Clotrimazole analogues. A screening tool will also be developed to search for the next generation of compounds having higher activity than Clotrimazole and the selected analogues.

U.S. National Cancer Institute (NCI) Lorus' agreement, with the Developmental Therapeutics Branch, Division of Cancer Treatment of the U.S. National Cancer Institute, covers the screening of NC analogues in the NCI's panel of cancerous cell lines. Lorus Therapeutics has submitted several of the NC analogues for testing.

Rush Cancer Institute At the Rush Cancer Institute, Dr. Donald Braun is evaluating the effect of Virulizin® on the immune system with cells obtained from pancreatic cancer patients treated with the drug. In addition, clinical samples are being analyzed to measure macrophage activation following Virulizin® therapy.

University of Nebraska (UNMC) Under a contract with Lorus Therapeutics, UNMC is developing various animal models and will use these models to determine the pre-clinical efficacy of selected Clotrimazole analogues. Additional research is being performed to study the effect of Virulizin® in other types of cancer.

Canadian HIV Trials Network (CTN) The Canadian HIV Trials Network is a federally funded organization that was created to facilitate HIV/AIDS clinical trial activity in Canada. The CTN will provide additional site recruitment that will enhance the patient enrollment process for the current study of Virulizin® in the treatment of AIDS-related cancer. This support by the CTN is viewed as an encouraging endorsement of Lorus' scientific process.

McMaster University Medical Center Investigators at the Medical Center are developing analytical methods to determine the pharmacokinetics of the analogues in animals and humans. These methods will aid in predicting safety and initial dosing in clinical trials. The Center's researchers have also identified most of the components in Virulizin®, and are in the process of completing the chemical characterization of the drug.

Torcan Chemical Limited Torcan Chemical Ltd. is a chemical manufacturing organization specializing in the chemical synthesis and large scale production of organic compounds under cGMP guidelines for companies in the pharmaceutical industry. Torcan, under contract with Lorus Therapeutics, has prepared sufficient quantities of the selected NC analogues for pre-clinical efficacy and toxicity studies.

The following discussion and analysis for the years ended May 31, 1998, 1997 and 1996 should be read in conjunction with the audited consolidated financial statements of Imutec Pharma Inc. included in this Annual Report. For the balance of Management's Discussion and Analysis, Imutec Pharma Inc. will be referred to as Lorus Therapeutics Inc.

Lorus Therapeutics Inc. is a pharmaceutical company focused on the development of cancer therapies. Lorus' goal is to capitalize on its preclinical, clinical and regulatory expertise by developing new drug candidates that can be used, either alone, or in combination, to successfully manage cancer. Through an active acquisition and in-licensing program, the Company is building a portfolio of promising cancer drugs. Late stage clinical development and marketing will be done in cooperation with strategic pharmaceutical partners.

To date, the Company has invested a substantial portion of 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, and in the development of its newly acquired analogues and their use in the treatment of cancer.

While developing Virulizin® and the analogues, 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. Lorus Therapeutics Inc. expects that losses will continue until agreements to develop, market and distribute Virulizin® or the chemical entities are concluded with a strategic pharmaceutical partner, and sufficient sales are realized.

Results of operations

Year ended May 31, 1998 compared to the year ended May 31, 1997

During the year ended May 31, 1998, the Company incurred net research and development expenses of $2,758,203 compared to $2,887,877 for the year ended May 31, 1997.

During the year ended May 31, 1998, general and administrative expenses increased to $1,912,235 from $1,511,328 for the year ended May 31, 1997. The increase is mainly attributable to a new investor relations program and increased legal costs associated with licensing, due diligence and contracting activity.

