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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2002

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission file number 0-19763

LORUS THERAPEUTICS INC.

(Exact name of Registrant as specified in its charter)

NOT APPLICABLE

(Translation of Registrant's name into English)

ONTARIO, CANADA

(Jurisdiction of incorporation or organization)

2 MERIDIAN ROAD, TORONTO, ONTARIO M9W 4Z7

(address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
NONE	

Securities registered or to be registered pursuant to Section 12(g) of the Act.

COMMON SHARES (NO PAR VALUE)

(Title of Class)

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 6, 2002, the Company had 144,422,262 common shares outstanding.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable to Form 20-F filed as an Annual Report.

Item 2. Offer Statistics and Expected Timetable

Not applicable to Form 20-F filed as an Annual Report.

Item 3. Key Information

The financial statements of Lorus Therapeutics Inc. (“Lorus” or the “Company”) have been prepared in accordance with generally accepted accounting principles (“GAAP”) as applied in Canada and in all material respects comply with U.S. GAAP. The Company also identifies significant differences between Canadian and United States GAAP in note 13 to the consolidated financial statements. All amounts are expressed in Canadian dollars unless otherwise noted. Annual references are to Lorus’s fiscal years which end on May 31.

Currency Exchange Rates

Lorus's accounts are maintained in Canadian dollars. In this Annual Report, all dollar amounts are expressed in Canadian dollars except where otherwise indicated.

The following table sets out, for the periods indicated, the high and low noon buying rates in New York City for cable transfers in foreign currencies, the average of such exchange rates on the last day of each month during the periods, and the end period rates, for Canadian dollars expressed in United States dollars, as certified for customs purposes by the Federal Reserve Bank of New York:

	Year End May 31, 2002	Year End May 31, 2001	Year End May 31, 2000	Year End May 31, 1999	Year End May 31, 1998
Period End	0.6547	0.6468	0.6677	0.6791	0.6863
Average	0.6380	0.6602	0.6794	0.6626	0.7092
High	0.6622	0.6831	0.6969	0.6891	0.7305
Low	0.6200	0.6333	0.6607	0.6341	0.6832

As at December 6, 2002, the noon buying rate in New York City for Canadian dollars expressed in United States dollars, as certified for customs purposes by the Federal Reserve Bank of New York, was 0.6386.

A. Selected Financial Data

Consolidated Statement of Loss and Deficit Data
For the five most recent financial years ended May 31

In thousands of Canadian dollars except per share amount	2002	2001	2000	1999	1998
Net sales or operating revenues	—	—	—	—	—
Net income (loss)	(13,487)	(15,213)	(8,599)	(4,623)	(4,742)
Loss from continuing operations per share	(0.09)	(0.11)	(0.10)	(0.12)	(0.13)
Basic and fully diluted net loss from operations per share	(0.09)	(0.11)	(0.10)	(0.12)	(0.13)
Weighted average number of shares used in computing basic and fully diluted net loss per share (in thousands)	143,480	140,776	86,121	37,858	36,567

Consolidated balance sheet data
For the five most recent financial years ended May 31

In thousands of Canadian dollars except per share amount	2002	2001	2000	1999	1998
Total assets	47,572	61,807	72,363	3,250	5,917
Net assets	44,140	55,942	68,755	1,920	4,785
Capital stock	119,009	117,324	114,924	39,490	37,732

B. Capitalization and Indebtedness

Not applicable to Form 20-F filed as an Annual Report.

C. Reason for the Offer and Use of Proceeds

Not applicable to Form 20-F filed as an Annual Report.

D. Risk Factors

Forward Looking Statements

This and other sections of this annual report on Form 20-F (the "Annual Report") contain forward-looking statements, reflecting the Company's current expectations regarding future events. Readers are cautioned that these forward-looking statements involve risks and uncertainties, including, without limitation, changing market conditions, the successful and timely completion of clinical studies, the impact of competitive products and pricing, new product development, uncertainties related to the regulatory approval process, product development delays, the Company's ability to attract and retain business partners, future levels of government funding and the Company's ability to obtain the capital required for research, product development, operations and marketing. These factors should be carefully considered and readers should not place undue reliance on the Company's forward-looking statements. Actual events may differ materially from the Company's current expectations due to risks and uncertainties. Certain of the risks and uncertainties are discussed in the section entitled "Risk Factors".

Lorus's statements of "belief" are based upon its results derived to date from its research and development program with animals and its clinical trials in humans and upon which the Company believes there is a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals, whether a new therapeutic will be proved to be safe and effective in humans. There can be no assurance that the particular result expected by the Company will occur. Except as required by law, the Company undertakes no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report or to conform these statements to actual results or to changes in the Company's expectations.

THE COMPANY'S BUSINESS IS SUBJECT TO A NUMBER OF RISK FACTORS THAT ARE SET OUT BELOW:

No Assurance of Successful Development

Lorus has not produced or commercially marketed any product. Although the Company has entered into an agreement in respect of the commercial sale of Virulizin® in Mexico, there can be no assurance that any sales of the product will be made. There can be no assurance that the Company will ever successfully develop commercial products, that the Company will ever achieve significant revenues from such products if they are successfully developed, or that the Company will ever be profitable.

Lack of Operating Profits

Lorus commenced its research and development activities in 1986. To date, the Company has not earned any operating revenue, generated positive cash flow or earned operating profits, and the Company expects to incur significant operating losses for the foreseeable future. To date, there have been no revenues recorded from the sale of any products. Lorus expects to accumulate losses as it continues its product research and development and continues its clinical trials and applies for regulatory approval for the sale of its products. The Company expects to continue to incur substantial operating losses unless and until such time as product sales and royalty payments generate sufficient revenues to fund its continuing operations. The Company expects to have quarter-to-quarter fluctuations in revenues, expenses and losses, some of which could be significant. The Company's ability to achieve a profitable level of operations is dependent, in large part, on completing product development, obtaining regulatory approvals, and commercializing its products. There can be no assurance that the Company will ever achieve a profitable level of operations.

Liquidity and Capital Requirements

As at May 31, 2002, the Company's current assets exceeded current liabilities by $35.6 million. Lorus will require substantial additional funds for clinical trials. The Company may seek to obtain additional funds for these purposes through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies and/or from other sources. Any such financing may have a dilutive effect on the holdings of shareholders. There can be no assurance that additional funding will be available at all or on acceptable terms to permit successful commercialization of the Company's products.

Patents and Proprietary Technology

The Company's success depends in part on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. The Company has filed patent applications in Canada, the United States and internationally. Other than the patents granted by the patent offices in Canada, the United States and internationally to date, there can be no assurance that these patent applications will be allowed, that the Company will develop additional proprietary products that are patentable, that patents that have already been granted to the Company will provide it with any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the Company's ability to do business. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products, or design around the products patented, if any, by the Company. In addition, the Company may be required to obtain licences under patents or other proprietary rights of third parties. There can be no assurance that any licences required under such patents or proprietary rights will be available on terms acceptable to the Company. If Lorus does not obtain such licences,

it could encounter delays in introducing one or more of its products to the market, while it attempts to design around third party patents, or the Company could find that the development, manufacturing or sale of products requiring such licences could be foreclosed. In addition, Lorus could incur substantial costs in defending suits brought against it on patents or in suits in which it attempts to enforce its own patents, if any, against other parties.

Until such time as further patents are issued to the Company, its ability to maintain the confidentiality of its technology is crucial to its ultimate possible commercial success. While the Company has adopted procedures designed to protect the confidentiality of its technology, there can be no assurance that such arrangements will be effective, that third parties will not gain access to the Company's trade secrets or disclose the technology, or that the Company can meaningfully protect its rights to its trade secrets. Further, by seeking patent protection in various countries, it is inevitable that a substantial portion of the Company's technology will become available to its competitors, through publication of such patent applications. In addition, the Company uses contract manufacturers to manufacture its products. In order for these manufacturers to produce the Company's products, the Company must provide them with valuable confidential information regarding their formulation. If the Company is unable to maintain the confidentiality of its technology, this could have a material adverse impact on the Company's business and financial condition.

Dependence on the Successful Outcome of Clinical Trials

In order to commercialize its products, Lorus must obtain approval from governmental regulatory agencies. Regulatory approval can take several years and can involve substantial expenditures. There can be no assurance that difficulties or excessive costs will not be encountered by the Company in its efforts to secure necessary approvals or licences, which could delay or prevent the Company from marketing its products. There can be no assurance that the Company will ever obtain necessary regulatory approvals or licences for any of its products.

Before obtaining regulatory approval for the sale of the Company's products, they must be subjected to extensive preclinical and clinical testing to demonstrate their safety and efficacy for humans. Lorus's success will depend on the success of its currently ongoing clinical trials and subsequent clinical trials that have not yet begun. There are a number of difficulties and risks associated with clinical trials. The possibility exists that:

- the Company may discover that a product candidate does not exhibit the expected therapeutic results in humans;
- results may not be statistically significant or predictive of results that will be obtained from large-scale, advanced clinical trials;
- patient recruitment may be slower than expected;
- the Company or the United States Food and Drug Administration (FDA) or the Health Products and Food Branch of Health Canada (HPFB) may suspend the clinical trials of the Company's product candidates;
- the Company may discover that a product may cause harmful side effects; and
- patients may drop out of Lorus's clinical trials.

Given the uncertainty surrounding the regulatory and clinical trial process, the Company may not be able to develop safe, commercially viable products. If Lorus is unable to successfully develop and commercialize any of its products, this would severely harm its business, financial condition and results of operations and have an adverse impact on the Company's share price.

Reliance on Clinical Investigators and Contract Research Organizations

Lorus depends on independent clinical investigators and contract research organizations to conduct its clinical trials. Contract research organizations also assist it in the collection and analysis of the Company's data. These investigators and contract research organizations are not the Company's employees and it cannot control, other than by contract, the amount of resources, including time, that they devote to the Company's products. If independent investigators fail to devote sufficient resources to the development of the Company's products, or if their performance is substandard, it will delay the approval and commercialization of the Company's products. Further, the FDA and the HPFB require that the Company comply with standards, commonly referred to as "good clinical practice", for conducting, recording and reporting clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial subjects are protected. If the Company's independent clinical investigators and contract research organizations fail to comply with good clinical practice, the results of its clinical trials could be called into question and the clinical development of the Company's products could be delayed. Failure of clinical investigators and contract research organizations to meet their obligations to the Company or comply with good clinical practice procedures could adversely affect the clinical development of Lorus's products, and have a material adverse effect on its business and financial condition.

Reliance on Contract Manufacturing

The Company currently relies upon contract manufacturers to manufacture small quantities of its products for use in clinical trials. The Company intends to continue to rely upon these and other third parties to manufacture its products in the future. Lorus has limited manufacturing experience and no manufacturing facilities. If Lorus is unable to obtain new or retain its current contract manufacturers, it will not be able to effectively conduct its clinical trials or ultimately commercialize its products. In addition, the Company's current and any future contract manufacturers may not comply with government regulations, or other regulatory requirements relating to the manufacturing of its products, including compliance with "good manufacturing practice", or GMP. GMP requires that the methods, facilities or controls used for a drug product's manufacture, processing, packing or holding follow rules and guidelines to meet certain safety requirements and to ensure the drug has the characteristics and strength the Company claims it has, and meets quality and purity requirements. The risks associated with the Company's reliance on contract manufacturers include the following:

- Contract manufacturers may encounter difficulties in achieving volume production, quality control and quality assurance, and also may experience shortages in qualified personnel. As a result, the Company's contract manufacturers might not be able to meet its clinical development schedules or adequately manufacture the Company's products in commercial quantities when required.

- Switching manufacturers may be difficult because the number of potential manufacturers is limited. It may be difficult for the Company to find a replacement manufacturer quickly or on terms acceptable to it, or at all.

- The Company's contract manufacturers may not remain in the contract manufacturing business for the time required to successfully produce, store and distribute its products.

- The Company's contract manufacturers are subject to ongoing periodic, unannounced inspection by the FDA and the HPFB and corresponding governmental agencies to ensure strict compliance with, among other things, GMP, in addition to other governmental regulations and corresponding foreign standards. Lorus does not have control over, other than by contract, third party manufacturers' compliance with these regulations and standards.

- If Lorus needs to change manufacturers, the FDA and the HPFB and corresponding regulatory agencies must approve these manufacturers in advance, which will involve testing and additional inspections to ensure compliance with these regulations and standards.

The Company's dependence on third parties for the manufacture of its products may have an adverse impact on its ability to develop and deliver products on a timely and competitive basis and may have a material adverse effect on its business and financial condition.

Sales, Marketing and Distribution Capabilities

Lorus does not have any sales, marketing or distribution capabilities. In order to commercialize its products, if any are approved, the Company must either acquire or internally develop sales, marketing and distribution capabilities or make arrangements with third parties to perform these services for it. If Lorus obtains regulatory approval for its existing products, it intends to rely on relationships with one or more pharmaceutical companies or other third parties with established distribution systems and direct sales forces to market its products. If the Company decides to market any of its products directly, it must either acquire or internally develop a marketing and sales force with technical expertise and with supporting distribution capabilities. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of management and key personnel, and have a negative impact on the Company's product development efforts. Moreover, Lorus may not be able to establish in-house sales and distribution capabilities or relationships with third parties. The inability to market its products could have a material adverse effect on the Company's business and financial condition.

Technology and Competition

Lorus's success depends on developing and maintaining a competitive position in the development of products and technologies in its area of expertise. Biotechnology is a rapidly evolving field in which new developments are expected to continue at a fast pace. Technological competition in the industry from other biotechnology companies and others diversifying into the field is intense and expected to increase. Many of these companies have substantially greater research and development capability and experience, and marketing, financial and managerial resources than Lorus does, and represent significant long-term competition for Lorus. The acquisition of competing biotechnology companies by large There can be no assurance that

developments by others will not render Lorus's products or technologies non-competitive or obsolete, or that Lorus will be able to achieve the level of acceptance within the medical community necessary to compete successfully. Lorus is aware of several potential competitors that are at various stages of development or that have commercial sale of products that may address similar cancer indications. The success of the Company's competitors and their products may have a material adverse impact on Lorus's business and financial condition.

Product Liability and Insurance

The clinical testing and proposed commercialization of Virulizin® and the clinical testing of GTI-2040 and GTI-2501 involve risks of product liability as well as patient injury. While the Company currently maintains limited product liability insurance, there can be no assurance that product liability insurance will continue to be available to the Company on commercially reasonable terms. Product liability claims might also exceed the amounts of such coverage. If Lorus is unable to obtain insurance, is unable to obtain insurance on commercially reasonable terms or if any claims against Lorus exceed the amounts of its insurance coverage, this could have a material adverse impact on Lorus's business and financial condition.

Dependence on Key Personnel

The Company's success depends in large part upon its ability to attract and retain highly qualified scientific and management personnel. Lorus faces competition for such personnel from other companies, academic institutions, government entities and other organizations. There can be no assurance that the Company will retain its current personnel and will be able to continue to attract qualified personnel.

Volatility of Share Price

Historically, the market price for securities of biopharmaceutical companies, including Lorus's, has been volatile. Future announcements concerning Lorus or its competitors, including the results of testing, technological innovations or commercial products, government regulations, developments concerning proprietary rights, litigation and public concerns as to the safety of the Company's products may have a significant impact on the market price of its common shares. In addition, the Company's share price may be affected by sales by existing shareholders.

Dividend Policy

The Company has never paid dividends on its common shares and does not anticipate paying dividends on its common shares in the foreseeable future.

Item 4. Information on the Company

A. History and Development of the Company

Lorus Therapeutics Inc. was incorporated under the *Business Corporations Act* (Ontario) on September 5, 1986 under the name RML Medical Laboratories Inc. On October 28, 1991, RML Medical Laboratories Inc. amalgamated with Mint Gold Resources Ltd., resulting in the Company becoming a reporting issuer (as defined under applicable securities law) in Ontario, on such date. On August 25, 1992, the Company changed its name to IMUTEC Corporation. On November 27, 1996, the Company changed its name to Imutec Pharma Inc., and on November 19, 1998, the Company changed its name to Lorus Therapeutics Inc.

The address of the Company's head and principal office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7.

Unless otherwise noted or the context otherwise indicates, references to the Company include Lorus together with its subsidiaries. Lorus's subsidiaries are GeneSense Technologies Inc. ("**GeneSense**"), a company incorporated under the laws of Canada of which the Company owns 100% of the issued and outstanding share capital and NuChem Pharmaceuticals Inc. ("**NuChem**"), a company incorporated under the laws of Ontario of which Lorus owns 80% of the issued and outstanding share capital.

Certain terms not otherwise defined in this Annual Report are found in the Glossary, located at pages 80 through 82 of this Annual Report.

B. Business Overview

Lorus is a biopharmaceutical company focused on the research and development of cancer therapies. Lorus's goal is to capitalize on its research, 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 its own discovery efforts and an in-licensing and acquisition program, the Company is building a portfolio of promising anti-cancer drugs. With products entering all stages of evaluation, from pre-clinical through Phase III trials, the Company is a leader in the development of therapeutics that complement the new cancer treatment paradigm that seeks to manage the disease with efficacious, non-toxic compounds that improve patients' quality of life.

Lorus seeks to reduce the risk associated with individual products or single technology platforms by pursuing a wide variety of promising anti-cancer compounds derived from different platform technologies. Lorus intends to develop compounds that are efficacious and have low-toxicity, ensuring the drugs will be well tolerated by patients and will be able to be tested in combination with other approved compounds on the market.

From January 1987 to December 1997, the Company focused its efforts solely on the development of VIRULIZIN®, a potential new drug functioning as a biologic response modifier for the treatment of cancer. In November 1997, the Company sub-licensed, on an exclusive world-wide basis until the later of patent expiry or marketing approval, from Ion Pharmaceuticals, Inc. ("**Ion**") (a wholly-owned subsidiary of Sheffield Pharmaceuticals, Inc.) analogues of clotrimazole ("**CLT**"), a molecule with anti-angiogenic and anti-proliferative properties, for anti-cancer indications as well as actinic keratosis.

On October 29, 1999, Lorus acquired all of the issued and outstanding shares of GeneSense (the "**GeneSense Acquisition**"), a private biopharmaceutical company that specializes in developing novel oligonucleotide therapeutics for cancer and infectious diseases. Pursuant to the GeneSense Acquisition, the Company obtained two anti-cancer products in late-stage, pre-clinical development, in addition to several other products in the research stage. Lorus believes that the GeneSense Acquisition also added depth to its research and development capabilities.

As a consequence of the GeneSense Acquisition, Lorus now holds an exclusive worldwide license from the University of Manitoba and Cancer Care Manitoba (formerly The Manitoba Cancer Treatment and Research Foundation) to develop certain oligonucleotide technologies. Antisense technology, one of the oligonucleotide technologies, works at the genetic level to interrupt the process by which disease-causing proteins are produced in order to treat a wide range of diseases, including cancer and infectious diseases.

Business Strategy

By developing cancer therapeutics using different mechanisms of action that may be efficacious against a wide variety of cancers, the Company seeks to maximize its opportunity to address multiple cancer therapeutic markets. In its efforts to obtain the greatest return on its investment in each drug candidate, the Company separately evaluates the merits of each candidate throughout the clinical trial process and considers commercialization opportunities when appropriate. The Company intends to partner with pharmaceutical companies for the sales, marketing and distribution of products. See “Co-development, Marketing and Distribution.”

Production and Testing

Preclinical testing and certain research and development work has been performed at various contract laboratories. Clinical trials have been undertaken at various medical centers in Canada, the United States and Mexico.

Manufacturing

On May 12, 1998, the Company signed an agreement with Torcan Chemicals for the manufacture of five NuChem Analogues. The compounds were synthesized in sufficient quantity for use in the pre-clinical toxicity and efficacy studies.

The Company has entered into a contract with Proligo LLC, a cGMP manufacturer, to produce its bulk active drug substance for its antisense compounds. The manufacturer supplied bulk active drug for Good Laboratory Practices (GLP) toxicology studies and drug stability studies and has supplied bulk active drug, subsequently formulated, for both the GTI-2040 and GTI-2501 clinical trials. Proligo has filed a drug master file (DMF) with the FDA and have supplied the necessary documentation to support the IND submission.

In March 2001, the Company signed an agreement with Dalton Chemical Laboratories Inc. for the manufacturing of its immunotherapeutic compound VIRULIZIN®. The drug is being manufactured for the Phase III clinical trial program that the Company initiated in fiscal 2002 and for the planned supply of VIRULIZIN® for the Company’s licensee, Mayne Pharma Inc. (formerly Faulding Canada Inc.) for malignant melanoma treatment in Mexico.

Intellectual property and Protection of Confidential Information and Technology

The Company regards its issued patents and pending applications as important in establishing and maintaining a competitive position with respect to its products and technology. As at November 30, 2002, the Company owns or has rights under 40 issued or pending patents in Canada and the United States as well as a number of other pending patent applications in multiple jurisdictions.

With regard to antisense compounds, the Company has protected its intellectual property rights by, among other things, filing patent applications with respect to intellectual property considered important to the development of its business. The Company also relies upon trade secrets, unpatented know-how and continuing technology innovation to develop and maintain its competitive position.

There can be no assurance, however, that pending applications will result in issued patents, or that issued patents will be held valid and enforceable if challenged, or that a competitor will not be able to circumvent any such issued patents by adoption of a competitive, though non-infringing product or process. Interpretation and evaluation of pharmaceutical or biotechnology patent claims present complex and often novel legal and factual questions. The Company's business could be adversely affected by increased competition in the event that any patent granted to it is held to be invalid or unenforceable or is inadequate in scope to protect the Company's operations.

While the Company believes that its products and technology do not infringe proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future or that such claims will not be successful. Furthermore, the Company could incur substantial costs in defending itself against patent infringement claims brought by others or in prosecuting suits against others.

In addition, no assurance can be given that others will not obtain patents that the Company would need to license, or that if a licence is required that it would be available on reasonable terms, or that if a licence is not obtained that the Company would be able to circumvent, through a reasonable investment of time and expense, such outside patents. Whether the Company obtains a licence would depend on the terms offered, the degree of risk of infringement, the vulnerability of the patent to invalidation, and the ease of circumventing the patent.

Until such time, if ever, that further patents are issued to the Company, the Company will rely upon the law of trade secrets to the extent possible given the publication requirements under international patent treaty laws and/or requirements under foreign patent laws to protect its technology and the products incorporating the technology. In this regard, the Company has adopted certain confidentiality procedures. These include: limiting access to its confidential information to certain key personnel; requiring all of its directors, officers, employees and consultants and others who may have access to the Company's intellectual property to enter into confidentiality agreements which prohibit the use of or disclosure of confidential information to third parties; and implementing physical security measures designed to restrict access to such confidential information and products. The ability of the Company to maintain the confidentiality of its technology is crucial to its ultimate possible commercial success. No assurance can be given that the procedures adopted by the Company to protect the confidentiality of its technology will be effective, that third parties will not gain access to Registrant's trade secrets or disclose the technology, or that the Company can meaningfully protect its rights to its technology. Further, by seeking the aforementioned patent protection in various countries, it is inevitable that a substantial portion of the Company's technology will become available to its competitors, through publication of such patent applications.

License Agreement

The University of Manitoba (the "**University**"), Cancer Care Manitoba (formerly the Manitoba Cancer Treatment and Research Foundation) ("**Cancer Care**"), Dr. Jim Wright and Dr. Aiping Young entered into an exclusive license agreement (the "**License Agreement**") with GeneSense dated June 20, 1997 pursuant to which GeneSense was granted an exclusive world-wide license to certain patent rights with the right to sub-license. In consideration for the exclusive license to GeneSense of the patent rights, the University and Cancer Care are entitled to an aggregate of 1.67% of the net sales received by GeneSense from the sale of products or processes derived from the patent rights and 1.67% of all monies received by GeneSense from sub-licenses of the patent rights. GeneSense is solely responsible for the preparation, filing, prosecution and maintenance of all patent applications and patents included in the patent rights and all related expenses. Pursuant to the terms of

the License Agreement, any and all improvements to any of the patent rights derived in whole or in part by GeneSense after the date of the License Agreement are not included within the scope of the License Agreement and do not trigger any payment of royalties.

Regulatory Requirements

Regulation by government authorities in Canada, the United States, Mexico and the European Union is a significant factor in the current research and drug development activities of the Company. In order to clinically test, manufacture and market drug products for therapeutic use, the Company must satisfy the rigorous mandatory procedures and standards established by the regulatory agencies in the countries in which it currently operates or intends to operate.

The laws of most of these countries require the licensing of manufacturing facilities, carefully controlled research and the extensive testing of products. Biotechnology companies must establish the safety and efficacy of their new products in clinical trials, as well as satisfy all regulatory requirements. The safety and efficacy of a new drug must be shown through clinical trials of the drug carried out in accordance with the mandatory procedures and standards established by regulatory agencies.

Regulatory compliance can take several years and can involve substantial expenditures. There can be no assurance that difficulties or excessive costs will not be encountered by the Company in its efforts to secure necessary approvals, which could delay or prevent the Company from manufacturing or marketing its products.

Canada

In Canada, the manufacture and sale of new drugs are controlled by the Therapeutic Products Programme ("**TPP**"). New drugs must pass through a number of testing stages, including pre-clinical testing and clinical trials. Preclinical testing involves testing the new drug's chemistry, pharmacology and toxicology *in vitro* and in animals. Successful results (that is, potentially valuable pharmacological activity combined with an acceptable low level of toxicity) enable the manufacturer of the new drug to file an IND submission to begin clinical trials involving humans.

In order to study a drug in Canadian patients, an IND submission must be filed with the TPP. The IND submission must contain specified information, including the results of the pre-clinical tests completed at the time of the submission and any available information regarding use of the drug in humans. In addition, since the method of manufacture may affect the efficacy and safety of a new drug, information on manufacturing methods and standards and the stability of the substance and dosage form must be presented. Production methods and quality control procedures must be in place to ensure an acceptably pure product, essentially free of contamination, and to ensure uniformity with respect to all quality aspects.

Provided the TPP does not reject an IND submission, clinical trials can begin. Clinical trials are carried out in three phases or a combination thereof. Phase I involves studies to evaluate toxicity in humans. The new drug is administered to human patients who have met the clinical trial entry criteria to determine pharmacokinetics, human tolerance and prevalence of adverse side effects. Phases II and III involve therapeutic studies. In Phase II, efficacy, dosage, side effects and safety are established in a small number of patients who have the disease or disorder that the new drug is intended to treat. In Phase III, there are controlled clinical trials in which the new drug is administered to a large number of patients who are likely to receive benefit from

the new drug. In Phase III, the effectiveness of the new drug is compared to that of standard accepted methods of treatment in order to provide sufficient data for the statistical proof of safety and efficacy for the new drug.

If clinical studies establish that a new drug has value, the manufacturer submits a NDS application to the TPP for marketing approval. The NDS contains all information known about the new drug, including the results of pre-clinical testing and clinical trials. Information about a substance contained in an NDS includes its proper name, its chemical name, details on its method of manufacturing and purification and its biological, pharmacological and toxicological properties. The NDS also provides information about the dosage form of the new drug, including a quantitative listing of all ingredients used in its formulation, its method of manufacture, packaging and labelling, the results of stability tests, and its diagnostic or therapeutic claims and side effects, as well as details of the clinical trials to support the safety and efficacy of the new drug. All aspects of the NDS are critically reviewed by the TPP. If an NDS is found satisfactory, a notice of compliance is issued permitting the new drug to be sold.

The TPP has a policy of priority evaluation of new drug submissions for all drugs intended for serious or life-threatening diseases for which no drug product has received regulatory approval in Canada and for which there is reasonable scientific evidence to indicate that the proposed new drug is safe and may provide effective treatment.

The monitoring of a new drug does not cease once it is on the market. For example, a manufacturer of a new drug must report any new information received concerning serious side effects, as well as the failure of the new drug to produce desired effects. As well, if the TPP determines it to be in the interest of public health, a notice of compliance for a new drug may be suspended and the new drug may be removed from the market.

An exception to the foregoing requirements relating to the manufacture and sale of a new drug is the limited authorization that may be available in respect of the sale of new drugs for emergency treatment. Under the special access program, the TPP may authorize the sale of a quantity of a new drug for human use to a specific practitioner for the emergency treatment of a patient under the practitioner's care. Prior to authorization, the practitioner must supply the TPP with information concerning the medical emergency for which the new drug is required, such data as is in the possession of the practitioner with respect to the use, safety and efficacy of the new drug, the names of the institutions at which the new drug is to be used and such other information as may be requested by the TPP. In addition, the practitioner must agree to report to both the drug manufacturer and the TPP the results of the new drug's use in the medical emergency, including information concerning adverse reactions, and must account to the TPP for all quantities of the new drug made available.

The Canadian regulatory approval requirements for new drugs outlined above are similar to those of other major pharmaceutical markets. While the testing carried out in Canada is often acceptable for the purposes of regulatory submissions in other countries, supplementary testing may be requested by individual regulatory authorities during their assessment of any submission. There can be no assurance that the clinical testing conducted under the TPP authorization or the approval of regulatory authorities of other countries will be accepted by regulatory authorities outside Canada or such other countries.

