FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the Month of August, 2008

Commission File Number 1-32001

Lorus Therapeutics Inc.

(Translation of registrant's name into English)

2 Meridian Road, Toronto, Ontario M9W 4Z7

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lorus Therapeutics Inc.

Date: August 29, 2008

By: /s/ "Elizabeth Williams"
Elizabeth Williams
Director of Finance and Controller

EXHIBIT INDEX

99.1	Annual Financial Statements
99.2	Management's Discussion and Analysis
99.3	Annual Information Form
99.4	Form 52-109F1 - Certifications of Annual Filings
99.5	Letter To Shareholders

Consolidated Financial Statements of

LORUS THERAPEUTICS INC.

(FORMERLY 6650309 CANADA INC.)

Years ended May 31, 2008, 2007 and 2006

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Lorus Therapeutics Inc. (formerly 6650309 Canada Inc.) as at May 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income, deficit and cash flows for each of the years in the three-year period ended May 31, 2008 and for the period from inception on September 5, 1986 to May 31, 2008. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2008 and for the period from inception on September 5, 1986 to May 31, 2008 in accordance with Canadian generally accepted accounting principles.

/s/ "KPMG LLP"
Chartered Accountants, Licensed Public Accountants

Toronto, Canada

August 28, 2008

LORUS THERAPEUTICS INC.

(FORMERLY 6650309 CANADA INC.)

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

May 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents (note 10)	$ 2,652	$ 1,405
Short-term investments (note 4)	6,784	7,265
Prepaid expenses and other assets	721	335
Amount held in escrow (note 1)	600	-
	10,757	9,005
Corporate investments (note 4)	-	3,728
Fixed assets (note 5)	244	503
Deferred arrangement costs (note 2)	-	1,262
Deferred financing costs	-	371
Goodwill	606	606
	$ 11,607	$ 15,475
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	$ 923	$ 1,104
Liability to repurchase warrants (notes 1 and 6(g))	-	252
Deferred gain on sale of shares (notes 1 and 12(d))	600	-
Accrued liabilities	1,194	1,421
	2,717	2,777
Secured convertible debentures (note 11)	12,742	11,937
Shareholders' equity (deficiency):		
Share capital (note 6):		
Common shares	158,743	157,714
Equity portion of secured convertible debentures	3,814	3,814
Stock options	4,961	4,898
Contributed surplus	9,181	8,525
Deficit accumulated during development stage	(180,551)	(174,190)
	(3,852)	761
Basis of presentation (note 1)		
Contingencies, commitments and guarantees (note 12)		
Subsequent events (note 17)		
	$ 11,607	$ 15,475

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ "Denis Burger" Director

/s/ "Aiping Young" Director

LORUS THERAPEUTICS INC.

(FORMERLY 6650309 CANADA INC.)

Consolidated Statements of Operations and Comprehensive Income
(Expressed in thousands of Canadian dollars, except for per common share data)

	Years ended May 31, 2008	2007	2006	Period from inception September 5, 1986 to May 31, 2008
Revenue	$ 43	$ 107	$ 26	$ 856
Expenses:				
Cost of sales	2	16	3	105
Research and development (note 9)	6,087	3,384	10,237	119,946
General and administrative	3,888	3,848	4,334	55,211
Stock-based compensation (note 7)	719	503	1,205	7,972
Depreciation and amortization of fixed assets	317	402	771	9,542
	11,013	8,153	16,550	192,776
	(10,970)	(8,046)	(16,524)	(191,920)
Other expenses (income):				
Interest on convertible debentures	1,029	1,050	882	3,261
Accretion in carrying value of convertible debentures (notes 2(a)(iv) and 11)	1,176	935	790	3,196
Amortization of deferred financing costs (notes 2(a)(iv) and 11)	-	110	87	412
Interest	(542)	(503)	(374)	(11,966)
	1,663	1,592	1,385	(5,097)
Loss from operations	(12,633)	(9,638)	(17,909)	(186,823)
Gain on sale of shares (note 1)	6,299	-	-	6,299
Loss for the period and other comprehensive loss	$ (6,334)	$ (9,638)	$ (17,909)	$ (180,524)
Basic and diluted loss per common share	$ (0.03)	$ (0.05)	$ (0.10)	
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share (in thousands)	215,084	204,860	173,523	

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

(FORMERLY 6650309 CANADA INC.)

Consolidated Statements of Deficit
(Expressed in thousands of Canadian dollars)

	Years ended May 31,			Period from inception September 5, 1986 to May 31,
	2008	2007	2006	2008
Deficit, beginning of period:				
As previously reported	$ (174,190)	$ (164,552)	$ (146,643)	$ -
Change in accounting policy (note 2)	(27)	-	-	(27)
As restated	(174,217)	(164,552)	(146,643)	(27)
Loss for the period	(6,334)	(9,638)	(17,909)	(180,524)
Deficit, end of period	$ (180,551)	$ (174,190)	$ (164,552)	$ (180,551)

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

(FORMERLY 6650309 CANADA INC.)

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Years ended May 31,			Period from inception September 5, 1986 to May 31,
	2008	2007	2006	2008
Cash flows from operating activities:				
Loss for the period	$ (6,334)	$ (9,638)	$ (17,909)	$ (180,524)
Items not involving cash:				
Gain on sale of shares (note 1)	(6,299)	-	-	(6,299)
Stock-based compensation	719	503	1,205	7,972
Interest on convertible debentures	1,029	1,050	882	3,261
Accretion in carrying value of convertible debentures	1,176	935	790	3,196
Amortization of deferred financing costs	-	110	87	412
Depreciation, amortization and write-down of fixed assets and acquired patents and licenses	317	1,057	2,342	22,103
Other	(7)	-	-	455
Change in non-cash operating working capital (note 10)	(794)	(310)	(462)	488
Cash used in operating activities	(10,193)	(6,293)	(13,065)	(148,936)
Cash flows from financing activities:				
Issuance of debentures, net of issuance costs	-	-	-	12,948
Repurchase of warrants (note 6)	(252)	-	-	37,153
Proceeds on sale of shares, net of amount held in escrow and arrangement costs (note 1)	7,561	(1,262)	-	6,299
Issuance of common shares, net of issuance costs (note 6)	-	11,654	-	109,025
Cash provided by financing activities	7,309	10,392	-	165,425
Cash flows from investing activities:				
Maturity (purchase) of investments, net	4,189	(5,366)	13,056	(6,804)
Business acquisition, net of cash received	-	-	-	(539)
Acquired patents and licenses	-	-	-	(715)
Additions to fixed assets	(58)	(20)	(75)	(6,127)
Proceeds on sale of fixed assets	-	-	-	348
Cash provided by (used in) investing activities	4,131	(5,386)	12,981	(13,837)
Increase (decrease) in cash and cash equivalents	1,247	(1,287)	(84)	2,652
Cash and cash equivalents, beginning of period	1,405	2,692	2,776	-
Cash and cash equivalents, end of period	$ 2,652	$ 1,405	$ 2,692	$ 2,652

Supplemental cash flow information (note 10)

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

(a) Reorganization:

On November 1, 2006, Lorus Therapeutics Inc. ("Lorus", the "Company" or "New Lorus") was incorporated as 6650309 Canada Inc. pursuant to the provisions of the Canada Business Corporation Act and did not carry out any active business from the date of incorporation to July 10, 2007. From its incorporation to July 10, 2007, the Company was a wholly owned subsidiary of 4325231 Canada Inc., formerly Lorus Therapeutics Inc. ("Old Lorus").

On July 10, 2007, the Company and Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6707157 Canada Inc. (the "Investor") and its affiliate, Pinnacle International Lands, Inc. (the "Arrangement"). As part of the Arrangement, all of the assets and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it), with the exception of certain future tax assets were transferred, directly or indirectly, from Old Lorus to the Company. Securityholders in Old Lorus exchanged their securities in Old Lorus for equivalent securities in New Lorus (the "Exchange") and the board of directors and management of Old Lorus continued as the board of directors and management of New Lorus. New Lorus obtained substitutional listings of its common shares on both the Toronto Stock Exchange ("TSX") and the American Stock Exchange ("AMEX").

In connection with the Arrangement and after the Exchange, the share capital of Old Lorus was reorganized into voting common shares and non-voting common shares and the Investor acquired from the Company and the Selling Shareholders (as defined below) approximately 41% of the voting common shares and all of the non-voting common shares of Old Lorus for a cash consideration of approximately $8.5 million less an escrowed amount of $600 thousand related to the indemnification discussed below and in note 12(d), subject to certain post-closing adjustments and before transaction costs. The remaining 59% of the voting common shares of Old Lorus were distributed to the shareholders of New Lorus who were not residents of the United States on a pro-rata basis. Shareholders of New Lorus who were residents of the United States received a nominal cash payment in lieu of their pro-rata share of voting common shares of Old Lorus. After completion of the Arrangement, New Lorus is not related to Old Lorus, which was subsequently renamed 4325231 Canada Inc. and finally Global Summit Real Estate Inc.

1. Basis of presentation (continued):

As a condition of the Arrangement, High Tech Beteiligungen GmbH & Co. KG ("HighTech") and certain other shareholders of Old Lorus (the "Selling Shareholders") agreed to sell to the Investor the voting common shares of Old Lorus to be received under the Arrangement at the same price per share as was paid to shareholders who are residents of the United States. The proceeds received by the Selling Shareholders were nominal.

Also as a condition of the Arrangement, the holder of Old Lorus' secured convertible debenture agreed to vote in favour of the transaction subject to the repurchase by New Lorus of its outstanding three million common share purchase warrants at a purchase price of $252 thousand which was completed concurrent with the closing of the Arrangement.

Under the Arrangement, New Lorus and its subsidiaries agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of various matters discussed in note 12(d). The escrowed amount of $600 thousand was subsequently released to Lorus on July 10, 2008.

As part of the Arrangement, the Company changed its name to Lorus Therapeutics Inc. and continued as a biopharmaceutical company, specializing in the research and development of pharmaceutical products and technologies for the management of cancer as a continuation of the business of Old Lorus.

The Arrangement has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements of New Lorus reflect the financial position, results of operations and cash flows as if New Lorus has always carried on the business formerly carried on by Old Lorus. Consequently, all comparative figures presented in these consolidated financial statements are those of Old Lorus.

1. Basis of presentation (continued):

As a result of the Arrangement, the Company recognized a gain on the sale of the shares of Old Lorus to the Investor of $6.3 million. Under the Arrangement, numerous steps were undertaken as part of a taxable reorganization. However, these steps did not result in any taxes payable as the tax benefit of income tax attributes was applied to eliminate any taxes otherwise payable. Of the total unrecognized future tax assets available at the time of the Arrangement, approximately $7.0 million was transferred to New Lorus and the balance remained with Old Lorus and is subject to the indemnification agreement as described above. Those tax attributes remaining with Old Lorus are no longer available to the Company. In reference to those indemnifications, $600 thousand of the proceeds on the transaction were held in escrow until the first anniversary of the transaction and released on July 10, 2008. The Company recorded a deferred gain of $600 thousand which it believes is sufficient to address any possible claims related to escrow amounts and its estimate of the obligation for the indemnifications provided.

(b) Going concern:

The Company has not earned substantial revenue from its drug candidates and is therefore considered to be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully fund its cash requirements through a combination of equity financing and payments from strategic partners. Except as described in note 14, the Company has no current sources of significant payments from strategic partners. In addition, the Company will need to repay or refinance the secured convertible debentures of $15 million on the maturity date, October 6, 2009, should the holder not choose to convert the debentures into common shares. There can be no assurance that additional funding will be available at all or on acceptable terms to permit further development of the Company's product candidates or to repay the convertible debentures on maturity.

1. Basis of presentation (continued):

Management believes that the Company's current level of cash and cash equivalents and short-term investments, including the funds received from the rights offering described in note 17, will be sufficient to execute the Company's current planned expenditures for the next twelve months; however, the debt obligation is due in October 2009 and the Company currently does not have the cash and cash equivalents to satisfy this obligation. If the Company is not able to raise additional funds, it may not be able to continue as a going concern and realize its assets and pay its liabilities as they fall due. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

2. Changes in accounting policies:

(a) Effective June 1, 2007, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1530, Comprehensive Income ("Section 1530"); Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), retroactively without restatement of prior periods. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). As a result of adopting the above standards, the Company did not recognize any other comprehensive income in its financial statements.

2. Changes in accounting policies (continued):

Upon adoption of the new standards on June 1, 2007, the Company designated its financial assets and liabilities as follows:

(i) Cash and cash equivalents:

Cash and cash equivalents as at June 1, 2007 and acquired thereafter are classified as held-for-trading investments and measured at fair value. By virtue of the nature of these assets, fair value is generally equal to cost plus accrued interest. Where applicable, any significant change in market value would result in a gain or loss being recognized in the consolidated statements of operations. As a result of adopting the new standards, there was no material change in valuation of these assets.

(ii) Short-term investments, marketable securities and other investments:

Short-term investments consist of fixed income government investments and corporate instruments. Any government and corporate investments with a stated maturity date that are not cash equivalents are classified as held-to-maturity investments, except where the Company does not intend to hold to maturity and, therefore, the investment is designated as held-for-trading. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, while held-for-trading investments are measured at fair value and the resulting gain or loss is recognized in the consolidated statements of operations. The Company designated certain corporate instruments with maturities greater than one year previously carried at amortized cost as held-for-trading investments. This change in accounting policy resulted in a decrease in the carrying amount of $27 thousand and an increase in the opening deficit accumulated during the development stage of $27 thousand. The Company recognized a net unrealized gain in the consolidated statements of operations for the year ended May 31, 2008 of $7 thousand.

(iii) Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities are typically short-term in nature and classified as other financial liabilities. These liabilities are carried at amortized cost. As a result of adopting the new standards, there is no material change in the carrying value of these liabilities.

2. Changes in accounting policies (continued):

(iv) Secured convertible debentures:

The secured convertible debentures are classified as other financial liabilities and accounted for at amortized cost using the effective interest method, which is consistent with the Company's accounting policy prior to the adoption of Section 3855. The deferred financing charges related to the secured convertible debentures, formerly included in long-term assets, are now included as part of the carrying value of the secured convertible debentures and continue to be amortized using the effective interest method.

(v) Embedded derivatives:

Section 3855 requires that the Company identify embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent change in fair value of embedded derivatives is recognized in the consolidated statements of operations in the period in which the change occurs.

The Company did not identify any embedded derivatives that required separation from the related host contract and measured at fair value as at June 1, 2007.

(vi) Transaction costs:

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception except for held-for-trading securities where the costs are expensed immediately.

2. Changes in accounting policies (continued):

(b) Variable interest entities:

Effective June 1, 2005, the Company adopted the recommendations of CICA Handbook Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities. Variable interest entities ("VIEs") refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them. The adoption of AcG-15 did not have an impact on the consolidated financial statements.

(c) Financial instruments - disclosure and presentation:

Effective June 1, 2005, the Company adopted the amended recommendations of CICA Handbook Section 3860, Financial Instruments - Disclosure and Presentation ("Section 3860"), effective for fiscal years beginning on or after November 1, 2004. Section 3860 requires that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The adoption of the amendments to Section 3860 did not impact the consolidated financial statements.

(d) Non-monetary transactions:

In June 2005, the CICA released Handbook Section 3831, Non-monetary Transaction *s*, effective for all non-monetary transactions initiated in periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. The Company has not entered into any non-monetary transactions and, as such, this section is not applicable.

3. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of Lorus, its 80% owned subsidiary, NuChem Pharmaceuticals Inc. ("NuChem"), and its wholly owned subsidiaries, GeneSense Technologies Inc. ("GeneSense") and Pharma Immune Inc. ("Pharma Immune"), which are all located in Canada. 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 Canadian GAAP.

(b) Revenue recognition:

Revenue includes product sales, service, license and royalty revenue.

The Company recognizes revenue from product sales and provision of services when persuasive evidence of an arrangement exists, delivery has occurred, the Company's price to the customer is fixed or determinable and collectibility is reasonably assured. The Company allows customers to return product. Provisions for these returns are estimated based on historical return and exchange levels, and third-party data with respect to inventory levels in the Company's distribution channels.

The Company has entered into two technology licensing agreements. Under the first exclusive worldwide technology licensing agreement entered into in 2004, the Company received an initial fee and is entitled to receive subsequent milestone payments from the licensee. The Company recognized the non-refundable license fee as revenue when the technology license was delivered, when the fee was fixed or determinable and collection of the amount was probable. The Company had no continuing involvement or obligation to perform under the arrangement. Any milestone payments subsequently received from the customer will be recognized when the customer acknowledges achievement of the milestone, when the fee is fixed or determinable and collection of the amount is probable. No subsequent milestone payments have been received under this arrangement.

3. Significant accounting policies (continued):

Under the second non-exclusive territorial technology licensing arrangement entered into in 2008, the Company is required to provide a fixed number of hours of additional technical support over a period of up to 30 months, in addition to the delivery of the technology under license. The Company is entitled to receive an initial fee, payments for technical support services, royalties based on subsequent sales by the licensee and contingent milestone payments from the licensee. The initial fee of $100 thousand is deferred under this arrangement. Revenue is recognized based on the measure of progress toward completion of the technical support services under this contract based on the actual hours provided relative to the total number of hours required to be provided, applied to the total of the initial fee and additional non-contingent contractual payments related to the support services. At any time, the amount of cumulative revenue recognized would not exceed the cumulative amount of non-refundable payments received under the arrangement. Any changes in estimate will be recognized prospectively. Under this arrangement, any contingent royalty or milestone payments subsequently received from the customer will be recognized when the customer acknowledges the sale or achievement of the milestone, when the amount is determinable and collection of the amount is probable. The Company has delivered the technology under this arrangement prior to year end and has recognized $10 thousand as revenue in 2008.

(c) Cash and cash equivalents:

The Company considers unrestricted cash on hand and in banks, term deposits and guaranteed investment certificates with original maturities of three months or less as cash and cash equivalents.

3. Significant accounting policies (continued):

(d) Short-term investments, marketable securities and other investments:

The Company invests in high-quality fixed income government and corporate investments with low credit risk.

Subsequent to the adoption of Section 3855 (note 2(a)), short-term investments, which consist of fixed income securities with a maturity of more than three months but less than one year, are recorded at their accreted value as they are held-to-maturity instruments. Certain corporate instruments have maturities greater than one year, however, the Company has designated these investments as held-for-trading, and have classified these investments as short-term investments on the consolidated balance sheets. These investments are carried at fair value.

(e) Fixed assets:

Fixed assets are recorded at cost less accumulated depreciation. The Company records depreciation at rates which are expected to charge operations with the cost of the assets over their estimated useful lives on a straight-line basis as follows:

Furniture and equipment	Over 3 to 5 years
Leasehold improvements	Over the lease term

(f) 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 Canadian GAAP for deferral and amortization. No development costs have been deferred to date.

3. Significant accounting policies (continued):

(g) Goodwill and acquired patents and licenses:

Intangible assets with finite lives acquired in a business combination or other transaction are amortized over their estimated useful lives.

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in the GeneSense business combination. Goodwill acquired in a business combination is tested for impairment on an annual basis and at any other time if an event occurs or circumstances change that would indicate that impairment may exist. When the carrying value of a reporting unit's goodwill exceeds the residual fair value, an impairment loss is recognized in an amount equal to the excess.

The Company has identified no impairment relating to goodwill for 2008 and 2007.

The Company capitalized the cost of acquired patent and license assets on the acquisitions of GeneSense and the NuChem compounds. The nature of this asset is such that it was categorized as an intangible asset with a finite life. These costs have now been fully amortized.

(h) Impairment of long-lived assets:

The Company periodically reviews the useful lives and the carrying values of its long-lived assets. The Company reviews for impairment in long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value, which is estimated as the expected future cash flows discounted at a rate proportionate with the risks associated with the recovery of the asset.