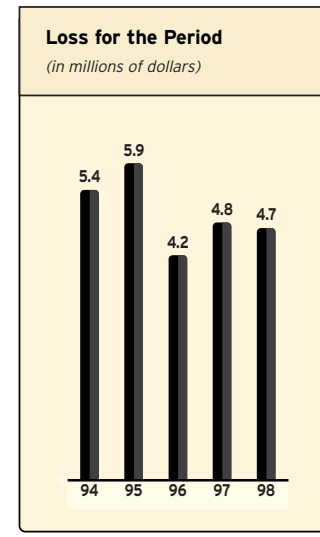
During the year ended May 31, 1998, interest income increased to $268,619 from $100,952 for the year ended May 31, 1997. The increase is attributable to a higher average cash balance during fiscal 1998.

During the year ended May 31, 1998, depreciation and amortization decreased to $340,014 from $539,508 for the year ended May 31, 1997.

During the year ended May 31, 1998, the Company's loss decreased to $4,741,833 from $4,837,761 for the year ended May 31, 1997. The primary reason is the decrease in research and development expenses during fiscal 1998.

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 is the result of the recommencement of the clinical trial programs 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 one time 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.

The Year 2000 Issue

The Company has completed an inventory of the computer software and hardware material to its operations to determine which may require action for the Year 2000 issue. It was determined that the accounting and manufacturing software are critical. Software which is Year 2000 compliant is in place for these two systems. Research performed on behalf of the Company is not impacted as it is received and filed in written form. A plan has been established by the Company for testing the computer hardware. The testing will be completed by January, 1999. The Company has received assurances from all critical third parties that they will be fully compliant with the Year 2000 issue.

The Company does not anticipate any costs in complying with the Year 2000 issue.

Liquidity and capital resources

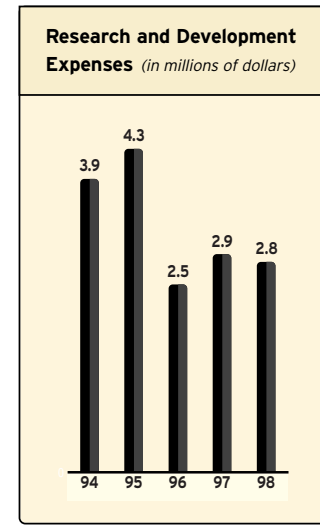
Since it was established, the Company has financed its operating and investing activities with respect to the research and development of Virulizin® and the new analogues through a public offering and private placements of equity securities, refundable ITCs and interest income.

Cash used in operating activities

During the year ended May 31, 1998, the Company incurred a cash outflow on operating activities of $4,380,034. This compared to a cash outflow of $3,580,920 for the year ended May 31, 1997, and $4,095,244 for the year ended May 31, 1996. The year to year change for fiscal 1998 relates to an increase in non-cash working capital. The year to year change for fiscal 1997 relates to a decrease in non-cash working capital balances, partially offset by a slightly higher loss from operations for the period.

Cash used in investing activities

During the year ended May 31, 1998, the Company had a cash inflow from investing activities of $3,864,058 compared to cash outflows of $7,807,274 for the year ended May 31, 1997 and cash inflows of $2,722,620 for the year ended May 31, 1996.



The fluctuation between years relates primarily to the timing of purchases and maturities of short-term investments.

During the year ended May 31, 1998, the Company invested $917,183 in acquired research and development and capital assets. This compared to $26,033 that it invested in the year ended May 31, 1997, and $97,282 in 1996. The investment for fiscal 1998 represents $714,750 of acquired research and development of clotrimazole and its related analogues, $17,035 of capitalized patent fees for approved Virulizin® patents, and $185,398 of fixed asset purchases. The additions for fiscal 1997 and 1996 related to fixed asset additions. For all three years, the fixed asset additions were primarily for the in-house cell culture and analytical laboratory and pilot manufacturing plant equipment, with additional investments in 1998 in computer hardware and software related to Year 2000 compliance.