United States

In the United States, the manufacture and sale of new drugs are controlled by the FDA. New drugs require FDA approval of a marketing application (e.g., an NDA or product licence application) prior to commercial sale. To obtain marketing approval, data from adequate and well-controlled clinical investigations, demonstrating to the FDA's satisfaction a new drug's safety and effectiveness for its intended use, are required. Such data are generated in studies conducted pursuant to an IND submission, similar to that required in Canada. As in Canada, clinical studies are characterized as Phase I, Phase II and Phase III trials or a combination thereof. In a marketing application, the manufacturer must also demonstrate the identity, potency, quality and purity of the active ingredients of the new drug involved, and the stability of those ingredients. Further, the manufacturing facilities, equipment, processes and quality controls for the new drug must comply with the FDA's cGMP regulations for drugs or biologic products both in a pre-licensing inspection before product licensing and in subsequent periodic inspections after licensing. In the case of a biologic product, an establishment licence must be obtained prior to marketing and batch releasing.

A five-year period of market exclusivity for a drug comprising a New Chemical Entity ("**NCE**") is available to an applicant that succeeds in obtaining FDA approval of a NCE, provided the active ingredient of the NCE has never before been approved in a NDA. During this exclusivity period, the FDA may not approve any abbreviated application filed by another sponsor for a generic version of the NCE. Further, a three-year period of market exclusivity for a new use or indication for a previously approved drug is available to an applicant that submits new clinical studies that are essential to support the new use or indication. During the latter period of exclusivity, the FDA may not approve an abbreviated application filed by another sponsor for a generic version of the product for that use or indication.

The FDA has "fast track" regulations intended to accelerate the approval process for the development, evaluation and marketing of new drugs used to diagnose or treat life-threatening and severely debilitating illnesses for which no satisfactory alternative therapies exist. "Fast track" designation affords early interaction with the FDA in terms of protocol design, and permits, although it does not require, the FDA to issue marketing approval after completion of early stage clinical trials (although the FDA may require subsequent clinical trials or even post-approval efficacy studies).

Mexico

In Mexico, the manufacture and sale of new drugs are controlled by the SSA. The regulatory requirements in Mexico operate under similar regulatory principles as other international jurisdictions.

Summary

The process of completing clinical trials and obtaining regulatory approval for a new drug takes a number of years and require the expenditure of substantial resources. Once a new drug or product licence application is submitted, there can be no assurance that a regulatory agency will review and approve the application in a timely manner. Even after initial approval has been obtained, further studies, including post-marketing studies, may be required to provide additional data on safety necessary to gain approval for the use of the new drug as a treatment for clinical indications other than those for which the new drug was initially tested. Also, regulatory agencies may require post-marketing surveillance programs to monitor a new drug's side effects. Results of post-marketing programs may limit or expand the further marketing of new drugs. A serious

safety or effectiveness problem involving an approved new drug may result in a regulatory agency requiring withdrawal of the new drug from the market and possible civil action.

In addition to the regulatory product approval framework, biotechnology companies, including the Company, are subject to regulation under local provincial, state and federal law, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulation, including possible future regulation of the biotechnology industry.

Regulatory Strategy

The Company's overall regulatory strategy is to work with the TPP in Canada, the FDA in the United States, the EMEA in Europe, the SSA in Mexico and any other local regulatory agencies to have drug applications approved for use of VIRULIZIN®, GTI-2040, GTI-2501, and NuChem analogues in clinical trials (alone and/or in combination with chemotherapeutic compounds) and subsequently for sale in international markets. Where possible, the Company intends to take advantage of opportunities for accelerated consideration of drugs designed to treat rare and serious or life-threatening diseases. The Company also intends to pursue priority evaluation of any application for marketing approval filed in Canada, the United States, the European Economic Community or Mexico. The Company also intends to file additional drug applications in other markets where commercial opportunities exist. There can be no assurance that the Company will be able to pursue these opportunities successfully.

Co-Development, Marketing and Distribution

The Company's objective is to maximize the therapeutic value and potential commercial success of VIRULIZIN®, its antisense technology, and the NuChem analogues. In its efforts to obtain the greatest return on its investment in each drug candidate, the Company separately evaluates the merits of each candidate throughout the development process and will consider commercialization opportunities when appropriate. The Company intends to partner with pharmaceutical companies for the sales, marketing and distribution of the Company's products.

The Company has a variety of academic partnerships including: Hospital for Sick Children; McGill University; Ontario Cancer Institute; United States NCI; University of Western Ontario, and the University of Chicago Cancer Center.

In July 2000, the Company entered into a five year agreement with AVI BioPharma Inc. ("**AVI**") Portland, Oregon, U.S.A. (a leading U.S. company in the area of antisense technology) for the evaluation and co-development of antisense drug therapies for cancer and infectious diseases. Under the terms of the agreement, the Company and AVI will each retain an ownership interest in any jointly developed compound. Drugs discovered together may also be developed independently with royalty payments to the other party.

In September 2001, the Company executed a licence and distribution agreement with Mayne Pharma Inc. (formerly Faulding Canada Inc.). Mayne Pharma will distribute and sell VIRULIZIN® in Mexico for the treatment of malignant melanoma. Under the terms of the agreement, Mayne Pharma has exercised its option to obtain the rights to distribute and sell VIRULIZIN® in Brazil and also for Argentina. The Company will arrange for the manufacture of VIRULIZIN® and receive a royalty on sales.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. There are many companies in both these industries that are focusing their efforts on activities similar to those of the Company. Some of these are companies with established positions in the pharmaceutical industry and may have substantially more financial and technical resources, more extensive research and development capabilities, and greater marketing, distribution, production and human resources than the Company. In addition, the Company may face competition from other companies for opportunities to enter into collaborative agreements with biotechnology and pharmaceutical companies and academic institutions. Many of these other companies are not solely focused on cancer, as is the mission of the Company's drug development. The Company specializes in the development of drugs that will help manage cancer. With products in late stage pre-clinical through to Phase III development, spanning three different platform technologies focused on cancer, the Company believes it has multiple opportunities for success.

Products that may compete with the Company's include chemotherapeutic agents, monoclonal antibodies, antisense therapies and immunotherapies with novel mechanisms of action. These are drugs that are delivered by specific means and are targeting cancers with large disease populations. The Company also expects it may experience competition from established and emerging pharmaceutical and biotechnology companies that have other forms of treatment for the cancers targeted by the Company. There are many drugs currently in development for the treatment of cancer that employ a number of novel approaches for attacking these cancers. Cancer is a complex disease with more than 100 indications requiring drugs for treatment. The drugs in competition with the Company's drugs have specific targets for attacking the disease, targets which are not necessarily the same as the Company's. These competitive drugs therefore could potentially also be used together in combination therapies with the Company's drugs to manage the disease.

C. Organizational Structure

Lorus' subsidiaries are GeneSense, a company incorporated under the laws of Canada of which the Company owns 100% of the issued and outstanding share capital and NuChem, a company incorporated under the laws of Ontario of which Lorus owns 80% of the issued and outstanding common share capital.

D. Property, Plants and Equipment

The Company's head office, which occupies 20,500 square feet, is located at 2 Meridian Road, Toronto, Ontario. The premises include approximately 8,000 square feet of laboratory and research space.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

The following discussion should be read in conjunction with the audited consolidated financial statements and notes prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Company also identifies significant differences between Canadian and United States GAAP in note 13 to the consolidated financial statements. All amounts are expressed in Canadian dollars unless otherwise noted. Annual references are to the Company's fiscal years which end on May 31.

The Company is a biopharmaceutical company specializing in the research, development and commercialization of pharmaceutical products and technologies for the management of cancer. With products in all stages of evaluation, from preclinical through Phase III trials, and a product approved in Mexico for malignant melanoma, the Company is a leader in the development of therapeutics that seek to manage cancer with efficacious non-toxic compounds that improve patients' quality of life.

The success of the Company depends on the efficacy and safety of its products in clinical trials and on obtaining the necessary regulatory approvals to market its products. The Company believes that the treatment and management of cancer will continue to be addressed through combinations of different therapies. Many cancer drugs currently approved for use are very toxic with severe side effects. The Company is a leader in the development of cancer drugs with low toxicity. Effective drugs with lower toxicity and fewer side effects could have broad application in cancer treatment while improving the quality of life of a patient with cancer.

The Company's strategy is to pursue the development of drug candidates using several therapeutic approaches, dependent upon different technologies, which mitigates the development risks associated with a single technology platform. The Company's most advanced anticancer drugs in its pipeline flow from three platform technologies: Immunotherapeutics (Virulizin®); Antisense (GTI compounds); and small molecule or Chemotherapeutics (NuChem compounds).

Critical Accounting Policies

We periodically review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosure system provided accurate and transparent information relative to current economic and business environment. As part of this process, we have reviewed our selection, application and communication of critical accounting policies and financial disclosures. We have determined that our critical accounting policies relating to our core ongoing business activities are primarily those that relate to our research and development programs. Other important accounting policies are described in Note 2 to our consolidated financial statements for the year ended May 31, 2002.

Research and Development

The Company incurs research and development costs in connection with advancing its compounds through pre clinical and clinical trials. Research and development costs include internal resource costs as well as external suppliers for the manufacturing of drugs and for the performance of clinical trials and other related activities. Research costs are charged to expense as incurred as required under generally accepted accounting principles. Development costs, including the cost of drugs for use in clinical trials, are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. To date, no development costs have been capitalized, as the criteria for capitalization have not been met. The Company does not believe that any development costs will be capitalized over the next twelve months given the current stage of our drug development programs and the planned activities for fiscal 2003.

The Company capitalizes costs of acquired research and development from third parties. The Company assesses the nature of the underlying assets acquired to determine if the asset has an indefinite life. If the asset has an indefinite life, the acquired asset is not amortized but is instead tested annually for impairment. If the asset is determined to have a finite life, the acquired asset is amortized over its expected useful life.

Results of Operations

The Company has incurred annual operating losses since inception related to the research, manufacturing, and clinical development of its proprietary compounds. The Company has not received any revenue from the sales of products to date. Three products are in the clinical trial stage of development and several potential compounds exist in preclinical studies. Losses will continue as the Company invests in these preclinical research and clinical drug development programs.

Research and Development

Research and development expenditures totaled $8.7 million in 2002 compared to $9.8 million in 2001 and $4.2 million in 2000. The decrease in 2002 from 2001 resulted from the cost of antisense drugs purchased in 2001 which are being used in fiscal 2002 and future years, but were expensed when purchased. This decrease in cost more than offset the increased expenditures in 2002 for an expanded clinical program including the Phase III Virulizin® clinical trial, Phase II GTI-2040 combination chemotherapy trial and Phase I GTI-2501 trial. Regulatory costs were also higher in 2002 due mainly to the initiation of the Phase III clinical trial in the United States. The increase in 2001 over 2000 was due mainly to the cost of antisense and Virulizin® drug development programs, the operating costs of the Company's research facilities and the amortization of acquired research and development for a full year in 2001 compared to seven months post-acquisition of GeneSense in 2000.

General and Administrative

General and administrative expenses totaled $4.9 million in 2002 compared to $6.4 million in 2001 and $3.7 million in 2000. The decrease in 2002 expenses over 2001 was due mainly to lower spending on patent fees and advisory services as well as lower recruiting costs. The 2001 results include a full year of administration costs related to GeneSense compared to seven months in 2000, with higher costs relating to intellectual property, recruiting and advisory services, and licensing activities.

Depreciation and Amortization

Depreciation and amortization expenses totaled $2.0 million in 2002 compared to $1.9 million in 2001 and $1.2 million in 2000. The increase in 2002 and 2001 over 2000 related primarily to the amortization of goodwill established on the acquisition of GeneSense for twelve months in 2001 and seven months in 2000. Consistent with the application of new accounting pronouncements the Company will not amortize goodwill in future periods and will be assessing acquired intangible assets to determine if continued amortization is appropriate.

Interest Income

Interest income totaled $2.0 million in 2002 compared to $2.9 million in 2001 and $0.5 million in 2000. The decrease in 2002 compared to 2001 was due to lower cash and short-term investment balances in 2002 and the decline in market interest rates. The increase in 2001 over 2000 was due primarily to a higher average cash and investment balance than the previous year. Net cash proceeds of $61.1 million were raised from the issue of common shares and the exercise of warrants in 2000, with $42.0 million of this raised in the last month of 2000.

Loss for the Period

The loss for the year totaled $13.5 million in 2002 compared to $15.2 million in 2001 and $8.6 million in 2000. The decrease in 2002 from 2001 was primarily due to reduced spending on general and administrative expenses and net spending reductions on research and development activities due to lower drug purchases partially offset by lower interest income. The increase in 2001 over 2000 resulted mainly from higher clinical development costs, which included higher trial initiation and monitoring costs, manufacturing and regulatory costs in preparation for the Virulizin® phase III trial and antisense drug costs. Additionally, 2001 results included twelve months of research and development costs, amortization of acquired research and development and goodwill, and administration costs related to the GeneSense Acquisition compared to seven months in 2000.

The loss per common share was $0.09 in 2002 compared to $0.11 in 2001 and $0.10 in 2000. The loss per share in each year was comparable although the average number of shares increased significantly in 2001 over 2000.

Financial Summary

The following table summarizes selected unaudited quarterly financial data over the past two fiscal years ended May 31 in each year. The information should be read in conjunction with the Company's consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of results for any future period.

Fiscal 2002

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net loss	$ 3,720	$ 3,028	$ 3,683	$ 3,056
Basic and diluted loss per share	$ 0.02	$ 0.02	$ 0.03	$ 0.02

Fiscal 2001

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net loss	$ 6,133	$ 2,738	$ 3,806	$ 2,536
Basic and diluted loss per share	$ 0.04	$ 0.02	$ 0.03	$ 0.02

B. Liquidity and Capital Resources

Since inception, the Company has financed its operations and technology acquisitions primarily from equity financing, the exercise of warrants and stock options, and interest income on funds held for future investment. The Company believes that its available cash, cash equivalents and short-term investments, and the interest earned thereon, should be sufficient to finance its operations and capital needs for at least the next twelve months.

Financing

In 2002, the Company issued common shares on the exercise of stock options and warrants for proceeds of $1.4 million. In 2001, the Company issued common shares on the exercise of warrants and stock options, and under the alternate compensation plan in the aggregate amount of $2.0 million.

In 2000, the Company raised gross proceeds of $64.5 million from two public offerings and the exercise of outstanding warrants, and completed a major acquisition through the issuance of common shares. In October 1999, the Company issued 36,050,000 common shares and converted existing GeneSense warrants to new warrants for the acquisition of GeneSense valued at $14.8 million. These new warrants were exercised in early 2000 for gross proceeds of $5.0 million. Cash paid on the acquisition of GeneSense net of cash received totaled $0.5 million.

In May 2000, the Company issued 15,333,334 common shares at $3.00 per share for gross proceeds of $46.0 million. Additional warrant exercises during 2000 provided an additional $3.5 million in cash proceeds.

Operating Cash Requirements

The Company's cash burn (cash used in operating activities) totaled $11.9 million in 2002 compared to $9.7 million in 2001 and $5.4 million in 2000. The cash burn increased in 2002 over 2001 mainly due to changes in the timing of accounts payable partially offset by reduced expenditures in operating activities. The cash burn increased in 2001 over 2000 due mainly to a higher level of research and development activity and higher clinical development costs. In 2001 research and development expenses and general and administrative costs increased also due to a full year of costs related to GeneSense activities compared to seven months in 2000.

The Company's cash burn is expected to increase in 2003 due to increased clinical development activity.

Cash Position

At May 31, 2002 the Company had cash and cash equivalents and short-term investments totaling $37.8 million compared to $48.8 million at the end of 2001. The Company invests in highly rated and liquid government and corporate debt instruments. Investment decisions are made in accordance with an established investment policy administered by senior management and overseen by the Board of Directors.

Working capital (representing primarily cash and cash equivalents and short-term investments) at May 31, 2002 was $35.6 million ($44.5 million in 2001). The Company does not expect to generate a positive cash flow from operations for several years due to substantial additional research and development costs, including costs related to drug discovery, preclinical testing, clinical trials, manufacturing costs and operating expenses associated with supporting these activities. The Company may need to raise additional capital to fund operations over the long-term.

The Company intends to raise additional funds through equity financings, collaborative arrangements, acquisitions or otherwise. The Company may seek to access the public or private equity markets from time to time, even if it does not have an immediate need for additional capital at that time.

The Company intends to use its resources to fund its existing drug development programs and develop new programs from its portfolio of preclinical research technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the progress of the Company's research and drug development programs, the results of preclinical and clinical trials, the timing of regulatory submissions and approvals, the ability of the Company to establish collaborative research or drug development arrangements with other organizations, the impact of any in-licensed or acquired technologies, the impact from technological advances, determinations as to the commercial potential of the Company's compounds, and the timing and status of competitive products.

Risks and Uncertainties

Funding needs may vary depending on many factors including: the progress and number of research and drug development programs; costs associated with clinical trials and the regulatory process; costs related to maintaining drug manufacturing sources; costs of prosecuting or enforcing patent claims and other intellectual property rights; collaborative and license agreements with third parties; and opportunities to in-license or acquire new products.

The Company's interest income is subject to fluctuations due to changes in interest rates in its investment portfolio of debt securities. Investments are held to maturity and have staggered maturities to minimize interest rate risk.

The Company purchases some services and manufactured drugs in U.S. currency, and conducts clinical trials in the United States. U.S. dollar expenditures are expected to increase in 2003 from additional clinical activity in the United States. The Company does not currently engage in hedging its U.S. currency requirements to reduce exchange rate risk, but may do so in the future if conditions warrant.

Recent Accounting Pronouncements

In August 2001, the Canadian Accounting Standards board ("**AcSB**") issued Handbook Section 1581, "Business Combinations", and Handbook Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires that all business combinations be accounted for by the purchase method and it sets out criteria in determining the valuation and allocation of the purchase price in a business combination to tangible assets, intangible assets and goodwill. Section 3062 requires that goodwill no longer be amortized to earnings, but instead be periodically reviewed for impairment. Section 3062 also requires that intangible assets be assessed to determine if they have an estimated useful life or whether they have an indefinite life. Intangible assets that have an estimated useful life will continue to be amortized systematically over the useful life. Intangible assets with indefinite useful lives are not to be amortized but are instead to be tested for impairment annually.

Upon adoption of the new Section 3062 in fiscal 2003, the Company must perform transitional impairment tests on goodwill and intangible assets with indefinite lives. Any impairment losses are to be measured as of the date of adoption. Impairment losses assessed on transition, if any, will be recorded as an adjustment to retained earnings. The impact of adopting Section 1581 and 3062 has not yet been determined.

In July 2001, the U.S. Financial Accounting Standards Board ("**USAcSB**") issued Statement of Financial Accounting Standard ("**SFAS**") No. 141, "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets" which are consistent with Sections 1581 and 3062, respectively, except for certain remaining generally accepted accounting principles differences, including the accounting for purchased in-process research and development and the recording of any impairment charge determined on transition as a period cost which are required under U.S. GAAP.

In December 2001, the AcSB issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which common shares, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

The Company will adopt Section 3870 for its fiscal year beginning June 1, 2002. The Company does not believe that the adoption of this standard will have a material impact on the Company's financial condition or results of operations as the Company's current accounting policies, as disclosed above, comply with the new standard.

U.S. and Canada GAAP Difference

The Company's financial statements have been prepared in accordance with generally accepted accounting principles as applied in Canada. In certain respects, GAAP as applied in the United States differs from that applied in Canada.

SFAS 123 Employee Stock Compensation

SFAS No. 123 encourages, but does not require, the recording of compensation costs for stock options issued to employees 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 under the fair value method since 1995. The Company has elected not to adopt the recording of compensation costs for stock options at fair value and, accordingly, a summary of the pro forma impact on the statement of loss is presented in the table below:

(amounts in 000's)	2002	2001	2000
Loss for the year	$ 13,487	$ 15,213	$ 8,599
Compensation expense related to the fair value of stock options	1,278	1,059	1,285
Pro forma loss for the period	$ 14,765	$ 16,272	$ 9,884
Pro forma loss per common share	$ 0.10	$ 0.12	$ 0.11

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, 2002, 2001, and 2000: (i) dividend yield of 0%; (ii) expected volatility of 80% (2001 — 95%, 2000 — 95%); (iii) risk-free interest rate of 3.6% (2001 — 5.4%, 2000 — 6.0%) and (iv) expected lives of 5 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 values of options issued in the years ended May 31, 2002, 2001, and 2000 were $ 0.71, $1.56, and $0.60 respectively.

SFAS 130 Reporting Comprehensive Income

SFAS No. 130 establishes standards for reporting and presentation of comprehensive income. This standard defines comprehensive income as the changes in equity of an enterprise except those resulting from shareholder transactions. Comprehensive loss for the periods presented in the Company's financial statements equaled the loss for the period.

C. Research and Development, Patents and Licenses, etc.

See Note 8 to the Financial Statements at Item 17.

Cancer Therapy Technologies

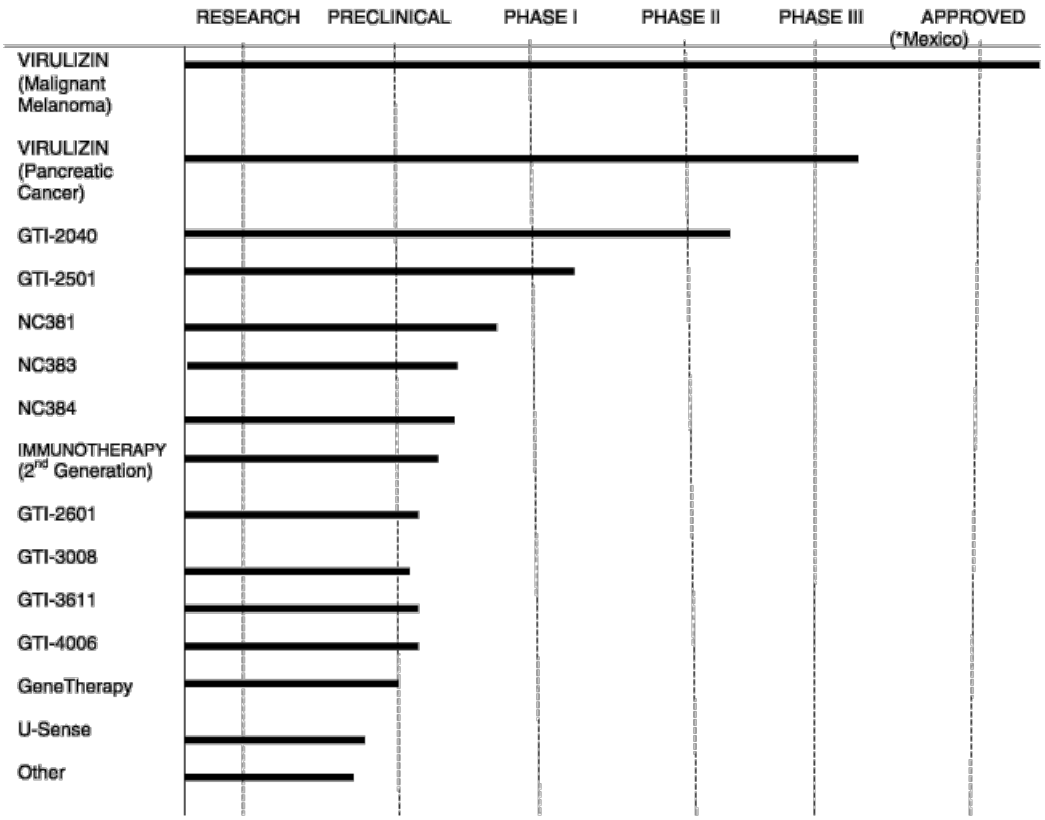
Cancer Biotherapy

Chemotherapeutic drugs have been a major medical treatment for cancer for the past 30 years. However, a wide range of new cancer drugs have been developed by biotechnology companies that help improve patients' quality of life. Unlike chemotherapies which are chemically based, these new drugs are biological, based on naturally occurring proteins or genetic material. The biotherapies in development include immunotherapy, gene therapy, and angiogenesis inhibitors. While chemotherapy drugs are typically toxic and delivered systemically, these biological agents are targeted to the tumor and, more specifically, to individual molecules or genes. These agents promise to have few and only mild side effects which means that, in theory, larger, and therefore more effective, doses can be administered.

The Company's lead products span three classes of anti-cancer therapies: (i) immunotherapy, based on macrophage stimulating biologic response modifiers; (ii) antisense therapies, based on synthetic segments of DNA designed to bind to the messenger RNA (mRNA) that is responsible for the production of proteins over-expressed in cancer cells, and (iii) small molecule chemotherapies based on anti-angiogenic, anti-proliferative and anti-metastatic agents. The Company has a number of other anti-cancer technologies in the research and pre-clinical stages of development, including gene therapy and U-Sense technology.

The Company's product pipeline is illustrated below, summarizing the stage of development of the Company's products.

PRODUCT PIPELINE



* Approved for sale in the private market in Mexico

PRINCIPAL PRODUCTS

Immunotherapy

VIRULIZIN®

Immunotherapy is a form of treatment that stimulates the body's immune system to fight diseases such as cancer. Immunotherapy may help the immune system to fight cancer by recognizing the difference between healthy cells and cancer cells, or it might stimulate the production of certain cancer fighting cells. VIRULIZIN® has been shown to be a non-toxic immunotherapy that recruits monocytes and macrophages to attack tumor cells. Since the drug works by encouraging the immune system to attack the cancer, rather than killing the cancerous cells itself, it can demonstrate fewer negative side effects than commonly used chemotherapy agents.

The human immune system and the body's other protective cellular and molecular systems constitute a complex network of organs, tissues and cells which protect the body against foreign substances such as viruses, foreign tissue and cancer. Appropriate immune system response is critical to both health and survival. When the immune system functions properly, the system recognizes and effectively eliminates foreign substances. Conversely, inadequate or suppressed immune function may result in disease and, possibly, death. When inadequate or suppressed immune function occurs, modification or enhancement of the immune system may restore normal function. Immune system modification or enhancement may be achieved through the use of therapeutic products that stimulate or activate the immune system to achieve a desired response.

In recent years, a major focus of the biotechnology industry has been to develop naturally occurring human therapeutics, which are referred to broadly as biologic response modifiers ("**BRMs**"), and are so described because they are able to influence certain cellular events in the body. Many different substances are classified as BRMs and they have varied biological activities. Some of the major categories of BRMs include interferons (naturally occurring proteins capable of killing cancer cells or inhibiting their growth), interleukins (growth factors that stimulate cells of the immune system to fight cancer) and cytokines (substances produced by immune system cells, usually to send messages to other cells). BRMs have applications in a variety of diseases, including cancer, and are currently being employed in the area of cancer immunotherapy. BRMs may be used alone, in various combinations with other BRMs, or as adjuncts to other therapies.

VIRULIZIN®, the Company's immunotherapeutic drug, has been shown to be a non-toxic immunotherapy that recruits monocytes and macrophages to attack tumor cells. Types of white blood cells, monocytes and macrophages are key players in the immune response to foreign invaders, including tumor cells. When macrophages and monocytes are activated, they produce proteins called cytokines, which have the ability to kill tumor cells directly. VIRULIZIN® stimulates the release of tumor necrosis factor (TNF-alpha), one type of cytokine, in immune cells to induce apoptosis (programmed cell death) of tumor cells. It is likely that the drug works by encouraging the immune system to attack the cancer, rather than killing the cancerous cells itself, studies suggest that VIRULIZIN® produces fewer negative side effects than commonly used chemotherapy agents.

Pre-clinical Testing

Toxicity studies conducted at independent laboratories have shown VIRULIZIN® to have a good safety profile. No demonstrable LD_{50} was determined during these studies, and repeated administrations of VIRULIZIN® did not result in organ system toxicities. In November 1998, additional preclinical data on the efficacy of VIRULIZIN® was obtained from studies performed at the University of Nebraska Medical Center. The Company performed these supporting studies to determine the efficacy of VIRULIZIN® in connection with gemcitabine, an Eli Lilly product that is the standard for first-line treatment of pancreatic cancer, in a human tumor xenograft model commonly used for pancreatic cancer. After extended daily administration, VIRULIZIN® significantly inhibited tumor growth in this model compared to a placebo. VIRULIZIN® also showed a trend towards an additive anti-tumor activity when combined with gemcitabine.

In January 2001, the Company reported that VIRULIZIN® demonstrated better anti-tumor activity in mice containing human breast cancer tumor cells than Taxol, one of the current standard treatments available for breast cancer. Additional findings revealed that the most outstanding anti-tumor activity occurred when VIRULIZIN® and Taxol were used in combination. Also, in August 2001, the Company announced pre-clinical results of VIRULIZIN® at the international conference, Drug Discovery Technology 2001. The results

of four independent tests with mice inoculated with human large cell lung carcinoma cells, small cell lung carcinoma cells, ovarian adenocarcinoma cells and prostatic carcinoma cells showed significant improvement over the current standard of treatment or the saline control.