3. Significant accounting policies (continued):

(i) Stock-based compensation:

The Company has a stock-based compensation plan, described in note 7. Prior to June 1, 2004, stock-based awards were accounted for using the intrinsic method with the exception of options with contingent vesting criteria for which the settlement method was used. On June 1, 2004, the Company adopted the fair value method of accounting for stock-based awards to employees, officers and directors granted or modified after June 1, 2004. This method requires the Company to expense, over the vesting period, the fair value of all employee stock-based awards granted or modified since June 1, 2002. Stock options and warrants awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received. Consideration paid on the exercise of stock options and warrants is credited to common shares. The fair value of performance-based options is recognized over the estimated period to achieve the performance conditions. Fair value is determined using the Black-Scholes option pricing model.

The Company has 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 elect to receive, on termination of his or her services with the Company, an equivalent number of common shares, or the cash equivalent of the market value of the common shares at that future date. Lorus records an expense and a liability equal to the market value of the shares issued. The accumulated liability is adjusted for market fluctuations on a quarterly basis.

(j) Investment tax credits:

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized. Investment tax credits receivable at May 31, 2008 of $400 thousand are classified as prepaid expenses and other assets (2007 - $200 thousand).

3. Significant accounting policies (continued):

(k) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, 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 substantively 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 year that enactment or substantive enactment occurs. A valuation allowance is recorded if it is not more likely than not that some portion of or all of a future tax asset will be realized.

(l) Loss per share:

Basic loss per common share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per common share is calculated by dividing the loss for the year by the sum of the weighted average number of common shares outstanding and the dilutive common equivalent shares outstanding during the year. Common equivalent shares consist of the shares issuable upon exercise of stock options, warrants and conversion of the convertible debentures calculated using the treasury stock method. Common equivalent shares are not included in the calculation of the weighted average number of shares outstanding for diluted loss per common share when the effect would be anti-dilutive.

(m) Segmented information:

The Company is organized and operates as one operating segment, the research and development of pharmaceuticals. Substantially all of the Company's identifiable assets as at May 31, 2008 and 2007 are located in Canada.

3. Significant accounting policies (continued):

(n) 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 in effect 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.

(o) Use of estimates:

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the years. Actual results may differ from those estimates. Significant estimates include the valuation of the convertible debentures, fair value of guarantees, the fair value of stock options granted and warrants issued and the useful lives of fixed and intangible assets.

(p) Recent Canadian accounting pronouncements not yet adopted:

(i) In October 2006, the Accounting Standards Board approved disclosure and presentation requirements for financial instruments that revise and enhance the disclosure requirements of Section 3861, Financial Instruments - Disclosure and Presentation ("Section 3861"). These requirements include Section 3862, Financial Instruments - Disclosures ("Section 3862"), Section 3863, Financial Instruments - Presentation ("Section 3863") (both of which replace Section 3861), and Section 1535, Capital Disclosures ("Section 1535"), which establishes standards for disclosing information about an entity's capital and how it is managed.

3. Significant accounting policies (continued):

Section 3862 is based on International Financial Reporting Standards ("IFRS") 7, Financial Instruments - Disclosures, and places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how loss for the period and other comprehensive loss would have been affected by reasonably possible changes in the relevant risk variable.

The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863, Financial Instruments - Presentation.

These new sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007, but may be adopted in place of Section 3861 before that date.

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements relating to fiscal years beginning on December 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments.

The Company will adopt these new standards for its fiscal year beginning June 1, 2008. The Company does not expect the adoption of these standards to have a material impact on its consolidated financial position and results of operations.

3. Significant accounting policies (continued):

(ii) CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008, and specifically June 1, 2008 for the Company. The Company does not expect this new accounting standard to have any impact to the consolidated financial statements.

(iii) Section 3064, Goodwill and Intangible Assets, will be replacing Section 3062, Goodwill and Other Intangible Assets ("Section 3062") and Section 3450, Research and Development Costs. This new section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning June 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of adoption of this new section on the Company's consolidated financial statements has not been determined.

(iv) The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements effective June 1, 2011 has not been determined.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

4. Short-term investments, marketable securities and other investments:

2008	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Corporate investments (including guaranteed investment certificates, medium-term notes and fixed-term notes)	$ 6,304	$ 480	$ 6,784	3.89 - 4.60%
	$ 6,304	$ 480	$ 6,784	

2007	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Fixed income government investments	$ 1,549	$ -	$ 1,549	3.91%
Corporate investments (including guaranteed investment certificates, medium-term notes and fixed-term notes)	5,716	3,728	9,444	3.89 - 4.11%
	$ 7,265	$ 3,728	$ 10,993	

At May 31, 2008, investments with maturities of less than one year are classified as held-to-maturity investments and carried at amortized cost. These investments have maturities varying from one to two months. Certain corporate investments, totalling $480 thousand, have maturities greater than one year; however, the Company has designated these investments as held-for-trading, and has classified these investments as short-term investments on the consolidated balance sheets. These investments are carried at fair value. The net increase in fair value for the year ended May 31, 2008 amounted to $7 thousand and has been included in the consolidated statements of operations in interest expense.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

4. Short-term investments, marketable securities and other investments (continued):

At May 31, 2007 and prior to the adoption of Section 3855 (note 2(a)), the carrying values of fixed income government investments and corporate investments were carried at amortized cost and were classified as current or long-term assets consistent with their maturity dates.

At May 31, 2008 and 2007, the carrying values of held-to-maturity investments approximate their quoted market values. Short-term investments held at May 31, 2008, have varying maturities from one to two months (2007 - one to ten months). At May 31, 2007, long-term investments had maturities varying from one to five years and were valued at carrying value that, by virtue of the nature of the investments, primarily interest bearing instruments, approximates their quoted market value.

5. Fixed assets:

2008	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,728	$ 2,557	$ 171
Leasehold improvements	908	835	73
	$ 3,636	$ 3,392	$ 244

2007	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,670	$ 2,387	$ 283
Leasehold improvements	908	688	220
	$ 3,578	$ 3,075	$ 503

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

6. Share capital:

(a) Continuity of common shares and warrants:

	Common shares		Warrants	
	Number	Amount	Number	Amount
Balance, May 31, 2006	-	$ -	-	$ -
Original share	1	1	-	-
Balance, May 31, 2007	1	1	-	-
Surrender of Original Share	(1)	(1)	-	-
Share exchange (note 1)	212,628	157,800	-	-
Interest payments (note 11)	5,021	943	-	-
Balance, May 31, 2008	217,649	$ 158,743	-	$ -

On July 10, 2007 as part of the Arrangement described in note 1, the Company surrendered its Original Share, and exchanged all of the shares in Old Lorus for an equivalent number of shares of the Company. Based on a continuity of interests accounting, the following share table reflects transactions in share capital as if the Company had always carried on the business of Old Lorus:

	Common shares		Warrants	
	Number	Amount	Number	Amount
Balance, May 31, 2005	172,541	$ 144,119	3,000	$ 991
Interest payments (note 11)	2,153	882	-	-
Balance at May 31, 2006	174,694	145,001	3,000	991
Share issuance	33,800	11,641	-	-
Interest payments (note 11)	3,726	1,050	-	-
Exercise of stock options	46	22	-	-
Repurchase of warrants (g)	-	-	(3,000)	(991)
Balance, May 31, 2007	212,266	157,714	-	-
Interest payments (note 11)	5,383	1,029	-	-
Balance, May 31, 2008	217,649	$ 158,743	-	$ -

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

6. Share capital (continued):

(b) Contributed surplus:

	2008	2007	2006
Balance, beginning of year	$ 8,525	$ 7,665	$ 6,733
Forfeiture of stock options	656	121	932
Repurchase of warrants (g)	-	739	-
Balance, end of year	$ 9,181	$ 8,525	$ 7,665

(c) Continuity of stock options:

	2008	2007	2006
Balance, beginning of the year	$ 4,898	$ 4,525	$ 4,252
Stock option expense	719	494	1,205
Forfeiture of stock options	(656)	(121)	(932)
Balance, end of year	$ 4,961	$ 4,898	$ 4,525

(d) Alternate compensation plans:

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 directors to elect 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. During the year ended May 31, 2008, no deferred share units were issued (2007 - nil; 2006 - 168,581), with a cash value of nil (2007 - nil; 2006 - $64 thousand) being recorded in accrued liabilities.

(e) Share issuance:

On July 10, 2007 as part of the Arrangement described in note 1(a), the Company surrendered its Original Share, and exchanged all of the shares in Old Lorus for an equivalent number of shares of the Company. The transactions below occurred in Old Lorus; however, as a result of the exchange in shares, the shares issued in these transactions became shares in New Lorus.

6. Share capital (continued):

On July 13, 2006, the Company entered into an agreement with HighTech to issue 28,800,000 common shares at $0.36 per share for gross proceeds of $10.4 million. The cost of issuance amounted to $450 thousand. The subscription price represented a premium of 7.5% over the closing price of the common shares on the TSX on July 13, 2006. The transaction closed on August 31, 2006. In connection with the transaction, HighTech received demand registration rights that will enable HighTech to request the registration or qualification of the common shares for resale in the United States and Canada, subject to certain restrictions. These demand registration rights expire on June 30, 2012. In addition, HighTech received the right to nominate one nominee to the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board. Upon completion of the transaction, HighTech held approximately 14% of the issued and outstanding common shares of Lorus.

On July 24, 2006, Lorus entered into an agreement with Technifund Inc. to issue, on a private placement basis, 5,000,000 common shares at $0.36 per share for gross proceeds of $1.8 million. The cost of issuance amounted to $78 thousand. The transaction closed on September 1, 2006.

(f) Employee share purchase plan:

The Company's employee share purchase plan ("ESPP") was established on January 1, 2005. The purpose of the ESPP is to assist the Company in retaining the services of its employees, to secure and retain the services of new employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. The ESPP provides a means by which employees of the Company and its affiliates may purchase common shares of the Company at a discount through accumulated payroll deductions. Generally, each offering is of three months' duration with purchases occurring every month. Participants may authorize payroll deductions of up to 15% of their base compensation for the purchase of common shares under the ESPP. For the year ended May 31, 2008, 282,000 (2007 - 69,000; 2006 - 293,000) common shares have been purchased under the ESPP, and Lorus has recognized an expense of $10 thousand (2007 - $5 thousand; 2006 - $46 thousand) related to this plan in these consolidated financial statements.

6. Share capital (continued):

(g) Repurchase of warrants:

In May 2007, the Company entered into an agreement, with the holder of Lorus' $15.0 million secured convertible debenture, to repurchase the outstanding 3,000,000 common share purchase warrants at a purchase price of $252 thousand upon close of the Arrangement. The equity-classified carrying value of the warrants was $991 thousand and the difference between the equity value and the purchase price was recorded as contributed surplus of $739 thousand.

7. Stock-based compensation:

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 a maximum of 15% of the total number of outstanding common shares currently estimated at 32,500,000 options. Options are granted at the fair market value of the common shares on the date immediately preceding the date of the grant. Options vest at various rates (immediate to three years) and have a term of 10 years. Stock option transactions for the three years ended May 31, 2008 are summarized as follows:

	2008		2007		2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
	(In thousands)		(In thousands)		(In thousands)	
Outstanding, beginning of year	12,988	$ 0.59	10,300	$ 0.70	8,035	$ 0.96
Granted	6,048	0.21	5,318	0.30	6,721	0.58
Exercised	-	-	(46)	0.30	-	-
Forfeited	(2,598)	0.58	(2,584)	0.44	(4,456)	0.83
Outstanding, end of year	16,438	0.45	12,988	0.59	10,300	0.70
Exercisable, end of year	10,241	$ 0.58	9,796	$ 0.68	6,714	$ 0.79

7. Stock-based compensation (continued):

The following table summarizes information about stock options outstanding at May 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Options	Weighted average exercise price
	(In thousands)			(In thousands)	
$0.18 - $0.24	5,231	9.41	$ 0.21	925	$ 0.20
$0.25 - $0.49	6,853	7.23	0.29	5,007	0.30
$0.50 - $0.99	2,809	5.52	0.74	2,763	0.74
$1.00 - $2.50	1,545	4.43	1.43	1,546	1.43
	16,438	8.42	0.45	10,241	0.58

For the year ended May 31, 2008, stock-based compensation expense of $719 thousand (2007 - $503 thousand; 2006 - $1.2 million) was recognized, representing the amortization applicable to the current period of the estimated fair value of options granted since June 1, 2002.

During the year ended May 31, 2008, the Company extended the option exercise period to those directors not seeking re-election at the annual general meeting and to the Company's former President and Chief Executive Officer. These transactions result in modification of the terms of the original awards, and the incremental compensation expense relating to the modified options amounted to approximately $83 thousand that is included in the stock-based compensation expense for the year ended May 31, 2008.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

7. Stock-based compensation (continued):

During the year ended May 31, 2006, employees of the Company (excluding directors and officers) were given the opportunity to choose between keeping 100% of their existing options at the existing exercise price or forfeiting 50% of the options held in exchange for having the remaining 50% of the exercise price of the options re-priced to $0.30 per share. Employees holding 2,290,000 stock options opted for re-pricing their options, resulting in the amendment of the exercise price of 1,145,000 stock options and the forfeiture of 1,145,000 stock options. This re-pricing resulted in additional compensation expense of $76 thousand, representing the incremental value conveyed to holders of the options as a result of reducing the exercise price, of which $52 thousand has been included in the stock-based compensation expense during the year ended May 31, 2006. The additional compensation expense of $24 thousand will be recognized as the amended options vest. This increased expense is offset by $113 thousand representing amounts previously expensed on unvested stock options due to the forfeiture of 1,145,000 stock options, which was reversed from the stock-based compensation expense for the year ended May 31, 2006.

For the year ended May 31, 2008, stock option expense of $719 thousand (2007 - $503 thousand; 2006 - $1.2 million) comprised $171 thousand (2007 - $216 thousand; 2006 - $300 thousand) related to research and development and $548 thousand (2007 - $287 thousand; 2006 - $900 thousand) related to general and administrative.

The following assumptions were used in the Black-Scholes option pricing model to determine the fair value of stock options granted during the year:

	2008	2007	2006
Risk-free interest rate	3.75% - 4.70%	4.50%	2.25% - 4.00%
Expected volatility	77% - 80%	75% - 80%	70% - 81%
Expected life of options	5 years	5 years	2.5 - 5 years
Weighted average fair value of options granted or modified during the year	$0.14	$0.20	$0.33

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

8. 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 pre-tax 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:

	2008	2007
Non-capital loss carryforwards	$ 1,571	$ 24,459
Capital loss carryforwards	218	-
Research and development expenditures	3,275	20,156
Book over tax depreciation	631	1,904
Intangible asset	3,386	-
Other	-	309
Future tax assets	9,081	46,828
Valuation allowance	(9,081)	(46,828)
	$ -	$ -

Under the Arrangement, numerous steps were undertaken as part of a taxable reorganization. However, these steps did not result in any taxes payable as the tax benefit of income tax attributes was applied to eliminate any taxes otherwise payable. Of the total unrecognized future tax assets available at the time of the Arrangement, approximately $7.0 million was transferred to New Lorus and the balance remained with Old Lorus and is subject to the indemnification agreement (note 1). Those tax attributes remaining with Old Lorus are no longer available to the Company.

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 years 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 amounts has been completely offset by a valuation allowance.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

8. Income taxes (continued):

The Company has undeducted research and development expenditures, totalling $14.1 million for federal purposes and $8.2 million for provincial purposes, and these can be carried forward indefinitely. In addition, the Company has non-capital loss and capital loss carryforwards of $5.4 million and $1.5 million, respectively, for federal purposes and $5.5 million and $1.5 million, respectively, for provincial purposes. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

2009	$ 741
2010	141
2015	10
2026	11
2027	4
2028	4,466
	$ 5,373

Income tax rate reconciliation:

	2008	2007	2006
Recovery of income taxes based on statutory rate of 35%	$ (2,217)	$ (3,481)	$ (6,469)
Expiry of losses	127	1,311	1,252
Change in valuation allowance subsequent to the Arrangement	2,048	(3,168)	3,861
Non deductible accretion, stock-based compensation and capital gains	(1,880)	519	721
Change in enacted tax rates	1,585	4,437	-
Other	337	382	635
	$ -	$ -	$ -

9. Research and development programs:

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

(a) Antisense**:**

Antisense drugs are genetic molecules that inhibit the production of disease-causing proteins. LOR-2040 (formerly GTI-2040) is the Company's lead antisense drug, and has shown preclinical anticancer activity across a broad range of cancers and is currently in various Phase I/II trials in several solid tumor types, which are sponsored by the U.S. National Cancer Institute. Lorus has selected Acute Myeloid Leukemia ("AML") as a lead cancer indication for clinical development of LOR-2040. LOR-2040 is currently in a Company-sponsored advanced Phase II clinical trial in combination with high dose Ara-C as salvage therapy in refractory and relapsed AML patients under 60 years of age.

(b) Small molecules**:**

The Company is utilizing its small molecule drug screening technologies and preclinical scientific expertise to identify several groups of novel small molecules that show strong anticancer activity and a high therapeutic index due to low toxicity. The Company's proprietary group of novel small molecule compounds, which include lead compounds LOR-253 and LOR-220, have unique structures and modes of action, and are promising candidates for the development of novel anticancer agents with high safety profiles.

(c) Immunotherapy**:**

This clinical approach stimulates the body's natural defences against cancer. The Company's lead immunotherapeutic drug, Virulizin ®, completed a global Phase III clinical trial for the treatment of pancreatic cancer during 2005, but overall survival data did not reach statistical significance. In April 2008, the Company announced the signing of an exclusive multinational license agreement with Zor Pharmaceuticals, LLC ("ZOR") formed as a subsidiary of Zoticon Bioventures Inc, a research-driven biopharmaceutical group, to further develop and commercialize Virulizin® for human therapeutic applications.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

9. Research and development programs (continued):

	Years ended May 31,			Period from inception September 5, 1986 to May 31,
	2008	2007	2006	2008
Antisense:				
Expensed	$ 3,200	$ 1,676	$ 2,550	$ 34,685
Acquired	-	-	-	11,000
Small molecules:				
Expensed	2,743	1,621	1,485	10,071
Acquired	-	-	-	1,228
Immunotherapy:				
Expensed	144	87	6,202	75,190
Acquired	-	-	-	-
Total expensed	$ 6,087	$ 3,384	$ 10,237	$ 119,946
Total acquired	$ -	$ -	$ -	$ 12,228

Amortization of the acquired patents and licenses is included in the 'Expensed' line of the table.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

10. Supplemental cash flow and other information:

Cash and cash equivalents consist of:

	2008	2007
Cash	$ 143	$ 495
Term deposits and guaranteed investment certificates	2,509	910
	$ 2,652	$ 1,405

Change in non-cash operating working capital is summarized as follows:

	Years ended May 31,			Period from inception September 5, 1986 to May 31,
	2008	2007	2006	2008
Prepaid expenses and other assets	$ (386)	$ 180	$ 611	$ (145)
Accounts payable	(181)	549	(514)	(321)
Accrued liabilities	(227)	(1,039)	(559)	954
	$ (794)	$ (310)	$ (462)	$ 488

During the year ended May 31, 2008, the Company received interest of $519 thousand (2007 -$412 thousand; 2006 - $627 thousand).

Supplementary disclosure relating to non-cash financing activities consists of $252 thousand related to the liability to repurchase warrants.

11. Convertible debentures:

On October 6, 2004, the Company entered into a Subscription Agreement (the "Agreement") to issue an aggregate of $15.0 million of secured convertible debentures (the "debentures"). The debentures are secured by a first charge over all of the assets of the Company.

The Company received $4.4 million on October 6, 2004 (representing a $5.0 million debenture less an investor fee representing 4% of the $15.0 million to be received under the Agreement), and $5.0 million on each of January 14 and April 15, 2005. All debentures issued under this Agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime plus 1% until such time as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest would be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest are issued at a price equal to the weighted average trading price of such shares for the 10 trading days immediately preceding their issue in respect of each interest payment. For the year ended May 31, 2008, the Company issued 5,383,000 (2007 - 3,726,000; 2006 - 2,153,000) shares in settlement of approximately $1.0 million (2007 - $1.0 million; 2006 - $882 thousand) in interest.

The $15.0 million principal amount of debentures issued on October 6, 2004, January 14, 2005 and April 15, 2005 is convertible at the holder's option at any time into common shares of the Company with a conversion price per share of $1.00.