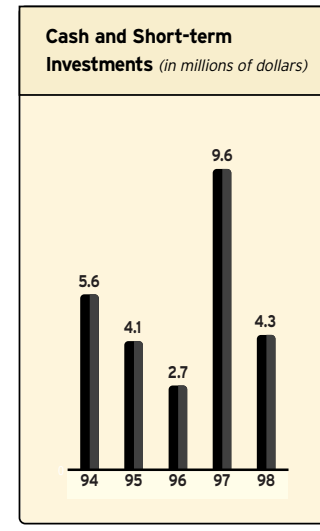
Cash provided from financing activities

During the year ended May 31, 1998, the Company incurred a cash inflow from financing activities of $20,215. This compared to a cash inflow of $10,480,104 for the year ended May 31, 1997 and $2,834,900 for the year ended May 31, 1996.

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 entitled 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.

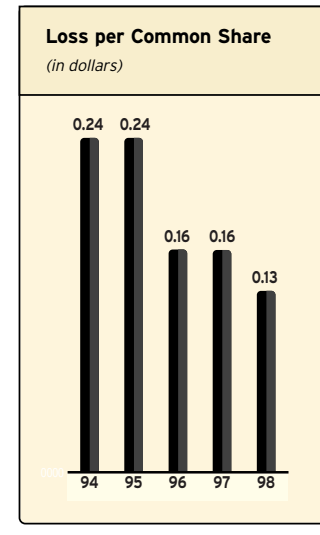
As at May 31, 1998, the Company's current assets exceeded current liabilities by $3,630,155. This compared to $8,877,888 as at May 31, 1997. The Company anticipates that its working capital will be sufficient to fund the budgeted operating expenses and expenditures on capital equipment until December 1998. 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 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, the Company intends to raise additional funds 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®.

Forward Looking Statements

Except for historical information, this annual report contains forward-looking statements which reflect the Company's current expectation regarding future events. These forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from those statements. Those risks and uncertainties include, but are not limited to, changing market conditions, the successful and timely completion of clinical studies, the establishment of corporate alliances, the impact of competitive products and pricing, new product development, uncertainties related to the regulatory approval process, and other risks detailed from time-to-time in the Company's ongoing quarterly filings, annual reports and 20-F filings.



Auditors' Report

To the Shareholders of Imutec Pharma Inc.

We have audited the consolidated balance sheets of Imutec Pharma Inc. as at May 31, 1998 and 1997 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, 1998. 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, 1998 and 1997 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, 1998 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 (signed)

Toronto, Canada
July 24, 1998
Chartered Accountants

Consolidated Balance Sheets

(Canadian Dollars)	As at May 31 1998	1997
Assets		
Current		
Cash and cash equivalents	$ 1,295,397	$ 1,791,158
Short-term investments	3,000,000	7,781,241
Accounts receivable	169,126	143,144
Prepaids and supplies	297,904	252,774
Total current assets	4,762,427	9,968,317
Acquired research and development (note 3)	663,696	–
Capital assets (note 5)	491,294	628,875
	$ 5,917,417	$ 10,597,192
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (note 6)	$ 1,132,272	$ 1,090,429
Shareholders' Equity		
Share capital (note 7)		
Common shares		
(Issued: May 31, 1998 – 36,785,147	37,191,787	34,243,301
May 31, 1997 – 34,317,426)		
Warrants	540,000	3,468,271
Deficit accumulated during development stage	(32,946,642)	(28,204,809)
Total shareholders' equity	4,785,145	9,506,763
	$ 5,917,417	$ 10,597,192
Commitments (notes 3 and 9)		
Canada and United States accounting policy differences (note 12)		
Subsequent event (note 3)		

See accompanying notes

On behalf of the Board:

Donald W. Paterson (signed) — Director

Philippe G. Lacaille (signed) — Director

Consolidated Statements of Loss and Deficit

(Canadian Dollars)	1986 to 1998*	Years ended May 31 1998	1997	1996
Expenses				
Research and development	$ 23,560,443	$ 2,761,699	$ 2,932,052	$ 2,474,856
Less investment tax credits	(2,756,433)	(3,496)	(44,175)	–
	20,804,010	2,758,203	2,887,877	2,474,856
General and administrative	12,080,637	1,912,235	1,511,328	1,615,272
Depreciation and amortization	2,108,449	340,014	539,508	299,890
Interest earned	(2,046,454)	(268,619)	(100,952)	(188,149)
Net loss for the period	32,946,642	4,741,833	4,837,761	4,201,869
Deficit, beginning of period	–	28,204,809	23,367,048	19,165,179
Deficit, end of period	$ 32,946,642	$ 32,946,642	$ 28,204,809	$ 23,367,048
Loss per common share		$ 0.13	$ 0.16	$ 0.16
Weighted average number of common shares outstanding		36,566,787	30,532,767	26,351,829

** Period from inception on September 5, 1986 to May 31, 1998*
See accompanying notes

Consolidated Statements of Cash Flows

(Canadian Dollars)	Years ended May 31			
	1986 to 1998*	1998	1997	1996
Operating Activities				
Loss for the period	$ (32,946,642)	$ (4,741,833)	$ (4,837,761)	$ (4,201,869)
Add items not requiring a current outlay of cash				
Depreciation and amortization	2,159,503	391,068	539,508	299,890
Restructuring costs	626,040	–	–	–
Net change in non-cash working capital balances related to operations	665,242	(29,269)	717,333	(193,265)
Cash used in operating activities	(29,495,857)	(4,380,034)	(3,580,920)	(4,095,244)
Investing Activities				
Maturity of short-term investments	–	4,781,241	–	2,819,902
Purchase of short-term investments	(3,000,000)	–	(7,781,241)	–
Acquired research and development	(714,750)	(714,750)	–	–
Purchase of capital assets	(2,599,743)	(202,433)	(26,033)	(97,282)
Cash provided by (used in) investing activities	(6,314,493)	3,864,058	(7,807,274)	2,722,620
Financing Activities				
Issuance of warrants	540,000	–	3,453,138	106,125
Exercise of warrants	–	(2,928,271)	(90,992)	–
Issuance of common shares	36,565,747	2,948,486	7,117,958	2,728,775
Cash provided by financing activities	37,105,747	20,215	10,480,104	2,834,900
Increase (decrease) in cash and cash equivalents during the period	1,295,397	(495,761)	(908,090)	1,462,276
Cash and cash equivalents, beginning of period		1,791,158	2,699,248	1,236,972
Cash and cash equivalents, end of period	$ 1,295,397	$ 1,295,397	$ 1,791,158	$ 2,699,248

** Period from inception on September 5, 1986 to May 31, 1998*

See accompanying notes

May 31, 1998 and 1997

1 The Corporation and Basis of Presentation

Imutec Pharma Inc. ("Imutec Pharma" and the "Corporation") is a Canadian pharmaceutical Corporation engaged in the development and commercialization of innovative 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, Imutec Pharma intends to undertake late stage clinical development and marketing in cooperation with strategic pharmaceutical partners.

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 and the Montreal Exchange.

2 Significant Accounting Policies

Basis of Presentation

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 12, Canada and United States accounting policy differences.

Uses of Estimates

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.

Capital Assets

Capital assets are recorded at acquisition cost less any related refundable investment tax credits. Patents include costs incurred to register patents. 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
Patents	straight-line over seven years

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 of the period and are not significant.

Research and Development

Research costs are charged to expense as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. Refundable investment tax credits earned on scientific research and development expenditures are recorded as a reduction of the related current period expenses or as a reduction of the related fixed asset.

The Corporation capitalizes the costs of research and development acquired upon the acquisition of patents and licenses. These costs are amortized on a straight-line basis over seven years. Unamortized costs related to specific patents and licences will be written off in the period in which the Corporation assesses that the patent or licence has experienced a permanent impairment in value.