Clinical Development Program

The clinical trials conducted by the Company were primarily established to determine the safety and efficacy of VIRULIZIN® as a single therapeutic agent for treating the most serious or life threatening cancer indications. These clinical trials involved Stage III and Stage IV cancer patients who had been diagnosed with cancers that were life-threatening and for which there were no established effective therapies. Approximately 250 patients had been enrolled in the clinical trials conducted in the United States, Canada, and Mexico and others have received VIRULIZIN® through the Company's special access program.

The Company received orphan drug designation from the United States Food and Drug Administration ("**FDA**") in February 2001 for VIRULIZIN® in the treatment of pancreatic cancer. Orphan drug status is awarded to drugs used in the treatment of a disease that afflicts less than 200,000 patients annually in the U.S. to encourage research and testing. This status means that the FDA will help to facilitate the drug's development process by providing financial incentives and granting seven years of market exclusivity in the U.S. (independent of patent protection) upon approval of the drug in the United States.

The Company has initiated a Phase III clinical trial to evaluate VIRULIZIN® for the treatment of advanced pancreatic cancer. The Company intends to present the results of this clinical trial to the FDA in a new drug application at the completion of the study. This double-blind, randomized clinical trial is designed to be conducted at approximately 40 North American medical centres with the goal of enrolling 350 patients with advanced pancreatic cancer. Patients enrolled in the study will be randomised to receive either treatment with gemcitabine or treatment with gemcitabine in combination with VIRULIZIN®. Those patients who fail or become resistant to gemcitabine will then be treated with 5-Fluorouracil (5-FU) or with 5-FU in combination with VIRULIZIN®. The Company's study protocol provides that all study subjects will be monitored throughout the remainder of their lifespan. The end points of the study will be survival and clinical benefits, and the duration is expected to be approximately four years. If the trial is successful, the Company intends to file an NDA with the FDA.

In June 2002, the Company announced that the FDA had granted "fast track designation" for VIRULIZIN® in the treatment of pancreatic cancer. This designation means that the FDA will assist in facilitating the development and expediting the review of VIRULIZIN®. Drugs given a fast track designation are intended for the treatment of a life-threatening condition and have demonstrated the potential to address unmet medical needs. Fast track products usually meet the FDA's criteria for priority review.

Clinical Trial Results

In September 1992, the Company completed a Phase II clinical trial of VIRULIZIN® in Canada for the treatment of pancreatic adenocarcinoma. Pancreatic adenocarcinoma develops in the glands that produce enzymes that travel through the pancreatic duct to the small intestine to aid digestion. Approximately 90% of pancreatic cancers are pancreatic adenocarcinomas. The historic median survival from date of diagnosis for late stage pancreatic adenocarcinoma patients is approximately 120 days with a one-year survival rate of 13.8% (Brijir Gudjonsson, "Cancer of the Pancreas — 50 Years of Surgery" (1987) 60 *Cancer* 2284). In the Company's Phase II clinical trial, the median survival for advanced pancreatic adenocarcinoma patients with an expectation of at least three months survival treated with VIRULIZIN® was 219 days, and the one-year survival rate was 35%. Disease stabilization was reported in 35% of the evaluable patients for more than three months. None of these patients developed any clinical or laboratory evidence of drug-related toxicity ((1994) 17 *Clinical Investigative Magazine* 37-41).

In September 1993, the Company completed a Phase II clinical trial of VIRULIZIN® in Mexico in the treatment of advanced malignant melanoma. Advanced malignant melanoma is a type of skin cancer with a tendency to spread via the lymphatic system and blood supply to other organs and tissues. The historic median survival from the date of diagnosis of advanced malignant melanoma was 93 days with a one-year survival rate of 13% (C.M. Balch, *et al.*, eds., *Cutaneous Melanoma*, 2nd ed. (Philadelphia: J.B. Lippincott, 1992)). In the Company's Phase II trial, the median survival from the date of diagnosis for advanced malignant melanoma patients treated with VIRULIZIN® was 396 days and the one-year survival rate was 54%. Only a few mild to moderate adverse events related to treatment with VIRULIZIN® were reported including pain at the injection site and fever. The interim results from this multi-center Phase II clinical trial were presented at the Baylor College of Medicine Research Symposium in April 1993. Based upon the results of the Mexican trial, the Company filed an NDA in November 1996, to obtain marketing approval of VIRULIZIN® in Mexico as a treatment for advanced malignant melanoma. In October 1997, the Company received a license from the SSA to sell VIRULIZIN® in Mexico in the private market for the treatment of malignant melanoma.

In August 1998, the Company released results of the Phase I/II trial evaluating VIRULIZIN® in patients with pancreatic cancer at the Rush Cancer Institute. Of the 26 patients enrolled, 19 were deemed evaluable according to the study protocol. The Company announced that the overall median survival for all evaluable patients was 6.7 months and the six-month survival rate was 58%. These results confirm and extend previous studies performed by the Company in Canada in pancreatic cancer patients. Results of the current study have also shown that VIRULIZIN® continues to show an excellent safety profile, and there is an increasing trend and a statistically significant improvement in total quality-of-life change score.

The first peer-reviewed presentation of the U.S. preclinical and clinical trial results of VIRULIZIN® was presented at the 90th Annual Meeting of the American Association for Cancer Research (the "AACR") in Philadelphia on April 13, 1999. A scientific abstract, entitled "A Novel Immunotherapeutic Agent for Pancreatic Cancer: Results of Preclinical and Clinical Trials Using VIRULIZIN®" was submitted to the AACR in October 1998. During the AACR meeting, it was announced that in a preclinical study in mouse models of human pancreatic cancer, VIRULIZIN® significantly inhibited tumor growth. Among treated mice, tumors were only 60% of the size of the tumors in the untreated mice. The response was even greater when the chemotherapeutic agent gemcitabine was added to the treatment, with tumors in the treated mice only 26% of the size of the tumors in the untreated mice.

Future Applications

The Company believes that *in vitro* and *in vivo* research supports the therapeutic potential of VIRULIZIN® in the treatment of diseases associated with immune system disorders other than cancer. The Company previously sponsored research studies at Rush-Presbyterian-St. Luke's Medical Center in Chicago to study the potential of VIRULIZIN® in the treatment of endometriosis. The Company's scientists have also conducted pre-clinical research in the use of VIRULIZIN® in combination with known cytotoxic or chemotherapeutic agents in the treatment of cancer. The Company intends that the results from these studies will form the basis for a potential clinical program of VIRULIZIN® in combination with other cancer therapeutic agents. However, there can be no assurance that the Company will enter into this clinical program.

In April 2002, the Company presented data supporting both the mechanism of action and the characterization of VIRULIZIN®, at the American Association for Cancer Research Conference. This knowledge of the composition of VIRULIZIN® has enabled the Company to initiate a pre-clinical research program for the development of novel immunotherapeutic products. One such product has recently been tested *in vivo* and compared to VIRULIZIN® for anticancer activity. Results from these pre-clinical tests indicated that VIRULIZIN® and the new immunotherapeutic product exhibited strong antitumor activity in mouse models with human pancreatic carcinoma tumors.

Antisense therapies

Many chemotherapeutic drugs are chemicals designed to induce or inhibit the function of a target molecule, typically an enzyme or receptor. The selectivity of these drugs is usually determined by only a few, generally two or three, points of interaction at the binding site of a target molecule. Frequently, sites on other non-target molecules resemble the target-binding site sufficiently to permit the conventional drug to bind to some degree. This indiscriminate affinity or lack of specificity can result in decreased efficacy, unwanted side effects, and increased toxicity. Overcoming these limitations has been a primary goal for recent anti-cancer drug development. One such method involves the use of antisense therapies.

The human metabolism is essentially controlled by proteins produced by the body. Since most human diseases, including cancer, can be traced to faulty protein production, traditional therapeutics are designed to interact with the disease causing proteins. Antisense therapeutics take a different approach to treatment: they are designed to prevent the production of the proteins causing the disease.

Antisense oligonucleotides are synthetic segments of DNA designed to bind to the mRNA that is responsible for the production of disease-associated proteins. The sequence of nucleic acid bases in an antisense oligonucleotide is complementary to its nucleic acid target sequence on the mRNA. Thus, the antisense oligonucleotide binds at a significant number of points to the target site, and hybridizes (binds) tightly to the selected mRNA. Since a single mRNA may be translated repeatedly into a protein, a single antisense oligonucleotide may inhibit the synthesis of many copies of a protein. Moreover, *in vitro* tests have shown that these antisense/mRNA complexes activate enzyme activity that destroys the mRNA to which the oligonucleotide is bound, without destroying the oligonucleotide itself. This frees the oligonucleotide to bind with another identical target mRNA and repeat the inhibitory process. Furthermore, it is possible that an antisense molecule may inhibit specific expression by binding to the gene responsible for coding for the mRNA molecule preventing the mRNA molecule from being synthesized. It may also bind to an unprocessed mRNA

molecule, preventing it from developing into a mature mRNA, or it may bind to a specific mRNA molecule preventing it from translocating from the nucleus of the cell to the cytoplasm where protein synthesis occurs.

The main attributes of antisense therapies are specificity and rational design. As a function of the simple nucleotide base-pairing rules, therapeutic intervention using antisense compounds can be a universal approach to a number of diseases whose causative agents or targets have been characterized at the DNA level. The specificity of an antisense therapeutic is determined by the occurrence of a given nucleotide sequence. It has been calculated that a 17-mer (17 nucleotides) oligonucleotide sequence should theoretically appear only once in the human genome. Furthermore, the binding affinity between complementary strands of nucleic acids is exceptionally high. It is expected that antisense's combination of high specificity and affinity, which is difficult to achieve with conventional protein-targeted drugs, could substantially reduce side effects due to unwanted interference with other essential cellular activities.

The rational design of oligonucleotides aimed at the inhibition of gene expression is based on targeting nucleotide sequences. Thus, an advantage of developing antisense compounds is that the design and synthesis are relatively straightforward. The structure of 20-mer antisense oligonucleotides, which is complementary to all possible 20 base sequences within a 1,000 base mRNA sequence, is strictly defined.

The unique premise of this therapeutic approach is to target an earlier stage of the biochemical process than is usually possible with conventional drugs. Traditional therapies usually interact with the final synthesized or processed protein, whereas this newer approach alters an earlier expression of the gene that codes for such a protein. Therefore, it is believed that drugs based on this approach may have broad applicability, greater efficacy and fewer side effects than conventional drugs.

The effectiveness of an antisense drug is largely dependent on the protein targeted. When examining antisense targets, the Company chose ribonucleotide reductase (RNR) because of its significance in the uncontrolled cell growth associated with essentially every cancer. RNR, which is composed of two protein components called R1 and R2, is a highly regulated cell enzyme that is essential for DNA synthesis and repair. RNR catalyzes the formation of deoxyribonucleotides, which are required for building the cell's DNA and thus responsible for cell replication. The Company's antisense therapeutics are designed to inhibit this process, and in turn, the Company anticipates that this will inhibit the growth of tumor cells.

GTI-2040

The Company's lead antisense therapy is GTI-2040. GTI-2040 is an antisense agent that targets the R2 component of RNR. The R2 component is an unusually effective target for drug intervention because it is the rate-limiting component in the ribonucleotide reductase activity important for cancer cell proliferation. It is also bi-functional since an elevation in the R2 component in cancer cells also alters the activity of an important biochemical signal pathway called the MAP Kinase Pathway, which is known to play a role in mechanisms leading to the development of cancer. The Company has designed antisense molecules that specifically target the R2 mRNA, resulting in:

- reduced R2 protein and R2 mRNA levels in human tumor cells grown in culture;
- significant inhibition of tumor cell growth *in vitro*; and
- statistically significant reduction of tumor growth and tumor cell dissemination (metastasis) in animal models.

Since it has been noted that levels of R2 are elevated in cancer cells, an antisense molecule that binds to the mRNA coding for R2 inhibits the replication of diseased cells. Further, research indicates that reducing levels of R2 expressed in cells lowers resistance levels to other pharmaceutical compounds that might be used in combination therapy with GTI-2040.

GTI-2501

The Company's other antisense therapy is GTI-2501, designed to specifically target the R1 mRNA, resulting in:

- reduced R1 protein and R1 mRNA levels;
- significant inhibition of tumor cell growth *in vitro*;
- statistically significant reduction of tumor growth and tumor cell dissemination (metastasis) in animal models; and
- total regression in some tumor models.

GTI-2501 is an antisense agent that targets the R1 component of human RNR and research indicates that it prevents the formation of the R1 protein required for ribonucleotide reductase activity.

Pre-Clinical Testing

Pre-clinical studies have demonstrated that both GTI-2040 and GTI-2501 are well tolerated in humans at concentrations that exceed therapeutic doses. All observed toxicities are consistent with phosphorothioated oligonucleotide compounds, and include increased blood clotting times as well as some signs of complement activation at high doses.

In the presence of GTI-2040, both R2 protein and R2 mRNA levels in tumor cells*in vitro* were dramatically reduced. Experiments have demonstrated that GTI-2040 specifically alters the expression of its target, R2, in cancer cells. Tumor suppression in a widely accepted mouse model has been demonstrated in a variety of tumor types, including colon, pancreas, liver, lung, breast, ovarian, brain, kidney and skin. The effect on tumor suppression is statistically significant in all cases, with significance at p [less than or equal to] 0.0001 for colon, pancreas, kidney and lung cancers. These results suggest that GTI-2040 has the potential to be a strong drug candidate for the treatment of a broad range of human cancer types.

On November 22, 1999, the Company announced results of anti-tumor studies with GTI-2040, including complete tumor regressions, when used in combination with certain chemotherapeutic agents. The results were based on *in vivo* studies performed using recognized human kidney cancer, colon cancer and melanoma models. The studies were performed at the Company's research facilities at the Sunnybrook Health Sciences Centre in Toronto, Canada and have been confirmed through repeat experiments.

The Company reported that when SCID mice bearing a human kidney cancer line were treated with a combination of GTI-2040 and two commonly used chemotherapy drugs (5-FU or vinblastine), complete tumor regression was observed in all the mice treated. The Company also reported that similar tumor regressions were observed in studies combining GTI-2040 and another commonly used chemotherapy drug, mitomycin C, in *in vivo* mouse models of human melanoma and human colon cancer. GTI-2040 also significantly enhanced the anti-tumor effects of other well-known anti-cancer drugs such as gemcitabine, estramustine and paclitaxel in a standard human colon carcinoma mouse model.

In July 2001 the Company announced that GTI-2040 demonstrated anti-tumor activity in animal models with human lymphoma tumors, adding to the already broad range of cancers in which GTI-2040 has shown anti-tumor activity.

GTI-2501 targets R1 and has been selected as the Company's second antisense drug candidate. Complete tumor regression was seen in mice bearing human breast and renal derived tumors. These findings have been reproduced by both academic laboratories and interested partners. The compound was also found to be highly active against a broad range of other human tumors in these animal models. On November 29, 1999, the Company reported that GTI-2501 was an effective anti-cancer agent when tested in standard mouse models bearing a variety of different human cancer lines including tumor cells derived from lung, breast, colon, kidney, ovary, pancreas and skin cancer. The greatest anti-tumor activity was found with human tumor cells derived from kidney and breast cancers treated with GTI-2501. In three independent tests using two different human kidney cancer lines, the Company observed complete tumor regressions in all 20 mice tested.

The anti-tumor activity of both GTI-2040 and GTI-2501 was further demonstrated in mouse models containing human prostate cancer cells. In February 2000, the Company observed that while both drugs produced marked reductions in tumor growth, the GTI-2501 treatment also led to disease stabilization (*i.e.* very little or no tumor growth).

Clinical Development Program

Formal preclinical development of GTI-2040, including manufacturing and toxicology studies, was initiated in mid-1998. An IND application filed with the FDA was approved on December 7, 1999 for a Phase I/II clinical trial of GTI-2040, given as a 21-day continuous intravenous infusion in the treatment of solid tumor and lymphoma. This trial was initiated in December 1999 under the direction of Dr. Richard Schilsky of the Chicago Cancer Research Center. 30 patients with advanced or metastatic solid tumors were enrolled in this study. Phase I clinical endpoints for safety and tolerability were met. Doses ranging from 18.5 mg/m^2/day to 222.0 mg/m^2/day have been studied and found to display favourable safety profiles. Based on studies indicating that the R2 target would be down-regulated at concentrations of GTI-2040 of 185.0 mg/m^2/day, the recommended Phase II dose for GTI-2040 administered as a single agent was 185.0 mg/m^2/day. An additional six patients with renal cell carcinoma were enrolled in this study to further characterize the toxicity in this patient population.

The Company has a Phase II program underway for GTI-2040. This program includes an open-label, non-randomized study of GTI-2040 in combination with capecitabine in patients with advanced metastatic renal cell carcinoma. This trial is being conducted by Dr. Frank Torti at Wake Forest University in North Carolina. The decision to select this drug combination (GTI-2040 and capecitabine) was based on pre-clinical and clinical studies that indicated that GTI-2040 or the combination of GTI-2040 and 5-FU, the active ingredient in capecitabine, should provide benefits for patients with renal cell carcinoma.

In June 2002, the Company announced that it has been approved by the Drug Development Group of the Division of Cancer Treatment and Diagnosis, the National Cancer Institute (NCI), to supply the Company's lead antisense drug, GTI-2040, for multiple clinical trials to evaluate its efficacy in a range of cancers. The NCI approved GTI-2040 after an analysis of pre-clinical, good laboratory practice toxicology and Phase I clinical data. The Company intends to work together with the NCI to select cancer indications and suitable development programs for a number of clinical trials. The NCI has also indicated it will sponsor trials conducted with GTI-2040 alone or in combination with other cancer therapies.

GLP-toxicology studies for GTI-2501 were completed in November 2000, and approval of an IND was received from the U.S. FDA February 2001. This Phase I dose-escalating study is underway at the University of Chicago Medical Centre and is designed to establish the recommended clinical Phase II dose as well as look at the safety profile of GTI-2501. Patients with solid tumors or lymphoma are being enrolled.

Small Molecule Chemotherapies

Most currently employed anti-cancer chemotherapeutic drugs are DNA damaging, cytotoxic agents, designed to act on rapidly dividing cells. These drugs typically include unpleasant or even serious side-effects due to their non-specificity to cancer cells, and frequently lead to tumor-acquired drug resistance. As a result of these limitations, there is an ongoing intensive world-wide effort to discover more effective anti-cancer drugs.

In December 1997, the Company, through NuChem, acquired certain patent rights and a sublicense from Ion to develop and commercialize the anti-cancer applications of CLT and new chemical entities related to CLT (the "**NuChem Analogues**"). The consideration for this acquisition was Ion's 20% common share interest in NuChem, US$350,000 in common shares of the Company and amounts totalling up to US$3,500,000 payable in cash. On June 15, 1998, the Company issued from treasury 583,188 common shares in settlement of the US$350,000 obligation. To August 31, 1999, NuChem had made cash payments totalling $714,750 (US$500,000) to Ion. The balance is payable upon the achievement of certain milestones based on the commencement and completion of clinical trials related to the NuChem Analogues.

All research and development activities to be undertaken by NuChem are to be funded by the Company through subscriptions for non-participating preference shares of NuChem. As at May 31, 2002, the Company had provided a total of $5,983,000 of funding to NuChem.

NuChem has agreed to actively proceed with research and development programs relating to the NuChem Analogues. If NuChem fails to make any of the payments described above, discontinues its research and development activities related to the NuChem Analogues or commits an act of insolvency or bankruptcy, Ion has the right to re-acquire the NuChem Analogues assigned to NuChem and to terminate the sublicense, upon the payment by Ion of a certain amount and subject to certain other conditions.

The Company and Ion are parties to a unanimous shareholders' agreement relating to NuChem. Under that agreement, the Company has the right to appoint NuChem's officers and a majority of the members of NuChem's board of directors. The Company directs the business and operations of NuChem, subject to the terms of an annual business plan that Ion is entitled to approve. Any profits that are distributed from NuChem will be shared between the Company and Ion in proportion to their ownership of NuChem common shares. The unanimous shareholders' agreement provides mutual restrictions on the transfer of NuChem shares, as well as mutual rights of first refusal, drag-along and piggyback rights. If Ion becomes entitled to re-acquire the NuChem Analogues assigned to NuChem and to terminate the sublicense, the Company is entitled to purchase Ion's NuChem shares for their stated capital amount.

Pre-clinical and Investigational Studies

Through NuChem, the Company is currently pursuing research and pre-clinical development of NuChem Analogues for the treatment of a wide variety of cancers.

In March 1998, the Company signed an agreement with the Developmental Therapeutics Branch, Division of Cancer Treatment of NCI, under which that organization will screen anti-cancer compounds in its panel of cancerous cell lines. The data from these tests was used, in part, as the basis for selecting the compounds which will be given priority for entering clinical trials. The Company also signed an agreement with Harvard Medical School for the conduct of various research projects related to the further development of CLT and the NuChem Analogues as anti-cancer agents.

On February 9, 1999 the Company announced, on behalf of NuChem, additional positive preclinical efficacy data on four of NuChem's novel anti-cancer compounds. This *in vivo* study performed by Dr. José Halperin at Harvard Medical School involved a murine (mouse) KLN squamous cell cancer prevention model. The goal of the study was to specifically assess the efficacy of the analogues upon oral administration. Relative to controls, this efficacy study showed significant inhibition of squamous cell carcinoma tumors by the test compounds and no apparent toxic effect due to the treatment regimen was noted in the animals. The results confirm the efficacy results obtained in an earlier study for several of NuChem's novel anti-cancer compounds.

Agreements were concluded in 1998 and 1999 with other institutions and contract research organizations for the conduct of studies on certain NuChem Analogues to support the selection of one or more lead compounds for pre-clinical development toward an IND submission. The University of Nebraska Medical Center (Omaha, Nebraska) conducted studies of pre-clinical toxicity in normal mice and efficacy studies in human cancer xenograft (mouse) models. Phoenix International Life Sciences Inc. (Montréal, Québec) conducted studies to measure CLT analogues in biological matrices by a LC-MS/MS method, and to determine the metabolic stability and metabolite profile of certain CLT analogues by *in vitro* methods. McMaster University (Professor Jack Rosenfeld) conducted bioanalytical method development for the measurement of CLT analogues in plasma and tissues of mice by HPLC.

On February 1, 1999, positive preclinical data on the efficacy of the Company's anti-cancer compounds were obtained from a second study performed at the University of Nebraska Medical Center (Omaha, Nebraska). This study was designed to confirm the efficacy of certain novel anti-cancer (CLT Analogues) compounds in a human tumor xenograft model commonly used for colon cancer. The Company announced on behalf of NuChem independent confirmation by NCI of the *in vitro* anti-cancer activity of its novel compounds currently under development. Later in 1999, the Company announced on behalf of NuChem that the NCI had agreed to allocate resources for the further development of three novel anti-cancer compounds discovered at Harvard Medical School to investigate formulation development and the pharmacology of the compounds.

On February 7, 2000, the Company announced that NuChem had determined that one of its key anti-cancer CLT analogues, NC381, showed positive pre-clinical results in inhibiting the spread of human melanoma tumor cells in mice. NC381, whether administered through injection or orally, exhibited anti-metastatic activity with few apparent side effects on 16 mice.

NC381 has demonstrated pre-clinical activity in lung, pancreatic and kidney cancers as well as anti-angiogenic, anti-proliferative, and anti-metastatic properties. Research suggests that it can be taken orally, which positions it as a potential maintenance therapy. NC381 requires further testing to complete its ongoing pre-clinical development in Canada and the United States before the Company can file an IND to obtain approval to initiate human clinical trials either in Canada or the United States as a treatment for various forms of cancer. However, there can be no assurance that such approval will be obtained on a timely basis, if ever. See "Business of the Company — Regulatory Strategy".

Other Technologies

Several promising new product opportunities have been introduced to the Company's portfolio and are being assessed for their potential as new drug candidates. They include platform technologies in areas of tumor suppressor gene therapy, and U-Sense compounds that the Company believes to have the potential to work through a unique mechanism of action to decrease the expression of cancer relevant genes. Further antisense approaches for the treatment of cancer and drug resistant bacteria are also being investigated in the Company's laboratory. The Company intends to continue developing these compounds with the aim to identify new drug candidates for clinical trials as the three lead drugs make their way through clinical trials and to market.

D. Trend Information

Lorus has not produced or commercially marketed any product. Although the Company has entered into an agreement in respect of the commercial sale of Virulizin® in Mexico, there can be no assurance that any sales of the product will be made. The Company's future profitability is dependent on the successful outcome of clinical trials and the subsequent successful marketing and/or partnering of its products.

The Company does not expect to generate a positive cash flow from operations for several years due to substantial additional research and development costs, including costs related to drug discovery, preclinical testing, clinical trials, manufacturing costs and operating expenses associated with supporting these activities. The Company may need to raise additional capital to fund operations over the long-term.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table and notes thereto provide the name, municipality of residence, positions with the Company, term of office and principal occupation of each person who serves as a director or officer of the Company as at November 30, 2002. Officers serve at the discretion of the Board of Directors.

Each director has been elected or appointed to serve until the next annual meeting or until a successor is elected or appointed. The Company has an Audit Committee, an Environmental Committee, a Corporate Governance Committee and a Human Resources and Compensation Committee and the members of each such committee are shown below. As at December 6, 2002, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control over 14,292,880 or approximately 10% of the common shares.

Name and Municipality of Residence	Position	Director or Officer Since	Age
ROBERT BÉCHARD[1][2] Montreal, Quebec	Director	October 1999	44
SUZANNE CADDEN Mississauga, Ontario	Vice President, Clinical and Regulatory Affairs	July 2001	44
GEOFFREY COLLETT Mississauga, Ontario	Vice President, Corporate Development	March 2000	49
SHANE A. ELLIS Toronto, Ontario	Corporate Secretary, Vice President of Legal Affairs	April 1998	49
JAMES T. PARSONS Mississauga, Ontario	Vice President, Finance and Administration and Chief Financial Officer	March 2000	37
DONALD W. PATERSON[1] Toronto, Ontario	Director	July 1991	70
ELLY REISMAN Toronto, Ontario	Director	November 1999	52
ALAN STEIGROD[2] Newport Beach, California	Director	May 2001	65
GRAHAM STRACHAN[1][3][4] Etobicoke, Ontario	Chair of the Board of Directors, Director	May 2001	64
DR. JIM WRIGHT Oakville, Ontario	Chief Executive Officer, Director	October 1999	60
DR. AIPING YOUNG[4] Toronto, Ontario	Senior Vice President, Research and Development and Chief Technology Officer	October 1999	46

(1) Member of Audit Committee.

(2) Member of the Human Resources and Compensation Committee.

(3) Member of the Corporate Governance Committee

(4) Member of Environmental Committee.

The principal occupation and employment of each of the foregoing persons for the past five years is set forth below:

Robert Béchard: Mr. Béchard is currently a partner of RBC Capital Partners. From 1991 to 1996, Mr. Béchard was an Account Manager with a Canadian chartered bank and from 1996 to 1998, was an Investment Manager of Sofinov Société Financière D'Innovation Inc.

Suzanne Cadden: Ms. Cadden joined the Company in February 2001 as Director, Regulatory Affairs and Compliance. Prior to joining Lorus, Ms. Cadden was a Senior Director and Director of Regulatory Affairs and Compliance with Glaxo Wellcome Canada from 1996 to 2000. Prior to August 1996, Ms. Cadden was a Director of Regulatory Affairs and Pharmacoeconomics with CIGA-Geigy Canada.

Geoffrey Collett: Prior to joining the Company in March 2000, Mr. Collett was a Vice President within MDS Capital Corp., from October 1997 to March 2000. From 1988 to 1997, Mr. Collett worked with GlaxoWellcome as Licensing Manager and Director of Business Development and Planning.

Shane A. Ellis: From 1994 to 1997, Mr. Ellis lectured in business law at the School of Business Management, Ryerson Polytechnical University. From 1996 to 1998, Mr. Ellis acted as counsel for the Bennett & Wright Group of Companies.

James T. Parsons: Prior to joining the Company in March 2000, Mr. Parsons was Controller and Assistant Treasurer for Timminco Limited. Prior to November 1998, Mr. Parsons was Controller for Timminco.

Donald W. Paterson: Mr. Paterson is President of Cavandale Corporation, a company principally engaged in providing strategic corporate consulting to emerging growth companies within the technology industry. Prior to founding Cavandale Corporation, Mr. Paterson was a Director and Vice-President of Wood Gundy Inc., a Canadian investment bank, where he was directly involved in leading the firm's activities in financing Canadian and international high technology companies.

Elly Reisman: Mr. Reisman is the President and Chief Executive Officer of Great Gulf Group, a real estate company. Mr. Reisman has held that position for more than the last five years.