With the issuance of each $5.0 million debenture, the Company issued to the debenture holder from escrow 1,000,000 purchase warrants expiring October 6, 2009 to buy common shares of the Company at a price per share equal to $1.00. In May 2007, the 3,000,000 common share purchase warrants were repurchased in connection with the Arrangement (note 6(g)).

11. Convertible debentures (continued):

Prior to the adoption of Section 3855, deferred financing costs were amortized over the five-year life of the Agreement. For the year ended May 31, 2007, the Company has recognized $110 thousand (2006 - $87 thousand) in amortization expense. As a consequence of the adoption of Section 3855, deferred financing costs at June 1, 2007 were reclassified and reduced the carrying value of the debentures. Deferred financing costs are recognized in the consolidated statements of operations as accretion expense.

Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be their face value of $15.0 million. For the year ended May 31, 2008, the Company has recognized $1.2 million (2007 - $935 thousand; 2006 - $790 thousand) in accretion expense.

The lender has the option to demand repayment in the event of default, including the failure to maintain certain subjective covenants, representations and warranties. Management assesses on a quarterly basis whether or not events during the quarter could be considered an event of default. This assessment was performed and management believes that there has not been an event of default and that, at May 31, 2008, the term of the debt remains unchanged.

12. Contingencies, commitments and guarantees:

(a) Operating lease commitments:

The Company has entered into operating leases for premises and equipment under which it is obligated to make minimum annual payments of approximately $143 thousand in 2009, $148 thousand in 2010 and $129 thousand in 2011.

During the year ended May 31, 2008, operating lease expenses were $140 thousand (2007 - $139 thousand; 2006 - $130 thousand).

12. Contingencies, commitments and guarantees (continued):

(b) Other contractual commitments:

In December 1997, the Company acquired certain patent rights and a sub-license to develop and commercialize the anticancer application of certain compounds in exchange for:

(i) A 20% share interest in NuChem;

(ii) A payment of U.S. $350 thousand in shares of Lorus; and

(iii) Up to U.S. $3.5 million in cash.

To date, the Company has made cash payments of U.S. $500 thousand. The remaining balance of up to U.S. $3.0 million remains payable upon the achievement of certain milestones based on the commencement and completion of clinical trials. Additional amounts paid will be classified as acquired patents and licenses and will be amortized over the estimated useful life of the licensed asset.

The Company does not currently expect to achieve any of the above milestones in fiscal years ended May 31, 2008 or 2009 and cannot reasonably predict when such milestones will be achieved, if at all.

The Company holds an exclusive world-wide license from the University of Manitoba (the "University") and Cancer Care Manitoba ("CCM") to certain patent rights to develop and sub-license certain oligonucleotide technologies. In consideration for the exclusive license of the patent rights, the University and CCM are entitled to an aggregate of 1.67% of the net sales received by the Company from the sale of products or processes derived from the patent rights and 1.67% of all monies received by the Company from sub-licenses of the patent rights. Any and all improvements to any of the patent rights derived in whole or in part by the Company after the date of the license agreement, being June 20, 1997, are not included within the scope of the agreement and do not trigger any payment of royalties.

12. Contingencies, commitments and guarantees (continued):

The Company has not yet earned any revenue from the products covered under this agreement and, therefore, has not paid any royalties thereunder and cannot reasonably predict the timing and amount of any future payment. The Company does not expect to make any royalty payments under this agreement in fiscal years ended May 31, 2008 or 2009, and cannot reasonably predict when such royalties will become payable, if at all.

(c) Guarantees:

The Company entered into various contracts, whereby contractors perform certain services for the Company. The Company indemnifies the contractors against costs, charges and expenses in respect of legal actions or proceedings against the contractors in their capacity of servicing the Company. The maximum amounts payable from these guarantees cannot be reasonably estimated. Historically, the Company has not made significant payments related to these guarantees.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers. The fair value of this indemnification is not determinable.

(d) Indemnification on Arrangement:

Under the Arrangement (note 1), the Company has agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring

(i) prior to, at or after the effective time of the Arrangement ("Effective Time") and directly or indirectly relating to any of the assets of Old Lorus transferred to New Lorus pursuant to the Arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time;

12. Contingencies, commitments and guarantees (continued):

(ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred by Old Lorus to New Lorus pursuant to the Arrangement; and

(iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

The Company has recorded a deferred gain of $600 thousand, which it believes is sufficient to address any possible claims related to escrow amounts and its estimate of the fair value of the obligation of $150 thousand for the indemnifications provided. There have been no claims under this indemnification to date.

(e) Regulatory matter:

The Company received notice from the American Stock Exchange ("AMEX") dated February 13, 2008, indicating that the Company needed to comply with the $6 million stockholder's equity threshold required for continued listing under AMEX Company Guide Sec. 1003(a)(iii). This notification was triggered by the decline of Lorus' market capitalization to less than $50 million, which previously exempted Lorus from meeting the minimum stockholder's equity requirement. AMEX has renewed and accepted the Company's plan to comply with the stockholder's equity requirements within an eighteen-month period ending August 13, 2009. Should the Company not be able to execute the plan and comply with the AMEX requirements within the prescribed period, the Company will be subject to de-listing.

13. Financial instruments:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(a) Cash and cash equivalents, short-term marketable securities, other assets, amount held in escrow, accounts payable and accrued liabilities:

Due to the short period to maturity of the financial instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

(b) Long-term marketable securities and other investments:

The carrying values by virtue of the nature of the investments, primarily interest-bearing instruments, approximate their quoted market values.

(c) Convertible debentures:

The fair value of the convertible debentures at May 31, 2008 is $13.9 million (2007 - $13.6 million).

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.

The Company is exposed to interest rate risk due to the convertible debentures that require interest payments at a variable rate of interest.

14. License agreement:

Effective April 8, 2008, the Company entered into a non-exclusive multinational license agreement with ZOR Pharmaceutical LLC ("ZOR") formed as a subsidiary of Zoticon Bioventures Inc. to further develop and commercialize Virulizin® for human therapeutic applications.

Under the terms of the agreement, the Company will receive an upfront licensing fee of $100 thousand, and may receive certain milestone payments totalling approximately U.S. $10 million based on progress through financing and clinical development, and royalties on net sales that vary from 10-20% depending on the level of sales of Virulizin® achieved in those territories covered by the license and subject to certain other adjustments. ZOR will assume all future costs for the development of the licensed technology.

The Company has also entered into a service agreement with ZOR to assist in the transfer of knowledge. Under this agreement, the Company has agreed to provide ZOR with 300 hours of consulting service during a period of 18 months.

In addition, Lorus acquired a 25% equity interest in ZOR in exchange for a capital contribution of $2,500. This investment has been accounted for as an equity investment. Lorus' equity will not be subject to dilution on the first U.S. $5 million of equity financing in ZOR. Thereafter, Lorus has, at its option, a right to participate in any additional financings to maintain its ownership level.

15. Related party transaction:

During the year ended May 31, 2008, the Company expensed consulting fees of $31 thousand to a director of the Company (2007 - nil; 2006 - nil) of which $30 thousand remained payable at May 31, 2008 (2007 - nil; 2006 - nil).

This transaction was in the normal course of business and has been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Comparative figures:

Certain 2007 and 2006 figures have been reclassified to conform with the financial statement presentation adopted in 2008.

17. Subsequent events:

On June 25, 2008, the Company filed a short-form prospectus for a rights offering to its shareholders.

Under the rights offering, holders of the Company's common shares as of July 9, 2008 (the "Record Date") received one right for each common share held as of the Record Date. Each four (4) rights entitled the holder thereof to purchase a unit of Lorus ("Unit"). Each Unit consists of one common share of Lorus at $0.13 and a one-half warrant to purchase additional common shares of Lorus at $0.18 until August 7, 2010. Rights expired on August 7, 2008.

The Company issued 28,538,889 common shares and 14,269,444 common share purchase warrants in exchange for cash consideration of $3.71 million. The Company expects to use the net proceeds from the offering to fund research and development activities and for general working capital purposes.

Management's Discussion and Analysis

August 28, 2008

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This management discussion and analysis may contain forward-looking statements within the meaning of Canadian and U.S. securities laws. Such statements include, but are not limited to, statements relating to:

- *our expectations regarding future financings;*
- *our plans to conduct clinical trials;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, pre-clinical and clinical studies and the regulatory approval process;*
- *our plans to obtain partners to assist in the further development of our product candidates;*
- *our expectations with respect to existing and future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us or to us in respect of such arrangements, and*

the Company's plans, objectives, expectations and intentions and other statements including words such as "anticipate", "contemplate", "continue", "believe", "plan", "estimate", "expect", "intend", "will", "should", "may", and other similar expressions.

Such statements reflect our current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- *our ability to obtain the substantial capital required to fund research and operations;*
- *our lack of product revenues and history of operating losses;*
- *our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;*
- *the progress of our clinical trials;*
- *our ability to repay or refinance the convertible debentures at maturity;*
- *our ability to maintain compliance with the operational covenants of the convertible debenture agreement that could result in an event of default and the requirement for early repayment;*
- *our liability associated with the indemnification of Old Lorus and its directors, officers and employees*
- *our ability to find and enter into agreements with potential partners;*
- *our drug candidates require time-consuming and costly preclinical and clinical testing and regulatory approvals before commercialization;*
- *clinical studies and regulatory approvals of our drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could delay our ability to generate revenue;*
- *the regulatory approval process;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain patent protection and protect our intellectual property rights;*
- *our ability to protect our intellectual property rights and to not infringe on the intellectual property rights of others;*
- *our ability to comply with applicable governmental regulations and standards;*
- *development or commercialization of similar products by our competitors, many of which are more established and have greater financial resources than we do;*
- *commercialization limitations imposed by intellectual property rights owned or controlled by third parties;*
- *our business is subject to potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing may substantially dilute the interests of our shareholders;*
- *changing market conditions; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the United States Securities and Exchange Commission, and those which are discussed under the heading "Risk Factors".*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this management, discussion and analysis or, in the case of documents incorporated by reference herein, as of the date of such documents, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law. We cannot assure you that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

PLAN OF ARRANGEMENT AND CORPORATION REORGANIZATION

On July 10, 2007 (the “Arrangement Date”), Lorus Therapeutics Inc. (the “Company”, “Lorus” or “New Lorus”) completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc., formerly Lorus Therapeutics Inc. (“Old Lorus”), 6707157 Canada Inc. and Pinnacle International Lands, Inc (the “Arrangement”). As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one common share of the Company and the assets (excluding certain future tax attributes and related valuation allowance) and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it) were transferred, directly or indirectly, to the Company and/or its subsidiaries. The Company continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same directors as Old Lorus prior to the Arrangement Date. Therefore, the Company’s operations have been accounted for on a continuity of interest basis and accordingly, the consolidated financial statement information below reflect that of the Company as if it had always carried on the business formerly carried on by Old Lorus. All comparative figures presented in these consolidated financial statements are those of Old Lorus. References in this Management’s Discussion and Analysis (“MD&A”) to the Company, Lorus, “we”, “our”, “us” and similar expressions, unless otherwise stated, are references to Old Lorus prior to the Arrangement Date and the Company after the Arrangement Date.

The following discussion should be read in conjunction with the audited financial statements for the year ended May 31, 2008 and the accompanying notes (the "Financial Statements") contained in the Company’s annual report. The Financial Statements, and all financial information discussed below, have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All amounts are expressed in Canadian dollars unless otherwise noted. In this MD&A, "Lorus", the "Company', "we", "us" and "our" each refers to Lorus Therapeutics Inc.

OVERVIEW

Lorus is a life sciences company focused on the discovery, research and development of effective anticancer therapies with a high safety profile. Lorus has worked to establish a diverse anticancer product pipeline, with products in various stages of development ranging from pre-clinical to an advanced Phase II clinical trial. A growing intellectual property portfolio supports our diverse product pipeline. Lorus’ pipeline is a combination of internally developed products and products licensed in from other entities at a pre-clinical stage.

We believe that the future of cancer treatment and management lies in drugs that are effective, safe and have minimal side effects, and therefore improve a patient's quality of life. Many of the cancer drugs currently approved for the treatment and management of cancer are toxic with severe side effects, and we therefore believe that a product development plan based on effective and safe drugs could have broad applications in cancer treatment. Lorus' strategy is to continue the development of our product pipeline using several therapeutic approaches. Each therapeutic approach is dependent on different technologies, which we believe mitigates the development risks associated with a single technology platform. We evaluate the merits of each product throughout the clinical trial process and consider commercial viability as appropriate. The most advanced anticancer drugs in our pipeline, each of which flow from different platform technologies, are antisense, small molecules and immunotherapeutics.

Our business model is to take our product candidates through pre-clinical testing and into Phase I and Phase II clinical trials. It is our intention to then partner or co-develop these product candidates after successful completion of Phase I or II clinical trials. Lorus will give careful consideration in the selection of partners that can best advance the drug candidates into a pivotal Phase III clinical trial and, upon successful results, commercialization. Our objective is to receive cash for milestone payments and royalties from such partnerships which will support continued development of our product pipeline. We assess each product candidate and determine the optimal time to work towards partnering out that product candidate.

Our success is dependent upon several factors, including, maintaining sufficient levels of funding through public and/or private financing, establishing the efficacy and safety of our products in clinical trials and securing strategic partnerships.

Our net loss for 2008 decreased to $6.3 million ($0.03 per share) compared to a net loss of $9.6 million ($0.5 per share) in 2007. Operating net loss, before the gain on sale of shares associated with the completion of the Arrangement, increased to $12.6 million or $0.06 per share in 2008 as compared to $9.6 million or $0.05 per share in 2007. Research and development expenses in 2008 increased to $6.1 million from $3.4 million in 2007. The increase in research and development expenditures is the result of an increase in activity in both our LOR-2040 and LOR-253 (small molecule) development programs. We utilized cash of $10.2 million in our operating activities in 2008 compared with $6.3 million in 2007; the higher utilization is consistent with higher research and development activities. At the end of 2008 we had cash and cash equivalents, short-term investments and marketable securities of $9.4 million compared to $12.4 million at the end of 2007. Subsequent to year-end the rights offering provided the company with gross proceeds of approximately $3.71 million.

RESULTS OF OPERATIONS

Revenues

Revenues for the year decreased to $43 thousand compared with 2007 revenue of $107 thousand and $26 thousand in 2006. The decrease in revenue in 2008 is due to a decrease in services performed by Lorus personnel on behalf of other companies. Lorus recognized $10 thousand in revenue associated with the $100 thousand received as a non-refundable up front milestone payment associated with the license of Virulizin®. This license agreement provides for payments in excess of US$10 million upon the achievement of various milestone events and royalties that vary from 10-20% depending on the level of sales of Virulizin® achieved in those territories covered by the license and subject to certain other adjustments. We do not expect that any of these milestones will be achieved in the next 12 months. The license transaction is considered a multiple deliverable arrangement and as such Lorus is recognizing the milestone payment as agreed upon consulting services are performed. The balance of revenue earned in 2008 is related to laboratory services performed by Lorus personnel on behalf of other companies. The increase in revenue in 2007 compared with 2006 is related to increased laboratory services work performed by Lorus personnel on behalf of other companies. The Company did not receive any revenue under its licensing agreement with Cyclacel Ltd. in connection with the out licensing of our clotrimazole analog library of anticancer drug candidates. The agreement included an initial license fee of $546 thousand received in 2004 with the potential of additional license fees of up to U.S.$11.6 million that may be earned if Cyclacel achieves certain defined research and development milestones. We do not expect that any of these milestones will be achieved in the next 12 months.

Research and Development

Research and development expenses totaled $6.1 million in 2008 compared to $3.4 million in 2007 and $10.2 million in 2006. The increase in research and development expenditures in 2008 is due to a significant increase in activity within our LOR-2040 and small molecule development programs. In particular the initiation of an advanced Phase II clinical trial with LOR-2040 in acute myeloid leukemia and the manufacturing costs of the drug needed to complete the trial, the advancement of our small molecule program into GLP-toxicology studies and GLP-toxicology studies with LOR-2040 for the treatment of bladder cancer. This increase in spending is offset by lower amortization of acquired patents and license of $655 thousand which was fully amortized in 2007. The decrease in spending in 2007 compared with 2006 was the result of the close of the Virulizin® Phase III clinical trial for the treatment of advanced pancreatic cancer in 2006 as well as a reduction in headcount in November 2005 and a reduction in amortization of acquired patents and licenses of $1.6 million which was fully amortized part way through 2007.

General and Administrative
General and administrative expenses totaled $3.9 million in 2008 compared to $3.8 million in 2007 and $4.3 million in 2006. General and administrative expenses remained consistent year over year as we continue to work to minimize our non-research and development costs. The decrease in general and administrative costs in 2007 over 2006 is the result of staff reductions, and a continued focus on lowering costs in all areas of the business. The cost savings realized during 2007 were partially offset by charges incurred under the mutual separation agreement entered into with Dr. Wright discussed under "Corporate Changes" below.

Stock-Based Compensation
Stock- based compensation expense totaled $719 thousand in 2008 compared with $503 thousand in 2007 and $1.2 million in 2006. The increase in stock based compensation in 2008 compared with 2007 is the result of an of an increase in options granted during 2008 in order to bring option granting practices in line with industry standards as well as an expense of $83 thousand related to a modification as described below. The decrease in stock-based compensation expense in 2007 compared with 2006 was the result of reduced fair values on the stock options issued, due to a decline in our stock price, as well as a significant number of unvested options that were forfeited during 2007 reducing the overall expense.

During 2008, a modification of the expiry date of options previously granted to directors not standing for re-election at the Company's annual general meeting and to Dr. Wright for options granted in his capacity as President and CEO was approved by the Company's Board of Directors. An expense of $83 thousand was recorded during the year due to these expiry date modifications.

During 2006, employees of the Company (excluding directors and officers) were given the opportunity to choose between keeping 100% of the options they held at the existing exercise prices or forfeiting 50% of the options held in exchange for having the remaining 50% of the exercise prices of the options re-priced to $0.30 per share. Employees holding 2,290,000 stock options opted for re-pricing their options, resulting in the amendment of the exercise price of 1,145,000 stock options and the forfeiture of 1,145,000 stock options during the quarter ended February 28, 2006.

Depreciation and Amortization
Depreciation and amortization expenses decreased to $317 thousand in 2008 as compared to $402 thousand in 2007 and $771 thousand in 2006. The decrease in depreciation and amortization expense is the result of reduced capital asset purchases during fiscal 2008 and 2007. In 2006, the Company took a write-down of $250 thousand on certain furniture and equipment whose carrying value was deemed to be unrecoverable and in excess of the fair value of the underlying assets.

Interest Expense
Non-cash interest expense was $1.0 million in 2008 compared with $1.0 million in 2007 and $882 thousand in 2006. These amounts represent interest at a rate of prime plus 1% on the $15 million convertible debentures. The interest expense in 2008 was consistent with 2007 as the average annual interest rate remained comparable between the two years. The increase in interest expense in 2007 compared with 2006 is a function of higher interest rates due to increases in the prime rate in late 2006.

Accretion in Carrying Value of Secured Convertible Debentures
Accretion in the carrying value of the debentures amounted to $1.2 million in 2008 compared with $935 thousand in 2007 and $790 thousand in 2006. Amortization of deferred financing charges totaled nil in 2008 compared with $110 thousand in 2007 and $87 thousand in 2006. The increase in accretion charges in 2008 is due to the reclassification of amortization of deferred financing charges to accretion expense due to the adoption of Section 3855, Financial Instruments as described under Accounting Policy Changes below. These charges arise as under GAAP the Company has allocated the proceeds from each tranche of the debentures to the debt and equity instruments issued on a relative fair value basis resulting in the $15.0 million debentures having an initial cumulative carrying value of $9.8 million as of their dates of issuance. Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be the face value of $15.0 million. The increase in expense in 2007 compared with 2006 is due to a higher effective rate of interest.

Interest and Other Income
Interest income totaled $542 thousand in 2008 compared to $503 thousand in 2007 and $374 thousand in 2006. The slight increase in 2008 over 2007 is the result of a marginally higher average cash balance in 2008 compared with 2007 and the opportunity to earn better rates of return. The increase from 2006 to 2007 is due to higher average cash and marketable securities balances in 2007 and by higher interest rates during 2007. Higher average cash and marketable securities balances in 2007 were primarily a function of the funds received as part to of the August 2006 private placements described under “Financing” below.