Research and development acquired does not necessarily reflect the present or future values of the patents and licences. The amount recoverable is dependent upon the continued advancement of the research and development through clinical trials and ultimately to commercialization. It is not possible to predict the outcome of future research and development programs.

3 Acquired Research and Development

In December 1997, the Corporation, through a newly incorporated subsidiary NuChem Pharmaceuticals Inc. ("NuChem") acquired certain patent rights and a sub-license to develop and commercialize the anti-cancer application of certain analogues (NCE'S). Consideration for this acquisition includes a 20% share interest in NuChem, $350,000 US in shares of the Corporation and up to $3,500,000 US in cash. As at May 31, 1998 the Corporation has made cash payments of $715,000 ($500,000 US). On June 15, 1998 the Corporation issued from treasury, 583,188 common shares of the Corporation in settlement of the $350,000 US. The remaining balance of up to $3,000,000 US is payable upon the achievement of certain milestones related to the commencement and completion of clinical trials related to the NCE's. All research and development activities to be undertaken by the subsidiary are to be funded by the Corporation.

4 Income Taxes

Carryforward Amounts

As at May 31, 1998, the Corporation had losses of approximately $6,923,000 and unutilized investment tax credits of approximately $2,663,000. To the extent that these amounts are not utilized, they expire as follows:

Year of Expiry	Income Tax Losses	Investment Tax Credits
1999	$ 381,000	$ –
2000	5,000	24,000
2001	–	117,000
2002	676,000	240,000
2003	1,654,000	1,000
2004	1,992,000	754,000
2005	2,215,000	404,000
2006	–	354,000
2007	–	379,000
2008	–	390,000
	$ 6,923,000	$ 2,663,000

In addition, the Corporation has accumulated timing differences of approximately $22,120,000. 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 $14,534,000 which has been completely offset by a valuation allowance.

5 Capital Assets

	As at May 31	
	1998	1997
Cost		
Furniture and equipment	$ 1,117,013	$ 1,324,961
Leasehold improvements and pilot plant	1,011,163	1,010,003
Patents	17,035	–
	2,145,211	2,334,964
Accumulated Depreciation		
Furniture and equipment	(815,363)	(1,035,625)
Leasehold improvements and pilot plant	(837,337)	(670,464)
Patents	(1,217)	–
	(1,653,917)	(1,706,089)
	$ 491,294	$ 628,875

6 Accounts Payable and Accrued Liabilities

	As at May 31	
	1998	1997
Accounts payable	$ 24,605	$ 184,113
Accrued liabilities	1,107,667	906,316
	$ 1,132,272	$ 1,090,429

7 Share Capital

(a) Authorized Shares

The Corporation has authorized an unlimited number of common shares.

(b) Issued and Outstanding Common Shares

	Number of common shares		
	1998	1997	1996
Balance, beginning of year	34,317,426	28,698,459	24,852,135
Exercise of special warrants (notes 7 (d) and (e))	2,428,571	–	3,537,500
Exercise of units (note 7 (f))	–	3,571,429	–
Exercise of purchase warrants (note 7 (d))	37,150	1,799,900	–
Exercise of stock options (note 7 (g))	2,000	247,638	250,000
Other issuances	–	–	58,824
Balance, end of year	36,785,147	34,317,426	28,698,459

	Stated value of common shares		
	1998	1997	1996
Balance, beginning of year	$ 34,243,301	$ 27,125,343	$ 24,396,568
Exercise of special warrants (notes 7 (d) and (e))	2,903,016	–	2,335,775
Exercise of units (note 7 (f))	–	4,549,799	–
Exercise of purchase warrants (note 7 (e))	32,692	2,372,155	–
Exercise of stock options (note 7 (g))	1,360	196,004	343,000
Expiry of warrants	11,418	–	–
Other issuances	–	–	50,000
Balance, end of year	$ 37,191,787	$ 34,243,301	$ 27,125,343

The legal stated capital of the Corporation is $40,234,294 at May 31, 1998 (1997 - $37,003,680).