Alan Steigrod: Mr. Steigrod is Managing Director of Newport Healthcare Ventures, a consulting firm for the healthcare industry, located in Newport Beach, California. Mr. Steigrod has held that position for more than the last five years.

Graham Strachan: Mr. Strachan is President of GLS Business Development Inc. a life-science consulting firm, located in Etobicoke, Ontario. Prior to 1999, Mr. Strachan was President, Chief Executive Officer and Director of Allelix Biopharmaceuticals Inc.

Dr. Jim Wright: Dr. Wright's present principal occupation is Chief Executive Officer of the Company. He is also a member of the Lorus Board of Directors. Prior to October 1, 2001, Dr. Wright was President of the Company, a position he held since October 29, 1999. Prior to October 29, 1999, Dr. Wright was President and Chief Scientific Officer of GeneSense and a member of the board of GeneSense. He also served as Chairman of the Board. Prior to September 1998, Dr. Wright was Professor of Microbiology, Professor of Biochemistry and Molecular Biology, and Adjunct Professor of Internal Medicine at the University of Manitoba, Senior Scientist and Associate Director of the Manitoba Institute of Cell Biology and Terry Fox Senior Scientist of the National Cancer Institute of Canada.

Dr. Aiping Young: Prior to June 1996, Dr. Young was Senior Scientist, Group Leader and Medical and Scientific Advisor for Pias Corporation in Japan. From 1996 to 1999, Dr. Young was Vice President of Research and Development, and a member of the Board of Directors for GeneSense Technologies Inc. She has also been an Adjunct Scientist at the Manitoba Institute of Cell Biology at the Manitoba Cancer Foundation.

Medical and Scientific Advisory Board

On October 2, 2002 the Company announced the appointment of Mace L. Rothenberg M.D., as its external medical advisor providing strategic medical advice on the Company's growing international clinical and drug development programs. Dr. Rothenberg is an internationally recognized oncologist. His research focuses on the evaluation of the effects of new drugs in humans from clinical pharmacologic, biologic and genetic perspectives. Dr. Rothenberg is an Ingram Professor of Cancer Research at the Vanderbilt-Ingram Cancer Center as well as Professor of Medicine at the Vanderbilt University Medical Center and a Direct of Drug Development.

The Company has a Medical and Scientific Advisory Board ("**MSAB**") comprised of certain medical and scientific experts whom the Company believes will enhance its capabilities. Members of the MSAB meet periodically to review the progress of the Company's research and development activities and the results of ongoing clinical trials. The MSAB also advises the Company generally as to specific research programs, and as to advances in biotechnology, immunology and other areas of scientific expertise relevant to the further development of the Company's technologies.

As at December 6, 2002, the members of the MSAB were:

Dr. Donald P. Braun, Ph.D.: Dr. Braun is a Professor, Department of Surgery at the Medical College of Ohio in Toledo, Ohio, and Administrative Director of the Cancer Institute. Dr. Braun is a member of the Scientific Advisory Committee on Immunology of the American Cancer Society and is Chair of the Company's MSAB.

Dr. Gregory Curt, M.D.: Dr. Curt is a Clinical Director of the NCI in Bethesda, Maryland. He received his M.D. with Distinction in Research from the University of Rochester School of Medicine in 1977. After completing his training in Internal Medicine at Harvard, he came to the NCI for subspecialty training in Medical Oncology.

Dr. Jaime G. de la Garza Salazar, M.D.: Dr. de la Garza, a member of the Mayo Graduate School of Medicine, has been the Director General of the National Cancer Institute of Mexico since 1993. He is also the President of the Mexican Oncology Board. Prior to his appointment as Director, Dr. de la Garza was Associate Director in Clinical Research at the NCI.

Dr. Robert Kerbel, Ph.D.: Dr. Kerbel obtained his Ph.D. in microbiology and immunology from Queen's University in 1972. Dr. Kerbel is currently the Director of Biological Sciences and the Division of Cancer Biology Research at the Sunnybrook Health Science Centre in Toronto and is also the John & Elizabeth Tory Professor of Experimental Oncology at the University of Toronto. He is a member of the editorial board of many international scientific journals and is editor-in-chief of Cancer Metastatis Review.

Dr. Bishnu D. Sanwal, Ph.D., D.Sc., F.R.S.C.: Dr. Sanwal is a Professor Emeritus and former Chairman of the Department of Biochemistry at the University of Western Ontario, London, Ontario. He has a long and distinguished career in biological and medical research. With over 146 publications, Dr. Sanwal is a member of or advisor to numerous scientific committees and journals such as the editorial board of *Archives of Biochemistry and Biophysics* and member of the Royal Society of London, and Fellow of the Royal Society of Canada. He received a Ph.D. from the University of Delhi and a Doctor of Sciences from the Federal Institute of Technology, Zurich.

Dr. Lesley Seymour, MBBCh, FCP (SA): Dr. Seymour is a Co-Director of the Investigational New Drug Program of the National Cancer Institute of Canada Clinical Trials Group. She received her M.D. at the University of the Witwatersrand in South Africa in 1978 and subsequently completed Specialist training in Internal Medicine as well as Clinical Hematology and Medical Oncology.

Dr. Louis Siminovitch, O.C., Ph.D., D.Sc., F.R.S.C., F.R.S.: Dr. Siminovitch is a former founder and director of the Department of Medical Genetics, University of Toronto, the Department of Genetics, Hospital for Sick Children, the Samuel Lunenfeld Research Institute at Mount Sinai Hospital, former Director and President of the National Cancer Institute of Canada and is presently on the Scientific Advisory Board of the Canadian Medical Discoveries Fund, several biotechnology companies and institutes. He is a founding member and former Senior Editor of *Virology*, founding member and former member of the editorial board of *Cell*, the editorial board of *Annual Review of Genetics*, founding member and former Senior Editor of *Molecular and Cellular Biology*, former member of the editorial board of *Genetics* and of the advisory board of *Molecular Biology and Medicine.* Dr. Siminovitch received a Ph.D. from McGill University and was awarded a Doctor of Science, Honoris Causa, for his distinguished scientific research contributions from several Canadian universities: Memorial University, McMaster University, University of Montreal, McGill University, University of Western Ontario and University of Toronto. Dr. Siminovitch is a Companion of the Order of Canada and was inducted into the Canadian Medical Hall of Fame in 1997.

Dr. George R. Stark, Ph.D., F.R.S.: Dr. Stark is the Sherwin-Page Chairman of the Research Institute, The Cleveland Clinic Foundation, Cleveland, Ohio. He received a Ph.D. from Columbia University and completed postdoctoral studies at Rockefeller University. Dr. Stark has made significant contributions to the field of molecular biology. Dr. Stark led the development of the Northern and Western Blot techniques for analysis of specific RNAs and proteins. Much of his work has focused on the process of gene amplification in mammalian cells, leading to an appreciation both of the mechanisms that generate amplified structures in cell lines and tumor cells and the regulatory processes that prevent amplification from occurring in normal cells. Very recent work has led to the discovery of a new signal pathway that regulates gene expression in cancer cells. A former Professor of Biochemistry at Stanford University, Dr. Stark moved to London as the Associate Director of Research at the Imperial Cancer Research Fund in London, England (1983-1992). Dr. Stark received the H. A. Sober award of the American Society of Biological Chemists in 1986, was elected to the U.S.A. National Academy of Science in 1986 and to the Fellowship of the Royal Society in Britain in 1990.

B. Executive Compensation

Summary Compensation

The following Summary Compensation Table, presented in accordance with the regulation to the *Securities Act* (Ontario), sets forth the compensation paid in respect of individuals who were, in respect of the financial year ended May 31, 2002, the Chief Executive Officer and the four other most highly compensated executive officers of the Company (collectively, the "**Named Executives**").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards Securities Under Options/SARs Granted (#)	All Other Compensation
		Salary ($)	Bonus ($)	Other Annual Compensation ($)		
Dr. Jim A. Wright[1]	2002	274,885	61,480	Nil	300,000	Nil
Chief Executive Officer	2001	196,231	65,675	Nil	150,000	Nil
	2000	109,237	43,750	Nil	Nil	Nil
Dr. Raafat Fahim[2]	2002	150,831	Nil	Nil	1,500,000	463,669
Former President and Chief	2001	Nil	Nil	Nil	Nil	Nil
Operating Officer	2000	Nil	Nil	Nil	Nil	Nil
Dr. Aiping Young[1]	2002	190,154	24,480	Nil	200,000	Nil
Senior Vice President,	2001	167,538	30,030	Nil	163,297	Nil
Research and Development	2000	94,654	36,075	Nil	Nil	Nil
Mr. Geoffrey Collett[3]	2002	165,846	20,073	Nil	225,000	Nil
Vice President, Corporate	2001	152,000	24,850	Nil	50,000	Nil
Development	2000	29,167	6,795	Nil	100,000	20,000
Mr. James T. Parsons[3]	2002	155,846	19,865	Nil	100,000	Nil
Vice President, Finance	2001	142,000	23,075	Nil	50,000	Nil
and Administration and CFO	2000	30,038	6,310	Nil	120,000	Nil

(1) Dr. Wright and Dr. Young joined the Company on October 29, 1999, the date of acquisition of GeneSense Technologies Inc. by the Company.

(2) Dr. Raafat Fahim resigned from his position as President and Chief Operating Officer on July 31, 2002. The amount of "All Other Compensation" relates to June and July, 2002 compensation, a signing bonus at the time of hire, and a lump sum payment agreed with Dr. Fahim.

(3) Mr. Collett and Mr. Parsons joined the Company in March 2000.

Executive officers of the Company, including the Named Executives (collectively the "**Executive Officers**"), are eligible to participate in a performance related compensation plan (the "**Compensation Plan**"). The Compensation Plan provides for potential annual cash bonus payments and annual granting of options to purchase common shares under the Company's stock option plan. The potential annual cash bonus and annual granting of options to each Executive Officer are conditional upon the achievement by the Company and each Executive Officer of predetermined objectives reviewed by the Compensation Committee and approved by the board of directors of the Company. See "Compensation Committee" and "Report on Executive Compensation".

Stock Option Incentive Compensation

The Company has in place a Stock Option Plan for its directors, officers and employees. The Stock Option Plan provides that the Board of Directors of the Company may from time to time in its discretion grant to directors, officers and employees of the Company options to purchase Common Shares. The Board of Directors determine the exercise price per Common Share and the number of Common Shares which may be allotted to each designated director, officer or employee and all other terms and conditions of the option, in accordance with the applicable policies of any relevant regulatory authority. These options are exercisable for a period not exceeding five years from the date of grant. The Board of Directors has reserved for issuance under the Stock Option Plan an aggregate of 12,000,000 of the Common Shares issued and outstanding from time to time.

The following tables set forth the options granted to and exercised by each of the Named Executives during the year ended May 31, 2002:

Option/SAR Grants During the Most Recently Completed Financial Year

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
Dr. Jim A. Wright Chief Executive Officer	300,000	10.94%	$ 0.95	$ 0.95	17-Sep-06(2)
Dr. Raafat Fahim Former President and Chief Operating Officer	1,500,000	54.69%	$ 0.87	$ 0.87	30-Sep-06(1)
Dr. Aiping Young	75,000	2.73%	$ 0.95	$ 0.95	17-Sep-06
Senior Vice President, Research and Development	125,000	4.56%	$ 0.95	$ 0.95	17-Sep-06(2)
Mr. Geoffrey Collett	75,000	2.73%	$ 0.95	$ 0.95	17-Sep-06
Vice President, Corporate Development	150,000	5.47%	$ 0.95	$ 0.95	17-Sep-06(2)
Mr. James T. Parsons	75,000	2.73%	$ 0.95	$ 0.95	17-Sep-06
Vice President, Finance and Administration and CFO	25,000	0.91%	$ 0.95	$ 0.95	17-Sep-06(2)

(1) Dr. Raafat Fahim was granted options to purchase 1,500,000 common shares on October 1, 2001 at the time of hire. 1,000,000 options expired upon his resignation from his position as President and Chief Operating Officer on July 31, 2002. The remaining 500,000 options expire July 31, 2003.

(2) The officers were granted special incentive options to purchase common shares of the Company. The options vest immediately upon the attainment of specific undertakings; failing to achieve the undertakings will result in forfeiture on the specified deadline.

Other than as described in the above footnotes, the foregoing options were granted on September 18, 2001 in respect of corporate and personal performance during the year ended May 31, 2002. The options vest on the basis of 50% on the first anniversary and 25% on the second and third anniversary of the date of granting. The exercise price of all the $0.95 options was the closing price of the Company's common shares on the Toronto Stock Exchange on September 17, 2001.

Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options/SARs at May 31, 2002 (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options/SARs at May 31, 2002 ($) Exercisable/ Unexercisable
Dr. Jim A. Wright Chief Executive Officer	Nil	Nil	75,000/375,000	Nil/Nil
Dr. Raafat Fahim Former President and Chief Operating Officer	Nil	Nil	Nil/1,500,000	Nil/Nil
Dr. Aiping Young Senior Vice President, Research and Development	Nil	Nil	81,649/281,648	Nil/Nil
Mr. Geoffrey Collett Vice President, Corporate Development	Nil	Nil	125,000/250,000	Nil/Nil
Mr. James T. Parsons Vice President, Finance and Administration and CFO	Nil	Nil	140,000/130,000	Nil/Nil

Employees (the "**Employees**") of the Company, other than Executive Officers, participate in a separate performance bonus plan which provides for the annual granting of options to purchase common shares under the Company's Stock Option Plan. The Company also grants options to purchase common shares to certain employees upon commencement of their employment with the Company. During the year ended May 31, 2002, the Company granted options to Employees to purchase 229,491 common shares, being 8.4% of the total incentive stock options granted under the Stock Option Plan during the year to Employees and Executive Officers.

Pension Plan

Currently, the Company does not maintain a pension plan for its Executive Officers or its Employees. Instead of a pension plan, the Company maintains a Stock Option Plan which is available for its executive officers and employees. See "Stock Option Incentive Compensation" above. Also, the Company has a Deferred Profit Sharing Plan ("**DPSP**") matching program which is available to all employees. The DPSP matching program provides 100% matching of employee contributions into the employee's Group RRSP account up to a maximum of three percent (3%) of the employee's gross earnings. Contributions made by the Company began in fiscal 1998 and were made to the employees' Group Retirement Savings Plan. From February 2001, the Company's contributions were paid into an employer-sponsored DPSP.

Directors' and Officers' Alternate Compensation Plan

The Company has created a directors' and officers' alternate compensation plan (the "**Alternate Compensation Plan**"). Under the Alternate Compensation Plan, the Company has the option of paying annual fees (the "**Annual Fees**") to directors who are not full time employees of the Company ("**Participating Directors**") by the allotment and issuance from treasury to each of the Participating Directors of such number of common shares as is equivalent to the cash value of the Annual Fees. Under the Alternate Compensation Plan, the Compensation Committee may at any time during the period between annual meetings of the

shareholders of the Company recommend the allotment and issuance of common shares from treasury in satisfaction of Annual Fees otherwise payable in cash to Participating Directors. The board of directors may then formally allot and issue the common shares at an issue price equal to the closing price of the common shares of the Company on the Toronto Stock Exchange on the day of, or the day immediately preceding such recommendation by the Compensation Committee or such other amount as determined by the board of directors and permitted by the stock exchange, exchanges or other market upon which the common shares are from time to time listed for trading and any other applicable regulatory authority (collectively, the "**Regulatory Authorities**").

In addition, the Alternate Compensation Plan permits the Company, at its option, to satisfy the meeting attendance fees (the "**Meeting Fees**") earned by the Participating Directors as a result of attendance at meetings of the board of directors held between annual meetings of the Company's shareholders by the allotment and issuance of common shares at an issue price equal to the closing price of the common shares on the Toronto Stock Exchange on the day of, or the day immediately preceding such recommendation by the Compensation Committee or such other amount as determined by the board of directors and permitted by the Regulatory Authorities.

The Alternate Compensation Plan also permits the Company, at its option, to provide for the payment of all or part of the performance bonuses (the **Performance Bonuses**") for certain employees of the Company (the "**Participating Employees**"), which bonuses would otherwise be payable entirely in cash, through the issuance of common shares. Under this aspect of the Alternate Compensation Plan, the Compensation Committee may at any time recommend the allotment and issuance of common shares from treasury to one or more Participating Employees in satisfaction of Performance Bonuses established in accordance with criteria set by the board of directors (in consultation with the Compensation Committee). The issue price for the common shares will be at a price equal to the closing price of the common shares of the Company on the Toronto Stock Exchange on the day of, or the day immediately preceding such recommendation by the Compensation Committee or such other amount as determined by the board of directors and permitted by the Regulatory Authorities. The board of directors will not be obliged to allot and issue common shares to Participating Employees. However, if the board of directors elects to meet its obligations to satisfy Performance Bonuses through the allotment and issuance of common shares, it will do so by passing a resolution allotting and issuing the appropriate number of common shares only if and when the criteria for payment of the related Performance Bonuses are met.

The Alternate Compensation Plan is administered by the board of directors (in consultation with the Compensation Committee) and, subject to regulatory requirements, may be amended by the board of directors without shareholder approval, provided that the maximum number of common shares which may be issued under the Alternate Compensation Plan is not in excess of 2,500,000 common shares. common shares issued under the Alternate Compensation Plan will be subject to trading or resale restrictions under any applicable laws. The board of directors may terminate the Alternate Compensation Plan any time before or after any reservation, allotment or issuance of common shares thereunder.

Directors' and Officers' Deferred Share Unit Plan

The Company has created a deferred share unit plan for directors and officers (the "**Deferred Share Unit Plan**"). Under the Deferred Share Unit Plan, participating directors may elect to receive a portion or all of their Annual Fees from the Company in deferred share units. Under the Deferred Share Unit Plan, the Compensation Committee may at any time during the period between annual meetings of shareholders of the

Company, recommend the Company credit to each Participating Director who has elected under the terms of the Deferred Share Unit Plan, the number of units equal to the gross amount of the Annual Fees to be deferred divided by the fair market value of the shares. The fair market value of the shares is determined as the closing price of the common shares of the Company on the Toronto Stock Exchange on the day immediately preceding such recommendation by the Compensation Committee or such other amount as determined by the board of directors and permitted by the Regulatory Authorities.

In addition, the participating directors may elect under the Deferred Share Unit Plan to receive deferred share units in satisfaction for Meeting Fees earned by the Participating Directors as a result of attendance at meetings of the board of directors held between annual meetings of the Company's shareholders by the credit to each Participating Director of the number of units equal to the gross amount of the Meeting Fees to be deferred divided by the fair market value of the shares, being the closing price of the common shares on the Toronto Stock Exchange on the day immediately preceding the recommendation by the Compensation Committee or such other amount as determined by the board of directors and permitted by the Regulatory Authorities.

The Deferred Share Unit Plan is administered by the board of directors (in consultation with the Compensation Committee) and, subject to regulatory requirements, may be amended by the board of directors without shareholder approval. When a Participating Director ceases to hold the position of director and is no longer otherwise employed by the Company, the Participating Director receives either (a) a lump sum cash payment equal to the number of deferred share units held multiplied by the then fair market value of the common shares of the Company on the date of termination or (b) the number of common shares that can be acquired in the open market with the amount described in (a), either case being subject to withholding for income tax. The board of directors may terminate the Deferred Share Unit Plan any time before or after any allotment or accrediting of deferred share units thereunder.

Termination of Employment, Change in Responsibilities and Employment Contracts

The Company has employment agreements (the "**Agreements**") with each of the Named Executives.

The Agreements for Mr. Collett and Mr. Parsons provide for notice periods in the event of termination without cause equal to six months, plus one additional month for each year of completed service after the first year of employment. The Agreements for Dr. Wright and Dr. Young provide for a notice period of 12 months.

Dr. Fahim resigned as an employee of the Company effective July 31, 2002.

C. Board Practices

Composition of the Corporate Governance and Compensation Committee

The board of directors, upon the advice of the Compensation Committee of the board, determines executive compensation. The Compensation Committee was comprised of two directors who were not employees or officers of the Company during the period June 1, 2001 to May 31, 2002. The members of the Compensation Committee during the above period were: Peter Campbell, Barry Reiter, Robert Béchard and Alan Steigrod. In November 2001 Mr. Béchard and Mr. Steigrod replaced Mr. Campbell and Mr. Reiter as

members of the Compensation Committee and Mr. Béchard was appointed Chair of the Compensation Committee. The Compensation Committee met four times during the above period.

Report on Executive Compensation

The Compensation Committee's mandate is to review, and advise the board of directors on, the recruitment, appointment, performance, compensation, benefits and termination of Executive Officers. The Compensation Committee also administers and reviews procedures and policies with respect to the Company's Stock Option Plan, employee benefit programs, pay equity and employment equity. The philosophy of the Compensation Committee towards Executive Officer compensation is to reward performance and to provide a total compensation package that will attract and retain qualified, motivated and achievement oriented Executive Officers.

The Compensation Committee attempts to create compensation arrangements that will align the interests of the Executive Officers and the shareholders of the Company. The key components of Executive Officer compensation are base salary, potential annual cash bonuses and annual participation in the Stock Option Plan.

Base Salary — Initial Stock Options

Base salary for each Executive Officer is a function of the individual's experience, past performance and anticipated future contribution. The Compensation Committee uses private and public compensation surveys to assist with the determination of an appropriate compensation package for each Executive Officer.

Executive Officers are granted stock options on the commencement of employment with the Company in accordance with the responsibility delegated to each Executive Officer for achieving corporate objectives and enhancing shareholder value.

Potential Annual Cash Bonuses and Annual Participation in the Stock Option Plan

Generally, potential annual cash bonuses and annual awards of options under the Stock Option Plan for each Executive Officer are conditional in part upon the achievement by the Company of predetermined scientific, clinical, regulatory, intellectual property, business and corporate development and financial objectives, and in part upon the achievement by each Executive Officer of individual performance objectives. Executive Officer individual performance objectives for each fiscal year are consistent with corporate objectives and each Executive Officer's role in achieving them. All Corporate and Executive Officer objectives are predetermined by the board of directors after review by the Compensation Committee. Seventy-five percent (75%) of each Executive Officer's potential annual cash bonus is conditional upon the achievement of corporate objectives with the remaining twenty-five percent (25%) being conditional upon the achievement of individual Executive Officer objectives. The Compensation Committee reserves the right to recommend to the board of directors the awarding of bonuses, payable in cash, stock or stock options, to reward extraordinary individual performance.

For each Executive Officer, during the year ended May 31, 2002, the potential annual cash bonuses ranged from 20% to 40% of base salary when all corporate and individual Executive Officer objectives

were achieved. For each Executive Officer, the potential annual cash bonuses range increased to 30% to 60% of base salary when the Corporate and individual Executive Officer objectives were significantly over-achieved.

Cash bonuses are determined as soon as practicable after the end of the fiscal year and are included in the Summary Compensation Table in the year in respect of which they are earned.

There is a potential for an annual allocation from the Company's Stock Option Plan for each Executive Officer when all Corporate and Executive Officer objectives are achieved. The allocation of options is approved by the Compensation Committee of the Company and Options are priced using the closing market price of the Company's common shares on the last trading day prior to the date of grant. Options to purchase common shares expire five years from the date of grant and vest over three years. The granting of options to purchase common shares is included in the Summary Compensation Table in the year that they are earned.

Chief Executive Officer Compensation

The performance of the Chief Executive Officer is measured in the following areas:

- attainment of predetermined corporate objectives;
- attainment of predetermined individual objectives;
- corporate governance;
- financial condition;
- human resource management; and
- strategic positioning.

Compensation of Directors

During the fiscal year ended May 31, 2002, each director who was not an officer of the Company or a representative of a shareholder was entitled to receive stock options and, at his election, shares, deferred share units and/or cash compensation for attendance at board committee meetings. Compensation is comprised of an annual fee of $5,000 ($15,000 to the chairman of the board) $1,000 per board meeting attended ($4,500 to the chairman of a board meeting) and $750 per audit, corporate governance, compensation or environmental committee meeting ($1,000 for the chairman of a committee) attended. In November 2001, stock options to purchase 270,000 common shares at a price of $1.47 per share expiring November 2006, were granted, in aggregate, to directors of the Company in this regard. In November 2000, stock options to purchase 150,000 common shares at a price of $2.12 per share expiring November 2005, were granted, in aggregate, to directors of the Company in this regard. In December 1999, a compensatory grant of stock options to purchase 330,000 common shares in aggregate, at a price of $0.82 per share expiring December 22, 2004, was made to directors of the Company. In addition, the Company reimbursed the directors for expenses incurred in attending meetings of the board of directors and committees of the board.

Mr. Barry J. Reiter resigned as a director of the Company on September 11, 2002. The law firm of Torys LLP, of which Barry J. Reiter is a partner, received legal fees in the amount of $376,000 for the year ended May 31, 2002 for acting as counsel to the Company on various matters.

DIRECTOR'S AND OFFICER'S LIABILITY

The Company purchases and maintains liability insurance for the benefit of directors and officers to cover any liability incurred by such person in such capacities. The policy provides for coverage in the amount of $10,000,000 with a deductible amount of $100,000. For the period June 1, 2001 to May 31, 2002, the premium cost of this insurance was $68,850.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth above under the heading "Executive Compensation", during the financial year of the Company ended May 31, 2002, no director, senior officer or associate of a director or senior officer nor, to the knowledge of the directors or senior officers of the Company after having made reasonable inquiry, any person or company who beneficially owns, directly or indirectly, common shares carrying more than 10% of the voting rights attached to all common shares outstanding at the date hereof, or any associate or affiliate thereof, had any material interest, direct or indirect, in any material transaction of the Company, nor do any such persons have a material interest, direct or indirect, in any proposed transaction of the Company.

D. Employees

As at December 6**,** 2002, the Company had a staff of 40 full-time persons and two part-time persons, who are involved in research and drug development, and administration activities. Of the Company's employees, eleven are medical doctors and/or Ph.D.s. The Company has a Medical and Scientific Advisory Board comprised of eight members who are each medical doctors or Ph.D.s. To encourage a focus on achieving long term performance, employees and members of the board of directors have the ability to acquire an ownership interest in the Company through the Company's stock option plan.

E. Share Ownership

The following tables summarizes the common shares owned by the directors of the Company:

	Ownership or Control over common shares[1]	
	Number of shares	% ownership
DONALD W. PATERSON, Toronto, Ontario President, Cavandale Corporation (corporate consulting)	125,260	*
ELLY REISMAN, Richmond Hill, Ontario President, Great Gulf Group	1,443,208	1%
JIM A. WRIGHT, Oakville, Ontario Chief Executive Officer of the Company	11,412,800	7.9%

To the knowledge of the Company, no other directors or named executive officers beneficially own common shares in excess of 1% of the issued and outstanding capital of the Company.

Outstanding options owned by the Named Executive officers and directors of the Company

Optionee	# of options	# of shares entitled to purchase	Purchase Price	Expiry Date
Geoffrey Collett	100,000	100,000	$ 2.70	14-Feb-05
	50,000	50,000	$ 1.61	17-Dec-05
	75,000	75,000	$ 0.95	17-Sep-06
	75,000	75,000	$ 0.95	7-Jul-07
	100,000	100,000	$ 0.33	25-Sep-07
	400,000	400,000		
Raafat Fahim[1]	500,000	500,000	$ 0.87	31-Jul-03
James T. Parsons	120,000	120,000	$ 3.63	20-Feb-05
	50,000	50,000	$ 1.61	17-Dec-05
	100,000	100,000	$ 0.95	17-Sep-06
	75,000	75,000	$ 0.95	7-Jul-07
	75,000	75,000	$ 0.33	25-Sep-07
	420,000	420,000		
Aiping Young	50,000	50,000	$ 2.50	10-Oct-05
	113,297	113,297	$ 1.61	17-Dec-05
	150,000	150,000	$ 0.95	17-Sep-06
	75,000	75,000	$ 0.95	7-Jul-07
	75,000	75,000	$ 0.33	25-Sep-07
	463,297	463,297		
Jim A. Wright	150,000	150,000	$ 2.50	10-Oct-05
	117,000	117,000	$ 0.58	25-Aug-07
	110,000	110,000	$ 0.95	17-Sep-06
	377,000	377,000		

Outstanding options owned by the Named Executive officers and directors of the Company

Optionee	# of options	# of shares entitled to purchase	Purchase Price	Expiry Date
Robert Béchard	30,000	30,000	$ 2.12	14-Nov-05
	5,000	5,000	$ 2.40	7-Feb-06
	30,000	30,000	$ 1.47	26-Nov-06
	30,000	30,000	$ 0.57	13-Nov-07
	95,000	95,000		
Donald W. Paterson	7,500	7,500	$ 0.80	28-Jun-03
	50,000	50,000	$ 0.40	25-Nov-04
	100,000	100,000	$ 0.82	22-Dec-04
	30,000	30,000	$ 2.12	14-Nov-05
	7,500	7,500	$ 2.40	7-Feb-06
	30,000	30,000	$ 1.47	26-Nov-06
	30,000	30,000	$ 0.57	13-Nov-07
	255,000	255,000		
Elly Reisman	30,000	30,000	$ 0.82	22-Dec-04
	30,000	30,000	$ 2.12	14-Nov-05
	30,000	30,000	$ 1.47	26-Nov-06
	30,000	30,000	$ 0.57	13-Nov-07
	120,000	120,000		
Alan Steigrod	30,000	30,000	$ 1.47	26-Nov-06
	30,000	30,000	$ 0.57	13-Nov-07
	60,000	60,000		
Graham Strachan	30,000	30,000	$ 1.47	26-Nov-06
	125,000	125,000	$ 0.58	25-Aug-07
	90,000	90,000	$ 0.57	13-Nov-07
	245,000	245,000		

Notes:

(1) Dr. Fahim resigned from the Company on July 31, 2002.