Loss for the Year
Operating net loss for the year, before the gain on sale of shares associated with the completion of the Arrangement, increased to $12.6 million or $0.06 per share in 2008 as compared to $9.6 million or $0.05 per share in 2007 and $17.9 million or $0.10 per share in 2006. The increase in operating net loss during 2008 compared with 2007 is primarily the result of increased research and development costs of $2.7 million associated with the ongoing LOR-2040 phase II clinical trial in AML, the advancement of our small molecule program and LOR-2040 for the treatment of bladder cancer into GLP-toxicology studies. The decrease in net loss in 2007 compared with 2006 is due to lower research and development costs resulting from the close of our Virulizin® Phase III clinical trial as well as staff reductions due to corporate changes, lower general and administrative costs due to staff reductions and lower legal, consulting and investor relations charges, depreciation and amortization and higher interest income and offset by higher accretion costs.

Gain on sale of shares
As a result of the Arrangement, we recognized a gain on the sale of the shares of Old Lorus to the Investor of approximately $6.3 million. Under the Arrangement, a number of steps were undertaken. However, these steps did not result in any taxes payable as the tax benefit of income tax attributes was applied to eliminate any taxes otherwise payable. Of the total unrecognized future tax assets available at the time of the Arrangement, approximately $7.0 million was transferred to New Lorus and the balance remained with Old Lorus and is subject to the indemnification agreement as described below. Those tax attributes remaining with Old Lorus are no longer available to the Company.

Under the Arrangement, New Lorus and its subsidiaries have agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring (i) prior to, at or after the effective time of the Arrangement (“Effective Time”) and directly or indirectly relating to any of the assets of Old Lorus transferred to New Lorus pursuant to the Arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time; (ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred by Old Lorus to New Lorus pursuant to the Arrangement; and (iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

With respect to the forgoing indemnity, $600 thousand of the proceeds on the transaction were held in escrow until the first anniversary of the transaction (July 2008). Subsequent to year end the $600 thousand was released from escrow. At May 31, 2008 Lorus has deferred the entire amount of the proceeds held in escrow as its estimate of any liability arising from the indemnity.

License Transaction
Effective April 8, 2008, we entered into a non-exclusive multinational license agreement with ZOR Pharmaceutical LLC ("ZOR") formed as a subsidiary of Zoticon Bioventures Inc. to further develop and commercialize Virulizin® for human therapeutic applications.

Under the terms of the agreement, we will received an upfront licensing fee of $100 thousand, and may receive up to approximately U.S. $10 million in milestone payments based on progress through financing and clinical development, and royalties on net sales that vary from 10-20% depending on the level of sales of Virulizin® achieved in those territories covered by the license and subject to certain other adjustments. ZOR will assume all future costs for the development of the licensed technology.

We have also entered into a service agreement with ZOR to assist in the transfer of knowledge. Under this agreement, we have agreed to provide ZOR with 300 hours of consulting service during a period of 18 months.

In addition, we acquired a 25% equity interest in ZOR in exchange for a capital contribution of $2,500. This investment has been accounted for as an equity investment. Lorus' equity will not be subject to dilution on the first U.S. $5 million of equity financing in ZOR. Thereafter, Lorus has, at its option, a right to participate in any additional financings to maintain its ownership level.

CORPORATE CHANGES

As discussed above, on July 10, 2007, the Company and Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6707157 Canada Inc. and Pinnacle International Lands, Inc. As part of the Arrangement, all of the assets and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it), with the exception of certain future tax assets were transferred, directly or indirectly, from Old Lorus to the Company. Securityholders in Old Lorus exchanged their securities in Old Lorus for equivalent securities in New Lorus and the board of directors and management of Old Lorus continued as the board of directors and management of New Lorus. New Lorus obtained substitutional listings of its common shares on both the Toronto Stock Exchange and the American Stock Exchange.

As part of the Arrangement, the Company changed its name to Lorus Therapeutics Inc. and continued as a biopharmaceutical company, specializing in the research and development of pharmaceutical products and technologies for the management of cancer as a continuation of the business of Old Lorus. In October 2007, Old Lorus changed its name from 4325231 Canada Inc. to Global Summit Real Estate Inc.

Dr. Wright resigned as the President and Chief Executive Officer effective September 21, 2006. The Company accrued a liability based on a mutual separation agreement executed during the year. As a result, we recorded severance compensation expense of $500 thousand recorded in general and administrative expense in the year ended May 31, 2007. All amounts payable under the mutual separation agreement were paid during fiscal 2007.

In November 2005, as a means to conserve cash and refocus operations, Lorus scaled back some activities related to the Virulizin ® technology and implemented a workforce reduction of approximately 39% or 22 employees. As a result, for the year ended May 31, 2006, the Company recorded severance compensation expense for former employees of $557 thousand. Of this expense, $468 thousand is presented in the income statement as general and administrative expense and $89 thousand as research and development expense. Accounts payable and accrued liabilities at May 31, 2006 includes severance and compensation expense liabilities relating to the Company’s November 2005 corporate changes of $154 thousand that were paid out by December 2006.

REGULATORY MATTER

Lorus received notice from the American Stock Exchange ("AMEX") dated February 13, 2008, indicating that we needed to comply with the $6 million stockholder's equity threshold required for continued listing under AMEX Company Guide Sec. 1003(a)(iii). This notification was triggered by the decline of Lorus' market capitalization to less than $50 million, which previously exempted us from meeting the minimum stockholder's equity requirement. AMEX has renewed and accepted our plan to comply with the stockholder's equity requirements within an eighteen month period ending August 13, 2009. Should we not be able to execute the plan and comply with the AMEX requirements within the prescribed period, Lorus will be subject to de-listing.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Lorus has financed its operations and technology acquisitions primarily from equity and debt financing, the proceeds from the exercise of warrants and stock options, and interest income on funds held for future investment. The remaining costs associated with the completion of the LOR-2040 Phase I/II clinical trial program with the US National Cancer Institute ("NCI") will be borne by the US NCI. Lorus has undertaken an expanded LOR-2040 trial at its own cost and acquired additional quantities of LOR-2040 drug to support this ongoing trial and any further development of LOR-2040. The Company is currently in the assessment phase of results from its LOR-2501 Phase II clinical trial and is not incurring significant costs thereon. We will continue the development of our small molecule programs from internal resources until their anticipated completion.

We have not earned substantial revenues from our drug candidates and are therefore considered to be in the development stage. The continuation of our research and development activities and the commercialization of the targeted therapeutic products are dependent upon our ability to successfully finance and complete our research and development programs through a combination of equity financing and payments from strategic partners. We have no current sources of significant payments from strategic partners. In addition, we will need to repay or refinance the secured convertible debentures on their maturity should the holder not choose to convert the debentures into common shares. There can be no assurance that additional funding will be available at all or on acceptable terms to permit further clinical development of our products or to repay the convertible debentures on maturity. If we are not able to raise additional funds, we may not be able to continue as a going concern and realize our assets and pay our liabilities as they fall due. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for our financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

Management believes that our current level of cash and cash equivalents and short term investments will be sufficient to execute our current planned expenditures for the next twelve months; however, the $15 million convertible debt obligation is due in October 2009 and we currently does not have the cash and cash equivalents to satisfy this obligation. If the Company is not able to raise additional funds, it may not be able to continue as a going concern and realize its assets and pay its liabilities as they fall due. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

Operating Cash Requirements

Lorus utilized cash in operating activities of $10.2 million in 2008 compared with $6.3 million in 2007 and $13.1 million in 2006. The increase in cash used in operating activities in 2008 of $3.9 million compared with 2007 is due to an increase in research and development expenditures of $2.7 million as well as a reduction in amortized acquired patents and licenses of $655 thousand which were fully amortized in 2007 and an increase in cash used in non-cash working capital of $484 thousand. The decrease in cash used in operating activities in 2007 of is primarily due to lower research and development and general and administrative expenses, as described above and higher interest income.

Cash Position

As at May 31, 2008, Lorus has cash and cash equivalents and short-term investments totaling $9.4 million compared to $12.4 million at the end of 2007. The Company invests in highly rated and liquid 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 having maturities of less that one year) at May 31, 2008 was $8.0 million as compared to $6.2 million at May 31, 2007. As discussed below, subsequent to year-end, Lorus initiated a rights offering that raised gross proceeds of approximately $3.71 million in additional cash for Lorus. In addition the $600 thousand held in escrow at May 31, 2008 was released to Lorus on July 10, 2008.

We do not expect to generate positive cash flow from operations in the next several years due to 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. Negative cash flow will continue until such time, if ever, that we receive regulatory approval to commercialize any of our products under development and revenue from any such products exceeds expenses.

We may seek to access the public or private equity markets from time to time, even if we do not have an immediate need for additional capital at that time. We intend to use our resources to fund our existing drug development programs and develop new programs from our 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 impact of any internally developed, licensed or acquired technologies, our ability to find suitable partnership agreements to assist financially with future development, the impact from technological advances, determinations as to the commercial potential of the Company's compounds and the timing and development status of competitive products.

Financing

Subsequent to the year-end the Company announced a rights offering to Lorus shareholders that raised gross proceeds of $3.71 million.

On July 10, 2007, Lorus completed a reorganization that had the effect of providing the Company with non-dilutive financing of $8.5 million in additional cash, before transaction costs, for New Lorus, subject to a $600 thousand holdback. The amount was released to Lorus on July 10, 2008. See Gain on Sale of Shares, above.

On July 13, 2006 the Company entered into an agreement with HighTech Beteiligungen GmbH & Co. KG (“HighTech”) to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The subscription price represented a premium of 7.5% over the closing price of the common shares on the Toronto Stock Exchange on July 13, 2007. The transaction closed on August 31, 2006. In connection with the transaction, HighTech received demand registration rights that will enable HighTech to request the registration or qualification of the common shares for resale in the United States and Canada, subject to certain restrictions. These demand registration rights expire on June 30, 2012. In addition, HighTech received the right to nominate one nominee to the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board. Upon completion of the transaction, HighTech held approximately 14% of the issued and outstanding common shares of Lorus Therapeutics Inc.

On July 24, 2006 Lorus entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on September 1, 2006.

In 2008, Lorus issued no common shares on the exercise of stock options for nil proceeds (2007, $22 thousand, 2006, nil).

Use of Proceeds

In our prospectus dated August 11, 2006 related to the subscription of shares by High Tech, the Company indicated that proceeds from the financing would be used as follows: $8.6 million to fund the development of our product candidates, and the balance for working capital and general corporate purposes. Since the date of receipt of funds, the company has incurred $4.5 million in research and development expenses on our immunotherapy and antisense programs and $3.9 million on our small molecule program.

CONTRACTUAL OBLIGATIONS

At May 31, 2008, we had contractual obligations requiring annual payments as follows:
(Amounts in 000's)

	Less than 1 year	1-3 years	4-5 years	5+ years	Total
Operating leases	143	287	-	-	430
Convertible Debenture[1]	-	15,000	-	-	15,000
Total	***143***	***15,287***	***-***	***-***	***15,430***

[1] The convertible debentures as described above may be converted into common shares of Lorus at a conversion price of $1.00. In the event that the holder does not convert the debentures, Lorus has an obligation to repay the $15.0 million in cash. The amounts above exclude interest expense which is payable by issuance of common shares which is calculated at a rate of prime plus 1% on the outstanding balance.

OFF-BALANCE SHEET ARRANGEMENTS

As at May 31, 2008, we have not entered into any off- balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year ended May 31, 2008, we expensed consulting fees of $31,000 to a director of Lorus (2007 - nil, 2006 - nil) of which $30,000 remained payable at May 31, 2008 (2007 - nil, 2006 - nil).

This transaction was in the normal course of business and has been measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

SUBSEQUENT EVENTS

On June 25, 2008, Lorus filed a short-form prospectus for a rights offering to our shareholders.

Under the rights offering, holders of our common shares as of July 9, 2008 (the "Record Date") received one right for each common share held as of the Record Date. Each four (4) rights entitled the holder thereof to purchase a unit of Lorus ("Unit"). Each Unit consists of one common share of Lorus at $0.13 and a one-half warrant to purchase additional common shares of Lorus at $0.18 until August 7, 2010.

Rights expired on August 7, 2008. The Company issued 28,538,889 common shares and 14,269,444 common share purchase warrants in exchange for cash consideration of $3.71 million. We expect to use the net proceeds from the offering to fund research and development activities and for general working capital purposes.

RISK FACTORS

Investing in our securities involves a high degree of risk. Before making an investment decision with respect to our common shares, you should carefully consider the following risk factors, in addition to the other information included or incorporated by reference into this annual information form, as well as our historical consolidated financial statements and related notes. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely suffer. In that case, the trading price of our common shares could decline and you may lose all or part of the money you paid to buy our common shares.

We need to raise additional capital

Our current capital resources are not sufficient to fund our long-term business strategy or to repay our convertible debentures. We need to raise additional capital. To obtain the necessary capital, we must rely on any or all of; grants and tax credits, additional share issues and collaboration agreements or corporate partnerships to provide full or partial funding for our activities. We cannot assure you that additional funding will be available on terms which are acceptable to us or in amounts that will enable us to carry out our business plan.

If we cannot obtain the necessary capital, we will have to:

- engage in equity financings that would result in significant dilution to existing investors;
- delay or reduce the scope of or eliminate one or more of our development programs;
- obtain funds through arrangements with collaborators or others that may require us to relinquish rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves; or license rights to technologies, product candidates or products on terms that are less favourable to us than might otherwise be available; or
- considerably reduce, even cease our operations

We have a history of operating losses. We expect to incur net losses and we may never achieve or maintain profitability.

We have not been profitable since our inception in 1986. We reported net losses of $6.3 million; $9.6 million and $17.9 million for the years ended May 31, 2008, 2007 and 2006, respectively. As of May 31, 2008, we had an accumulated deficit of $180.5 million.

To date we have only generated nominal revenues from the sale of Virulizin® in Mexico and we stopped selling Virulizin® in Mexico in July 2005. We have not generated any other revenue from product sales to date and it is possible that we will never have sufficient product sales revenue to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. To become profitable, we, either alone or with our collaborators and licensees, must successfully develop, manufacture and market our current product candidates, LOR-2040, as well as continue to identify, develop, manufacture and market new product candidates. It is possible that we will never have significant product sales revenue or receive significant royalties on our licensed product candidates. If funding is insufficient at any time in the future, we may not be able to develop or commercialize our products, take advantage of business opportunities or respond to competitive pressures.

We are an early stage development company

We are at an early stage of development. Significant additional investment will be necessary to complete the development of any of our products. Pre-clinical and clinical trial work must be completed before our products could be ready for use within the market that we have identified. We may fail to develop any products, to obtain regulatory approvals, to enter clinical trials or to commercialize any products. We do not know whether any of our potential product development efforts will prove to be effective, meet applicable regulatory standards, obtain the requisite regulatory approvals, be capable of being manufactured at a reasonable cost or be accepted in the marketplace.

The product candidates we are currently developing are not expected to be commercially viable for several years and we may encounter unforeseen difficulties or delays in commercializing our product candidates. In addition, our products may cause undesirable side effects.

Our product candidates require significant funding to reach regulatory approval assuming positive clinical results. Such funding will be very difficult, or impossible to raise in the public markets. If such partnerships are not attainable, the development of these product candidates maybe significantly delayed or stopped altogether. The announcement of such delay or discontinuation of development may have a negative impact on our share price.

Our cash flow is not sufficient to repay our debentures at maturity.

Our ability to repay our convertible debentures at maturity or refinance our prime plus 1% convertible debentures due in approximately 14 months (October 2009) will depend on our ability to generate or raise sufficient cash or refinance them. If we cannot repay or refinance the debentures at or prior to maturity, the lender may, at its discretion:

- commence legal action;
- take possession of our assets;
- carry on our business;
- appoint a receiver; and
- take any other action permitted by law to obtain payment.

We may violate one or more of the operational covenants related to our convertible debentures that could result in an event of default and the requirement for early payment of our convertible debentures.

Our convertible debentures are subject to certain operational covenants. In the event that one of those covenants is breached by us, an event of default could be declared requiring the immediate payment of the face value of the debentures. This could result in our inability to pay the principal and interest owing on the debentures and insolvency of the Company, a dilutive equity financing in attempt to raise funds to repay the debentures, or a significant reduction in cash available for us to use towards the development of our product candidates.

The Company has indemnified Old Lorus and its directors, officers and employees in respect of the Arrangement.

Under the Arrangement, we have agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring

(i) prior to, at or after the effective time of the Arrangement ("Effective Time") and directly or indirectly relating to any of the assets of Old Lorus transferred to New Lorus pursuant to the Arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time;

(ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred by Old Lorus to New Lorus pursuant to the Arrangement; and

(iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

This indemnification could result in significant liability to us.

We may be unable to obtain partnerships for one or more of our product candidates which could curtail future development and negatively impact our share price.

Our strategy for the research, development and commercialization of our products requires entering into various arrangements with corporate collaborators, licensers, licensees and others, and our commercial success is dependent upon these outside parties performing their respective contractual responsibilities. The amount and timing of resources that such third parties will devote to these activities may not be within our control. We cannot assure you that such parties will perform their obligations as expected. We also cannot assure you that our collaborators will devote adequate resources to our programs. In addition, we could become involved in disputes with our collaborators, which could result in a delay or termination of the related development programs or result in litigation. We intend to seek additional collaborative arrangements to develop and commercialize some of our products. We may not be able to negotiate collaborative arrangements on favourable terms, or at all, in the future, or that our current or future collaborative arrangements will be successful.

If we cannot negotiate collaboration, licence or partnering agreements, we may never achieve profitability.

Clinical trials are long, expensive and uncertain processes and Health Canada or the FDA may ultimately not approve any of our product candidates. We may never develop any commercial drugs or other products that generate revenues.

None of our product candidates has received regulatory approval for commercial use and sale in North America. We cannot market a pharmaceutical product in any jurisdiction until it has completed thorough preclinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of our product candidates before we can submit any regulatory applications.

Clinical trials are long, expensive and uncertain processes. Clinical trials may not be commenced or completed on schedule, and Health Canada or the FDA or any other regulatory body may not ultimately approve our product candidates for commercial sale.

The clinical trials of any of our drug candidates could be unsuccessful, which would prevent us from advancing, commercializing or partnering the drug.

Even if the results of our preclinical studies or clinical trials are initially positive, it is possible that we will obtain different results in the later stages of drug development or that results seen in clinical trials will not continue with longer term treatment. Positive results in early Phase I or Phase II clinical trials may not be repeated in larger Phase II or Phase III clinical trials. For example, results of our Phase III clinical trial of Virulizinâ did not meet the primary endpoint of the study despite promising preclinical and early stage clinical data. All of our potential drug candidates are prone to the risks of failure inherent in drug development.

Preparing, submitting and advancing applications for regulatory approval is complex, expensive and time intensive and entails significant uncertainty. A commitment of substantial resources to conduct time-consuming research, preclinical studies and clinical trials will be required if we are to complete development of our products.

Clinical trials of our products require that we identify and enrol a large number of patients with the illness under investigation. We may not be able to enrol a sufficient number of appropriate patients to complete our clinical trials in a timely manner particularly in smaller indications such as acute myeloid leukemia. If we experience difficulty in enrolling a sufficient number of patients to conduct our clinical trials, we may need to delay or terminate ongoing clinical trials and will not accomplish objectives material to our success that could affect the price of our common shares. Delays in planned patient enrolment or lower than anticipated event rates in our current clinical trials or future clinical trials may result in increased costs, program delays, or both.

In addition, unacceptable toxicities or adverse side effects may occur at any time in the course of preclinical studies or human clinical trials or, if any product candidates are successfully developed and approved for marketing, during commercial use of any approved products. The appearance of any such unacceptable toxicities or adverse side effects could interrupt, limit, delay or abort the development of any of our product candidates or, if previously approved, necessitate their withdrawal from the market. Furthermore, disease resistance or other unforeseen factors may limit the effectiveness of our potential products.