(c) Issued and Outstanding Special Warrants and Common Share Purchase Warrants

	Number of special warrants and common share purchase warrants		
	1998	1997	1996
Purchase Warrants			
Balance, beginning of year	1,215,457	2,122,500	–
Exercise of special warrants (notes 7 (d) and (e))	607,142	–	2,122,500
Exercise of units (note 7 (f))	–	892,857	–
Exercise of purchase warrants (note 7 (d))	(37,150)	(1,799,900)	–
Expiry of purchase warrants (note 7 (d))	(285,450)	–	–
Balance, end of year	1,499,999	1,215,457	2,122,500
Special Warrants			
Balance, beginning of year	2,428,571	–	–
Issuance of special warrants	–	2,428,571	–
Exercise of special warrants	(2,428,571)	–	–
Balance, end of year	–	2,428,571	–
	1,499,999	3,644,028	2,122,500

	Stated value of special warrants and common share purchase warrants		
	1998	1997	1996
Purchase Warrants			
Balance, beginning of year	$ 336,562	$ 106,125	$ –
Exercise of special warrants (notes 7 (d) and (e))	218,571	–	106,125
Exercise of units (note 7 (f))	–	321,429	–
Exercise of purchase warrants (note 7 (d))	(3,715)	(90,992)	–
Expiry of purchase warrants (note 7 (d))	(11,418)	–	–
Balance, end of year	$ 540,000	$ 336,562	$ 106,125
Special Warrants			
Balance, beginning of year	3,131,709	–	–
Issuance of special warrants	–	3,131,709	–
Exercise of special warrants	(3,131,709)	–	–
Balance, end of year	$ –	$ 3,131,709	$ –
	$ 540,000	$ 3,468,271	$ 106,125

(d) 1996 Special Warrant Offering

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. The special warrants granted the holder the right to acquire, without 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). The one-half common share purchase warrants entitled the holder to acquire one common share for $1.40 (amended to $1.35 if exercised before November 15, 1996). On April 15, 1996, the special warrants were converted into 3,537,500 common shares and 1,768,750 purchase warrants. In addition, the Corporation granted 353,750 dealer purchase warrants (stated capital $0.10 per dealer purchase warrant) to an agent of the Corporation for its services in connection with the completion of the offering. Each purchase warrant entitles the holder to acquire one common share for $0.88.

During 1997, 1,483,300 purchase warrants and 316,600 dealer purchase warrants were exercised for cash consideration of $2,281,163. During 1998, the remaining 37,150 dealer purchase warrants were exercised for $32,692 and the remaining 285,450 purchase warrants expired, unexercised.

(e) 1997 Special Warrant Offering

On April 30, 1997, the Corporation completed a private placement of 2,428,571 special warrants for gross proceeds of $3,399,999 ($1.40 per special warrant) before deducting 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). The one-quarter common share purchase warrants entitled the holder to acquire one common share for $1.68 at any time on or before April 30, 1999. On July 8, 1997 the special warrants were converted into 2,428,571 common shares and 607,142 purchase warrants. As at May 31, 1998, all of the purchase warrants related to this offering were outstanding.

(f) 1997 Private Placement

On April 30, 1997, the Corporation completed a private placement of 3,571,429 units for gross proceeds of $5,000,000 ($1.40 per unit) before deducting expenses of $128,773. Each unit 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). The one-quarter common share purchase warrants entitled the holder to acquire one common share for $1.68 on or before April 30, 2002. On April 30, 1997 the units were converted into 3,571,429 common shares and 892,857 purchase warrants. In addition, the Corporation will have the right to require the holder of the purchase warrants to exercise the warrants if at any time after April 30, 1999 and before April 30, 2002 the closing price of the shares on the Toronto Stock Exchange has been $2.80 or greater for a period of 60 consecutive days. As at May 31, 1998 all of the purchase warrants related to this offering were outstanding.