Item 7. Major Shareholders and Related Party Transactions

A. Major shareholders

The following table provides information regarding the beneficial ownership of the Company's common shares as of December 6, 2002 for each person or entity who is known to the Company to own beneficially more than 5% of the Company's outstanding common shares. As used in the table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date of this Annual Report. The amounts and percentages are based upon 144,412,000 common shares outstanding as of May 31, 2002.

Name of Beneficial Owner	Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Jim Wright	11,412,800	7.90%

B. Related Party Transactions

During the year ended May 31, 2002, consulting fees of $68,000 were paid to individuals (or companies controlled by those individuals) who were either officers or directors of the Company (2001 — nil and 2000 — nil).

The Company received services from a law firm in which a former director of the Company is a partner. Fees related primarily to consultations in the normal course of business for an aggregate of $376,000 for the year ended May 31, 2002 (2001 — $357,000 and 2000 — $425,000).

The amount payable to related parties as at May 31, 2002 was $46,000 (2001 — $140,000 and 2000 — $179,000).

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

For the Company's consolidated financial statements, see "Item 17 Financial Statements".

There are currently no outstanding material legal proceedings to which the Company is a party or any of the Company's properties is subject, nor does the Company know if there are any material threatened or contemplated proceedings against it.

B. Significant Changes

Since May 31, 2002, there have been no significant changes in the Company's financial condition or results of operations.

Item 9. The Offer and Listing

A. Offer and Listing Details

The common shares are registered shares. Computershare Trust Company of Canada acts as transfer agent in Canada.

The following tables show for the periods indicated the high and low closing market prices for trading taking place on both the OTC Bulletin Board (OTCBB) and the Toronto Stock Exchange (TSX).

Most recent five years	OTCBB (In U.S. dollars)	TSX (In Canadian dollars)
Year ended May 31, 2002		
High	1.15	1.80
Low	0.41	0.65
Year ended May 31, 2001		
High	2.38	3.43
Low	0.73	1.05
Year ended May 31, 2000		
High	5.44	7.95
Low	0.22	0.30
Year ended May 31, 1999		
High	0.67	1.00
Low	0.16	0.26
Year ended May 31, 1998		
High	1.00	1.39
Low	0.44	0.65

	OTCBB		TSX	
	(In U.S. dollars)		(In Canadian dollars)	
	High	Low	High	Low
Most recent eight quarters				
Ended				
November 30, 2002	0.45	0.18	0.69	0.31
August 31, 2002	0.72	0.37	1.09	0.58
May 31, 2002	0.71	0.41	1.11	0.65
February 28, 2002	0.84	0.65	1.37	1.03
November 30, 2001	0.92	0.52	1.47	0.81
August 31, 2001	1.15	0.70	1.80	1.07
May 31, 2001	1.29	0.95	1.98	1.54
February 29, 2001	1.66	0.73	2.59	1.05
Most recent six months				
November, 2002	0.45	0.35	0.65	0.57
October, 2002	0.31	0.20	0.69	0.34
September, 2002	0.38	0.18	0.56	0.31
August, 2002	0.51	0.37	0.71	0.58
July, 2002	0.65	0.44	0.95	0.72
June, 2002	0.72	0.47	1.09	0.75

B. Plan of distribution

Not applicable to Form 20-F filed as an Annual Report.

C. Markets

The Company's shares are listed on the OTC Bulletin Board under the symbol "LORFF" and on the Toronto Stock Exchange under the symbol "LOR".

The National Association of Securities Dealers has submitted a proposal to the SEC to create a new marketplace to be called the BBX, which will eventually take the place of the OTC Bulletin Board. The proposed BBX will have qualitative listing standards but will have no minimum share price, income or asset requirements. This proposal is still being reviewed by the SEC and may be subject to further change and the Company will continue to analyze any impact the new proposed marketplace may have on the Company.

D. Selling Shareholders

Not applicable to Form 20-F filed as an Annual Report.

E. Dilution

Not applicable to Form 20-F filed as an Annual Report.

F. Expenses of the Issue

Not applicable to Form 20-F filed as an Annual Report.

Item 10. Additional Information

A. Share Capital

Not applicable to Form 20-F filed as an Annual Report.

B. Memorandum and Articles of Association

The Company's Articles of Amalgamation and Bylaws, which were included as Exhibits 1.1 and 1.3 to the Company's Registration Statement on Form 20-F, file number 0-19763, filed for March 4, 1992; Articles of Amendment changing the Company's name which were included as Exhibits to the Company's Annual Report on Form 20-F, file number 0-19763, filed for September 28, 1992, November 18, 1998 and November 30, 1999; are hereby incorporated by reference.

1. Lorus Therapeutics Inc. was incorporated under the *Business Corporations Act* (Ontario) on September 5, 1986 under the name RML Medical Laboratories Inc. On October 28, 1991, RML Medical Laboratories Inc. amalgamated with Mint Gold Resources Ltd., resulting in the Company becoming a reporting issuer (as defined under applicable securities law) in Ontario, on such date. On August 25, 1992, the Company changed its name to IMUTEC Corporation. On November 27, 1996, the Company changed its name to Imutec Pharma Inc., and on November 19, 1998, the Company changed its name to Lorus Therapeutics Inc.

2. With respect to directors:

    a. A director's power to vote on a proposal, arrangement or contract in which the director is materially interested is limited by the Bylaws and the governing statute. A Company's director cannot vote in respect of any contract or transaction with the Company in which he is interested.

    b. The Directors may from time to time on behalf of the Company borrow money in such manner and amount, on such security, from such sources and upon such terms and conditions as they think fit.

    c. At each annual shareholders meeting the directors are elected to hold office until the close of the first annual meeting following his election. A director must be at least eighteen years of age. The number of annual terms is unrestricted.

3. Lorus is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to one vote per share at meetings of shareholders, to receive such dividends as declared by us and to receive Lorus's remaining property and assets

upon Lorus' dissolution or winding up. Lorus's common shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares.

4. Changes to Lorus's articles must be approved by the affirmative vote of shareholders holding 66-2/3 of the issued and outstanding shares present in person or by proxy at a duly called meeting of shareholders of the Company.

5. Pursuant to the rules of the TSX, annual general meetings of shareholders of the Company must be held within 6 months after the Company's fiscal year end. Special meetings of shareholders may be held on appropriate notice.

6. There are no limitations on the rights to own the Company's securities.

7. There are no provisions in the Company's articles or bylaws that would have an effect of delaying, deferring or preventing a change in control of the company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the company (or any of its subsidiaries).

8. There are no bylaw provisions governing the ownership threshold above which shareholder ownership must be disclosed. Securities law, however, requires the disclosure of ownership of shares of the Company above certain thresholds.

C. Material Contracts

Not Applicable.

D. Exchange Controls

There is no law, regulation or governmental decree in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to a non-resident holder of common shares of the Company, other than withholding tax requirements. See "Taxation".

There is no limitation imposed by Canadian law or by the charter or other constituent documents of the Company on the right of a non-resident of Canada to hold or vote common shares of the Company, other than as provided in the *Investment Canada Act* (Canada) (the "**Investment Canada Act**"). The following summarizes the principal features of the Investment Canada Act.

Under the Investment Canada Act, the acquisition of control of a Canadian business by a non-Canadian (which would include an entity organized in the United States) is subject either to a notification or review procedure. A non-Canadian would acquire control of the Company for purposes of the Investment Canada Act if it acquired a majority of the common shares of the Company or all or substantially all the assets of the Company. The acquisition of less than a majority but one-third or more of the common shares of the Company would be presumed to be an acquisition of control of the Company unless it could be established that the Company was not controlled in fact by the acquirer through the ownership of common shares.

The size of the Canadian business is measured against thresholds to determine if review or notification is required. Where the acquiror is a WTO investor (as defined in the Investment Canada Act; in general, an individual is a WTO investor if he or she is a national or a WTO member (a member of the World Trade Organization) and a Registrant or other entity is a WTO investor if it is a "WTO investor-controlled" entity, as determined in accordance with detailed rules set out in the Investment Canada Act), the transaction is reviewable only if, in the case of a direct acquisition of control, the Canadian business has gross assets of at least a specified amount, currently $179 million. Except in limited circumstances, an indirect acquisition of control of a Canadian business by a WTO investor is not reviewable. In circumstances where the acquiror is not a WTO investor, the threshold for a direct acquisition is $5 million and for an indirect acquisition is $50 million. In any case where an acquisition of control is reviewable, the acquiror must be able to demonstrate that the investment is likely to be of "net benefit to Canada".

Where an investment is subject to notification, the non-Canadian is required to provide certain information concerning the investment to the Government prior to implementation of the investment or within 30 days thereafter; however, the Government retains the right to review any investment that is related to Canada's cultural heritage or national identity or, if within a specified period, the federal cabinet considers it within the public interest on the recommendation of the Minister responsible for the *Investment Canada Act* to issue an order for the review of the investment.

E. Taxation

Certain Canadian Federal Income Tax Consequences to United States Shareholders

The following general discussion sets forth a summary of the material Canadian federal income tax consequences of acquiring, holding and disposing of common shares for a shareholder of the Company who is not resident in Canada for purposes of the *Income Tax Act* (Canada) (the "**Canadian Tax Act**"), and who is resident in the United States for purposes of the Canada-United States Income Tax Convention (1980) as amended (the "**Convention**"), and who, for purposes of the Canadian Tax Act, holds its common shares as capital property, deals at arm's length with the Company, and does not use or hold and is not deemed to use or hold such common shares in connection with a business carried on in Canada.

The following discussion is based on the current provisions of the Canadian Tax Act and the regulations thereunder and on the Company's understanding of the current administrative practices of Canada Customs and Revenue Agency and takes into account all specific proposals to amend the Canadian Tax Act or regulations made by the Minister of Finance of Canada before the date hereof. The discussion is general only and is not a substitute for independent advice from a holder's own tax adviser.

The provisions of the Tax Act are subject to income tax treaties to which Canada is a party, including the Convention.

Dividends on common shares

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25% on dividends paid or credited to the non-resident by a Registrant resident in Canada. The Convention limits the rate to 15% if the shareholder is resident in the United States and the dividends are beneficially owned by him and to 5% if the shareholder is also a Registrant that owns at least 10% of the voting stock of the payer Registrant.

Disposition of common shares

A non-resident of Canada will not be subject to tax in Canada on any capital gain realized on a disposition of common shares, provided that the common shares do not constitute "taxable Canadian property" of the non-resident. The common shares will not generally constitute "taxable Canadian property" of a non-resident unless, at any time within the five-year period immediately preceding the disposition, the non-resident owned, had an interest in or had the right to acquire, either alone or together with persons with whom the non-resident does not deal at arm's length, 25% of more of the issued shares of any series or class of the capital stock of the Company. If common shares are "taxable Canadian property" to a shareholder that is resident in the United States, such shareholder may be exempted from Canadian capital gains tax under the Convention.

Certain United States Federal Income Tax Considerations for United States Shareholders

The following general discussion sets forth a summary of the material U.S. federal income tax considerations that are applicable to the following persons who hold common shares as capital assets ("**U.S. Shareholders**"): (i) citizens or residents (as specially defined for U.S. federal income tax purposes) of the United States, (ii) companies created or organized in the United States or under the laws of the United States or of any state or the District of Columbia, (iii) estates, the income of which is subject to U.S. federal income taxation regardless of its source, and (iv) a trust whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. fiduciaries who have the authority to control all substantial decisions of the trust.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), current and proposed Treasury regulations promulgated thereunder ("**Treasury Regulations**"), and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly on a retroactive basis. This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to any particular shareholder's circumstances. This discussion does not address the tax treatment of the following types of shareholders, who may be subject to special rules not discussed below: shareholders who own (directly, indirectly or through attribution) 10% or more of the Company's outstanding voting stock, who hold common shares as a hedge or who are broker-dealers, insurance companies, tax exempt organizations, financial institutions, or taxpayers whose functional currency is not the U.S. dollar. Additionally, this summary does not address the possible application of U.S. federal gift or estate taxes, or any aspect of state, local or non-U.S. tax laws. Each U.S. Shareholder is advised to consult such person's own tax advisor with respect to the specific U.S. federal income and other tax consequences to such person of purchasing, holding or disposing of the common shares.

Passive Foreign Investment Companies

For any taxable year of the Company, if 75% or more of the Company's gross income (including the Company's share of the gross income for any company in which the Company is considered to own 25% or more of the shares by value) is "passive income" (as defined in the relevant provision of the Code) or if at least 50% of the Company's assets (including the Company's share of the value of the assets of any Corporation in which the Company is considered to own 25% or more of the shares by value), by average fair market value, are assets that produce or are held for the production of passive income, the Company will be a Passive Foreign Investment ("**PFIC**"). The Company currently is a PFIC and expects to be a PFIC for the foreseeable future.

A U.S. Shareholder of a PFIC is subject to special U.S. federal income tax rules contained in Sections 1291 to 1297 of the Code. As described below, these provisions set forth three alternative tax regimes applicable at the election of each U.S. Shareholder, depending upon whether the U.S. Shareholder elects to treat the Company as a "qualified electing fund" (a "**QEF Election**") to market (a "Mark to Market Election) or elects to mark the PAC stock.

U.S. SHAREHOLDERS ARE URGED TO CONSIDER MAKING A QEF ELECTION TO AVOID CERTAIN POTENTIALLY SIGNIFICANT ADVERSE U.S. TAX CONSEQUENCES.

1. The QEF Election Alternative

Each U.S. Shareholder is urged to consider making a QEF Election because of the potential benefits of such election that are discussed below and because the Company anticipates that it will not have any earnings and profits (as computed for U.S. federal income tax purposes) for the current taxable year and little, if any, earnings and profits for any future taxable year in which the Company is a PFIC. There can be no assurance, however, that this will be the case. Accordingly, the timely making of the QEF Election, as discussed below, generally should avoid any significant adverse U.S. federal income tax consequences resulting from any classification of the Company as a PFIC, although this may depend on a particular U.S. Shareholder's circumstances.

A U.S. Shareholder who elects in a timely manner to treat the Company as a QEF (an "**Electing U.S. Shareholder**") will be subject to federal income tax on a current basis for any taxable year in which the Company is a PFIC (or is treated as a PFIC with respect to the U.S. Shareholder) on such Electing U.S. Shareholder's pro-rata share of the Company's (i) "net capital gain" (the excess of net long-term capital gain over net short-term capital loss, but not in excess of the Company's current earnings and profits), which will be taxed as long-term capital gain to the Electing U.S. Shareholder and (ii) "ordinary earnings" (the excess of earnings and profits over net capital gain), which will be taxed as ordinary income to the Electing U.S. Shareholder, in each case, for the shareholder's taxable year in which (or with which) the Company's taxable year ends, regardless of whether such amounts actually are distributed. Adjustments are provided generally to prevent double taxation at the time of later distributions on or dispositions of common shares.

The QEF Election also allows an Electing U.S. Shareholder (i) generally to treat any gain realized on the disposition of common shares (or deemed to be realized on the pledge of such shareholder's common shares) as capital gain; and (ii) generally to avoid interest charges resulting from PFIC status altogether.

The Company undertakes to provide its U.S. Shareholders with timely and accurate information as to its status as a PFIC and to comply with all record keeping, reporting and other requirements so that each U.S. Shareholder may elect to treat the Company as a QEF. Such an election must be made by attaching the following documents to the timely filed U.S. federal income tax return for the first taxable year of the U.S. Shareholder in which or with which falls the end of a taxable year of the Company during which the Company was a PFIC and the U.S. Shareholder held (or was considered to have held) common shares: (i) a "Shareholder Section 1295 Election Statement" executed by the U.S. Shareholder, (ii) a "PFIC Annual Information Statement" received by the U.S. Shareholder from the Company, and (iii) a Form 8621. In addition, the Electing U.S. Shareholder must file a copy of the Shareholder Section 1295 Election Statement with the Internal Revenue Service Center, P.O. Box 21086, Philadelphia, PA 19114.

The following three paragraphs apply to Electing U.S. Shareholders:

Dividends Paid on common shares. Any dividends paid to an Electing U.S. Shareholder on common shares (including any Canadian taxes withheld) will be treated as ordinary dividend income for U.S. federal income tax purposes to the extent of the Company's current and accumulated earnings and profits (as computed for U.S. federal income tax purposes) unless paid out of earnings and profits that previously were taxed to the Electing U.S. Shareholder under the QEF rules. Such dividends generally will not qualify for the dividends-received deduction otherwise available to US corporations. Amounts in excess of such earnings and profits will be applied against the Electing U.S. Shareholder's tax basis in the common shares and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such common shares.

Credit for Canadian Taxes Withheld. Subject to the limitations in the Code the Canadian tax withheld or paid with respect to dividends on the common shares generally may be taken as a foreign tax credit against U.S. federal income taxes by an Electing U.S. Shareholder who chooses to claim such a credit for the taxable year. Electing U.S. Shareholders who do not choose to claim foreign tax credits for a taxable year may claim a U.S. tax deduction for such Canadian tax for that taxable year.

Disposition of common shares. An Electing U.S. Shareholder will recognize capital gain or loss for U.S. federal income tax purposes upon the sale or other disposition of common shares in an amount equal to the difference between the net amount realized on the disposition and the U.S. Shareholder's adjusted tax basis in the common shares. In the case of non-corporate U.S. Shareholders, such gain or loss will be (i) short-term gain or loss for common shares held for one year or less, and (ii) long-term gain or loss for common shares held for more than one year. Currently, the maximum rate of U.S. federal income tax on individuals' long-term capital gains is 20%. Capital losses of individuals may offset any capital gains plus $3,000 ($1,500 for married persons filing separately) of ordinary income. For taxable years beginning after December 31, 2000, some individuals may be entitled to lower capital gain rates with respect to common shares held for more than five years.

2. The Non-QEF Election Alternative

If a U.S. Shareholder does not make a timely QEF Election for the first taxable year of the Company during which he holds (or is considered to hold) the common shares in question and the Company is a PFIC (a "**Non-Electing U.S. Shareholder**"), or makes a Mark to Market Election as discussed below, then special rules under Section 1291 of the Code will apply to (i) gains realized on the disposition (or deemed to be realized by reason of a pledge) of common shares, and (ii) certain distributions by the Company (collectively, "**excess distributions**"). The Company has never made any distributions with respect to the common shares and it does not anticipate making any such distributions in the foreseeable future.

A Non-Electing U.S. Shareholder generally would be required to pro-rate all gains realized on the disposition of common shares, and all excess distributions, over such shareholder's entire holding period for the common shares. All portions of excess distributions allocated to prior years of the U.S. Shareholder (provided that such periods are not prior to the first day of the first taxable year of the Company during such U.S. Shareholder's holding period and beginning after December 31, 1986 for which it was a PFIC) would be taxed at the highest tax rates applicable to ordinary income for each such prior year. The Non-Electing U.S. Shareholder also would be liable for interest with respect to the tax liability for each such prior year, calculated as if such tax had been due with respect to each such prior year. All portions of excess distributions allocated to periods prior to the first day of the first taxable year of the Company during the U.S. Shareholder's holding period for which it was a PFIC, and all excess distributions allocated to the current year, will be treated as

ordinary income in the year of the distribution and no interest charge will be incurred with respect to such amounts.

If the Company is a PFIC for any taxable year during which a Non-Electing U.S. Shareholder holds (or is considered to hold) common shares, then the Company will continue to be treated as a PFIC with respect to such common shares, even if the Company does not qualify as a PFIC in a later year. A Non-Electing U.S. Shareholder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules discussed above for Non-Electing U.S. Shareholders) as if such common shares had been sold on the last day of the last taxable year for which it was a PFIC. Certain other elections are also available to Non-Electing U.S. Shareholders.

3. Mark to Market Election Alternative

Effective for taxable years ending after 1997, a U.S. Shareholder of certain publicly traded PFIC stock, including the Company, may elect to mark such stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference between the holder's adjusted tax basis in PFIC stock and its fair market value. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. Shareholder pursuant to elections for prior taxable years. If a mark-to-market election is made, any further gain or loss realized on a disposition of common shares will be treated as ordinary income or loss. The source of any income or losses recognized pursuant to a mark-to-market election is determined as if the amount were gain or loss from the sale of PFIC stock. The tax basis of PFIC stock for which an election is made will be increased by the income recognized pursuant to the election and decreased by the deductions allowed under the election. If the mark-to-market election is made, then the rules for Non-Electing U.S. Shareholders described in the preceding paragraphs will not apply for the periods covered by the election. The mark-to-market election applies to the taxable year for which made and to all subsequent taxable years, unless the PFIC stock ceases to be publicly traded or the Treasury Secretary consents to the revocation of the election.

Future Developments

The foregoing discussion is based on current provisions of the Code, existing and proposed regulations thereunder, and current administrative rulings and court decisions, all of which are subject to change. Any such changes could affect the validity of this discussion. In addition, the implementation of certain aspects of the PFIC rules requires the issuance of regulations which in many instances have not yet been promulgated and which may have retroactive effect.

ALL INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF PURCHASING OR HOLDING COMMON SHARES.

F. Dividends and Paying Agents

Not applicable to Form 20-F filed as an Annual Report.

G. Statement by Experts

Not applicable to Form 20-F filed as an Annual Report.

H. Documents on Display

The documents concerning the Company which are referred to in this Annual Report are either annexed hereto as exhibits, or may be inspected at the principal executive offices of the Company at 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7.

I. Subsidiary Information

Lorus' subsidiaries are GeneSense, a company incorporated under the laws of Canada of which the Company owns 100% of the issued and outstanding share capital and NuChem, a company incorporated under the laws of Ontario of which Lorus owns 80% of the issued and outstanding common share capital.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Impact of interest rate exposure

As of May 31, 2002, the Company had $37,822,000 in cash, cash equivalent and short-term investments, of which $36,657,000 were short-term investments. A significant portion of the short-term investments are debt securities. Interest income is subject to fluctuations due to changes in interest rates. Investments are held to maturity and have staggered maturities to minimize interest rate risk. The Company purchases some services and manufactured drugs in U.S. currency, and conducts clinical trials in the United States. U.S. dollar expenditures are expected to increase in 2003 with additional clinical trials beginning in the United States. the Company does not currently engage in hedging its U.S. currency requirements to reduce exchange rate risk. Exchange gain or loss realized in the past years were minimal.

Financial instruments potentially expose the Company to a concentration of credit risk. The Company's financial instruments consist principally of cash equivalents and short-term investments. The Company mitigates the risk by investing in high grade fixed income securities.

Item 12. Description of Securities Other than Equity Securities

Not applicable to Form 20-F filed as an Annual Report.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. Financial Statements

The financial statements of the Company have been prepared on the basis of Canadian GAAP and in all material respects comply with U.S. GAAP.

The auditors' report, financial statements and notes thereto, schedules thereto as required under Item 17 are found immediately below. The Audit Report of KPMG LLP, Chartered Accountants, is included herein immediately preceding the respective financial statements, notes, schedules, etc.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all information in this annual report have been prepared by management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on the best estimates and judgements of management. Financial information presented elsewhere in the annual report is consistent with that in the financial statements.

The integrity and objectivity of these financial statements are the responsibility of management. In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee, which consists of three directors not involved in the daily operations of the Company, reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls. These financial statements have been audited by the shareholders' independent auditors, KPMG LLP.

Jim A. Wright
Chief Executive Officer

James T. Parsons
VP Finance and Administration and
Chief Financial Officer

June 28, 2002

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Lorus Therapeutics Inc. as at May 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended May 31, 2002 and the related consolidated statements of loss and deficit and cash flows for the period from inception on September 5, 1986 to May 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2002 and for the period from inception on September 5, 1986 to May 31, 2002 in accordance with Canadian generally accepted accounting principles.

We did not audit the consolidated financial statements of Lorus Therapeutics 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 LLP

Chartered Accountants

Toronto, Canada

June 28, 2002

Lorus Therapeutics Inc.

Consolidated Balance Sheets

As at May 31

(Amounts in 000's) (Canadian Dollars)	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,165	$ 2,783
Short-term investments	36,657	46,035
Prepaid expenses and amounts receivable	1,195	1,504
Total current assets	39,017	50,322
Fixed assets (note 4)	533	262
Goodwill (note 3 (a))	606	2,060
Acquired research and development (notes 5 and 8)	7,416	9,163
	$ 47,572	$ 61,807
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 442	$ 3,128
Accrued liabilities	2,990	2,737
Total current liabilities	3,432	5,865
Shareholders' equity		
Share capital (note 6)		
Common shares		
Authorized: unlimited number of shares;		
Issued and outstanding (000's):		
May 31, 2002 — 144,412		
May 31, 2001 — 142,411	119,168	117,150
Warrants	—	729
Deferred stock-based compensation (note 6 (h))	(159)	(555)
Deficit accumulated during development stage	(74,869)	(61,382)
Total shareholders' equity	44,140	55,942
	$ 47,572	$ 61,807

Commitments (Notes 3(b) and 10)

Canada and United States accounting policy differences (note 13)

See accompanying notes to consolidated financial statements

Lorus Therapeutics Inc.

Consolidated Statements of Loss and Deficit

(Amounts in 000's except for per common share data) (Canadian Dollars)	Years Ended May 31			Period from inception
	2002	2001	2000	Sept. 5, 1986 to May 31, 2002
EXPENSES				
Research and development (note 8)	$ 8,659	$ 9,797	$ 4,244	$ 46,509
General and administrative	4,867	6,414	3,652	28,588
Depreciation and amortization	1,956	1,903	1,245	7,401
Interest income	(1,995)	(2,901)	(542)	(7,629)
Loss for the period	13,487	15,213	8,599	74,869
Deficit, beginning of period	61,382	46,169	37,570	—
Deficit, end of period	$ 74,869	$ 61,382	$ 46,169	$ 74,869
Basic and diluted loss per common share (note 2)	$ 0.09	$ 0.11	$ 0.10	
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share	143,480	140,776	86,121	

See accompanying notes to consolidated financial statements

Lorus Therapeutics Inc.

Consolidated Statements of Cash Flows

(Amounts in 000's) (Canadian Dollars)	Years Ended May 31 2002	2001	2000	Period from inception Sept. 5, 1986 to May 31, 2002
OPERATING ACTIVITIES				
Loss for the period	$ (13,487)	$ (15,213)	$ (8,599)	$ (74,869)
Add items not requiring a current outlay of cash:				
Depreciation and amortization	3,703	3,703	2,662	12,590
Other	—	—	—	500
Net change in non-cash working capital balances related to operations (note 9)	(2,124)	1,848	575	1,330
Cash used in operating activities	(11,908)	(9,662)	(5,362)	(60,449)
INVESTING ACTIVITIES				
Sale (purchase) of short-term investments, net	9,378	(40,376)	(5,659)	(36,657)
Acquisition, net of cash received (note 3(a))	—	—	(539)	(539)
Acquired research and development	—	—	—	(715)
Additions to fixed assets	(477)	(172)	(19)	(3,732)
Cash proceeds on sale of fixed assets	—	—	116	348
Cash provided by (used in) investing activities	8,901	(40,548)	(6,101)	(41,295)
FINANCING ACTIVITIES				
Issuance of warrants	—	—	9,512	31,877
Issuance of common shares	1,389	2,065	51,592	71,032
Cash provided by financing activities	1,389	2,065	61,104	102,909
Increase (decrease) in cash and cash equivalents during the period	(1,618)	(48,145)	49,641	1,165
Cash and cash equivalents, beginning of period	2,783	50,928	1,287	—
Cash and cash equivalents, end of period	$ 1,165	$ 2,783	$ 50,928	$ 1,165

See accompanying notes to consolidated financial statements

For the years ended May 31, 2002, 2001 and 2000

1. Description of Business

Lorus Therapeutics Inc. ("Lorus" or "the Company") is a biopharmaceutical company specializing in the research, development and commercialization of pharmaceutical products and technologies for the management of cancer. With products in all stages of evaluation, from pre-clinical through Phase III trials, and a product approved in Mexico for malignant melanoma, Lorus develops therapeutics that seek to manage cancer with efficacious non-toxic compounds that improve patients' quality of life.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Lorus, its 80% owned subsidiary NuChem Pharmaceuticals Inc. ("NuChem"), and its wholly-owned subsidiary GeneSense Technologies Inc. ("GeneSense"). The results of operations for acquisitions are included in these consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated on consolidation. The consolidated financial statements 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 below under "Recent Accounting Pronouncements" and in note 13 "Canada and United States Accounting Policy Differences".