Our failure to develop safe, commercially viable drugs would substantially impair our ability to generate revenues and sustain our operations and would materially harm our business and adversely affect our share price. We may never achieve profitability.

As a result of intense competition and technological change in the pharmaceutical industry, the marketplace may not accept our products or product candidates, and we may not be able to compete successfully against other companies in our industry and achieve profitability.

Many of our competitors have:

- drug products that have already been approved or are in development, and operate large, well-funded research and development programs in these fields;
- substantially greater financial and management resources, stronger intellectual property positions and greater manufacturing, marketing and sales capabilities, areas in which we have limited or no experience;
- significantly greater experience than we do in undertaking preclinical testing and clinical trials of new or improved pharmaceutical products and obtaining required regulatory approvals;
- Consequently, our competitors may obtain Health Canada, FDA and other regulatory approvals for product candidates sooner and may be more successful in manufacturing and marketing their products than we or our collaborators are;
- Existing and future products, therapies and technological approaches will compete directly with the products we seek to develop. Current and prospective competing products may provide greater therapeutic benefits for a specific problem or may offer easier delivery or comparable performance at a lower cost.;
- Any product candidate that we develop and that obtains regulatory approval must then compete for market acceptance and market share. Our product candidates may not gain market acceptance among physicians, patients, healthcare payers and the medical community. Further, any products we develop may become obsolete before we recover any expenses we incurred in connection with the development of these products.

As a result, we may never achieve profitability.

If we fail to attract and retain key employees, the development and commercialization of our products may be adversely affected.

We depend heavily on the principal members of our scientific and management staff. If we lose any of these persons, our ability to develop products and become profitable could suffer. The risk of being unable to retain key personnel may be increased by the fact that we have not executed long term employment contracts with our employees, except for our senior executives. Our future success will also depend in large part on our ability to attract and retain other highly qualified scientific and management personnel. We face competition for personnel from other companies, academic institutions, government entities and other organizations.

We may be unable to obtain patents to protect our technologies from other companies with competitive products, and patents of other companies could prevent us from manufacturing, developing or marketing our products.

Patent protection:
The patent positions of pharmaceutical and biotechnology companies are uncertain and involve complex legal and factual questions.

The United States (U.S.) Patent and Trademark Office and many other patent offices in the world have not established a consistent policy regarding the breadth of claims that they will allow in biotechnology patents.

Allowable patentable subject matter and the scope of patent protection obtainable may differ between jurisdictions. If a patent office allows broad claims, the number and cost of patent interference proceedings in the U.S. or analogous proceedings in other jurisdictions and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our rights under our patents, licenses and patent applications may also decrease.

The scope of the claims in a patent application can be significantly modified during prosecution before the patent is issued. Consequently, we cannot know whether our pending applications will result in the issuance of patents or, if any patents are issued, whether they will provide us with significant proprietary protection or will be circumvented, invalidated or found to be unenforceable.

Until recently, patent applications in the U.S. were maintained in secrecy until the patents issued, and publication of discoveries in scientific or patent literature often lags behind actual discoveries. Patent applications filed in the United States after November 2000 generally will be published 18 months after the filing date unless the applicant certifies that the invention will not be the subject of a foreign patent application. In many other jurisdictions, such as Canada, patent applications are published 18 months from the priority date. We cannot assure you that, even if published, we will be aware of all such literature. Accordingly, we cannot be certain that the named inventors of our products and processes were the first to invent that product or process or that we were the first to pursue patent coverage for our inventions.

Enforcement of intellectual property rights:
Protection of the rights revealed in published patent applications can be complex, costly and uncertain. Our commercial success depends in part on our ability to maintain and enforce our proprietary rights. If third parties engage in activities that infringe our proprietary rights, our management's focus will be diverted and we may incur significant costs in asserting our rights. We may not be successful in asserting our proprietary rights, which could result in our patents being held invalid or a court holding that the third party is not infringing, either of which would harm our competitive position.

Others may design around our patented technology. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, European opposition proceedings, or other analogous proceedings in other parts of the world to determine priority of invention and the validity of patent rights granted or applied for, which could result in substantial cost and delay, even if the eventual outcome is favourable to us. We cannot assure you that our pending patent applications, if issued, would be held valid or enforceable.

Trademark protection:
In order to protect goodwill associated with our company and product names, we rely on trademark protection for our marks. For example, we have registered the Virulizin® trademark with the U.S. Patent and Trademark Office. A third party may assert a claim that the Virulizin® mark is confusingly similar to its mark and such claims or the failure to timely register the Virulizin® mark or objections by the FDA could force us to select a new name for Virulizin®, which could cause us to incur additional expense.

Trade secrets:
We also rely on trade secrets, know-how and confidentiality provisions in our agreements with our collaborators, employees and consultants to protect our intellectual property. However, these and other parties may not comply with the terms of their agreements with us, and we might be unable to adequately enforce our rights against these people or obtain adequate compensation for the damages caused by their unauthorized disclosure or use of our trade secrets or know how. Our trade secrets or those of our collaborators may become known or may be independently discovered by others.

Our products and product candidates may infringe the intellectual property rights of others, which could increase our costs.

Our success also depends on avoiding infringement of the proprietary technologies of others. In particular, there may be certain issued patents and patent applications claiming subject matter which we or our collaborators may be required to license in order to research, develop or commercialize at least some of our product candidates, including Virulizin®, LOR-2040 and small molecules. In addition, third-parties may assert infringement or other intellectual property claims against us based on our patents or other intellectual property rights. An adverse outcome in these proceedings could subject us to significant liabilities to third-parties, require disputed rights to be licensed from third-parties or require us to cease or modify our use of the technology. If we are required to license such technology, we cannot assure you that a license under such patents and patent applications will be available on acceptable terms or at all. Further, we may incur substantial costs defending ourselves in lawsuits against charges of patent infringement or other unlawful use of another's proprietary technology.

If product liability claims are brought against us or we are unable to obtain or maintain product liability insurance, we may incur substantial liabilities that could reduce our financial resources.

The clinical testing and commercial use of pharmaceutical products involves significant exposure to product liability claims. We have obtained limited product liability insurance coverage for our clinical trials on humans; however, our insurance coverage may be insufficient to protect us against all product liability damages. Further, liability insurance coverage is becoming increasingly expensive and we might not be able to obtain or maintain product liability insurance in the future on acceptable terms or in sufficient amounts to protect us against product liability damages. Regardless of merit or eventual outcome, liability claims may result in decreased demand for a future product, injury to reputation, withdrawal of clinical trial volunteers, loss of revenue, costs of litigation, distraction of management and substantial monetary awards to plaintiffs. Additionally, if we are required to pay a product liability claim, we may not have sufficient financial resources to complete development or commercialization of any of our product candidates and our business and results of operations will be adversely affected.

We have no manufacturing capabilities. We depend on third-parties, including a number of sole suppliers, for manufacturing and storage of our product candidates used in our clinical trials. Product introductions may be delayed or suspended if the manufacture of our products is interrupted or discontinued.

We do not have manufacturing facilities to produce supplies of LOR-2040, small molecule or any of our other product candidates to support clinical trials or commercial launch of these products, if they are approved. We are dependent on third parties for manufacturing and storage of our product candidates. If we are unable to contract for a sufficient supply of our product candidates on acceptable terms, or if we encounter delays or difficulties in the manufacturing process or our relationships with our manufacturers, we may not have sufficient product to conduct or complete our clinical trials or support preparations for the commercial launch of our product candidates, if approved.

Our operations involve hazardous materials and we must comply with environmental laws and regulations, which can he expensive and restrict how we do business.

Our research and development activities involve the controlled use of hazardous materials, radioactive compounds and other potentially dangerous chemicals and biological agents. Although we believe our safety procedures for these materials comply with governmental standards, we cannot entirely eliminate the risk of accidental contamination or injury from these materials. We currently have insurance, in amounts and on terms typical for companies in businesses that are similarly situated, that could coverall or a portion of a damage claim arising from our use of hazardous and other materials. However, if an accident or environmental discharge occurs, and we are held liable for any resulting damages, the associated liability could exceed our insurance coverage and our financial resources.

Our interest income is subject to fluctuations of interest rates in our investment portfolio.

Our investments are held to maturity and have staggered maturities to minimize interest rate risk. We cannot assure you that interest income fluctuations will not have an adverse impact on our financial condition. We maintain all our accounts in Canadian dollars, but a portion of our expenditures are in foreign currencies. We do not currently engage in hedging our foreign currency requirements to reduce exchange rate risk.

RISKS RELATED TO OUR COMMON SHARES AND CONVERTIBLE DEBENTURES

Our share price has been and may continue to be volatile and an investment in our common shares could suffer a decline in value.

You should consider an investment in our common shares as risky and invest only if you can withstand a significant loss and wide fluctuations in the market value of your investment. We receive only limited attention by securities analysts and frequently experience an imbalance between supply and demand for our common shares. The market price of our common shares has been highly volatile and is likely to continue to be volatile. Factors affecting our common share price include but are not limited to:

- the progress of our and our collaborators' clinical trials, including our and our collaborators' ability to produce clinical supplies of our product candidates on a timely basis and in sufficient quantities to meet our clinical trial requirements;
- announcements of technological innovations or new product candidates by us, our collaborators or our competitors;
- fluctuations in our operating results;
- published reports by securities analysts;
- developments in patent or other intellectual property rights;
- publicity concerning discovery and development activities by our licensees;
- the cash and short term investments held us and our ability to secure future financing;
- public concern as to the safety and efficacy of drugs that we and our competitors develop;
- governmental regulation and changes in medical and pharmaceutical product reimbursement policies; and
- general market conditions.

Future sales of our common shares by us or by our existing shareholders could cause our share price to fall.

Additional equity financings or other share issuances by us could adversely affect the market price of our common shares. Sales by existing shareholders of a large number of shares of our common shares in the public market and the sale of shares issued in connection with strategic alliances, or the perception that such additional sales could occur, could cause the market price of our common shares to drop.

Conversion of our secured convertible debentures will dilute the ownership interest of existing shareholders.

The conversion of some or all of our convertible debentures will dilute the ownership interests of existing shareholders. Any sales in the public market of the common shares issuable upon such conversion could adversely affect prevailing market prices of our common shares. In addition, the existence of the secured convertible debentures may encourage short selling by market participants.

We maybe unable to maintain the listing requirements on one or more of the stock exchanges our shares are currently listed on.

We are currently not in compliance with the listing standards of the AMEX. We have been granted 18 months by the AMEX to regain compliance based on a business plan approved by the AMEX in May 2008. We may be unable to reach or sustain the listing requirements which would result in our shares being delisted from the exchange. This would result in our shareholders only being able to trade shares on the Toronto Stock Exchange.

CRITICAL ACCOUNTING POLICIES

The Company periodically reviews its financial reporting and disclosure practices and accounting policies to ensure that they provide accurate and transparent information relative to the current economic and business environment. As part of this process, the Company has reviewed its selection, application and communication of critical accounting policies and financial disclosures. Management has discussed the development and selection of the critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure relating to critical accounting policies in this MD&A. Other important accounting polices are described in note 2 of the Financial Statements.

Drug Development Costs
We incur costs related to the research and development of pharmaceutical products and technologies for the management of cancer. These costs include internal and external costs for preclinical research and clinical trials, drug costs, regulatory compliance costs and patent application costs. All research costs are expensed as incurred as required under GAAP.

Development costs, including the cost of drugs for use in clinical trials, are expensed as incurred unless they meet the criteria under GAAP for deferral and amortization. The Company continually assesses its activities to determine when, if ever, development costs may qualify for capitalization. By expensing the research and development costs as required under GAAP, the value of the product portfolio is not reflected on the Company's Financial Statements.

Stock-Based Compensation
We have applied the fair value based method to expense stock options awarded since June 1, 2002 using the Black-Scholes option-pricing model as allowed under Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870. The model estimates the fair value of fully transferable options, without vesting restrictions, which significantly differs from the stock option awards issued by Lorus. The model also requires four highly subjective assumptions including future stock price volatility and expected time until exercise, which greatly affect the calculated values. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of stock options issued and the associated expense.

Valuation Allowance for Future Tax Assets
We have a net tax benefit resulting from non-capital losses carried forward, and scientific research and experimental development expenditures. In light of the continued net losses and uncertainty regarding our future ability to generate taxable income, management is of the opinion that it is not more likely than not that these tax assets will be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these income tax assets. Consequently, no future income tax assets or liabilities are recorded on the balance sheets.

The generation of future taxable income could result in the recognition of some portion or all of the remaining benefits, which could result in an improvement in our results of operations through the recovery of future income taxes.

Valuation of Long Lived Assets
We periodically review the useful lives and the carrying values of our long-lived assets. We review for impairment in long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value; which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

ACCOUNTING POLICY CHANGES

Effective on June 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3251, Equity. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

Our adoption of the above recommendations had the following impact on the current financial statements:

Short-term investments:
Short-term investments consist of fixed income government investments and corporate instruments. Any government and corporate investments with a stated maturity date that are not cash equivalents are classified as held-to-maturity investments, except where the Company does not intend to hold to maturity and, therefore, the investment is designated as held-for-trading. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, while held-for-trading investments are measured at fair value and the resulting gain or loss is recognized in the consolidated statements of operations. The Company designated certain corporate instruments with maturities greater than one year previously carried at amortized cost as held-for-trading investments. This change in accounting policy resulted in a decrease in the carrying amount of $27 thousand and an increase in the opening deficit accumulated during the development stage of $27 thousand. The Company recognized a net unrealized gain in the consolidated statements of operations for the year ended May 31, 2008 of $7 thousand.

Secured convertible debentures:
The secured convertible debentures are classified as other financial liabilities and accounted for at amortized cost using the effective interest method, which is consistent with the Company's accounting policy prior to the adoption of Section 3855. The deferred financing charges related to the secured convertible debentures, formerly included in long term assets, are now included as part of the carrying value of the secured convertible debentures and continue to be amortized using the effective interest method.

Embedded derivatives:
Section 3855 requires that the Company identify embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent change in fair value of embedded derivatives is recognized in the consolidated statement of operations and deficit in the period the change occurs.

The Company did not identify any embedded derivatives that required separation from the related host contract as at June 1, 2007 that resulted in a material adjustment to the consolidated interim financial statements.

Transaction costs:
Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception except for held-for-trading securities where the costs are expensed immediately.

Guarantee:
On July 10, 2007, as part of the Arrangement, the Company, including its subsidiaries, indemnified Old Lorus and its directors. This indemnity is required to be accounted for at fair value in accordance with Section 3855. Management has accrued an amount of $600 thousand being the amount held in escrow and has recorded this amount as a deferred gain on sale of shares within its liabilities. The fair value of the indemnity will be reassessed in the first quarter 2009 as the escrowed amount was released on July 2008.

There were no new accounting policies implemented during the year-end May 31, 2007. The following changes were implemented in 2006:

Variable Interest Entities
Effective June 1, 2005, the Company adopted the recommendations of CICA Handbook Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, effective for fiscal years beginning on or after November 1, 2004. Variable interest entities (VIEs) refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them. The adoption of AcG-15 did not have an effect on the financial position, results of operations or cash flows in the current period or the prior period presented.

Financial Instruments - Disclosure and Presentation
Effective June 1, 2005, the Company adopted the amended recommendations of CICA Handbook Section 3860, *Financial Instruments - Disclosure and Presentation*, effective for fiscal years beginning on or after November 1, 2004. Section 3860 requires that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The Company has determined that there is no impact on the Financial Statements resulting from the adoption of the amendments to Section 3860 either in the current period or the prior period presented.

Accounting for Convertible Debt Instruments
On October 17, 2005, the CICA issued EIC 158, *Accounting for Convertible Debt Instruments* applicable to convertible debt instruments issued subsequent to the date of the EIC. EIC 158 discusses the accounting treatment of convertible debentures in which upon conversion, the issuer is either required or has the option to satisfy all or part of the obligation in cash. The EIC discusses various accounting issues related to this type of convertible debt. The Company has determined that there is no impact on the Financial Statements resulting from the adoption of EIC 158 either in the current period or the prior period presented.

Section 3831, Non-Monetary Transactions
In June 2005, the CICA released a new Handbook Section 3831, *Non-monetary Transactions*, effective for all non-monetary transactions initiated in periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2006, the AcSB approved disclosure and presentation requirements for financial instruments that revise and enhance the disclosure requirements of Section 3861. These requirements included Sections 3862 - Financial Instruments - Disclosure, which replaces Section 3861 and Section 1535, Capital Disclosures ("Section 1535"), which establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862 is based on IFRS 7, “Financial Instruments: Disclosures”, and places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

Section 3863 “Financial Instruments - Presentation”, which replaces Section 3861, “Financial Instruments - Disclosure and Presentation”. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863, “Financial Instruments - Presentation”.

These new Sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007, but may be adopted in place of Section 3861 before that date.

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for us for interim and annual financial statements relating to fiscal years beginning on December 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments.

We do not expect the adoption of these standards to have a material impact on our consolidated financial position and results of operations.

CICA Handbook Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning on or after January 1, 2008, and specifically June 1, 2008 for the Company. We have not yet assessed the impact, if any, of Section 1400 on the Company’s financial statements.

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company’s financial statements has not been determined.

Section 3064, “Goodwill and intangible assets”, will be replacing Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs”. This new section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning June 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of adoption of this new section on the Company’s financial statements has not been determined.

SELECTED ANNUAL FINANCIAL DATA

The following selected consolidated financial data have been derived from, and should be read in conjunction with, the accompanying audited consolidated financial statements for the year ended May 31, 2008 which are prepared in accordance with Canadian GAAP.

Consolidated Statements of Loss and Deficit
(amounts in Canadian 000's except for per common share data)

	Years Ended May 31		
	2008	2007	2006
REVENUE	**$ 43**	$ 107	$ 26
EXPENSES			
Cost of sales	**2**	16	3
Research and development	**6,087**	3,384	10,237
General and administrative	**3,888**	3,848	4,334
Stock-based compensation	**719**	503	1,205
Depreciation and amortization	**317**	402	771
Operating expenses	**11,013**	8,153	16,550
Interest expense on convertible debentures	**1,029**	1,050	882
Accretion in carrying value of secured convertible debentures	**1,176**	935	790
Amortization of deferred financing charges	-	110	87
Interest income	**(542)**	(503)	(374)
Loss from operation for the period	**12,633**	9,638	17,909
Gain on sale of shares	**(6,299)**	-	-
Net loss and other comprehensive income	**6,334**	9,638	17,909
Basic and diluted loss per common share	**$ 0.03**	$ 0.05	$ 0.10
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share	**215,084**	204,860	173,523
Total Assets	**$ 11,607**	$ 15,104	$ 11,461
Total Long-term liabilities	**$ 12,742**	$ 11,566	$ 10,521

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited consolidated statements of operations data for each of the eight most recent fiscal quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in this annual report and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information presented.

Research and development expenses have increased during 2008 in comparison with the same quarters in the prior year. This increased spending is the result of the initiation of a Phase II clinical trial with LOR-2040 for the treatment of AML and the related purchase of needed drug supply as well as the escalation of our small molecule program and LOR-2040 for the treatment of bladder cancer into GLP-toxicology studies. Research and development costs decreased throughout 2007 as the remaining costs of the Phase III Virulizin® clinical trial were completed and the escalation of our current programs underway had not yet begun.

General and administrative expenses have remained relatively consistent across quarters in the current fiscal year with the exception of an increase for the quarters ended November 30, 2007 and May 31, 2008. The increase in the second quarter ended November 30, 2007 was due to higher annual meeting costs associated with a special meeting and the amendment of our stock option plan. The increase in Q4 compared with the prior year was predominantly the result of increased legal activity associated with a licensing transaction completed during the quarter and employment litigation which was resolved during Q4. In addition costs were incurred in the preparation for compliance with internal controls requirements. General and administrative expenses increased significantly in the quarter ended November 30, 2006 due to severance charges relating to the mutual separation agreement executed in September as described in the Corporate Changes section, above.