(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 3,700,000. Stock option transactions for directors, officers and employees for the three years ended May 31, 1998 are summarized as follows:

	Number of stock options		
	1998	1997	1996
Balance, beginning of year	1,991,453	1,832,727	1,860,962
Granted	537,845	1,055,404	1,025,888
Exercised	(2,000)	(247,638)	(250,000)
Cancelled	(399,238)	(649,040)	(804,123)
Balance, end of year	2,128,060	1,991,453	1,832,727

As at May 31, 1998, 1,573,119 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 $1.06 as at May 31, 1998 for the 2,128,060 options outstanding. Expiration dates for these options range from June 22, 1998 to April 13, 2003.

8 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		
	1986 to 1998*	1998	1997	1996
(Increase) decrease				
Accounts receivable	$ (169,126)	$ (25,982)	$ 115,211	$ (78,640)
Prepaids and supplies	(297,904)	(45,130)	74,331	38,541
Increase (decrease)				
Accounts payable and accrued liabilities	1,132,272	41,843	527,791	(153,166)
	$ 665,242	$ (29,269)	$ 717,333	$ (193,265)

** Period from inception on September 5, 1986 to May 31, 1998*

9 Commitments

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

1999	$ 153,000
2000	49,000
2001	13,000
	$ 215,000

During the year ended May 31, 1998, the amount of payments under operating leases was approximately $162,000 (1997 - $152,000 and 1996 - $134,000).
Under contracts for research and development, the Corporation is committed to make payments of approximately $580,000.

10 Related Party Transactions

During the year ended May 31, 1998, the Corporation paid consulting fees to individuals (or companies controlled by those individuals) who were either officers, directors or shareholders of the Corporation of $104,000 (1997 - $95,000 and 1996 - $171,000).
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 $162,000 for the year ended May 31, 1998 (1997 - $245,000 and 1996 - $161,000).
Amounts due to related parties as at May 31, 1998 are $15,000 and are included in accounts payable and accrued liabilities (1997 - $117,000 and 1996 - $38,000).

11 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.

12 Canada 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 Corporation accounts for its stock options under Canadian GAAP, which, in the Corporation'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 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 Corporation to disclose pro forma net income and earnings per share information as if the Corporation had accounting for its stock options issued since 1995 under the fair value method. The Corporation 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 Corporation may grant up to 3,700,000 options to purchase common shares of the Corporation to its employees and directors at an exercise price equal to the quoted market price of the Corporation's common shares on the date of grant. Options are granted for an option period not to exceed five years, and vest 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, 1998 and 1997: (i) dividend yield of zero percent; (ii) expected volatility of sixty percent; (iii) risk-free interest rate of four and one half percent (1997- five percent) and (iv) expected lives of five years. The Corporation 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, 1998 and 1997 was $0.49 and $0.74, respectively.

A summary of the proforma impact on the consolidated statements of loss and deficit for the years ended May 31, 1998 and 1997 is shown in the table below:

	1998	1997
Loss for the year	$ 4,741,833	$ 4,837,761
Compensation expense related to the fair value of stock options	304,771	271,044
Pro forma loss for the period	$ 5,046,604	$ 5,108,805
Pro forma loss per common share	$ 0.14	$ 0.17

The following table contains a summary of the Corporation's stock option plan for the years ended May 31, 1998 and 1997:

	1998		1997	
	Options	Weighted-Avg. Exercise Price	Options	Weighted-Avg. Exercise Price
Outstanding at beginning of year	1,991,453	$ 1.16	1,832,727	$ 1.20
Granted	537,845	$ 0.89	1,055,404	$ 1.31
Exercised	(2,000)	$ 0.68	(247,638)	$ 0.79
Forfeited	(399,238)	$ 1.37	(649,040)	$ 1.66
Outstanding at end of year	2,128,060	$ 1.06	1,991,453	$ 1.16
Options exercisable at end of year	1,573,119	$ 1.09	1,268,715	$ 1.14