Cash Equivalents and Short-Term Investments

Lorus invests in high quality government and corporate issuers with low credit risk. Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Short-term investments, which consist of fixed income securities with a maturity of three months or more, are recorded at their accreted value as they are held to maturity instruments.

Fixed Assets

Fixed assets are recorded at cost. The Company 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 three to five years
Leasehold improvements	straight-line over the lease term

The Company regularly reviews the carrying value of its fixed assets by comparing the carrying amount of the assets to the expected future cash flows to be generated by the assets. If the carrying value exceeds the amount recoverable, a write-down is charged to the statement of operations.

Research and Development

Research costs are charged to expense as incurred. Development costs, including the cost of drugs for use in clinical trials, are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. No development costs have been deferred to date.

The Company capitalized the cost of acquired research and development on the acquisitions of GeneSense and the NuChem compounds and is amortizing these costs on a straight-line basis over seven years. Management reviews the carrying value of acquired research and development and accounts for any permanent impairment in value as a charge to operations in the year incurred.

The carrying value of acquired research and development does not necessarily reflect its present or future value. The amount recoverable is dependent upon the continued advancement of the drugs through research, clinical trials and ultimately to commercialization. It is not possible to predict the outcome of future research and development programs.

The Company has not earned revenues from its drug candidates and is therefore considered to be in the development stage.

Goodwill

Goodwill represents the excess of the cost of the GeneSense acquisition over the fair value of the net assets acquired and is being amortized on a straight line basis over three years. Management reviews the carrying value of goodwill and accounts for any permanent impairment in value as a charge to operations in the year incurred. Commencing June 1, 2002, the Company will adopt the new accounting standard related to goodwill as described below under “Recent Accounting Pronouncements”.

Stock-Based Compensation

Stock options granted to employees are accounted for using the intrinsic value method. Under the intrinsic value method, compensation cost is recorded if, on the measurement date of the grant, the fair value of an underlying common share exceeds the exercise price per share. For options with contingent vesting criteria, the option is treated as a variable award and is revalued, using the intrinsic value method of accounting, at the end of each reporting period until the final measurement date. Compensation cost is amortized over the vesting period of the option.

The Company has a deferred share unit plan that provides directors the alternative to receive payment for their current services in the form of share units rather than common shares or cash. Share units entitle the holder to receive, in the future, either an equivalent number of common shares or the cash equivalent of the shares at the date the units are exercised. As the award entitles the holder to settle the award through the receipt of cash, the value of the share units are recorded as a liability and the share units are revalued each reporting date with any increase or decrease in value being recorded in the consolidated statement of loss.

Stock options granted to consultants and other non-employees are accounted for using the fair value method. Under this method, options granted are recognized at their fair value as services are performed and/or options are earned.

Income Taxes

Income taxes are reported using the asset and liability method, where future tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating loss and research and development expenditure carryforwards. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. A valuation allowance is recorded for the portion of the future tax assets where the realization of any value is uncertain.

Earnings Per Share

On June 1, 2001, the Company adopted, on a retroactive basis, the new accounting recommendations of the Canadian Institute of Chartered Accountants with respect to calculating loss per share. Basic net loss per common share is based on the weighted average number of shares outstanding during each period.

Under the new recommendations, the treasury stock method is used in the calculation of dilutive loss per common share instead of the previously applied imputed earnings approach for determining the effect of all dilutive elements. The adoption of the new method had no effect on the diluted loss per share because there are no dilutive elements under either standard. Stock options and warrants are not included in the computation of the weighted average number of shares outstanding for dilutive net loss per common share when the effect would be anti-dilutive.

Segmented Information

The Company is organized and operates as one operating segment, the research and development of cancer therapies.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements and the accompanying notes. Actual results could differ from these estimates.

Foreign Currency Translation

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

Recent Accounting Pronouncements

In August 2001, the Canadian Accounting Standards board ("AcSB") issued Handbook Section 1581, "Business Combinations", and Handbook Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires that all business combinations be accounted for by the purchase method and it sets out criteria in determining the valuation and allocation of the purchase price in a business combination to tangible assets, intangible assets and goodwill. Section 3062 requires that goodwill no longer be amortized to earnings, but instead be periodically reviewed for impairment. Section 3062 also requires that intangible assets be assessed to determine if they have an estimated useful life or whether they have an indefinite life. Intangible assets that have an estimated useful life will continue to be amortized systematically over the useful life. Intangible assets with indefinite useful lives are not to be amortized but are instead to be tested for impairment annually. Upon adoption of the new Section 3062 in fiscal 2003, the Company must perform transitional impairment tests on goodwill and intangible assets with indefinite lives. Any impairment losses are to be measured as of the date of adoption. Impairment losses assessed on transition, if any, will be recorded as an adjustment to retained earnings. The impact of adopting Section 1581 and 3062 has not yet been determined.

In July 2001, the U.S. Financial Accounting Standards Board ("AcSB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets" which are consistent with Sections 1581 and 3062, respectively, except for certain remaining generally accepted accounting principles ("GAAP") differences, including the accounting for purchased in-process research and development and the recording of any impairment charge determined on transition as a period cost which are required under U.S. GAAP.

In December 2001, the AcSB issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which common shares, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

The Company will adopt Section 3870 for its fiscal year beginning June 1, 2002. The Company does not believe that the adoption of this standard will have a material impact on the Company's financial condition or results of operations as the Company's current accounting policies, as disclosed above, comply with the new standard.

3. Acquisitions

(a) In October 1999, the Company completed the acquisition of all of the issued and outstanding shares of GeneSense Technologies Inc. a molecular genetic drug development company specializing in oligonucleotide therapies for the treatment of cancer and infectious diseases.

The acquisition was accounted for using the purchase method. The total cost of the acquisition of $14,775,000 was allocated to the fair value of the net assets acquired as follows:

Amounts in 000's	
Current assets	$ 822
Fixed assets	83
Acquired research and development	11,000
Goodwill	4,363
Current liabilities	(1,493)
	$ 14,775

The purchase price was satisfied by the issuance of 36,050,000 Lorus common shares. In addition, the Company issued 7,210,000 common share purchase warrants and 903,825 employee stock options in exchange for 1,400,000 common share purchase warrants and 175,500 employee stock options of GeneSense which were outstanding immediately prior to the acquisition. The purchase warrants entitled the holder to acquire one common share of Lorus for $0.6932 per share. The employee stock options have an exercise price of $0.40 per common share and maintain their original vesting terms. The total purchase price includes $775,000 in cash paid for costs related to the acquisition. All common share purchase warrants issued in connection with the acquisition were exercised in the 2001 fiscal year for proceeds of $4,998,000.

(b) In December 1997, NuChem acquired certain patent rights and a sub-license to develop and commercialize the anti-cancer application of certain compounds in exchange for a 20% share interest in NuChem, the payment of US$350,000 in shares of Lorus, and up to US$3,500,000 in cash. In 1999, the Company issued 583,188 common shares from treasury in settlement of the US$350,000 and made cash payments of US$500,000 (Cdn. $715,000). The remaining balance of up to US$3,000,000 remains payable upon the achievement of certain milestones based on the commencement and completion of clinical trials. The payments made to date of $1,228,000 have been classified as acquired research and development. Lorus funds all research and development expenses of NuChem.

4. Fixed Assets

As at May 31 (amounts in 000's)	2002	2001
Furniture and equipment	$ 1,171	$ 765
Leasehold improvements	139	68
	1,310	833
Accumulated depreciation and amortization	(777)	(571)
	$ 533	$ 262

5. Acquired Research and Development

As at May 31 (amounts in 000's)	2002	2001
Cost	$ 12,228	$ 12,228
Accumulated amortization	(4,812)	(3,065)
	$ 7,416	$ 9,163

6. Share Capital

(a) Continuity of common shares and warrants

Amounts in 000's	Note 6	Common Shares		Warrants	
		Number	Amount	Number	Amount
Balance at May 31, 1999		42,747	$ 38,955	4,093	$ 535
Exercise of purchase warrants	(b)	893	1,821	(893)	(321)
Exercise of purchase warrants	(c)	3,200	1,333	(3,200)	(213)
Issuance of special and purchase warrants	(d)	—	—	33,128	8,853
Exercise of special warrants	(d)	30,303	8,438	(30,303)	(8,438)
Exercise of purchase warrants	(d)	2,181	1,215	(2,181)	(321)
Issuance in public offering	(e)	15,333	41,952	766	659
Issued on acquisition of GeneSense (note 3 (a))		36,050	14,000	7,210	—
Exercise of purchase warrants (note 3 (a))		7,210	4,998	(7,210)	—
Issuance under alternate compensation plan	(f)	18	15	—	—
Exercise of stock options		1,730	1,113	—	—
Stock-based compensation		—	869	—	—
Balance at May 31, 2000		139,665	114,709	1,410	754
Exercise of purchase warrants	(d)	168	93	(168)	(25)
Issuance under alternate compensation plan	(f)	28	49	—	—
Exercise of stock options		2,550	1,866	—	—
Stock-based compensation		—	351	—	—
Other		—	82	—	—
Balance at May 31, 2001		142,411	117,150	1,242	729
Exercise of compensation warrants	(d)	476	265	(476)	(70)
Expiry of compensation warrants	(e)	—	659	(766)	(659)
Exercise of stock options		1,525	1,194	—	—
Stock-based compensation		—	(100)	—	—
Balance at May 31, 2002		144,412	$ 119,168	0	$ 0

(b) 1997 Private Placement

In May 2000, 892,857 common share purchase warrants related to an April 30, 1997 private placement were exercised to acquire 892,857 common shares at $1.68 per common share for aggregate cash proceeds of $1,500,000.

(c) January 1999 Private Placement of Special Warrants

On January 8, 1999, the Company completed a private placement of 5,333,333 special warrants for gross proceeds of $1,600,000 ($0.30 per special warrant) before deducting expenses of $383,000. Each special warrant granted the holder the right to acquire, without additional payment, one common share (stated capital $0.272 per common share) and one-half of one Series A purchase warrant (stated capital $0.028 per one-half common share purchase warrant). Each whole common share purchase warrant entitled the holder to acquire one common share for $0.36 at any time on or before January 8, 2000. On May 7, 1999 the special warrants were converted into 5,333,333 common shares and 2,666,667 purchase warrants. In addition, the Company granted 483,333 broker warrants and 50,000 compensation options (stated capital $0.12 per broker warrant and compensation option) to agents of the Company in connection with the completion of the offering. Each broker warrant and compensation option entitled the holder to acquire one common share for $0.30. All purchase warrants, broker warrants and compensation options related to this offering were exercised in the 2000 fiscal year.

(d) October 1999 Private Placement of Special Warrants

On October 27, 1999 the Company issued 30,303,031 special warrants for gross proceeds of $10,000,000 ($0.33 per special warrant) before deducting expenses of $1,562,000. The special warrants grant the holder the right to acquire, without additional payment, one common share of the Company (stated capital $0.316 per common share). The expenses include the issuance of 2,824,849 compensation warrants (stated capital $0.147 per warrant) for services in connection with the completion of the offering. Each compensation warrant entitles the holder to acquire one common share for $0.41 at any time prior to October 27, 2001. In the third quarter of 2000, the special warrants were converted into 30,303,031 common shares. During 2002, 475,700 compensation warrants were exercised. (2001 — 167,750 and 2000 — 2,181,399). As at May 31, 2002, no compensation warrants remain outstanding.

(e) May 2000 Common Share Issue

On May 2, 2000 the Company issued 15,333,334 common shares for gross proceeds of $46,000,000 ($3.00 per common share) before deducting expenses of $4,048,000. The expenses include the issuance of 766,666 compensation warrants (stated capital $0.86 per warrant) for services in connection with the completion of the offering. Each compensation warrant entitles the holder to acquire one common share for $3.30. The warrants vested 50% on November 2, 2000 and 50% on May 2, 2001. All compensation warrants expired unexercised on November 2, 2001.

(f) Alternate Compensation Plans

In 2000, the Company established a compensation plan for directors and officers, which allows the Company, in certain circumstances, to issue common shares to pay directors' fees or performance bonuses of officers in lieu of cash. The number of common shares reserved for issuance under this plan is 2,500,000. Since inception, 46,000 shares have been issued under this plan.

The Company also established a deferred share unit plan that provides directors the option of receiving payment for their services in the form of share units rather than common shares or cash. Share units entitle the director to receive, on termination of their services to the Company, an equivalent number of common shares, or the cash equivalent of the market value of the common shares at that future date. The share units are granted based on the market value of the common shares on the date of issue. As of May 31, 2002 83,057 deferred share units have been issued, with a cash value of $62,000 being recorded in accrued liabilities.

(g) Stock Option Plan

Under the Company's stock option plan, options may be granted to directors, officers, employees and consultants of the Company to purchase up to 12,000,000 common shares. Options are granted at the fair market value of the common shares on the date of grant. Options vest at various rates and have a term of five years. Stock option transactions for the three years ended May 31, 2002 are summarized as follows:

	2002		2001		2000	
	Options (000's)	Weighted-average exercise price	Options (000's)	Weighted-average exercise price	Options (000's)	Weighted-average exercise price
Outstanding at beginning of year	4,144	$ 1.19	6,310	$ 0.80	3,094	$ 1.00
Granted	3,188	$ 0.98	1,281	$ 2.08	5,135	$ 0.75
Exercised	(1,525)	$ 0.78	(2,550)	$ 0.73	(1,730)	$ 0.64
Forfeited	(382)	$ 1.39	(897)	$ 1.00	(189)	$ 1.10
Outstanding at end of year	5,425	$ 1.17	4,144	$ 1.19	6,310	$ 0.80
Exercisable at end of year	2,183	$ 1.32	2,486	$ 0.95	3,515	$ 0.78

The following table summarizes information about stock options outstanding at May 31, 2002:

	Options outstanding			Options exercisable	
Range of Exercise prices	Options outstanding (000's)	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Options exercisable (000's)	Weighted-average exercise price
$0.33 to $0.49	609	2.3	$ 0.39	519	$ 0.39
$0.50 to $0.99	3,368	4.0	$ 0.89	825	$ 0.86
$1.00 to $1.99	625	3.4	$ 1.52	449	$ 1.50
$2.00 to $3.63	823	3.3	$ 2.59	565	$ 2.58
	5,425		$ 1.17	2,358	$ 1.29

(h) Deferred Stock-based Compensation

The Company recorded deferred stock-based compensation recovery relating to options issued under the Company's stock option plan amounting to $100,000 for the year ended May 31, 2002 (2001 — charge $351,000 and 2000 — charge $869,000). Amortization of deferred stock-based compensation was $296,000 for the year ended May 31, 2002 (2001 — $335,000 and 2000 — $330,000).

7. Income Taxes

Income tax recoveries attributable to losses from operations differ from the amounts computed by applying the combined Canadian federal and provincial income tax rates to pretax income from operations primarily as a result of the provision of a valuation allowance on net future income tax benefits.

Significant components of the Company's future tax assets are as follows:

As at May 31 (amounts in 000's)	2002	2001
Non-capital loss carryforwards	$ 7,870	$ 9,976
Research and development expenditures	11,218	12,770
Book over tax depreciation	1,537	1,819
Other	787	1,984
Future tax assets	21,412	26,549
Valuation allowance	(21,412)	(26,549)
	$ —	$ —

In assessing the realizable benefit from future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates, and tax planning strategies in making this assessment. Due to the Company's stage of development and operations, and uncertainties related to the industry in which the Company operates, the tax benefit of the above carried forward amounts have been completely offset by a valuation allowance.

Research and development expenditures can be carried forward indefinitely. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

Year of expiry (amounts in 000's)	Non-capital losses
2003	$ 2,140
2004	2,022
2005	2,295
2006	3,633
2007	3,630
2008	5,977
2009	5,627
	$ 25,324

8. Research and Development Program

The Company's cancer drug research and development program focuses primarily on the following technology platforms:

(a) Immunotherapy

This clinical approach stimulates the body's natural defenses against cancer. The Company's lead drug Virulizin® is currently in a North American Phase III clinical trial for the treatment of pancreatic cancer.

(b) Antisense

Antisense drugs are genetic molecules that inhibit the production of disease-causing proteins. GTI-2040 and GTI-2501, our lead antisense drugs, have shown pre-clinical anti-cancer activity across a broad range of cancers and are currently in phase II and phase I trials, respectively.

(c) Small Molecules

Anti-cancer activity was discovered with an anti-fungal agent Clotrimazole ("CLT"). Based on the structural feature found to be responsible for the anti-cancer effect of CLT, chemical analogues of CLT have been designed and tested. The lead analogue NC381 is in the pre-clinical stage of development.

(amounts in 000's) Research and Development	Year ended May 31			Period from inception Sept. 5, 1986 to May 31, 2002
	2002	2001	2000	
Immunotherapy				
Acquired	$ —	$ —	$ —	$ —
Expensed	4,612	2,161	887	29,488
Antisense				
Acquired	—	—	11,000	11,000
Expensed	3,410	7,116	2,772	13,298
Small Molecules				
Acquired	—	—	—	1,228
Expensed	637	520	585	3,723
Total acquired	$ —	$ —	$ 11,000	$ 12,228
Total expensed	$ 8,659	$ 9,797	$ 4,244	$ 46,509

9. Supplementary Cash Flow Information

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

Years ended May 31 (amounts in 000's)	2002	2001	2000	Period from inception Sept. 5, 1986 to May 31, 2002
(Increase) decrease				
Prepaid expenses and amounts receivable	$ 309	$ (409)	$ (440)	$ (618)
Deferred charges	—	—	221	—
Increase(decrease)				
Accounts payable	(2,686)	988	728	(802)
Accrued liabilities	253	1,269	66	2,750
	$ (2,124)	$ 1,848	$ 575	$ 1,330

During the year ended May 31, 2002, the Company received interest of $2,488,000 (2001 — $2,607,000 and 2000 — $542,000).

10. Commitments

The Company has entered into operating leases for premises under which it is obligated to make minimum annual payments of approximately $210,000 in 2003, $230,000 in 2004 and $100,000 in 2005.

During the year ended May 31, 2002, operating lease expenses were $118,000 (2001 — $206,000 and 2000 — $146,000).

11. Related Party Transactions

During the year ended May 31, 2002, consulting fees of $68,000 were paid to individuals (or companies controlled by those individuals) who were either officers or directors of the Company (2001 — nil and 2000 — nil).

The Company received services from a law firm in which a director of the Company is a partner. Fees related primarily to consultations in the normal course of business for an aggregate of $376,000 for the year ended May 31, 2002 (2001 — $357,000 and 2000 — $425,000).

The amount payable to related parties as at May 31, 2002 was $46,000 (2001 — $140,000 and 2000 — $179,000).

12. Financial Instruments

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

Financial instruments potentially exposing the Company to a concentration of credit risk consist principally of cash equivalents and short-term investments. The Company mitigates this risk by investing in high grade fixed income securities.

13. 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.

(a) SFAS 123 Employee Stock Compensation

SFAS No. 123 encourages, but does not require, the recording of compensation costs for stock options issued to employees 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 under the fair value method since 1995. The Company has elected not to adopt the recording of compensation costs for stock options at fair value and, accordingly, a summary of the pro forma impact on the statement of loss is presented in the table below:

(Amounts in 000's)	2002	2001	2000
Loss for the year	$ 13,487	$ 15,213	$ 8,599
Compensation expense related to the fair value of stock options	1,278	1,059	1,285
Pro forma loss for the period	$ 14,765	$ 16,272	$ 9,884
Pro forma loss per common share	$ 0.10	$ 0.12	$ 0.11

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, 2002, 2001, and 2000: (i) dividend yield of 0%; (ii) expected volatility of 80% (2001 — 95%, 2000 — 95%); (iii) risk-free interest rate of 3.6% (2001 — 5.4%, 2000 — 6.0%) and (iv) expected lives of 5 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 values of options issued in the years ended May 31, 2002, 2001, and 2000 were $ 0.71, $1.56, and $0.60 respectively.

(b) SFAS 130 Reporting Comprehensive Income

SFAS No. 130 establishes standards for reporting and presentation of comprehensive income. This standard defines comprehensive income as the changes in equity of an enterprise except those resulting from shareholder transactions. Comprehensive loss for the periods presented in these financial statements equaled the loss for the period.

Item 18. Financial Statements

The Company has elected to report under Item No. 17.

GLOSSARY

The following is a glossary of terms that are used in this Annual Report

Actinic keratosis:	a condition that arises on the skin's surface. It can be the first step in the development of skin cancer and therefore is a precursor of cancer, or a precancer.
Analogue:	a chemical derivative or variation of a parent molecule
Anti-angiogenic:	preventing blood vessel formation
Anti-metastatic	the ability to inhibit the movement of tumor cells from a primary/original site to other organs in the body
Anti-proliferative:	preventing cancer cell division
Apoptosis:	programmed cell death
BCD:	Bureau of Control of Drugs, the regulatory agency controlling pharmaceutical drugs in Mexico
Biologic response modifier or BRM:	a substance which stimulates, modifies or enhances the body's response, including the response of the body's immune and other protective cellular and molecular systems, to certain diseases
Carcinoma:	any cancerous tumor that starts with the cells that cover the inner and outer body surfaces
Clinical trials:	the investigational use of a new drug in humans: Phase I clinical trials test a drug for safety, Phase II clinical trials test a drug for efficacy and safety in a relatively small sample of patients, and Phase III clinical trials test the drug for efficacy in larger numbers of patients and compares the drug with conventional therapies
cGMP:	current good manufacturing practices, as mandated from time to time by the TPP and the FDA
CLT:	Clotrimazole
Cytokine:	a generic term for a non-antibody protein released by a cell population (e.g., activated macrophages) of the immune system on contact with chemical or biological stimuli
Cytostatic:	pertaining to the inhibition of cell growth without cell destruction
Cytotoxic:	pertaining to the destruction of cells
Deoxyribonucleic acid (DNA):	DNA is the carrier of genetic information which exists in all cells of the body. The building blocks of DNA are called nucleotides
Efficacy:	the ability of a drug to produce a desired result
EMEA:	European Medicine Evaluation Agency
FDA:	Food and Drug Administration, the government agency which regulates the use and sale of diagnostic and therapeutic drug products in the United States
Gene expression:	the synthesis of specific proteins on the basis of inherited or acquired genetic information
GeneSense:	GeneSense Technologies Inc., a subsidiary of the Company
HIV:	Human Immunodeficiency Virus, the virus which causes AIDS

Immune system:	the totality of organs and cells involved in the body's immunologic response to foreign antigens and malignant tissue
IND:	investigational new drug
In situ:	in position
In vitro:	in the test tube; referring to chemical reactions, fermentation, etc., occurring therein e.g., in cell-free extracts
In vivo:	in the living body; referring to chemical processes occurring within cells, etc., as distinguished from those occurring in cell-free extracts (*in vitro*)
LD_{50}:	the measure (quantity) of a drug that, when administered to experimental animals in acute toxicity studies, is lethal to 50 percent of such animals
Macrophage:	a large scavenger white blood cell that engulfs and digests invading micro-organisms and cell debris, and also participates in many complex immunologic processes
Malignant/ malignancy:	describes a tumor that is cancerous. Two important qualities of malignancies are the tendency to invade surrounding tissues and to break off and spread elsewhere (metastasis)
MAP Kinase Pathway:	the pathway of mitogenic signal transduction through the cascade of mitogen-activated protein (MAP) kinases which ultimately lead to alteration in regulatory events such as cell proliferation, differentiation and apoptosis.
Metabolism:	the overall biochemical reactions that take place in a living organism including the building up of complex molecules or breakdown of molecules to provide energy
Metastasis:	the process by which tumor cells are spread to other parts of the body
mRNA:	messenger, or mRNA, is a copy of the information carried by a gene on the DNA. The role of mRNA is to move the information contained in DNA to the translation machinery.
NDA:	new drug application, the application to obtain marketing approval filed with the FDA or BCD after completion of human clinical trials
NDS:	new drug submission, the application to obtain marketing approval filed with the TPP after completion of human clinical trials
NuChem:	NuChem Pharmaceuticals Inc., a subsidiary of the Company
NuChem Analogues:	analogues of CLT licensed by the Company for anti-cancer indications
Nucleic acid:	DNA and RNA, each of which are formed by the combination of nucleotides; it is found in all living cells and contains the genetic code required to transfer genetic information from one generation to the next
Nucleotide:	a compound consisting of a purine or pyrimidine base, a pentose sugar and a phosphoric acid; they are the building blocks from which nucleic acids (DNA or RNA) are constructed
Oligonucleotides:	oligonucleotides are short chains of nucleotides, which are the building blocks of DNA and RNA
Peptide:	a molecule containing two or more amino acids, most frequently linked in a single chain; amino acids form the constituent parts of proteins (see protein)

Pharmacokinetics:	the action of drugs in the body over a period of time, including the process of absorption, distribution, localization in tissues, biotransformation and excretion
Pre-clinical testing:	testing that is conducted in the laboratory (chemistry and pharmacology) and with animals to help determine a product's chemical, pharmacological and pharmaceutical characteristics (including mechanism of action), toxicity, efficacy and side effects
Proteins:	large molecules composed of long chains of sub-units of amino acids
R1 and R2:	components of ribonucleotide reductase
Ribonucleic acid (RNA):	a nucleic acid found in both the nucleus and the cytoplasm of all cells. It carries genetic information from the nucleus to the cytoplasm, where it also reacts as a template in association with ribosomes to synthesize proteins
Salvage therapy:	therapies for patients who have exhausted all standard treatment options
SCID:	severe combined immunodeficiency disease
Squamous cell carcinoma:	second most common skin cancer
SSA:	Secretaria de Salud (the Ministry of Health for Mexico)
Stage IV cancer:	distant metastatic cancer spread
Toxicity:	a condition that results from exposure to a substance at levels causing deleterious side effects which may be harmful to an organism
TPP:	Therapeutic Products Programme. A division of the Health Protection Branch, Department of National Health and Welfare (Canada), the government agency which regulates the use and sale of therapeutic drug products in Canada
Tumor:	an abnormal swelling or lump in the body caused by the growth of new tissues which differ in structure from the part of the body in which they are growing. A tumor may be benign or malignant
Tumor necrosis:	tumor deterioration and death
Xenograft:	an implant of a foreign substance

Item 19. EXHIBITS

Report of Independent Chartered Accountants.

The following exhibits are filed as part of this Annual Report.

*	1.1	Articles of Amalgamation.
*	1.2	Bylaws.
**	1.3	Articles of Amendment.
****	1.4	Articles of Amendment, dated November 27, 1996, regarding name change of Company to Imutec Pharma Inc.
*****	1.5	Articles of Amendment dated November 19, 1998, regarding name change of Company to Lorus Therapeutics Inc.
*	2.1	Form of stock option agreement for officers, directors and employees.
***	2.2	Stock Option Plan of the Company dated June 3, 1993, as amended.
****	2.3	Stock Option Plan of the Company dated December 11, 1997, as amended.
*****	2.4	Stock Option Plan of the Company dated November 19, 1998, as amended.
*	4.1	Amalgamation Agreement dated August 23, 1991, among the Company, Mint Gold Resources Ltd., Harry J. Hodge and Wayne Beach.
	4.2	Lease of Premises between the Company and 565991 Ontario Limited dated July 27, 2001.
*	4.3	Shareholders Agreement dated October 2, 1989.
*	4.4	Shareholders Agreement termination agreement dated July 29, 1991.
**	4.5	Amended and Restated Escrow Agreement dated as of October 28, 1991 among the Company, Montreal Trust Company of Canada and certain shareholders of the Company.
**	4.6	Offer to Lease dated May 11, 1992 between the Company and Morningside Properties Limited, as amended on May 26, 1992.
	10.1	Certification pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	10.2	Certification pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Incorporated by reference to File 0-19763, Registration Statement on Form 20-FR, dated March 4, 1992.

** Incorporated by reference to File 0-19763, Annual Report on Form 20-F, dated September 28, 1992.

*** Incorporated by reference to File 0-19763, Annual Report on Form 20-F, dated December 14, 1995.

**** Incorporated by reference to File 0-19763, Annual Report on Form 20-F, dated November 18, 1998.

***** Incorporated by reference to File 0-1963, Annual Report on Form 20-F dated November 30, 1999.

SIGNATURES

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement [annual report] on its behalf.

Lorus Therapeutics Inc.

(Company)

/s/ Jim A. Wright

Jim A. Wright
Chief Executive Officer

Date: December 13, 2002

CERTIFICATIONS

I, **Jim A. Wright** certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: December 13, 2002

/s/ Jim A. Wright

Jim A. Wright
Chief Executive Officer

CERTIFICATIONS

I, **James T. Parsons** certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: December 13, 2002

/s/ James T. Parsons

James T. Parsons
VP Finance and Administration and
Chief Financial Officer

Exhibit 4.2

2 MERIDIAN ROAD

ETOBICOKE, ONTARIO

INDUSTRIAL LEASE

BETWEEN

565991 ONTARIO LIMITED

AND

LORUS THERAPEUTICS INC.