Net loss increased in Q3 and Q4 2008 due to an increase in research and development costs. We had net income in Q1 due to the Gain on Sale of Shares as described above. Net loss decreased in Q3 and Q4 of 2007 as the result of reduced research and development and general and administrative expenditures.

	Fiscal 2008 Quarter Ended				Fiscal 2007 Quarter Ended			
(Amounts in 000's except for per common share data)	**May 31, 2008**	**Feb. 29, 2008**	**Nov. 30, 2007**	**Aug. 31, 2007**	**May 31, 2007**	**Feb. 28, 2007**	**Nov. 30, 2006**	**Aug. 31, 2006**
Revenue	$ 13	$ 3	$ 1	$ 26	$ 40	$ 37	$ 23	$ 7
Research and development	1,836	2,222	1,247	782	259	672	1,122	1,331
General and administrative	1,186	863	1,103	736	820	833	1,407	788
Net loss	(3,650)	(3,850)	(2,825)	3,991	(1,689)	(2,062)	(3,117)	(2,770)
Basic and diluted net loss per share	**$ (0.02)**	**$ (0.02)**	**$ (0.01)**	**$ 0.02**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**
Cash used in operating activities	$ (2,722)	$ (2,586)	$ (2,537)	$ (2,348)	$ (89)	$ (1,805)	$ (2,585)	$ (1,814)

Disclosure Controls and Procedures

As at May 31, 2008, Lorus management evaluated the effectiveness of the design and operation of its disclosure controls. Based on their evaluation the Chief Executive Officer and the Chief Financial Officer have concluded that there are no material weaknesses in the design and operation of its disclosure controls and that these disclosure controls and procedures are effective.

In July 2008 we released a press release which contained certain clerical errors. We identified the errors quickly and circulated a correct version of the press release within a few hours. We have reviewed the process and put controls in place to ensure that such errors will not happen in the future.

Internal Controls Over Financial Reporting

Management is responsible for certifying the design of our internal control over financial reporting as required by Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings as well as certifying to the design and testing of our internal controls over financial reporting as required under Sarbanes Oxley Section 404. The year ended May 31, 2008 was the first year we have been required to perform detailed testing of our internal controls over financial reporting. As a result of this more detailed level of evaluating and testing our internal controls over financial reporting as at May 31, 2008, management has concluded that the following disclosable weaknesses existed at May 31, 2008.

Segregation of Duties
Given our limited staff, certain duties within the accounting and finance department cannot be properly segregated. We believe that none of the segregation of duty deficiencies has resulted in a misstatement to the financial statements as we rely on certain compensating controls, including substantive periodic review of the financial statements by the Chief Executive Officer and Audit Committee. This weakness is considered to be a common area of deficiency for many smaller listed companies in Canada. We continue to evaluate whether additional accounting staff should be hired to deal with this weakness.

Complex and Non-Routine Transactions
As required, we record complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of GAAP. Our accounting staff has only a fair and reasonable knowledge of the rules related to GAAP and reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of our financial statements.

To address this risk, we consult with our third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, an annual audit is completed by our auditors, and presented to the Audit Committee for its review and approval. During the audit for the fiscal year ended May 31, 2008, no material misstatements were identified. At a future date, we may consider expanding the technical expertise within our accounting function. In the meantime, we will continue to work closely with our third party advisors.

Changes in Controls
There have been no significant changes in our internal controls over financial reporting during the year ended May 31, 2008, that have materially affected, or are reasonably likely to materially affect our' internal control over financial reporting.

OUTSTANDING SHARE DATA

As at August 28, 2008, the Company had 247,354,622 common shares issued and outstanding and 14,269,444 common share purchase warrants convertible into an equal number of common shares. In addition, the Company had issued and outstanding 20,475,000 stock options to purchase an equal number of common shares, and a $15 million convertible debenture convertible into common shares of Lorus at $1.00 per share.

ADDITIONAL INFORMATION

Additional information relating to Lorus, including Lorus' 2008 annual information form and other disclosure documents, is available on SEDAR at www.sedar.com. For any information filed prior to July 10, 2007 please access the information on SEDAR for Global Summit Real Estate Inc. (Old Lorus).

ANNUAL INFORMATION FORM

Fiscal year ended May 31, 2008

August 26, 2008

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual information form may contain forward-looking statements within the meaning of Canadian and U.S. securities laws. Such statements include, but are not limited to, statements relating to:

- *our expectations regarding future financings;*
- *our plans to conduct clinical trials;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, preclinical and clinical studies and the regulatory approval process;*
- *our plans to obtain partners to assist in the further development of our product candidates;*
- *our expectations with respect to existing and future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us or to us in respect of such arrangements, and*

the Company's plans, objectives, expectations and intentions and other statements including words such as "anticipate", "contemplate", "continue", "believe", "plan", "estimate", "expect", "intend", "will", "should", "may", and other similar expressions.

Such statements reflect our current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- *our ability to obtain the substantial capital required to fund research and operations;*
- *our lack of product revenues and history of operating losses;*
- *our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;*
- *the progress of our clinical trials;*
- *our ability to repay or refinance the convertible debentures at maturity;*
- *our ability to maintain compliance with the operational covenants of the convertible debenture agreement that could result in an event of default and the requirement for early repayment;*
- *our liability associated with the indemnification of Old Lorus and its directors, officers and employees*
- *our ability to find and enter into agreements with potential partners;*
- *our drug candidates require time-consuming and costly preclinical and clinical testing and regulatory approvals before commercialization;*
- *clinical studies and regulatory approvals of our drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could delay our ability to generate revenue;*
- *the regulatory approval process;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain patent protection and protect our intellectual property rights;*
- *our ability to protect our intellectual property rights and to not infringe on the intellectual property rights of others;*
- *our ability to comply with applicable governmental regulations and standards;*
- *development or commercialization of similar products by our competitors, many of which are more established and have greater financial resources than we do;*
- *commercialization limitations imposed by intellectual property rights owned or controlled by third parties;*
- *our business is subject to potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing may substantially dilute the interests of our shareholders;*
- *changing market conditions; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the United States Securities and Exchange Commission, and those which are discussed under the heading "Risk Factors".*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this annual information form or, in the case of documents incorporated by reference herein, as of the date of such documents, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law. We cannot assure you that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

Unless otherwise indicated, or the context requires otherwise, the information appearing in this annual information form is stated as at May 31, 2008 and references in this annual information form to "$" or "dollars" are to Canadian dollars.

For ease of reference, a glossary of terms used in this annual information form can be found beginning on page 38.

THE COMPANY

Lorus Therapeutics Inc. ("Old Lorus") 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 Old Lorus becoming a reporting issuer (as defined under applicable securities law) in Ontario, on such date. On August 25, 1992, Old Lorus changed its name to IMUTEC Corporation. On November 27, 1996, Old Lorus changed its name to Imutec Pharma Inc., and on November 19, 1998, Old Lorus changed its name to Lorus Therapeutics Inc. On October 1, 2005, Old Lorus continued under the *Canada Business Corporations Act*.

On July 10, 2007 (the "Arrangement Date"), Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6650309 Canada Inc. ("New Lorus"), 6707157 Canada Inc. and Pinnacle International Lands, Inc. As a result of the plan of arrangement and reorganization each common share of Old Lorus was exchanged for one common share of New Lorus. New Lorus continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same board of directors as Old Lorus prior to the Arrangement Date. References in this annual information form to the Company, Lorus, "we", "our", "us" and similar expressions, unless otherwise stated, are references to Old Lorus prior to the Arrangement Date and New Lorus after the Arrangement Date.

The address of the Company's head and registered office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7. Our corporate website is www.lorusthera.com. The contents of the website are specifically not included in this annual information form by reference.

Our common shares are listed on the Toronto Stock Exchange under the symbol "LOR" and are listed on the American Stock Exchange under the symbol "LRP".

Lorus' subsidiaries are GeneSense Technologies Inc. ("GeneSense"), a corporation incorporated under the laws of Canada, of which Lorus owns 100% of the issued and outstanding share capital, and NuChem Pharmaceuticals Inc. ("NuChem"), a corporation incorporated under the laws of Ontario, of which Lorus owns 80% of the issued and outstanding voting share capital and 100% of the issued and outstanding non-voting preference share capital and Pharma Immune Inc. ("Pharma Immune"), a corporation incorporated under the laws of Delaware, of which Lorus owns 100% of the issued and outstanding share capital.

Business Strategy

By developing cancer therapeutics using different mechanisms of action that may be efficacious against a wide variety of cancers, we seek to maximize our opportunity to address multiple cancer therapeutic markets. In our efforts to obtain the greatest return on our investment in each drug candidate, we separately evaluate the merits of each drug candidate throughout the clinical trial process and consider commercialization opportunities when appropriate. In the next fiscal year, we intend to pursue partnerships and further development of our lead drugs.

Our objective is to maximize the therapeutic value and potential commercial success of LOR-2040 (formerly GTI-2040) and the small molecule platform while at the same time pursuing partnership opportunities for development of these product candidates as well as VirulizinÒ in jurisdictions not currently under the license agreement with ZOR Pharmaceuticals. In the near term, we intend to pursue research and early clinical development with our own internal resources with respect to LOR-2040 and the small molecule drug candidates.

Financial Strategy

To meet future financing requirements, we intend to finance our operations through some or all of the following methods: public or private equity or debt financings, capital leases, and collaborative and licensing agreements. We intend to pursue financing opportunities as they arise.

Secured Convertible Debentures

On October 6, 2004, the Company entered into a Subscription Agreement (the "Agreement") with The Erin Mills Investment Corporation ("TEMIC") to issue an aggregate of $15 million of secured convertible debentures (the "Debentures") issuable in three tranches of $5 million each, in each of, October 2004, January 2005 and April 2005. The Debentures are secured by a first charge over all of the assets of the Company. All Debentures issued under the Agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime plus 1% until such time, if ever, as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest would be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest are issued at a price equal to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment. The $15.0 million principal amount of Debentures is convertible at the holder's option at any time into common shares of the Company with a conversion price per share of $1.00.

With the issuance of each $5.0 million debenture, the Company issued to the debt holder 1,000,000 warrants with a term of five years to purchase common shares of the Company at a price per share equal to $1.00. As a condition to agreeing to vote in favour of the Arrangement (as discussed below), the holder of Lorus' secured convertible debenture required the repurchase by Lorus of its outstanding three million common share purchase warrants at a purchase price of $252,000.

Share Issuances

On July 13, 2006 the company entered into an agreement with High Tech Beteiligungen GmbH & Co. KG ("High Tech") to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The subscription price represented a premium of 7.5% over the closing price of the common shares on the Toronto Stock Exchange on July 13, 2006. The transaction closed on August 31, 2006. In connection with the transaction, High Tech received demand registration rights that will enable High Tech to request the registration or qualification of the common shares for resale in the United States and Canada, subject to certain restrictions. These demand registration rights expire on June 30, 2012. In addition, High Tech received the right to nominate one nominee to the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board. Upon completion of the transaction, High Tech held approximately 14% of the issued and outstanding common shares of Lorus.

On July 24, 2006 Lorus entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on September 1, 2006.

Plan of Arrangement and Corporate Reorganization

On July 10, 2007, Old Lorus and the Company completed a plan of arrangement and corporate reorganization with, among others, 6707157 Canada Inc. (“Investor’) and Pinnacle International Lands, Inc. (the “Arrangement”). As part of the Arrangement, all of the assets and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it), with the exception of certain future tax assets were transferred, directly or indirectly, from Old Lorus to the Company. Securityholders in Old Lorus exchanged their securities in Old Lorus for equivalent securities in New Lorus (the "Exchange") and the board of directors and management of Old Lorus continued as the board of directors and management of New Lorus. New Lorus obtained substitutional listings of its common shares on both the Toronto Stock Exchange and the American Stock Exchange.

As part of the Arrangement, the Company changed its name to Lorus Therapeutics Inc. and continues as a biopharmaceutical company, specializing in the research and development of pharmaceutical products and technologies for the management of cancer as a continuation of the business of Old Lorus.

In connection with the Arrangement and after the Exchange, the share capital of Old Lorus was reorganized into voting common shares and non-voting common shares and Investor acquired from New Lorus and Selling Shareholders (as defined below) approximately 41% of the voting common shares and all of the non-voting common shares of Old Lorus for a cash consideration of approximately $8.5 million on closing of the transaction less an escrowed amount of $600,000, subject to certain post-closing adjustments and before transaction costs. The remaining 59% of the voting common shares of Old Lorus were distributed to the shareholders of New Lorus who were not residents of the United States on a pro-rata basis. Shareholders of New Lorus who were residents of the United States received a nominal cash payment in lieu of their pro-rata share of voting common shares of Old Lorus. After completion of the Arrangement, New Lorus is not related to the former Lorus Therapeutics Inc., which was subsequently renamed Global Summit Real Estate Inc. The monies placed into escrow were held until the first anniversary of the closing date and were released to the Company on July 10, 2008.

As a condition of the Arrangement, High Tech and certain other shareholders of Old Lorus (the “Selling Shareholders”) agreed to sell to Investor the voting common shares of Old Lorus to be received under the Arrangement at the same price per share as was paid to shareholders who are residents of the United States. The proceeds received by the Selling Shareholders were nominal.

Also as a condition of the Arrangement, the holder of Old Lorus' secured convertible debenture agreed to vote in favour of the transaction subject to the repurchase by New Lorus of its outstanding three million common share purchase warrants at a purchase price of $252,000 upon closing of the Arrangement.

The Company and its subsidiaries have agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring (i) prior to, at or after the effective time of the Arrangement (the "Effective Time") and directly or indirectly relating to any of the assets of Old Lorus transferred to the Company pursuant to the Arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time; (ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred by Old Lorus to the Company pursuant to the Arrangement; and (iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

In connection with the Arrangement Lorus and the Investor entered into an escrow agreement in which $600,000 of the purchase price payable by Investor to Lorus under was withheld by Investor and placed into escrow with Equity Transfer & Trust Company, as escrow agent. The monies placed into escrow were held until the first anniversary of the Closing Date and were released to the Company on July 10, 2008.

Rights Offering

On June 13, 2008 we announced a rights offering to our shareholders to raise, if fully subscribed, gross proceeds of $7.0 million.

Under the Rights Offering, holders of our common shares as of July 9, 2008 (the "Record Date") received one right for each common share held as of the Record Date. Each four (4) rights entitled the holder thereof to purchase a unit of Lorus ("Unit"). Each Unit consists of one common share of Lorus and a one-half warrant to purchase additional common shares of Lorus until 2010. Rights expired on August 7, 2008.

Total gross proceeds of the rights offering were $3.71 million and we issued an aggregate of 28,538,889 common shares. An additional 14,269,444 common shares will be issued if all warrants are exercised. Each full warrant is exercisable for the purchase of one common share at a price of $0.18 until August 7, 2010. We expect to use the net proceeds from the offering to fund research and development activities and for general working capital purposes.

GENERAL DEVELOPMENT OF THE BUSINESS

Lorus Therapeutics Inc. is a biopharmaceutical company focused on the discovery, research and development of effective anticancer therapies with a high safety profile. Lorus has worked to establish a diverse, marketable anticancer product pipeline, with products in various stages of development ranging from discovery and pre-clinical to an advanced Phase II clinical trial. A growing intellectual property portfolio supports our diverse product pipeline.

Our success is dependent upon several factors, including establishing the efficacy and safety of our product candidates in clinical trials, securing strategic partnerships, obtaining the necessary regulatory approvals to market our products and maintaining sufficient levels of funding through public and/or private financing.

We believe that the future of cancer treatment and management lies in drugs that are effective, have minimal side effects, and therefore improve a patient's quality of life. Many of the cancer drugs currently approved for the treatment and management of cancer are toxic with severe side effects, and we believe that a product development plan based on effective and safe drugs could have broad applications in cancer treatment. Lorus' strategy is to continue the development of our product pipeline using several therapeutic approaches. Each therapeutic approach is dependent on different technologies, which we believe mitigates the development risks associated with a single technology platform. We evaluate the merits of each product candidate throughout the clinical trial process and consider partnership when appropriate.

Over the past three years, we have focused on advancing our product candidates through pre-clinical and clinical testing. You should be aware that it will cost millions of dollars and take many years before a product candidate may be approved for therapeutic use in humans. In addition, a product candidate may not meet the end points of any Phase I, Phase II or Phase III clinical trial. See “Risk Factors”.

RNA-Targeted Therapies

Lorus’ RNA-targeted therapeutics include LOR-2040 (formerly GTI-2040) that is in Phase II clinical development and LOR-1284 (formerly siRNA-1284) which is in the pre-clinical stage of development. See “-- Clinical Development” and “Business of the Company - DNA/RNA-based Therapeutics”.

Small Molecule

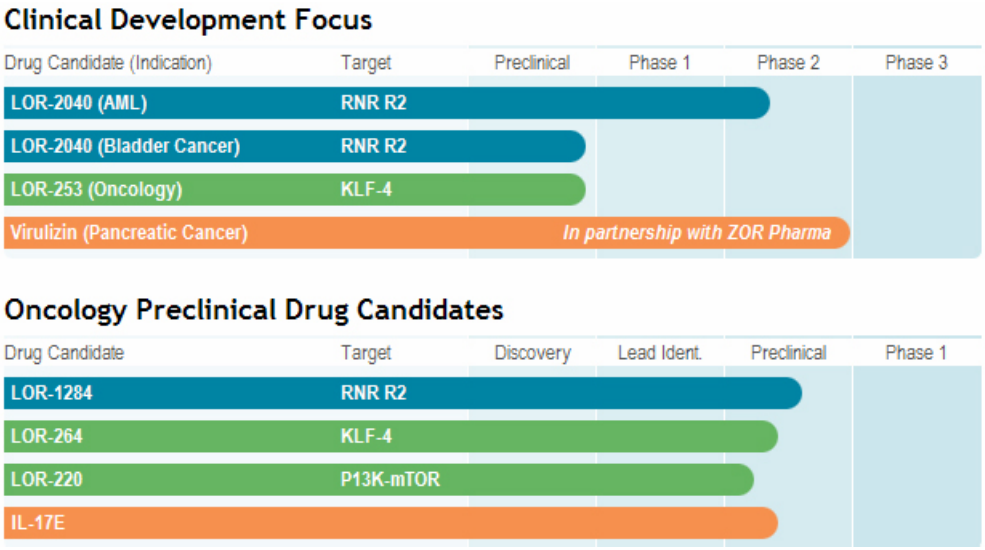
We have small molecule drug screening technologies and preclinical scientific expertise, which we are using to create a drug candidate pipeline. Our proprietary group of novel small molecule compounds, which include lead compounds LOR-253 (formerly LT-253) and LOR-220 (formerly ML-220), have unique structures and modes of action, and are promising candidates for the development of novel anticancer agents with high safety profiles. See “-- Clinical Development” and “Business of the Company - Small Molecule Therapies”.

Immunotherapy

Lorus’ lead immunotherapy product candidate is Virulizin®, the development and commercialization rights for which were recently licensed to Zor Pharmaceuticals LLC for certain geographic areas. See “-- Clinical Development” and “Business of the Company - Immunotherapy” for more details.

Clinical Development

The chart below illustrates our current view of the clinical development stage of each of our products. This chart reflects the current regulatory approval process for biopharmaceuticals in Canada and the United States. See “Regulatory Requirements” for a description of the regulatory approval process in Canada and the United States. These qualitative estimates of the progress of our products are intended solely for illustrative purposes and this information is qualified in its entirety by the information appearing elsewhere or incorporated by reference in this annual information form.



REGULATORY REQUIREMENTS

Overview

Regulation by government authorities in Canada, the United States, and the European Union is a significant factor in our current research and drug development activities. To clinically test, manufacture and market drug products for therapeutic use, we must satisfy the rigorous mandatory procedures and standards established by the regulatory agencies in the countries in which we currently operate or intend 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, they must establish current Good Manufacturing Practices or cGMP and control over marketing activities before being allowed to market their products. 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.

The process of completing clinical trials and obtaining regulatory approval for a new drug takes a number of years and requires the expenditure of substantial resources. Once a new drug or product license application is submitted, we cannot assure you 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 efficacy and safety necessary to confirm the approved indication or 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 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. We cannot assure you that we will not encounter such difficulties or excessive costs in our efforts to secure necessary approvals, which could delay or prevent us from manufacturing or marketing our products.