The following table summarizes information about stock options outstanding at May 31, 1998:

	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
$ 0.65 to $ 0.99	833,960	3.13 years	$ 0.76	506,241	$ 0.77
$ 1.00 to $ 1.99	1,252,891	3.12 years	$ 1.22	1,025,669	$ 1.21
$ 2.00 to $ 3.20	41,209	.86 years	$ 2.14	41,209	$ 2.14
	2,128,060	3.08 years	$ 1.06	1,573,119	$ 1.09

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 1999. There were five meetings of the Board during fiscal 1998. 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.

Given that the membership of the Board includes only one director who is an executive officer of the Corporation, the Board believes that it is sufficiently independent of management.

Board Committees

During fiscal 1998, 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. Marcus, and Mr. Diamond.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee is composed entirely of unrelated directors. The Committee is responsible for reviewing and making recommendations to the Board on, among other things, the compensation policies and practices for employees and senior executives of the Corporation, the implementation of succession plans, the evaluation of the performance of the Board and the adequacy of compensation of directors to reflect the responsibilities and risks involved in being an effective director. The Corporate Governance and Compensation Committee held three meetings in fiscal 1998 during which time its members were Mr. Campbell and Mr. Reiter.

Environmental Committee

The Environmental Committee is composed of Mr. Peter Campbell, a director of the Corporation, and 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 are aware of and comply with 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.

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 Chairperson to ensure the effective operation of the Board. The Chairperson is responsible for ensuring the effectiveness of the process the Board follows and the quality of information provided to directors by management. The Chairperson 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 Chairperson. The Chairperson 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 Chairperson 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. 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 Corporation's activities.

Board of Directors

Donald W. Paterson (Chairperson) [1]
President,
Cavandale Corporation, Toronto

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,
Toronto

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

Philippe G. Lacaille
President and Chief Executive Officer,
Lorus Therapeutics Inc., Toronto

Joel S. Marcus [1]
Chief Executive Officer,
Alexandria Real Estate Equities Inc.,
Los Angeles

Bruno Masson
Investment Manager,
SOFINOV (Société Financière D'Innovation),
Montréal

Barry J. Reiter [2]
Partner,
Tory Tory DesLauriers & Binnington, Toronto
Barristers and Solicitors

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

Guy Ely, M.D.
Vice President, Research and Development

Wayne D. Cockburn
Vice President, Business Development

Nadir Harjee
Vice President, Industrial Operations

Eckhardt Ferdinandi, Ph.D.
Director of Research

Karin C. Dschankilic, C.A.
Controller

Shane A. Ellis, B.A., LL.M.
Director of Legal Affairs – Corporate Secretary

Medical and Scientific Advisory Board (MSAB)

Dr. Donald P. Braun, Ph.D. (Chairperson)
Professor of Medicine and Immunology,
Rush Medical College

Director, Scientific Program Development,
Rush Cancer Institute, Chicago, Illinois

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

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

Dr. Phil Gold, CC, M.D., Ph.D.
Professor of Medicine, Physiology and
Oncology, McGill University, Montréal, Québec

Dr. Jules Harris, M.D.
Professor of Medicine and Immunology,
Rush Medical College, Chicago, Illinois

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

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

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, Corporate Communications
1285 Morningside Avenue
Scarborough, Ontario
Canada M1B 3W2
Tel: (416) 724-1509, Ext. 251
Fax: (416) 724-1167
E-mail: imutec@inforamp.net
Website: http://www.imutec.com

Annual Meeting

The 1998 Annual Meeting of Shareholders will be held on Wednesday, November 18, 1998 at 4:00 p.m. at:

Canadian Bar Association – Ontario
Education and Meeting Centre
Salon 2 & 3
200 – 20 Toronto Street
Toronto, Ontario

LORUS

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