THIS LEASE is this 27th day of July, 2001

B E T W E E N:

565991 ONTARIO LIMITED
(the "Landlord")

-and-

LORUS THERAPEUTICS INC.
(the "Tenant")

ARTICLE 1

PREMISES - TERM AND USE

1.01 Grant and Premises In consideration of the performance by the Tenant of its obligations under this lease, the Landlord leases the Premises (as hereinafter defined) to the Tenant for the Term (as hereinafter defined).

1.02 Term The Term of this lease is three (3) years from the 1st day of April, 2002 to the 31st day of March, 2005.

1.03 Use and Conduct of Business The Premises shall be used only for offices, storage and animal and laboratory facilities and for no other purpose. The Tenant shall conduct its business in the Premises in a reputable and first class manner. It shall be the responsibility of the tenant to obtain all necessary municipal licenses and approvals, including any occupancy permit to carry on its business operations in the Premises in accordance with the use provided herein. The Tenant shall comply promptly with and conform to the requirements of all applicable statutes, by-laws, regulations, ordinances and orders from time to time or at any time in force during the Term of this lease relating to the particular manner of use by the Tenant of the Premises and with every applicable regulation, order and requirement of the Insurance Bureau of Canada or any body having similar functions or of any liability or fire insurance company by which the Landlord and the Tenant or either of them may be insured at any time during the Term hereof.

1.04 Acceptance of Premises The Tenant acknowledges that the Tenant is taking possession of the Premises, including the existing Leasehold Improvements, as is, where is, and that such taking of possession shall be conclusive evidence as against the Tenant that at the time thereof the Premises and the Leasehold Improvements were in good order and satisfactory condition, including the heating, electrical, lighting, plumbing, sprinkler, air-conditioning, mechanical and ventilation systems and roof, and that all premises, representations and undertakings by or binding upon the Landlord and made to the Tenant with respect to any alteration, remodelling or decorating of or installation of fixtures or Leasehold Improvements in the Premises have been fully satisfied and performed by the Landlord.

ARTICLE II

DEFINITIONS

2.01 In this lease and in the Schedules, if any, to this lease:

(a) "Additional Rent" means all sums of money required to be paid by the Tenant under this lease (except Net Rent) whether or not the same are

designated "Additional Rent" or are payable to the Landlord or otherwise.

(b) "Alterations" means all repairs, replacements, improvements or alterations to the Premises by the Tenant.

(c) "Architect" means a qualified architect from time to time named by the Landlord.

(d) "Building" means the industrial building located on the Lands and which Building has a leasable area of 20,5000 square feet more or less.

(e) "Business Tax" means all taxes (whether imposed on the Landlord or Tenant) attributable to the personal property, trade fixtures, business, income, occupancy or sales of the Tenant or any other occupant of the Premises and to any Leasehold Improvements installed in the Premises and to the use of the Building or Lands by the Tenant.

(f) "Capital Tax" means the amount of capital tax payable by the Landlord or the owners of the Lands and Building under the Corporations Tax Act of Ontario, as amended or replaced from time to time or any other legislation imposing taxes on account of capital.

(g) "Commencement Date" means the date on which the Term commences under Section 1.02 hereof.

(h) "Contaminant" means any substance which is capable of causing pollution or contamination to air, land or water and includes any wastes, contaminants, pollutants, toxic substances or hazardous materials as defined under applicable federal, provincial or municipal laws, regulations or guidelines.

(i) An "Event of Default" shall occur whenever: (i) any Rent is in arrears and is not paid within 5 days after written demand by the Landlord; (ii) the Tenant has breached any of its obligations in this lease (other than the payment of Rent) and: (aa) fails to remedy such breach within 15 days (or such shorter period as may be provided in this lease); or (bb) if such breach cannot reasonably be remedied within 15 days or such shorter period, the Tenant fails to commence to remedy such breach within such 15 days or shorter period or thereafter fails to proceed diligently to remedy such breach, in either case after notice in writing from the Landlord; (iii) the Tenant becomes bankrupt or insolvent or takes the benefit of any statute for bankrupt or insolvent debtors or makes any proposal, assignment or arrangement with its creditors, or any steps are taken or proceedings commenced by any Person for the dissolution, winding-up or other termination of the Tenant's existence or the liquidation of its assets; (iv) a trustee, receiver, receiver/manager or like Person is appointed with respect to the business or assets of the Tenant; (v) the Tenant makes a sale in bulk of all or a substantial portion of its assets other than in conjunction with a Transfer approved by the Landlord; (vi) this lease or any of the Tenant's assets are taken under a writ of execution; (vii) the Tenant purports to make a Transfer other than in compliance with the provisions of this lease; (viii) the Tenant abandons or attempts to abandon the Premises or disposes of its goods so that there would not after such disposal be sufficient goods of the Tenant on the Premises subject to distress to satisfy Rent for at least 3 months, or the Premises become vacant and unoccupied for a period of 10 consecutive days or more without the consent of the Landlord; or (ix) any insurance policies covering any part of the Building or any occupant thereof are actually threatened to be cancelled or adversely changed as a result of any use or occupancy of the Premises.

(j) "Landlord" means the party named as landlord on the first page of this lease.

(k) "Lands" means the lands situated in the City of Toronto in the Province of Ontario on which the Building is constructed and municipally known as 2 Meridian Road, Toronto, Ontario, as more particularly described in Schedule "A".

(l) "Leasehold Improvements" means leasehold improvements in the Premises determined according to common law, and shall include, without limitation, all fixtures, improvements, installations, alterations and additions from time to time made, erected or installed in the Building or on the Lands by or on behalf of the Tenant or any previous occupant of the Premises, including signs and lettering, partitions, doors and hardware however affixed and whether or not movable, all mechanical, electrical and utility installations and all carpeting and drapes with the exception only of furniture and equipment not in the nature of fixtures.

(m) "Mortgage" means any and all mortgages, charges, debentures, security agreements, trust deeds, hypothecs or like instruments resulting from any financing, refinancing or collateral financing (including renewals or extensions thereof) made or arranged by the Landlord of its interest in all or any part of the Premises.

(n) "Mortgagee" means the holder of, or secured party under, any Mortgage and includes any trustee for bondholders.

(o) "Net Rent" means the annual rent payable by the Tenant under Section 3.02.

(p) "Person" means any person, firm, partnership or corporation, or any group or combination of persons, firms, partnerships or corporations.

(q) "Premises" means the Lands and the Building and includes Leasehold Improvements in or on such premises.

(r) "Rent" means the aggregate of Net Rent and Additional Rent.

(s) "Taxes" means all taxes, levies, charges, local improvement rates, school assessments (separate and otherwise) and assessments whatsoever assessed or charged against the Building and the Lands or any part thereof by any lawful taxing authority and including any amounts assessed or charged in substitution for or in lieu of any such taxes, including Capital Tax and the Federal Large Corporations Tax, but excluding only such taxes as capital gains taxes, corporate, income, profit or excess profit taxes to the extent such taxes are not levied in lieu of any of the foregoing against the Building or Lands or the Landlord in respect thereof.

(t) "Tenant" means the party named as tenant on the first page of this lease.

(u) "Term" means the period set out in Section 1.02.

(v) "Trade Fixtures" means trade fixtures as determined at common law, but for greater certainty, shall not include: (i) heating, ventilating or air conditioning systems, facilities and equipment in or serving the Building; (ii) floor coverings affixed to the floor of the Building; (iii) light fixtures; (iv) internal stairways and doors; (v) plumbing, sinks, toilets and washroom partitions; and (vi) any fixtures, facilities, equipment or installations installed by or at the expense of the Landlord. "Trade Fixtures" shall include all laboratory equipment and related facilities installed by the Tenant for its animal experiments.

(w) "Transfer" means an assignment of this lease in whole or in part, a sublease of all or any part of the Premises, any transaction whereby the rights of the Tenant under this lease or to the Premises are transferred to another, any transaction by which any right of use or occupancy of all or any part of the Premises is conferred upon anyone, any mortgage, charge or encumbrance of this lease or the Premises or any part thereof or other arrangement under which either this lease or the Premises becomes security for any indebtedness or other obligations and includes any transaction or occurrence whatsoever (including, but not limited to, expropriation, receivership proceedings, seizure by legal process and transfer by operation of law), which has changed or might change the identity of the Persons having lawful use or occupancy of any part of the Premises.

(x) "Transferee" means the Person or Persons to whom a Transfer is or is to be made.

ARTICLE III

RENT

3.01 Covenant to Pay Except as may be provided in Section 3.02, the Tenant shall pay Rent from the Commencement Date without prior demand and without any deduction, abatement, set-off or compensation. If the Commencement Date is not on the first day of a calendar month, or the first or last Fiscal Year of the Term comprises less than 12 calendar months, then Rent for such month and such Fiscal Years shall be pro-rated on a per diem basis, based upon a period of 365 days.

3.02 Net Rent

(a) The Tenant shall pay Net Rent in equal monthly instalments each in advance on the first day of each calendar month of the Term as follows:

<TABLE>
<CAPTION>

Rent	Annual Net Rent	Monthly Instalments	Net Rent per Square Foot
<S>	<C>	<C>	<C>
April 1, 2002 - March 31, 2003	$102,500.00	$8,541.67	$5.00
April 1, 2003 - March 31, 2004	$107,625.00	$8,968.75	$5.25
April 1, 2004 - March 31, 2005	$112,750.00	$9,395.83	$5.50

</TABLE>

(b) The Tenant shall pay the amount of any goods and services tax, sales

tax, value added tax or any similar tax charged or levied by any government or other applicable taxing authority on any payments due to the Landlord as Net Rent.

(c) The annual Net Rent and monthly instalments thereof at the above-mentioned rates per square foot per annum shall be calculated on the basis of the Premises and Building having a leaseable area of 20,5000 square feet.

3.03 Payment of Additional Rent

(a) The Rent payable by the Tenant shall be net to the Landlord and clear of all Taxes, insurance premiums and all costs relating to the Premises, except for the Landlord's corporate and income taxes (except as otherwise provided herein), and any principal, interest or other costs payable by the Landlord in respect of the Landlord's debts. The Tenant shall, except for those costs required to be paid by the Landlord under this lease, pay all costs and expenses relating to, or reasonably incurred in respect of, the Premises.

(b) There shall be no reduction in Rent if all or part of the Premises become unusable or are damaged or destroyed, except as provided for in Article VI.

(c) The Tenant shall pay when due all Business Tax. If the Tenant's Business Tax is payable by the Landlord to the relevant taxing authority, the Tenant shall pay the amount thereof to the Landlord or as it directs.

(d) The Tenant shall promptly deliver to the Landlord on request, copies of assessment notices, tax bills and other documents received by the Tenant relating to Taxes and Business Tax and receipts for payment of Taxes and Business Tax payable by the Tenant.

(e) The Tenant shall on demand, pay to the Landlord or to the appropriate taxing authority if required by the Landlord, all goods and services taxes, sales taxes, value added taxes, business transfer taxes, or any other taxes imposed on the Landlord with respect to Rent or in respect of the rental of space under this lease, whether characterized as a goods and services tax, sales tax, value added tax, business transfer tax or otherwise. The Landlord shall have the same remedies and rights with respect to the payment or recovery of such taxes as it has for the payment or recovery of Rent under this lease.

(f) The Tenant shall pay all Taxes as well as the cost of insurance which the Landlord is obligated or permitted to obtain under this lease in accordance with Section 5.03.

(g) The Tenant shall have the right to contest the amount or legality of the realty taxes forming part of the Taxes (the "Realty Taxes") and to make application for the reduction of Realty Taxes or of any assessment upon which the Realty Taxes are based. The Landlord will, upon the Tenant's written request, provide or make available to the Tenant information in the Landlord's possession or control which is required to contest the amount or legality of the Realty Taxes. The Tenant shall diligently prosecute any such contest, and shall immediately after the final determination of such contest, pay the amount of the Realty Taxes which were the subject of such contest as so determined, as and when they become due and payable, together with any interest, penalties or other charges which are payable in connection with the Realty Taxes. Before commencing proceedings to contest any the Realty Taxes, the Tenant shall pay to the Landlord the amount of Realty Taxes due, or such alternative security as requested by the Landlord, to be held by the Landlord pending the determination of such contest. On the determination of such contest, the Landlord shall pay, out of the amount held by it, the amount required to be paid by the Tenant on account of the Realty Taxes, and if the amount held by the Landlord exceeds the amount of Realty Taxes required to be paid by the Tenant, the Landlord shall make the necessary rebate of such excess amount to the Tenant. If the amount held by the Landlord is insufficient to pay all of the Realty Taxes, the Tenant shall, immediately on the determination of such contest, pay to the appropriate taxing authorities such additional amount as may be required to satisfy the Realty Taxes in full. The Tenant shall deliver to the Landlord within 90 days after the date on which the Realty Taxes and charges described in this Section are paid, official receipts of the appropriate taxing authority evidencing payment of same.

(h) There shall be excluded or deducted from Additional Rent the following:

(i) capital taxes;

(ii) debt servicing costs and retirement of debt;

(iii) all costs of capital nature as determined in accordance with generally accepted accounting principals; for the purposes of this Section capital costs shall include the cost of leasing equipment if the cost of purchasing such equipment would be a capital cost in

accordance with generally accepted accounting principals and if such equipment is normally purchased by the landlords or owners of similar buildings;

(iv) the cost of replacement of the structure of the Building, including, without limitation, the roof and the roof membrane;

(v) the cost of any repair, replacement or maintenance required as a result of any inherent structural defect in the Building;

(vi) costs arising from the negligence of the Landlord or those for whom it is in law responsible;

(vii) fees paid to a management company in connection with the operation of the Building;

(viii) any fines or penalties that the Landlord incurs in connection with any failure to perform obligations, such as the late payment of Taxes;

(ix) any monies received by the Landlord pursuant to any warranties and guarantees to the extent that such monies are a reimbursement for work the cost of which was previously included in Additional Rent;

(x) any costs included in Additional rent representing an amount paid to any person or other entity related to the Landlord which are in excess of the amounts which would have been paid had the Landlord acted as a reasonably prudent manager and administrator.

3.04 Additional Rent Except as otherwise provided in this lease, all Additional Rent shall be payable by the Tenant to the Landlord within 20 business days after demand.

3.05 Rent Past Due All Rent past due shall bear interest from the date on which same became due until the date of payment at five percent (5%) per annum in excess of the prime interest rate for Canadian Dollar demand loans announced from time to time by any Canadian chartered bank designated by the Landlord.

3.06 Utilities The Tenant shall pay, when due, all charges for gas, electricity, water, steam, telephone and other utilities used in or on the Premises. The Tenant shall also pay for apparatus, meters and other things leased or purchased at the request of the Tenant or the utility's provider, or as may be required by the Landlord, acting reasonably, in connection with utility services, and for all work performed by anyone in connection with such utilities.

3.07 Net Lease This lease is a completely net lease to the Landlord, except as expressly herein set out.

3.08 Deposits

(a) The Landlord acknowledges receipt of the Tenant's deposit in the amount of $9,139.57 in Canadian funds which will be applied, without interest, against the Net Rent (and GST) due for the period April 1 to 30, 2002.

(b) The Landlord further acknowledges receipt of the Tenant's deposit in the amount of $10,000.00 in Canadian funds which will not be applied on account of Rent but is to be held by the Landlord, without interest, as security for the full and faithful performance by the Tenant of all the agreements, terms, covenants and conditions herein set forth and applied against expenses or other costs or damages incurred by the Landlord and to be payable as liquidated damages and not as penalty, upon forfeiture, default or early termination by the Tenant without prejudice to any further claims by the Landlord for damages and any remedy for recovery thereof. In the event the Tenant carries out the terms and conditions of this lease, the Tenant shall, after vacating the Premises be entitled to the return of its deposit less any deductions made in respect of any default of the Tenant.

ARTICLE IV

MAINTENANCE, REPAIRS AND ALTERATIONS

4.01 Maintenance by Tenant

(a) Except for damage caused by fire or other insured casualty, the repair of which is provided for in Article V, the Tenant shall, at its own expense;

(i) maintain and repair the interior and exterior of the Building, including the roof and parking lot, in good order and first class condition in the same manner as a careful and prudent owner would do including, without limitation, the repair of wear and tear which is necessary to maintain the improvements and equipment of the Building in

such manner so that they function properly having regard to their nature and purpose for which they are intended to be used or to keep the appearance of the Premises neat, clean and presentable, provided that the Tenant shall not be required to repair any structural defects, unless such structural defects are caused or contributed to by the fault or negligence of the Tenant or those for whom it is in law responsible, in which case the repair of such structural defects shall be the Tenant's responsibility; and

(ii) maintain and make such repairs and replacements to the roof (except for structural defects, unless such structural defects are caused or contributed to by the fault or the negligence of the Tenant or those for whom it is in law responsible), equipment, facilities, paved areas, fences, landscaping and other installations forming part of the Building or the Premises, including the Leasehold Improvements, heating, ventilating, air-conditioning, mechanical, electrical and plumbing systems, and to keep same in good order and first class condition in the same manner as a careful and prudent owner would do including, without limitation, the repair of wear and tear which is necessary to maintain same in such manner so that they function properly having regard to their nature and the purpose for which they are intended to be used or to keep the appearance of the Premises neat, clean and presentable.

(b) The Landlord may, with 24 hours prior notice, except in cases of emergency when no notice is required, enter the Premises to view the state of repair. If the Landlord notifies the Tenant of the need for repairs, the Tenant will repair in accordance with such notice, subject to the exceptions set out in subsection (a) above. On the expiration or date of early termination of this lease, the Tenant shall surrender the Premises to the Landlord in broom-swept condition and in a good state of repair consistent with the obligations imposed upon the Tenant during the Term. No provision of this subsection (b) shall require the Tenant on the expiration or other termination of this lease to repair reasonable wear and tear, except to the extent that repair of wear and tear is necessary to maintain the improvements and equipment of the Building in such manner so that they shall function properly, having regard to their nature and the purpose for which they are intended to be used, and except to the extent that repair of wear and tear is necessary to keep the appearance of the Premises neat, clean and presentable. All repairs required to be made pursuant to this subsection (b) shall be completed prior to the date upon which this lease terminates.

(c) If the Tenant is in default of the provisions of subsections (a) and (b) above, the Landlord may proceed to make the needed repairs and may then charge its costs for so doing to the Tenant for immediate payment on demand.

(d) The Tenant shall keep the Premises and the sidewalks and other areas adjacent to the Premises, clean and free of refuse and other obstructions, and shall comply with any laws governing the condition or cleanliness of the Premises, the sidewalks and such adjacent areas.

(e) The Tenant shall not, by its act or omission, permit anything to occur in the Premises which shall be or shall result in a nuisance.

(f) The Tenant shall promptly comply with the requirements of all laws at any time in force during the Term which affect the condition or use of the Premises. If the Tenant defaults under the provisions of this subsection, the Landlord may itself comply with the requirements of this subsection, and the Tenant shall within 20 business days pay all reasonable expenses incurred by the Landlord in so doing.

(g) The Tenant shall heat the Building at its own expense to such temperature as may be necessary to prevent damage to the Building, the Leasehold Improvements and the Trade Fixtures.

4.02 Tenant's Alterations

(a) The Tenant shall not place any thing on, nor make any opening in, the roof or walls of the Building, without the prior written consent of the Landlord, which consent shall not be unreasonably

withheld or delayed. On the termination of this lease, or at such time as the Tenant vacates the Premises, the Tenant shall repair any damage caused to the Building as a result of having placed any thing on, or having made openings in, the roof, and shall restore the roof and walls to the their condition at the Commencement Date, all to the satisfaction of the Landlord, acting reasonably.

(b) The Tenant shall have the right, at is sole cost, to erect such corporate signage on the Lands or Building as it may require to identify its business. All signs shall be in conformity with applicable laws and by-laws, and shall be subject to the prior written approval of the Landlord which approval shall not be unreasonably withheld. Prior to the expiration of the Term, the Tenant shall, at its cost, remove all such signage on the Lands and Building and any damage caused to the Building or Lands as a result of erecting

or removing signs shall be repaired by the Tenant, at its sole cost, to the reasonable satisfaction of the Landlord, prior to the expiration of the Term.

(c) The Tenant shall make no Alterations to the Building or on the Lands unless it has first delivered to the Landlord plans showing such proposed alterations or additions in reasonable detail, and obtained the written consent of the Landlord to such plans and any Alterations. The Landlord shall not unreasonably withhold or delay such consent, but may give consent on such conditions as the Landlord considers proper in the circumstances. All work performed shall be performed at the Tenant's sole cost, in a good and workmanlike manner, free from defects and using new first class materials, and construction shall be subject to supervision by the Landlord. It shall not be considered unreasonable for the Landlord to withhold its consent to any Alterations if they in any way involve the structural elements of the Building or the Premises. In addition, all work shall be completed to the satisfaction of the Landlord, acting reasonably. The Tenant shall, at its cost, obtain all required permits and comply with all laws, by-laws and regulations of all governmental authorities having jurisdiction.

(d) The Tenant shall indemnify the Landlord from all actions and liabilities for which the Landlord may become liable as a result of any breach by the Tenant of a covenant of this lease, or as a result of any personal injury, property damage or death occurring because of the wilful act or omission or negligence of the Tenant or those for whom it is in law responsible. This indemnification shall survive the termination of this Lease insofar as any such breach, personal injury, property damage or death occurring during the Term.

The Landlord shall indemnify the Tenant from all actions and liabilities for which the Tenant may become liable as a result of any breach by the Landlord of a covenant of this lease, or as a result of any personal injury, property damage or death occurring because of the wilful act or omission or negligence of the Landlord or those for whom it is in law responsible. This indemnification shall survive the termination of this Lease insofar as any such breach, personal injury, property damage or death occurring during the Term.

(e) Except in the case of injury, death or property damage caused by any breach by the Landlord of a covenant in this lease, or by the wilful act or omission or negligence of the Landlord or those for whom it is in law responsible, the Landlord shall not be liable for any personal injury, death or property damage sustained by the Tenant, or its employees, agents, sublessees, licensees, or those doing business with it in or on the Premises, no matter how caused; and the Tenant shall indemnify the Landlord against all actions or liabilities arising out of such personal injury, death or property damage or loss. The Tenant releases the Landlord and its officers, agents and employees from all claims for damages or other expenses arising out of such personal injury, death or property loss or damage, except as aforesaid.

Except in the case of injury, death or property damage caused by any breach by the Tenant of a covenant in this lease, or by the wilful act or omission or negligence of the Tenant or those for whom it is in law responsible, the Tenant shall not be liable for any personal injury, death or property damage sustained by the Landlord, or its employees, agents, sublessees, licensees, or those doing business with it in or on the Premises, no matter how caused; and the Landlord shall indemnify the Tenant against all actions or liabilities arising out of such personal injury, death or property damage or loss. The Landlord releases the Tenant and its officers, agents and employees from all claims for damages or other expenses arising out of such personal injury, death or property loss or damage, except as aforesaid.

(f) The Tenant shall pay the costs of installing, upgrading and maintaining a sprinkler supervisory system in the Building, if such a system is required by any law or regulation of any governmental authority or any fire or liability insurance company by which either the Landlord or Tenant may be insured during the Term.

(g) Notwithstanding anything to the contrary contained in this lease, the Tenant shall not cut down any trees on the Lands.

4.03 Removal of Improvements and Fixtures All Leasehold Improvements (other than Trade Fixtures), shall immediately upon their placement become the Landlord's property without compensation to the Tenant. Except as otherwise agreed by the Landlord in writing, no Leasehold Improvements shall be removed from the Premises by the Tenant either during or at the expiry or sooner termination of the Term except that:

(a) the Tenant may, during the Term, in the usual course of its business, remove its Trade Fixtures, provided that the Tenant is not in default under this lease;

(b) the Tenant shall, at the expiration or earlier termination of the Term, at its sole cost, remove its Trade Fixtures from the Premises, failing

which, at the option of the Landlord, the Trade Fixtures shall become the property of the Landlord and may be removed from the Premises and sold or disposed of by the Landlord in such manner as it deems advisable; and

(c) The Tenant shall, at the expiration or earlier termination of the Term, at its sole cost, either remove such of the Leasehold Improvements in the Premises as the Landlord shall require to be removed and restore the Premises to the condition that existed on October 1st, 1995, being the commencement of the lease of Hemosol Inc., the previous tenant, including the removal of all partitions (other than partitions in the front office with a low ceiling located in the southerly portion of the Building and separated from the rest of the office by a concrete block wall) to the extent required by the Landlord, or, at the Landlord's option, pay to the Landlord the estimated cost of such removal and restoration as determined by the Architect, acting reasonably, and the Landlord shall utilize such payment by the Tenant for such removal and restoration. If the Landlord requires the Tenant to perform such work, then:

(i) the Tenant shall, at its expense, repair any damage caused to the Building by such removal; and

(ii) if the Tenant fails to complete such work within 30 days following the expiry or earlier termination of the Term, the Tenant shall pay compensation to the Landlord for each day following such 30th day until completion of such work, at a rate equal to the per diem Rent payable during the last month preceding the expiry or earlier termination of the Term, which sum is agreed by the parties to be a reasonable estimate of the damages suffered by the Landlord for the loss of use of the Premises. The Tenant's obligation aforesaid shall also include the obligation of the Tenant to close off all electrical wiring which may have previously served any machinery or equipment installed by the Tenant in the Building.

4.04 Liens The Tenant shall promptly pay for all materials supplied and work done in respect of the Premises so as to ensure that no lien is registered against any portion of the Lands or Building or against the Landlord's or Tenant's interest therein. If a lien is registered or filed as a result of work done by or for the Tenant or material supplied to or for the Tenant, the Tenant shall cause all such registrations of any such claims or certificates of actions related thereto to be discharged or vacated at its own expense within 5 days of notice from the Landlord requiring it to do so, failing which the Landlord, in addition to any other rights and remedies it may have hereunder, may, but shall not be obligated to, cause such claims or certificates to be discharged or vacated by payment into court of the appropriate amounts and the Tenant shall forthwith pay to the Landlord such amounts, costs and expenses in respect thereof. Nothing in Section 4.04 prevents the Tenant from contesting, in good faith, and in accordance with the appropriate law, the amount or validity of any claim by any worker of the Tenant as long as the Tenant discharges or vacates such claim in the manner set out above.

4.05 Notice by Tenant The Tenant shall notify the Landlord of any material accident, defect, damage or deficiency in any part of the Premises which comes to the attention of the Tenant, its employees or contractors notwithstanding that the Landlord may have no obligation in respect thereof.

ARTICLE V

INSURANCE AND INDEMNITY

5.01 Tenant's Insurance

(a) The Tenant shall maintain the following insurance throughout the Term at its sole cost;

(i) "All Risks" (including flood and earthquake) property insurance, naming the Tenant, the Landlord, the owners of the Lands and Building and the Mortgagee as additional insured parties, containing a waiver of any subrogation rights which the Tenant's insurers may have against the Landlord and against those for whom the Landlord is in law responsible (except a waiver of such subrogation rights where the Landlord or those for whom it is responsible have been wilfully negligent), and (except with respect to the Tenant's chattels) incorporating the Mortgagee's standard mortgage clause. Such insurance shall insure:

(aa) property of every kind owned by the Tenant or for which the Tenant is legally liable located on or in the Building including, without limitation, Leasehold Improvements, in an amount equal to not less than 90% of the full replacement cost thereof, subject to a stated amount co-insurance clause; and

(bb) extra expense insurance in such amount as will

reimburse the Tenant for loss attributable to all risks referred to in this Section 5.01(a)(i);

(ii) comprehensive general liability insurance of not less than $5,000,000 for each occurrence for bodily injury and property damage, personal injury liability, tenants legal liability and blanket contractual liability. Such policies shall provide for cross liability, and name the Landlord and the Mortgagee as additional insured;

(iii) Tenant's "all risks" legal liability insurance for the replacement cost value of the Building, which insurance shall have inclusive limits of not less than $2,000,000;

(iv) automobile liability insurance on a non-owned form including contractual liability, and on an owner's form covering all licensed vehicles operated by or on behalf of the Tenant; and

(v) any other form of insurance which the Tenant or the Landlord, acting reasonably, or the Mortgagee requires from time to time in form, in amounts and for risks against which a prudent tenant would insure.

(b) All policies referred to in this Section 5.01 shall:

(i) be taken out with insurers reasonably acceptable to the Landlord;

(ii) be in a form reasonably satisfactory to the Landlord;

(iii) be non-contributing with, and shall apply only as primary and not as excess to, any other insurance available to the Landlord;

(iv) not be invalidated as respects the interest of the Landlord or the Mortgagee by reason of any breach of or violation of any warranty, representation, declaration or condition; and

(v) contain an undertaking by the insurers to notify the Landlord by registered mail not less than 30 days prior to any material change, cancellation or termination.