In addition to the regulatory product approval framework, biotechnology companies, including Lorus, 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.

Canada

In Canada, the manufacture and sale of new drugs are controlled by Health Canada ("HC"). New drugs must pass through a number of testing stages, including pre-clinical testing and clinical trials. Pre-clinical testing involves testing the new drug's chemistry, pharmacology and toxicology *in vitro* and *in vivo*. Successful results (that is, potentially valuable pharmacological activity combined with an acceptable low level of toxicity) enable the developer of the new drug to file a clinical trial application ("CTA") to begin clinical trials involving humans.

To study a drug in Canadian patients, a CTA submission must be filed with HC. The CTA 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 drug 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 HC does not reject a CTA submission, clinical trials can begin. Clinical trials for product candidates to treat cancer are generally carried out in three phases. Phase I involves studies to evaluate toxicity and ideal dose levels 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 new drug submission ("NDS") application to HC 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, and 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, manufacturing facility information, 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. Furthermore, for biological products, an on-site evaluation is required prior to the issuance of a notice of compliance ("NOC"). All aspects of the NDS are critically reviewed by HC. If an NDS is found satisfactory, a NOC is issued permitting the new drug to be sold. In Canada an Establishment license must be obtained prior to marketing the product.

HC 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 HC 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, HC 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 HC 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 HC. In addition, the practitioner must agree to report to both the drug manufacturer and HC the results of the new drug's use in the medical emergency, including information concerning adverse reactions, and must account to HC 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, individual regulatory authorities may request supplementary testing during their assessment of any submission. We cannot assure you that the clinical testing conducted under HC 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 FDA controls the manufacture and sale of new drugs. New drugs require FDA approval of a marketing application (*e.g.* a New Drug Application or NDA) 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 for a CTA 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 biological products both in a pre-licensing inspection before product licensing and in subsequent periodic inspections after licensing. In the case of a biological product, an establishment license 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 an 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 eligibility for expedited review of an NDA. It also permits, although it does not require, the FDA to issue marketing approval based on a surrogate endpoint (a measurement intended to substitute for the clinical measurement of interest, usually prolongation of survival) although the FDA will often require subsequent clinical trials or even post-approval efficacy studies).

BUSINESS OF THE COMPANY

Overview

Chemotherapeutic drugs have been the predominant medical treatment option for cancer, particularly metastatic cancer, for the past 30 years. More recently, a range of novel cancer drugs have been developed that are efficacious while improving patient quality of life. Unlike chemotherapies, which are typically based on chemical synthesis, these new drugs may be of biological origin, based on naturally occurring molecules, proteins or genetic material. While chemotherapy drugs are relatively non-specific and as a result toxic to normal cells, these biological agents specifically target individual molecules or genes that are involved in disease and are therefore preferentially toxic to tumor cells. The increased specificity of these drugs may result in fewer and milder side effects, meaning that, in theory, larger and therefore, more effective doses can be administered. The current paradigm in cancer management is a multi-modal approach that combines multiple treatment options tailored to the specific indication and individual patient. As a result, drug regimens that combine novel small molecule chemotherapies based on emerging understanding of cancer development with biological agents are of considerable interest.

Since cancer progression is a complex process involving the accumulation of multiple genetic alterations leading to changes in many specialized cell functions, Lorus believes that no single drug will emerge as a cure for all cancers. Instead, we believe that cancer will continue to be treated by many different drugs with a variety of mechanisms of action. Since Lorus takes a multi-mechanistic approach for the treatment of cancer, we concentrate on the discovery and the development of different classes of anticancer compounds.

All of the drugs being developed by the research team at Lorus have one similar characteristic: they are designed with the goal of being well-tolerated by patients. For successful drug candidates, these drugs will not only provide effective cancer treatment but may contribute to an improved quality of life for cancer patients, and may also make Lorus' drugs more commercially attractive as they could more easily be investigated in combination with other leading therapies without significantly adding to the current side effect profiles of existing drugs.

Lorus has product candidates in three classes of anticancer therapies: (i) RNA-targeted (antisense) therapies; (ii) small molecule therapies; and (iii) immunotherapeutics.

RNA-Targeted Therapies

Introduction

Metabolism, cell growth and cell division are tightly controlled by complex protein signalling pathways in response to specific conditions, thereby maintaining normal function. Many human diseases, including cancer, can be traced to faulty protein production and/or regulation. As a result, traditional therapeutics are designed to interact with the disease-causing proteins and modify their function. A significant number of current anticancer drugs act by damaging either DNA or proteins within cells (*e.g*., chemotherapy) or by inhibiting the function of proteins or small molecules (*e.g.* estrogen blockers, such as Tamoxifen). RNA-based therapeutics offer a novel approach to treatment in that they are designed to prevent the production of proteins causing disease.

Our RNA-based drugs consist of RNA-targeted antisense drugs and short-interfering RNA (siRNA). The premise of this therapeutic approach is to target an earlier stage of the biochemical process than is usually possible with conventional drugs. The blueprint for protein production is encoded in the DNA of each cell. To translate this code into protein the cell first produces mRNAs (messenger ribonucleic acids) specific to each protein and these act as intermediaries between the information encoded in DNA and production of the corresponding protein. Most traditional therapies interact with the final synthesized or processed protein. Often this interaction lacks specificity that would allow for interaction with only the intended target, resulting in undesired side effects. In contrast, this newer approach alters gene-expression at the mRNA level, prior to protein synthesis, with specificity such that expression of only the intended target is affected. We believe that drugs based on this approach may have broad applicability, greater efficacy and fewer side effects than conventional drugs.

We have developed a number of antisense drugs, of which our lead product is LOR-2040 (formerly GTI-2040). LOR-2040 targets the R2 component of ribonucleotide reductase ("RNR"). RNR is a highly regulated, cell cycle-controlled protein required for DNA synthesis and repair. RNR is made up of two components, R1 and R2, encoded by different genes. RNR is essential for the formation of deoxyribonucleotides, which are the building blocks of DNA. Since RNR activity is highly elevated in tumor cell populations and is associated with tumor cell proliferation, we have developed antisense molecules specific for the mRNA of the R2 (LOR-2040) component of RNR. Furthermore, the R2 component also appears to be a signal molecule in cancer cells and its elevation is believed to modify a biochemical pathway that can increase the malignant properties of tumor cells. Consequently, reducing the expression of the RNR components in a tumor cell with antisense drugs is expected to have antitumor effects.

LOR-2040

Our lead antisense drug candidate is LOR-2040, which targets the R2 component of RNR and has exhibited antitumor properties against over a dozen different human cancers in standard mouse models, including chemotherapy resistant tumors. We have completed a Phase I/II clinical trial of LOR-2040 for advanced or metastatic renal cell carcinoma. We are also conducting or have completed a multiple Phase I/II clinical trial program in cooperation with the NCI, for the study of LOR-2040 for the treatment of Acute Myeloid Leukemia ("AML"), breast cancer, lung cancer, colon cancer, prostate cancer, a series of solid tumors and myelodysplastic syndrome and acute leukemia. We also recently initiated Phase II clinical trial with LOR-2040 and high dose Ara-C in refractory and relapsed AML.

Pre-clinical Testing

LOR-2040 has demonstrated excellent anti-tumour activity in a number of murine models of human cancer including xenograft tumour growth, metastasis and survival models. Additional studies have demonstrated combination drug efficacy in xenograft tumour growth studies for human cancer cells, including drug resistant tumour cell lines. Studies on dose schedule optimization for LOR-2040 in combination with docetaxel demonstrated that the timing of these two drugs could be optimized for efficacy. These data, which were presented at the 2007 annual meeting of the American Association for Cancer Research (AACR), may have implications for the NCI sponsored clinical trials. More recent preclinical studies on the anticancer activity of LOR-2040 in combination with cytokine therapies were presented at the 2008 annual meeting of the AACR. These studies showed that LOR-2040 significantly improved the anticancer efficacy of an important group of cytokine immunotherapeutic agents, including interferon alpha and interleukin-2, both of which have been used in the treatment of solid tumors. These findings may expand the potential avenues for development of LOR-2040. Formal pre-clinical development of LOR-2040, including GLP toxicology studies in standard animal models, has demonstrated that LOR-2040 is well tolerated at concentrations that exceed commensurate therapeutic doses in humans.

In April 2008 we announced the start of a development program aimed at expanding the therapeutic application of LOR-2040 for the treatment of superficial bladder cancer. The new development program will examine direct (intravesical) administration of LOR-2040 into the bladder as a treatment for superficial or non-invasive bladder cancer. In August 2008 we announced the successful completion of GLP toxicology studies with LOR-2040 to explore a novel route of administration. Two studies were conducted to assess toxicity of LOR-2040 when administered by direct administration into the bladder. In both studies, no evidence of toxicity was seen following single or repeated doses of LOR-2040 given with this method of administration. Toxicity was evaluated based on a wide range of observations including detailed examination of urinary tract tissues.

LOR-1284

In 2003, Lorus began development of an anticancer therapeutic based on siRNA-mediated inhibition of R2 expression. Early screening experiments have identified lead compounds and preliminary *in vitro* and *in vivo* characterization of these compounds has yielded promising results. LOR-1284 (formerly siRNA-1284), the lead compound identified from the screening study, specifically targets R2 expression. In *in vitro* studies, down-regulation of R2 expression by LOR-1284 resulted in decreased tumor cell growth (proliferation) with a concomitant block in cell cycle progression. Furthermore, LOR-1284 demonstrates anti-tumor activity against human kidney, skin and colon cancers in mouse experimental models of tumor growth. We feel that the results of these studies warrant further development of LOR-1284 as well as expansion of siRNA research to other cancer targets.

Clinical Development

Lorus Sponsored Trials

Acute Myeloid Leukemia:
In August 2007, we announced an expansion of the LOR-2040 development program in the AML indication with initiation of a more advanced Phase II clinical trial with LOR-2040 and high dose Ara-C (HiDAC) in refractory and relapsed AML. This Phase II study includes both an efficacy study and a novel additional study to measure intracellular target activities and pharmacological synergies between the two agents. In the first stage of the 60 patient trial, the pharmacologic and target related activity of LOR-2040 and HiDAC will be evaluated in two groups, to determine the contribution of each agent alone and in combination. The second stage of the trial will provide efficacy evaluation in a larger patient population. The decision to advance clinical development of LOR-2040 was based on the encouraging results from our completed proof of concept NCI-sponsored study of LOR-2040 in combination with HiDAC in patients with refractory and relapsed AML. In June 2008 Lorus announced that the European Medicines Agency (EMEA) had granted orphan drug designation to LOR-2040 for development in AML.

Advanced Renal Cell Cancer:
In April 2005, we announced completion of a Phase I/II clinical trial of LOR-2040 in combination with capecitabine, in patients with advanced, end-stage renal cell cancer in the United States. This trial was a single-arm pilot study examining the safety and efficacy of LOR-2040 used in combination with the anticancer agent capecitabine. The majority of patients had failed two or more prior therapies before entering the study, exhibited extensive metastases, and were representative of a population with very poor prognostic outcome in renal cell cancer. All 33 patients entering this study had advanced disease with multiple metastatic sites, with or without prior removal of the primary kidney tumor. However, more than half (52%) of the patients on the recommended dose exhibited disease stabilization or better, including one confirmed partial response. LOR-2040 was well tolerated when combined with a cytotoxic agent with expected adverse events. In April 2008 Lorus announced preclinical results from additional combination therapies in this indication identifying that LOR-2040 significantly improved the anticancer efficacy of an important group of cytokine immunotherapeutic agents, including interferon alpha and interleukin-2. Lorus is actively searching for partnerships to assist with the further development of LOR-2040 for the treatment of renal cell cancer and other selected solid tumor indications.

NCI Sponsored Trials

Much of the clinical development for LOR-2040 was performed in conjunction with the US NCI, which paid for the cost of the sponsored clinical trials. See "-- Agreements - Collaboration Agreements - National Cancer Institute". To date we have substantially completed six clinical trials with the NCI for LOR-2040 in patients with AML, metastatic breast cancer, non-small cell lung cancer, solid tumors, unresectable colon cancer, hormone refractory prostate cancer and have one study ongoing in MDS and acute leukemia. These indications were selected based on the most promising results from our preclinical studies. Upon receipt of the clinical data from the ongoing NCI clinical trials, Lorus will analyze and make decisions regarding the strategic direction of our antisense portfolio. We do not believe that the data to be received from these trials will be material nor impact our current development plan of focusing on LOR-2040 in AML. Lorus continues to search for partnerships for the future development of LOR-2040.

Acute Myeloid Leukemia:
In July 2003, we announced the FDA's approval of the NCI-sponsored IND application for a clinical trial of LOR-2040 in combination with cytarabine, in patients with refractory or relapsed AML. Cytarabine is the current established drug for treating AML patients. The study is part of a Phase II clinical program to be conducted under the sponsorship of the Cancer Treatment Evaluation Program of the NCI pursuant to a clinical trial agreement between Lorus and the NCI.

In August 2007, we announced the completion of this study. This clinical trial demonstrated safety and appropriate dosing of the combination regimen and showed promising clinical responses in patients under 60 years of age. Moreover, the clinical responses correlated with downregulation of R2, the cellular target of LOR-2040, and were further supported by demonstration of intracellular LOR-2040 in circulating and bone marrow leukemic cells. In July 2008 we announced publication of the final results of this clinical trial by the investigators in the journal *Clinical Cancer Research 14(12) 2008.* The results demonstrated safety and appropriate dosing of the combination regimen. Notably, promising clinical responses in patients under 60 years of age were obtained which included complete responses in 35% of the 23 patients and significant cytoreduction of the leukemic blasts in two others. Moreover, the clinical responses correlated with down regulation of R2, the cellular target of LOR-2040 in circulating and bone marrow leukemic cells. Additionally, outcomes of complete response were associated with high pre-treatment levels of R2, suggesting that pre-treatment R2 may be a predictor of response and a possible basis for treatment stratification to this LOR-2040 and cytarabine combination. This proof of concept study provided the basis for proceeding to the current larger Phase II study in with the same regimen in patients less than 60 years of age with refractory and relapsed AML.

Metastatic Breast Cancer:
In August 2003, we announced that the FDA had approved the NCI's IND to begin a Phase II clinical trial to investigate LOR-2040 as a treatment for metastatic breast cancer in combination with capecitabine (Xeloda, manufactured by Roche Laboratories Inc.). In support of continued studies aimed at demonstrating R2 target down-regulation in patient samples, this study group, in collaboration with Lorus, published preliminary results of RT-PCR studies in the May 2006 issue of *Oncology Reports*. The results demonstrate that the assay developed by Lorus can feasibly assess R2 levels in blood and tumour tissues from patients before and after treatment. This study has completed and we are awaiting final clinical reports and analysis which we expect to receive in fiscal 2009.

Non-Small Cell Lung Cancer:
In September 2003, we received approval from Health Canada for initiation of a clinical trial of LOR-2040 in combination with docetaxel for the treatment of advanced non-small cell lung cancer ("NSCLC"), as part of a Phase I/II clinical program of LOR-2040 in collaboration with the NCI. Interim results from this study were announced in May 2005. Our interim results showed that the toxicity profile was determined to be acceptable for the specific combination therapy and the observed level of disease stabilizations was encouraging given the advanced stage of the disease in this subset of patients. The study group published a paper in the December 2005 issue of the *Journal of Chromatography,* outlining the development of a method for determination of LOR-2040 in human plasma samples. This highly sensitive method will be used for pharmacokinetic studies in patient samples from the trial. This study has completed and we are awaiting final clinical reports and analysis which we expect to receive in fiscal 2009.

Solid Tumors:
In February 2004, we announced the initiation of a Phase I clinical trial examining the use of LOR-2040 in combination with gemcitabine in patients with solid tumors. In June 2005, results from the trial were published. The trial was intended to identify the recommended dose of LOR-2040 and its toxicity profile. At the recommended dose LOR-2040 demonstrated a manageable toxicity profile and was generally well tolerated when given as a single agent. This study has completed and we are awaiting final clinical reports and analysis, which we expect to receive in fiscal 2009.

Unresectable Colon Cancer:
In May 2004, we announced the initiation of a Phase I clinical trial examining LOR-2040 in combination with oxaliplatin and capecitabine in the treatment of advanced unresectable colon cancer and other solid tumors. This study is part of a clinical trials program sponsored by the NCI. This study has completed and we are awaiting final clinical reports and analysis, which we expect to receive in fiscal 2009.

Hormone Refractory Prostate Cancer:
In November 2004, we announced the initiation of a Phase II clinical trial examining LOR-2040 in combination with docetaxel and prednisone in hormone refractory prostate cancer. In November 2005, we announced interim data from this trial. The data showed that along with an acceptable tolerability profile, nine of 22 PSA evaluable patients demonstrated a PSA response (reductions of greater than 50%). PSA is overproduced in prostate cancer cells and is commonly used to assess disease progression and response. These data were also presented at the 2006 annual meeting of the American Society of Clinical Oncology ("ASCO").

High Grade Myelodysplastic Syndrome and acute leukemia:
Lorus announced in June 2006 a plan for a new clinical investigation of LOR-2040 as a single-agent in patients with high grade myelodysplastic syndrome and acute leukemia. This trial was initiated in mid 2007. This clinical study is designed to evaluate the safety and activity of LOR-2040 as a single agent for acute leukemia and MDS using a novel treatment schedule. The effect on leukemic blasts and blood count recovery will be assessed as part of a detailed investigation of the pharmacodynamic and pharmacokinetic effects, dose-response relationships and tolerability of LOR-2040 during multiple courses of treatment. This clinical trial is ongoing.

Orphan Drug Status

On March 12, 2003, the FDA awarded Orphan Drug Status to LOR-2040 for the treatment of renal cell carcinoma. In May 2005, Lorus received Orphan Drug designation from the FDA for LOR-2040 in the treatment of AML. In June 2008 the EMEA awarded Orphan Drug designation for LOR-2040 in the treatment of AML.

Small Molecule Therapies

Most anticancer chemotherapeutic treatments are DNA damaging, cytotoxic agents, designed to act on rapidly dividing cells. Treatment with these drugs is typically associated with unpleasant or even serious side effects due to the inability of these drugs to differentiate between normal and cancer cells and/or due to a lack of high specificity for the targeted protein. In addition, these drugs often lead to the development of tumor-acquired drug resistance. As a result of these limitations, a need exists for more effective anticancer drugs. One approach is to develop small molecules that have greater target specificity and are more selective against cancer cells. Chemical compounds weighing less than 1000 daltons (a unit of molecular weight) are designated as small or low molecular weight molecules. These molecules can be designed to target specific proteins or receptors that are known to be involved with disease.

LOR-253

In August 2005 Lorus announced the selection of two leading small molecule compounds from a series of novel small molecules discovered by Lorus scientists that exhibit potent anticancer activity in *in vitro* screens. The results of characterization studies of these compounds were presented at the 2006 annual meeting of the AACR and early formulation studies were published in the September 2006 issue of *Cancer Chemotherapy and Pharmacology.* Our studies identify the main mechanism of action of these compounds, which involves the induction of the tumor suppressor Krüppel-like factor 4. The down regulation of Krüppel-like factor 4 is believed to be critical in the development and progression of certain types of cancer and presents the possibility of exploiting a novel anticancer mechanism of action. From these two compounds, LOR-253 (formerly LT-253) was selected as the lead compound for development as a drug candidate for the treatment of colon carcinoma and non-small cell lung cancer. This decision was based on its potent *in vitro* anti-proliferative activity, its efficacy in *in vivo* xenograft models of human colon and lung cancer, and on its safety profile.

Recent preclinical data on LOR-253 was presented at the 2008 annual meeting of the AACR. In animal studies, LOR-253 showed a favorable pharmacokinetic profile following intravenous dosing. A key finding of the study was the tissue distribution of LOR-253, where the drug was detected in tumor tissues in animal models, with significant affinity for lung and colon tissues. These results strongly support the potential treatment of these cancers with LOR-253, which has shown selective and potent anticancer activity in animal models of non-small cell lung cancer and colon cancer.