(c) Certificates of insurance on the Landlord's standard form or, if required by the Landlord, certified copies of such insurance policies, shall be delivered to the Landlord forthwith upon request. If the Tenant fails to take out or to keep in force any insurance referred to in this Section 5.01 or should any such insurance not be approved by either the Landlord or the Mortgagee and should the Tenant not commence to diligently rectify (and thereafter proceed to diligently rectify) the situation within 48 hours, or such longer period as permitted by the Landlord's insurer, after written notice by the Landlord to the Tenant (stating, if the Landlord or the Mortgagee, from time to time, does not approve of such insurance, the reasons therefor) the Landlord has the right without assuming any obligation in connection therewith, to effect such insurance at the sole cost of the Tenant and all outlays by the Landlord shall be paid by the

Landlord shall be paid by the Tenant to the Landlord without prejudice to any other rights or remedies of the Landlord under this lease.

(d) If the Tenant fails to comply with any of the obligations in this Article V, such failure shall constitute an event of default under this lease and shall entitle the Landlord to the same rights and remedies available with respect to any other default, including, without limitation, the right of terminating this lease and re-entering the Premises, all without releasing the Tenant from its obligations. The Landlord may, at its option, elect to comply with such obligations at the cost and expense of the Tenant (including Landlord's legal fees on a solicitor and his own client basis) and the Tenant shall pay all such costs and expenses to the Landlord forthwith on demand.

5.02 Cancellation of Insurance If any insurer under any insurance policy covering any part of the Building or any occupant thereof cancels or threatens to cancel its insurance policy or reduces or threatens to reduce coverage under such policy by reason of the use of the Premises by the Tenant or by any Transferee, or by anyone permitted by the Tenant to be upon the Premises, the Tenant shall remedy such condition within 48 hours after notice thereof by the Landlord.

5.03 Landlord's Property Insurance The Landlord shall throughout the Term carry:

(a) insurance on the Building (excluding the foundations and excavations) and machinery, boilers and equipment in or servicing the Building and owned by the Landlord or the owners of the Building (excluding any property which the Tenant is obliged to insure under Section 5.01) on an all risks of physical loss or damage basis, naming the Tenant as additional insured, subject to the

Tenant's obligations to insure under Section 5.01; and

(b) such other form or forms of insurance as the Landlord or the Mortgagee reasonably considers advisable.

Such insurance shall be in such reasonable amounts and with such reasonable deductibles as would be carried by a prudent owner of a reasonably similar building, having regard to size, age and location. Notwithstanding the Landlord's covenant in this Section and notwithstanding any contribution by the Tenant to the cost of the Landlord's insurance premiums, the Tenant acknowledges and agrees that: (i) the Tenant is not relieved of any liability arising from or contributed to by its negligence or its wilful act or omissions; (ii) no insurable interest is conferred upon the Tenant under any insurance policies carried by the Landlord; and (iii) the Tenant has no right to receive any proceeds of any insurance policies carried by the Landlord.

ARTICLE VI

DAMAGE AND DESTRUCTION

6.01 No Abatement If the Building is damaged or destroyed in whole or in part by fire or any other occurrence this lease shall continue in full force and effect and there shall be no abatement of Rent except as provided in this Article VI.

6.02 Damage to Building If the Building is at any time destroyed or damaged as a result of fire or any other casualty required to be insured against by the Landlord or the Tenant, as the case may be, under this lease or otherwise insured against by the Landlord or the Tenant, as the case may be, and not caused or contributed to by the Tenant, then the following provisions shall apply:

(a) if the Building is rendered untenantable only in part, the Landlord shall diligently repair the base Building, to the extent of insurance proceeds received by the Landlord, and Rent shall abate proportionately to the portion of the Building rendered untenantable from the date of destruction or damage until the Landlord's repairs have been completed;

(b) if the Building is rendered wholly untenantable, the Landlord shall diligently repair the base Building, to the extent of insurance proceeds received by the Landlord, and Rent shall abate entirely from the date of destruction or damage until the Landlord's repairs have been completed;

(c) if the Building is not rendered untenantable in whole or in part, the Landlord shall diligently perform such repairs to the base Building, to the extent of insurance proceeds received by the Landlord, but in such circumstances Rent shall not terminate or abate;

(d) upon being notified by the Landlord that the Landlord's repairs have been substantially completed, the Tenant shall diligently perform all repairs to the Building which are the Tenant's

responsibility under Article V, and all other work required to fully restore the Building for use in the Tenant's business, in every case at the Tenant's cost and without any contribution to such cost by the Landlord, whether or not the Landlord has at any time made any contribution to the cost of supply, installation or construction of Leasehold Improvements in the Building, and the Landlord will advise the Tenant of the Landlord's construction schedule; and

(e) nothing in this Section 6.02 shall require the Landlord to rebuild the Building in the condition which existed before any such damage or destruction so long as the Building as rebuilt will have reasonably similar facilities to those in the Building prior to such damage or destruction, having regard, however, to the age of the Building at such time.

6.03 Right of Termination Notwithstanding Section 6.02, if the damage or destruction which has occurred in the Building is such that in the reasonable opinion of the Architect the Building cannot be rebuilt or made fit for the purposes of the Tenant within 180 days of the happening of the damage or destruction, the Landlord may, at its option, terminate this lease on notice to the Tenant given within 30 days after such damage or destruction. If such notice of termination is given, Rent shall be apportioned and paid to the date of such damage or destruction and the Tenant shall immediately deliver vacant possession of the Premises in accordance with the terms of this lease.

6.04 Architect's Certificate The certificate of the Architect shall bind the parties as to:

(a) whether or not the Building is rendered untenantable and the percentage of the Building rendered untenantable;

(b) the date upon which either the Landlord's or Tenant's work of reconstruction or repair is completed or substantially completed and the date when the Building is rendered tenantable; and

(c) the state of completion of any work of the Landlord or the Tenant.

6.05 Insurance Proceeds The Landlord and the Tenant will each:

(a) cause their respective insurance policies to provide that insurance proceeds must be used for the rebuilding or repair of any damage or destruction to the Building;

(b) use their best efforts to cause the Mortgagee to release promptly any insurance proceeds to the Landlord or the Tenant, as the case may be, so that the Landlord or the Tenant, as the case may be, can promptly set about the rebuilding or repair of the Building;

(c) use their best efforts to collect the full proceeds of insurance from their respective insurers; and

(d) use the proceeds to promptly rebuild or repair the Building.

ARTICLE VII

ASSIGNMENT SUBLETTING AND TRANSFERS

7.01 Assignments, Subleases and Transfers The Tenant shall not enter into, consent to or permit any Transfer without the prior written consent of the Landlord in each instance, which consent may not be unreasonably withheld. Notwithstanding the foregoing, the Tenant may sublet or enter into a sublease solely in respect of the Building, or any part thereof, provided it obtains the prior written consent of the Landlord in respect of any sublease, which consent shall not be unreasonably withheld, and further provided that, without limitation, the subtenant complies with Section 1.03 hereof. Notwithstanding any statutory provision to the contrary, it shall not be considered unreasonable for the Landlord to take into account whether in the Landlord's opinion, the financial background, business history and capability of the proposed Transferee is satisfactory. Consent by the Landlord to any Transfer if granted shall not constitute a waiver of the necessity for such consent to any subsequent Transfer. This prohibition against Transfer shall include a prohibition against any Transfer by operation of law and no Transfer shall take place by reason of the failure of the Landlord to give notice to the Tenant within 30 days as required by Section 7.02.

7.02 Transfer Process If the Tenant intends to effect a Transfer, the Tenant shall give prior notice to the Landlord of such intent specifying the identity of the Transferee, the type of Transfer contemplated, the portion of the Premises affected thereby, and the financial and other terms of the Transfer, and shall

provide such financial, business or other information relating to the proposed Transferee and its principals as the Landlord, acting reasonably, or any Mortgagee requires, together with copies of any documents which record the particulars of the proposed Transfer. The Landlord shall, within 21 days after having received such notice and all requested information, notify the Tenant either that it consents or does not consent to the Transfer in accordance with the provisions and qualifications of this Article VII.

7.03 Conditions of Transfer

(a) If there is a permitted Transfer, the Landlord may collect rent from the Transferee and apply the net amount collected to the Rent payable under this lease but no acceptance by the Landlord of any payments by a Transferee shall be deemed a waiver of the Tenant's covenants or any acceptance of the Transferee as tenant or a release from the Tenant from the further performance by the Tenant of its obligations under this lease. Any consent by the Landlord shall be subject to the Tenant and Transferee executing an agreement with the Landlord agreeing that the Transferee will be bound by all of the terms of this lease and, except in the case of a sublease, that the Transferee will be so bound as if it had originally executed this lease as tenant.

(b) Notwithstanding any Transfer permitted or consented to by the Landlord, the Tenant shall remain liable under this lease and shall not be released from performing any of the terms of this lease.

(c) The Landlord's consent to any Transfer shall be subject to the condition that if the net rent and additional rent to be paid by the Transferee under such Transfer exceeds the Net Rent and Additional Rent payable under this lease, the amount of such excess shall be paid by the Tenant to the Landlord. If the Tenant receives from any Transferee, either directly or indirectly, any

consideration other than net rent or additional rent for such Transfer, either in the form of cash, goods or services (other than the proceeds of any financing as the result of a Transfer involving a mortgage, charge or similar security interest in this lease) the Tenant shall forthwith pay to the Landlord an amount equivalent to such consideration. The Tenant and the Transferee shall execute any agreement required by the Landlord to give effect to the foregoing terms.

(d) Notwithstanding the effective date of any permitted Transfer as between the Tenant and the Transferee, all Net Rent and Additional Rent for the month in which such effective date occurs shall be paid in advance by the Tenant so that the Landlord will not be required to accept partial payments of Net Rent and Additional Rent for such month from either the Tenant or Transferee.

(e) Any document evidencing any Transfer permitted by the Landlord, or setting out any terms applicable to such Transfer or the rights and obligations of the Tenant or Transferee thereunder, shall be prepared by the Tenant or its solicitors in a form satisfactory to the Landlord and its solicitors and all associated legal costs shall be paid by the Tenant.

(f) The Tenant shall not be in default under this lease at the time it requests the consent of the Landlord to any Transfer as herein provided.

7.04 Assignment by Landlord The Landlord shall have the unrestricted right to sell, lease, convey or otherwise dispose of all or any part of the Building or Lands and this lease or any interest of the Landlord in this lease. To the extent that the purchaser or assignee from the Landlord assumes the obligations of the Landlord under this lease, the Landlord shall thereupon and without further agreement be released from all liability under this lease.

7.05 "For Rent" Signs The Landlord may within 4 months before the expiration of the Term, unless the Term has been renewed, or within 3 months before the expiration of the renewal term (if any) place on the Premises a notice of reasonable dimensions stating that the Premises are for rent and the Tenant shall not permit such notice to be removed.

ARTICLE VIII

DEFAULT

8.01 Default and Remedies

If and whenever an Event of Default occurs, then without prejudice to any other rights which it has pursuant to this lease or at law, the Landlord shall have the following rights and remedies, which are cumulative and not alternative:

(a) to terminate this lease:

(i) 10 days after written notice has been given to the Tenant of a financial default, which default has not been cured by the Tenant during such 10 day period; and

(ii) 20 days after written notice has been given to the Tenant of a non-financial default, which default has not been cured by the Tenant during such 20 day period;

(b) to enter the Premises as agent of the Tenant and to relet the Premises for whatever term, and on such terms as the Landlord in its discretion may determine and to receive the rent therefor and as agent of the Tenant to take possession of any property of the Tenant on the Premises, to store such property at the expense and risk of the Tenant or to sell or otherwise dispose of such property in such manner as the Landlord may see fit without notice to the Tenant; to make alterations to the Premises to facilitate their reletting; and to apply the proceeds of any such sale or reletting first, to the payment of any expenses incurred by the Landlord with respect to any such reletting or sale; second, to the payment of any indebtedness of the Tenant to the Landlord other than Rent; and third, to the payment of Rent in arrears; with the residue to be held by the Landlord and applied in payment of future Rent as it becomes due and payable. The Tenant shall remain liable for any deficiency to the Landlord;

(c) with prior written notice to the Tenant, to remedy or attempt to remedy any default of the Tenant under this lease for the account of the Tenant and to enter upon the Premises for such purposes. No notice of the Landlord's intention to perform such covenants need be given the Tenant unless expressly required by this lease. The Landlord shall not be liable to the Tenant for any loss, injury or damage caused by acts of the Landlord in remedying or attempting to remedy such default and the Tenant shall pay to the Landlord all expenses incurred by the Landlord in connection with remedying or attempting to remedy such default;

(d) to recover from the Tenant all damages and expenses incurred by the Landlord as a result of any breach by the Tenant including, if the Landlord terminates this lease, any deficiency between those amounts which would have been payable by the Tenant for the portion of the Term following such termination and the net amounts actually received by the Landlord during such period of time with respect to the Premises; and

(e) to recover from the Tenant the full amount of the current month's Rent together with the next 1 month's instalment of Rent, all of which shall accrue on a day-to-day basis and shall immediately become due and payable as accelerated rent.

8.02 Distress Notwithstanding any provision of this lease or any provision of applicable legislation, none of the goods and chattels of the Tenant on the Premises at any time during the Term shall be exempt from levy by distress for Rent in arrears, and the Tenant waives any such exemption. If the Landlord makes any claim against the goods and chattels of the Tenant by way of distress, this provision may be pleaded as an estoppel against the Tenant in any action brought to test the right of the Landlord to levy such distress.

8.03 Costs The Tenant shall pay to the Landlord all damages and reasonable costs (including, without limitation, all legal fees on a solicitor and his client basis) incurred by the Landlord in enforcing the terms of this lease, or with respect to any matter or thing which is the obligation of the Tenant under this lease, or in respect of which the Tenant has agreed to insure, or to indemnify the Landlord.

8.04 Allocation of Payments The Landlord may at its option apply sums received from the Tenant against any amounts due and payable by the Tenant under this lease in such manner as the Landlord sees fit.

8.05 Survival of Obligations If the Tenant has failed to fulfil its obligations under this lease with respect to the maintenance, repair an alteration of the Building and the Premises and removal of improvements and fixtures from the Building during or at the end of the Term, such obligations and the Landlord's rights in respect thereto shall remain in full force and effect notwithstanding the expiration or sooner termination of the Term.

ARTICLE IX

STATUS STATEMENT ATTORNMENT AND SUBORDINATION

9.01 Status Statement Within 10 days after written request by the Landlord, the Tenant shall deliver in a form supplied by the Landlord a statement or estoppel certificate to the Landlord as to the status of this lease, including as to whether this lease is unmodified and in full force and effect (or, if there have been modifications that this lease is in full force and effect as modified and identifying the modification agreements); the amount of Net Rent and Additional Rent then being paid and the dates to which same have been paid; whether or not there is any existing or alleged default by either party with respect to which a notice of default has been served and if there is any such default, specifying the nature and extent thereof; and any other matters pertaining to this lease as to which the Landlord shall request such statement or certificate.

9.02 Subordination This lease and all rights of the Tenant shall be subject and subordinate to any and all Mortgages and any ground, operating, overriding or underlying leases, from time to time in existence against the Lands and Building. On request, the Tenant shall subordinate this lease and its rights under this lease to any and all such Mortgages and leases and to all advances made under such Mortgages. The form of such subordination shall be as required by the Landlord or any Mortgagee or the lessee under any such lease. The Landlord shall use its best efforts to obtain a non-disturbance agreement in favour of the Tenant from any Mortgagee of any Mortgage.

9.03 Attornment The Tenant shall promptly on request attorn to any Mortgagee, the owners of the Building and Lands, or the purchaser on any foreclosure or sale proceedings taken under any Mortgage, and shall recognize such Mortgagee, owner, lessor or purchaser as the landlord under this lease.

ARTICLE X

ENVIRONMENTAL MATTERS

10.01 Environmental Covenants

(a) Promptly after it becomes aware of the same, the Tenant shall give written notice to the Landlord of any deposit, release or spill of a Contaminant on the Premises by the Tenant, or those for whom the Tenant is at law responsible, during the Term which constitutes a violation of, or is reportable under, any environmental laws or regulations.

(b) If an event referred to in Section 10.01(a) occurs, the Tenant shall promptly comply with all orders or requests from any environmental governmental authority or agency, relating to the event and shall promptly remove any Contaminant that has been deposited, released or spilled on the Premises to the reasonable satisfaction of the Landlord, provided that such removal shall be in accordance with environmental laws and regulations.

(c) The Tenant shall promptly comply with all environmental laws and regulations affecting the Premises and shall, promptly after it becomes aware of the same, advise the Landlord in writing of any orders or claims issued to the Tenant pursuant to any environmental laws or regulations by any governmental authority or agency with respect to the environmental state or condition of the Premises and the Tenant's compliance or non-compliance with environmental laws and regulations and any statutory or civil proceedings commenced against the Tenant pursuant to any environmental laws or regulations in connection with the Premises.

(d) The Tenant shall permit the Landlord at any time on reasonable notice to the Tenant to inspect the Premises during the Term and to take such samples and perform such tests as may be necessary to determine the presence of Contaminants on the Premises and the compliance of the Premises with environmental laws and regulations, provided that all such activities shall be conducted so as to cause as minimal disruption to the Tenant's business as is possible in the circumstances.

(e) The Tenant shall indemnify and save harmless the Landlord from all costs, expenses, fines, liabilities, obligations, judgments, suits, actions, claims and proceedings of any and every nature and kind whatsoever suffered or incurred by the Landlord which at any time or from time to time arise as a result of the presence, release, spill or discharge of any Contaminant in, on, under or from the Premises as a result of the business or activities of the Tenant, or those for whom the Tenant is at law responsible, on the Premises during the Term and which result in an obligation under any environmental laws or regulations.

(f) If the Tenant fails to comply with any of the obligations in this Article X, such failure shall constitute an event of default under this lease and shall entitle the Landlord to the same rights and remedies available with respect to any other default, including, without limitation, the right of terminating this lease and re-entering the Premises, all without releasing the Tenant from its obligations. The Landlord may, at its option, elect to comply with such obligations at the cost and expense of the Tenant (including Landlord's legal fees on a solicitor and his own client basis) and the Tenant shall pay all such costs and expenses to the Landlord forthwith on demand.

(g) The covenants and agreements contained in this Article X shall survive the expiry or earlier termination of this Lease.

ARTICLE XI

GENERAL PROVISIONS

11.01 Delay Except as expressly provided in this lease, whenever the Landlord or Tenant is delayed in the fulfilment of any obligation under this lease (other than the payment of Rent and surrender of the Premises on termination) by an unavoidable occurrence which is not the fault of the party delayed in performing such obligation, then the time for fulfilment of such obligation shall be extended during the period in which such circumstances operate to delay the fulfilment of such obligation.

11.02 Overholding If the Tenant remains in possession of the Premises after the end of the Term with the consent of the Landlord but without having executed and delivered a new lease or an agreement extending the Term, there shall be no tacit renewal of this lease, and the Tenant shall be deemed to be occupying the Premises as a tenant from month to month at a monthly Net Rent payable in advance on the first day of each month equal to one hundred and fifty percent (150%) of the monthly amount of Net Rent payable during the last month of the Term, and otherwise upon the same terms as are set forth in this lease, so far as these are applicable to a monthly tenancy.

11.03 Waiver If either the Landlord or Tenant excuses or condones any default by the other of any obligation under this lease, no waiver of such obligation shall be implied in respect of any continuing or subsequent default.

11.04 Registration Neither the Tenant nor anyone claiming under the Tenant shall register this lease or any Transfer without the prior written consent of the Landlord. The Landlord and the Tenant agree that, forthwith after the Commencement Date, the Tenant shall be entitled to cause to have prepared and registered a short form of lease for the purposes of registration in such form as approved by the Landlord and without disclosure of any terms which the Landlord does not desire to have disclosed.

11.05 Notices Any notice, consent or other instrument which may be or is required to be given under this lease shall be in writing and shall be

delivered in person or sent by registered mail postage prepaid as follows:

(a)	if to the Landlord, at	36E Stoffel Drive, Toronto, Ontario M9W 1A8	
		Attention:	Sergio Dalbo or Arrigo Rossi
		Facsimile No.	(416) 249-1457
(b)	if to the Tenant, at	the Premises	
		Attention:	Vice-President Legal Affairs/ Corporate Secretary
		Facsimile No.	to be provided by Tenant within 15 days of Commencement Date

Any such notice or other instrument shall be deemed to have been given and received on the day upon which personal delivery is made or, if mailed, then 48 hours following the date of mailing. Either party may give notice to the other of any change of address and after the giving of such notice, the address therein specified is deemed to be the address of such party for the giving of notices. If postal service is interrupted or substantially delayed, all notices or other instruments shall be delivered in person.

11.04 Successors The rights and liabilities created by this lease extend to and bind the successors and assigns of the Landlord and the heirs, executors, administrators and permitted successors and assigns of the Tenant. No rights, however, shall enure to the benefit of any Transferee unless the provisions of Article VII are complied with.

11.07 Joint and Several Liability If there is at any time more than one Tenant or more than one Person constituting the Tenant, their covenant shall be considered to be joint and several and shall apply to each and every one of them. If the Tenant is or becomes a partnership, each Person who is a member, or shall become a member, of such partnership or its successors shall be and continue to be jointly and severally liable for the performance of all covenants of the Tenant pursuant to this lease, whether or not such Person ceases to be a member of such partnership or its successor.

11.08 Captions and Section Numbers The captions, section numbers, article numbers and table of contents appearing in this lease are inserted only as a matter of convenience and in no way affect the substance of this lease.

11.09 Extended Meanings The words "hereof", "hereto" and "hereunder" and similar expressions used in this lease relate to the whole of this lease an not only to the provisions in which such expressions appear. This lease shall be read with all changes in number and gender as may be appropriate or required by the context. Any reference to the Tenant includes, where the context allows, the employees, agents, invitees and licensees of the Tenant and all others over whom the Tenant might reasonably be expected to exercise control.

11.10 Partial Invalidity All of the provisions of this lease are to be construed as covenants even though not expressed as such. If any such provision is held or rendered illegal or unenforceable it shall be considered separate and severable from this lease and the remaining provisions of this lease shall remain in force and bind the parties as though the illegal or unenforceable provision had never been included in this lease.

11.11 Entire Agreement This lease and the Schedules and riders, if any, attached hereto set forth the entire agreement between the Landlord and Tenant concerning the Premises and there are no agreements or understandings between them other than as are herein set forth. This lease and its Schedules and riders may not be modified except by agreement in writing executed by the Landlord and Tenant.

11.12 Governing Law This lease shall be construed in accordance with and governed by the laws of the Province of Ontario.

11.13 Time of the Essence Time is of the essence of this lease.

11.14 Quiet Enjoyment If the Tenant pays Rent, fully performs all of its obligations under this lease, and there has been no Event of Default, the Tenant shall be entitled to peaceful and quiet enjoyment of the Premises for the Term without interruption or interference by the Landlord or any Person claiming through the Landlord.

11.15 Access by Landlord The Landlord and its representatives shall, upon 24 hours prior written notice, be permitted to enter the Building and the Lands for the purposes of doing any work which the Landlord may require or be obligated to perform by this lease. Entry by the Landlord shall be restricted to the normal business hours of the Tenant, except in cases of emergency, in which case the Landlord shall not be required to give the Tenant any notice but the Landlord shall attempt to give the Tenant as much notice as the circumstances permit.

11.16 Adjustment The Landlord and Tenant shall adjust between themselves on the commencement and termination of this lease, all taxes, water rates,

insurance premiums and other charges relating to the Premises with the intention that the Landlord shall bear such charges until commencement of this lease and the Tenant shall bear such charges thereafter and until it delivers possession of the Premises to the Landlord in accordance with the provisions of this lease.

11.17 Impossibility of Performance If either party shall be bona fide delayed or hindered in or prevented from the performance of any term, covenant or act required hereunder by reason of strikes, riots, insurrection, sabotage, rebellion, war, act of God or other reason whether of a like nature or not, which is not the fault of the party delayed in performing work or doing acts required hereunder, then performance of such term, covenant or act shall be excused for a period equivalent to the period of such delay. Notwithstanding the foregoing, the Tenant shall not be excused from any obligation for the prompt payment of Rent pursuant to this lease.

11.18 Option to Extend Provided that there is not an Event of Default which is continuing and the Tenant has given written notice to the Landlord at least 120 days prior to the expiration of the Term of its intention to exercise the following option to extend, then the Tenant shall the right to extend the Term on an "as is" basis for a further period of three (3) years and all of the terms of this lease shall apply to such extension term, except that:

(a) there shall be no further option to extend; and

(b) during the extension term, the Tenant shall pay Net Rent to be agreed upon in bona fide negotiations between the Landlord and the Tenant, provided that the Net Rent for the extension term shall not be less than the Net Rent payable during the last year of the Term. In the event that such Net Rent has not been agreed upon by the parties at least 60 days prior to the expiration of the Term, then this option to extend will be at an end.

11.20 Paramountcy In the event of any conflict or inconsistency between the terms of this lease and the terms of any other agreement, oral or written, between the parties hereto in respect of the Premises, the terms of this lease shall in any event prevail.

IN WITNESS WHEREOF the Landlord and Tenant have executed this lease as of the date first above written.

565991 ONTARIO LIMITED

By: /s/ Sergio Dalbo

Sergio Dalbo, President
I have authority to bind the Corporation.

LORUS THERAPEUTICS INC.

By: /s/ James Parsons

Name/Title: James Parsons, VP Finance & Administration & CFO

By: /s/ Jim Wright

Name/Title: Dr. Jim Wright, President
We have authority to bind the Corporation.

SCHEDULE "A"

LEGAL DESCRIPTION

All and Singular that certain parcel or tract of land and premises, situate, lying and being in the City of Toronto (formerly in the City of Etobicoke), and Province of Ontario, and being composed of part of Lot 20, Concession 3, fronting the Humber in the said City, the boundaries of the said parcel of land being more particularly described as follows:

PREMISING that the bearing herein are assumed and are referred to the bearing North seventy-two (72) degrees, twenty-one (21) minutes, twenty (20) seconds East of the North limit of Richview Road as established by By-law Number 3988 for the Borough of Etobicoke fronting Lot 17, Concession 2, fronting the Humber;

COMMENCING at an iron bar in the Northerly limit of Meridian Road as opened by

By-law Number 13947 for the Borough of Etobicoke, which said iron bar may be located as follows:

BEGINNING at a cut stone monument marking the Northeasterly angle of the said Lot 20;

THENCE South eighteen (18) degrees, eleven (11) minutes, forty (40) seconds East along the Easterly limit of the said Lot 20 a distance of eight hundred and forty-seven and forty-nine hundredths (847.49) feet to its intersection with the said Northerly limit of Meridian Road;

THENCE South seventy-one (71) degrees, forty-eight (48) minutes, twenty (20) seconds West along the last mentioned limit a distance of two hundred and five (205.00) feet to the point of commencement;

THENCE South seventy-on (71) degrees, forty-eight (48) minutes, twenty (20) seconds West

and continuing along the said Northerly limit of Meridian Road a distance of one hundred and fifty and fifty-five hundredths (150.55) feet to the beginning of a curve to the right;

THENCE on the said curve to the right having a radius of thirty (30.00) feet, the chord of which has a bearing of North seventy-one (71) degrees, fifty-eight (58) minutes, twenty (20) seconds West and a length of thirty-five and forty-six hundredths (35.46) feet, an arc distance of thirty-seven and ninety-three hundredths (37.93) feet to the end of the said curve;

THENCE North thirty-five (35) degrees, forty-five (45) minutes West along the Easterly limit of Skyway Avenue as opened by the said By-Law Number 13947 a distance of three hundred and ninety-seven and fifty-seven hundredths (397.57) feet to an iron bar therein;

THENCE North seventy-one (71) degrees, forty-eight (48) minutes, twenty (20) seconds East and parallel to the aforesaid Northerly limit of Meridian Road a distance of two hundred and ninety-nine and Six hundredths (299.06) feet to an iron bar;

THENCE South eighteen (18) degrees, eleven (11) minutes, forty (40) seconds East and parallel to the said Easterly limit of Lot 20 a distance of four hundred (400.00) feet more or less to the point of commencement;

The said parcel of land containing an area of two and one hundred and sixty-three thousandths (2.163) acres, more or less.

Exhibit 10.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lorus Therapeutics Inc (the "Company") on Form 20-F for the year ended May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I Jim A. Wright, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Jim A. Wright

Jim A. Wright
Chief Executive Officer

Date: December 13, 2002

Exhibit 10.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lorus Therapeutics Inc (the "Company") on Form 20-F for the year ended May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I James T. Parsons, VP Finance and Administration and Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James T. Parsons

James T. Parsons,
VP Finance and Administration and
Chief Financial Officer

Date: December 13, 2002