In March 2008 we announced the start of GLP toxicology studies for LOR-253. The toxicology studies, which are currently underway, are designed to support the filing of an Investigational New Drug (IND) application with the U.S. FDA for LOR-253 to initiate a Phase I clinical study in cancer indications. We intend to submit an IND for LOR-253 during second half of 2008, following successful completion of the toxicology program.

Lorus is also pursuing other candidates at earlier stages of development. These include:

- LOR-264, a second generation LOR-253 derivative, is being developed for oral administration. Like LOR-253, LOR-264 has demonstrated potent anticancer activity in animal studies and represents the lead oral drug in this development platform. Derivatives of LOR-264 are currently being assessed for anticancer activity and oral bioavailability as part of our lead optimization process.

- LOR-220 platform. Lorus is developing novel derivatives that target cancer relevant genes, which are critical in a major signaling pathway involved in tumorigenesis and represent important new cancer targets. LOR-220 (formerly ML-220) is a novel lead compound that targets cancer specific genes including PI3K/mTOR that are critical in a major signal pathway involved in tumorigenesis and malignancy. Structural optimization of LOR-220 has yielded several novel drug candidates that show potent anticancer activity.

Immunotherapy

Introduction

Immunotherapy is a form of treatment that stimulates the body's immune system to fight diseases including cancer. Immunotherapy may help the immune system to fight cancer by improving recognition of differences between healthy cells and cancer cells. Alternatively it may stimulate the production of specific cancer fighting cells.

Virulizin®

Lorus announced on April 8, 2008 that it had entered into an exclusive licensing deal with the Zoticon Bioventures' subsidiary, Zor Pharmaceuticals LLC ("Zor"), for Virulizin®. The license, covering North and South America, Europe and Israel, grants Lorus the right to receive in excess of US$10 million in upfront and milestone payments as well as royalties on sales of between 10 and 20%. In addition, Lorus' wholly-owned subsidiary received a 25% equity interest in Zor. Zor will be responsible for all future clinical developments, regulatory submissions, and all commercial activities. See "Agreements - Collaborative Agreements".

Clinical Development Program

In 2002 Lorus initiated a Phase III double-blinded, multicenter, randomized study in patients with locally advanced or metastatic pancreatic cancer who had not previously received systemic chemotherapy. This clinical trial was conducted at over 100 sites in North America and Europe with enrolment of 436 patients with advanced pancreatic cancer. Patients enrolled in the study were randomly selected to receive treatment with either: (i) Virulizin® plus gemcitabine or (ii) placebo plus gemcitabine. Optional second line therapy for those patients who failed to respond or became resistant to gemcitabine included Virulizin® or placebo, alone or in combination with 5-fluorouracil ("5-FU"). All study subjects were monitored throughout the remainder of their lifespan. The end points of the study were survival and clinical benefits. In July 2005 Lorus announced completion of "last patient visit" for the phase III trial. Lorus announced the results of the phase III trial in October 2005 and those results are discussed in detail below.

Clinical Trial Results

In October 2005, we released the results of the Phase III clinical trial evaluating Virulizin® for the treatment of pancreatic cancer. The primary end points of the study were not met. For the efficacy evaluable population, the study showed that the addition of Virulizin® to gemcitabine resulted in a median overall survival of 6.8 months and a one-year survival rate of 27.2%, compared to 6.0 months and 16.8% for placebo plus gemcitabine. In the intent to treat population the median overall survivals were 6.3 months for Virulizin plus gemcitabine (one year survival rate of 25.9%) compared to 6.0 months for placebo plus gemcitabine (one year survival rate of 17.6%). While comparison of the median overall survival times did not reach statistical significance, exploratory analysis did show promising trends in specific patient populations. The results of the exploratory sub-group analyses were presented at the 2006 annual meeting of the ASCO. From these analyses the following sub-groups were identified as having demonstrated benefit that approached statistical significance: patients with low ECOG scores (better overall performance), patients with metastatic disease and patients that continued to receive study drug or best supportive care during second line therapy. In addition, those patients that continued Virulizin® during salvage therapy demonstrated a survival benefit that was statistically significant.

Orphan Drug

Lorus 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 United States 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 United States (independent of patent protection) upon approval of the drug in the United States. In June 2005, Lorus announced that Virulizin® was granted Orphan Drug status in the European Union for pancreatic cancer.

Agreements

Manufacturing Agreements

We currently rely upon subcontractors for the manufacture of our drug candidates. The subcontractors manufacture clinical material according to current Good Manufacturing Practice ("GMP") at contract manufacturing organizations that have been approved by our quality assurance department, following audits in relation to the appropriate regulations.

Manufactured product for clinical purposes is tested for conformance with product specifications prior to release by our quality assurance department. GMP batches of our drug candidates are subjected to prospectively designed stability test protocols.

Licence Agreements

Ion Pharmaceuticals and Cyclacel

In December 1997, Lorus, through NuChem, acquired certain patent rights and a sublicense from Ion to develop and commercialize the anticancer applications of CLT and new chemical entities related to CLT (the "NuChem Analogs"). To July 2006, NuChem had made cash payments totalling US $500,000 to Ion. The balance of up to US$3 million is payable upon the achievement of certain milestones based on the commencement and completion of clinical trials related to the NuChem Analogs. The company does not currently expect to achieve any of the above milestones in fiscal years ended May 31, 2009 or 2010 and cannot reasonably predict when such milestones will be achieved, if at all.

The NuChem Analog patents are ancillary to the Company's primary development activities and do not relate to our core research and development focus, namely LOR-2040, nor did they relate specifically to the development of Virulizin.

All research and development activities to be undertaken by NuChem are to be funded by us through subscriptions for non-participating preference shares of NuChem. As at May 31, 2008, we had provided a total of $5,760,000 of funding to NuChem.

In September 2003, Lorus, NuChem and Cyclacel Limited signed an exclusive worldwide license agreement for the development and commercialization of the NuChem Analogs. Under the terms of the agreement, Lorus received upfront fees of US $400,000 and will receive milestone payments of up to US $11.6 million assuming all milestones are achieved and a royalty of between 2.0% and 4.0% depending on the level of sales. Cyclacel is responsible for all future drug development costs.

We do not expect Cyclacel to achieve any of the above milestones in fiscal years ended May 31, 2009 or 2010 and cannot reasonably predict when such milestones will be achieved, if at all.

University of Manitoba

The University of Manitoba (the "University"), Dr. Jim Wright, Dr. Aiping Young and Cancer Care entered into an exclusive license agreement (the "License Agreement") with GeneSense dated June 20, 1997 pursuant to which GeneSense was granted an exclusive worldwide 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.

The University of Manitoba agreement relates specifically to antisense and related technologies described in patent applications that were pending at the time of the agreement. Subsequent patent amendments or advancements to these patents remain as the property of Lorus, without license rights accruing back to the University of Manitoba. The Company is currently pursuing its antisense development program, primarily as a function of advancements and amendments to the original patents. We have not yet earned any revenue from the products covered under the agreement and have not paid any royalties under this agreement and cannot reasonably predict the timing and amount of any future payment. We do not expect to make any royalty payments under this agreement in fiscal years ended May 31, 2008 or 2009.

Collaboration Agreements

Zoticon Bioventures Inc.

In April 2008, Lorus through its wholly owned subsidiary GeneSense Technologies Inc. signed an exclusive multinational license agreement with Zor Pharmaceuticals LLC formed as a subsidiary of Zoticon Bioventures Inc. ("Zoticon"), a research-driven biopharmaceutical group, to further develop and commercialize Virulizin® for human therapeutic applications. The initial clinical development of Virulizin® under the agreement will be in advanced pancreatic cancer.

Under the terms of the agreement, GeneSense will be entitled to receive payments in excess of US$10 million upon achievement of various milestone events and royalties that vary from 10-20% depending on achieving of sales of Virulizin® and subject to certain other adjustments.

Zor Pharmaceuticals will be responsible for the cost of all the clinical development, regulatory submissions and commercialization of Virulizin® in North and South America, Europe and Israel. We retain rights in all other countries, including China, Japan, Australia and New Zealand.

In addition immediately prior to executing the license agreement, we entered into a Limited Liability Company Agreement with ZBV I, LLC, to receive 25% of the initial equity in Zor Pharmaceuticals in exchange for a capital contribution of $2,500. This investment will be held in a wholly owned subsidiary of Lorus, Pharma Immune Inc. ("Pharma Immune"). The 25% will not be subject to dilution on the first US$5 million of financing in Zor Pharmaceuticals. Thereafter, Pharma Immune has, at its option, a right to participate in any additional financings to maintain its ownership level.

We have also entered into a service agreement in which we agreed to provide Zor with 120 hours of consulting service at its own expense and thereafter will provide services at an agreed upon rate. The agreement will last for one year unless stated otherwise in any project assignment that extends beyond one year but no longer than the date of termination of the License Agreement for any reason. If we have not provided 300 hours of consulting services after one year the agreement will renew for an additional six months.

National Cancer Institute

In February 2003, Lorus and the United States National Cancer Institute approved clinical protocols to conduct a series of clinical trials in a Phase I/II program to investigate the safety and efficacy of LOR-2040. Lorus and the NCI signed a formal clinical trial agreement in which the NCI financially sponsors the LOR-2040 clinical trials, while Lorus provides the clinical trial drug. The agreement was renewed in October 2007 for an additional three years.

NCI carries out clinical trials on behalf of the Company at its own cost. The rights to publish data remains with the NCI sponsored investigator generating the information. The commercial results of the studies, including commercialization of any products remain with Lorus with no financial, license, or intellectual property rights accruing to the Investigator or NCI for their participation. NCI has no rights to exploit the research results, except through the right of investigators to publish data accumulated by it during the testing, nor does it have any obligation to pay or receive royalties under the agreement. Any royalty rights on products derived from the work performed by NCI will need to be negotiated by Lorus under a marketing agreement with third parties (if not carried out by Lorus). It is not possible to reasonably estimate the amount and timing of any royalty receipts, if any.

In regards to future payment obligations, Lorus' obligations under this agreement are limited to the supply of drugs, the cost for which has been incurred. The company does not currently expect any significant costs associated with the supply of the drug in the future, depending on the outcome of the projects.

Please refer to 'Clinical Development - NCI sponsored trials" above for further detail.

Other

From time to time, we enter into other research and technology agreements with third parties under which research is conducted and monies expended. These agreements outline the responsibilities of each participant and the appropriate arrangements in the event the research produces a product candidate.

We also have licensing agreements to use proprietary technology of third parties in relation to our research and development. If this research ultimately results in a commercialized product, we have agreed to pay certain royalties and licensing fees.

Intellectual Property and Protection of Confidential Information and Technology

We believe that our issued patents and pending applications are important in establishing and maintaining a competitive position with respect to our products and technology. As of May 31, 2008, we owned or had rights to 47 issued patents and 58 pending patent applications worldwide.

RNA-targeted Therapies

We have been issued two patents in Canada, seven patents in the United States and eleven patents in other jurisdictions around the world relating to our antisense DNA/RNA-based therapeutics. These patents include composition of matter and method claims.

Small Molecule

We have been issued two patents in the United States and one patent in Israel, which include composition of matter and method claims, relating to the NuChem small molecule platform.

Immunotherapy

We have been issued two patents in Canada, three patents in the United States and 11 patents in other jurisdictions around the world relating to our immunotherapy platform, which include composition of matter, method and process claims.

Risks Relating to Intellectual Property

We either own these issued patents or have the exclusive right to make, use, market, sell or otherwise commercialize products using these patents to diagnose and treat cancer. We cannot assure you that we will continue to have exclusive rights to these patents.

We cannot assure you 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. Our 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 our operations.

While we believe that our products and technology do not infringe proprietary rights of others, we cannot assure you that third parties will not assert infringement claims in the future or that such claims will not be successful. Furthermore, we could incur substantial costs in defending ourselves against patent infringement claims brought by others or in prosecuting suits against others.

In addition, we cannot assure you that others will not obtain patents that we would need to license, or that if a license is required that it would be available to us on reasonable terms, or that if a license is not obtained that we would be able to circumvent, through a reasonable investment of time and expense, such outside patents. Whether we obtain a license 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 us, we 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 our technology and our products incorporating the technology. In this regard, we have adopted certain confidentiality procedures. These include: limiting access to confidential information to certain key personnel; requiring all directors, officers, employees and consultants and others who may have access to our 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. Our ability to maintain the confidentiality of our technology is crucial to our ultimate possible commercial success. We cannot assure you that the procedures adopted by us to protect the confidentiality of our technology will be effective, that third parties will not gain access to our trade secrets or disclose the technology, or that we can meaningfully protect our rights to our technology. Further, by seeking the aforementioned patent protection in various countries, it is inevitable that a substantial portion of our technology will become available to our competitors, through publication of such patent applications.

Regulatory Strategy

Our overall regulatory strategy is to work with HC in Canada, the FDA in the United States, the EMEA in Europe, and any other local regulatory agencies to have drug applications approved for the use of LOR-2040, and small molecules in clinical trials (alone and/or in combination with chemotherapeutic compounds) and subsequently for sale in international markets. Where possible, we intend to take advantage of opportunities for accelerated consideration of drugs designed to treat rare and serious or life-threatening diseases. We also intend to pursue priority evaluation of any application for marketing approval filed in Canada, the United States or the European Union and to file additional drug applications in other markets where commercial opportunities exist. We cannot assure you that we will be able to pursue these opportunities successfully.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. There are many companies in both of these industries that are focusing their efforts on activities similar to ours. 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 us. In addition, we 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 our drug development. We specialize in the development of drugs that we believe will manage cancer.

Competition with our products may include chemotherapeutic agents, monoclonal antibodies, antisense therapies, small molecules and immunotherapies with novel mechanisms of action. These are drugs that are delivered by specific means for treatment of cancer patients, with a potential to be used in non-cancer indications. We also expect that we may experience competition from established and emerging pharmaceutical and biotechnology companies that have other forms of treatment for the cancers that we target. 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 our drugs have specific targets for attacking the disease, targets which are not necessarily the same as ours. These competitive drugs therefore could potentially also be used together in combination therapies with our drugs to manage the disease.

Human Resources

As at May 31, 2008, we employed 25 full-time persons and one part-time person in research and drug development and administration activities. Of our employees, nine hold 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 Lorus' stock option plan and employees can participate in the employee share purchase plan, which was established in 2005.

Our ability to develop commercial products and to establish and maintain our competitive position in light of technological developments will depend, in part, on our ability to attract and retain qualified personnel. There is a significant level of competition in the marketplace for such personnel. We believe that to date we have been successful in attracting and retaining the highly skilled personnel critical to our business. We have also chosen to outsource activities where skills are in short supply or where it is economically prudent to do so.

None of our employees are unionized, and we consider our relations with our employees to be good.

Properties

Our head office, which occupies 20,500 square feet, is located at 2 Meridian Road, Toronto, Ontario. The leased premises include approximately 8,000 square feet of laboratory and research space. We believe that our existing facilities are adequate to meet our requirements for the near term. Our current lease expires on March 31, 2011.

RISK FACTORS

Investing in our securities involves a high degree of risk. Before making an investment decision with respect to our common shares, you should carefully consider the following risk factors, in addition to the other information included or incorporated by reference into this annual information form, as well as our historical consolidated financial statements and related notes. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely suffer. In that case, the trading price of our common shares could decline and you may lose all or part of the money you paid to buy our common shares.

We need to raise additional capital

Our current capital resources are not sufficient to fund our long-term business strategy or to repay our convertible debentures. We need to raise additional capital. To obtain the necessary capital, we must rely on any or all of; grants and tax credits, additional share issues and collaboration agreements or corporate partnerships to provide full or partial funding for our activities. We cannot assure you that additional funding will be available on terms which are acceptable to us or in amounts that will enable us to carry out our business plan.

If we cannot obtain the necessary capital, we will have to:

- engage in equity financings that would result in significant dilution to existing investors;
- delay or reduce the scope of or eliminate one or more of our development programs;
- obtain funds through arrangements with collaborators or others that may require us to relinquish rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves; or license rights to technologies, product candidates or products on terms that are less favourable to us than might otherwise be available; or
- considerably reduce, even cease our operations

We have a history of operating losses. We expect to incur net losses and we may never achieve or maintain profitability.

We have not been profitable since our inception in 1986. We reported net losses of $6.3 million; $9.6 million and $17.9 million for the years ended May 31, 2008, 2007 and 2006, respectively. As of May 31, 2008, we had an accumulated deficit of $180.5 million.

To date we have only generated nominal revenues from the sale of Virulizin® in Mexico and we stopped selling Virulizin® in Mexico in July 2005. We have not generated any other revenue from product sales to date and it is possible that we will never have sufficient product sales revenue to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. To become profitable, we, either alone or with our collaborators and licensees, must successfully develop, manufacture and market our current product candidates, LOR-2040, as well as continue to identify, develop, manufacture and market new product candidates. It is possible that we will never have significant product sales revenue or receive significant royalties on our licensed product candidates. If funding is insufficient at any time in the future, we may not be able to develop or commercialize our products, take advantage of business opportunities or respond to competitive pressures.

We are an early stage development company

We are at an early stage of development. Significant additional investment will be necessary to complete the development of any of our products. Pre-clinical and clinical trial work must be completed before our products could be ready for use within the market that we have identified. We may fail to develop any products, to obtain regulatory approvals, to enter clinical trials or to commercialize any products. We do not know whether any of our potential product development efforts will prove to be effective, meet applicable regulatory standards, obtain the requisite regulatory approvals, be capable of being manufactured at a reasonable cost or be accepted in the marketplace.

The product candidates we are currently developing are not expected to be commercially viable for several years and we may encounter unforeseen difficulties or delays in commercializing our product candidates. In addition, our products may cause undesirable side effects.

Our product candidates require significant funding to reach regulatory approval assuming positive clinical results. Such funding will be very difficult, or impossible to raise in the public markets. If such partnerships are not attainable, the development of these product candidates maybe significantly delayed or stopped altogether. The announcement of such delay or discontinuation of development may have a negative impact on our share price.

Our cash flow is not sufficient to repay our debentures at maturity.

Our ability to repay our convertible debentures at maturity or refinance our prime plus 1% convertible debentures due in approximately 14 months (October 2009) will depend on our ability to generate or raise sufficient cash or refinance them. If we cannot repay or refinance the debentures at or prior to maturity, the lender may, at its discretion:

- commence legal action;
- take possession of our assets;
- carry on our business;
- appoint a receiver; and
- take any other action permitted by law to obtain payment.

We may violate one or more of the operational covenants related to our convertible debentures that could result in an event of default and the requirement for early payment of our convertible debentures.

Our convertible debentures are subject to certain operational covenants. In the event that one of those covenants is breached by us, an event of default could be declared requiring the immediate payment of the face value of the debentures. This could result in our inability to pay the principal and interest owing on the debentures and insolvency of the Company, a dilutive equity financing in attempt to raise funds to repay the debentures, or a significant reduction in cash available for us to use towards the development of our product candidates.

The Company has indemnified Old Lorus and its directors, officers and employees in respect of the Arrangement.

Under the Arrangement, we have agreed to indemnify Old Lorus and its directors, officers and employees from and against all damages, losses, expenses (including fines and penalties), other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring

(i) prior to, at or after the effective time of the Arrangement ("Effective Time") and directly or indirectly relating to any of the assets of Old Lorus transferred to New Lorus pursuant to the Arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time;

(ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred by Old Lorus to New Lorus pursuant to the Arrangement; and

(iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

This indemnification could result in significant liability to us.

We may be unable to obtain partnerships for one or more of our product candidates which could curtail future development and negatively impact our share price.

Our strategy for the research, development and commercialization of our products requires entering into various arrangements with corporate collaborators, licensers, licensees and others, and our commercial success is dependent upon these outside parties performing their respective contractual responsibilities. The amount and timing of resources that such third parties will devote to these activities may not be within our control. We cannot assure you that such parties will perform their obligations as expected. We also cannot assure you that our collaborators will devote adequate resources to our programs. In addition, we could become involved in disputes with our collaborators, which could result in a delay or termination of the related development programs or result in litigation. We intend to seek additional collaborative arrangements to develop and commercialize some of our products. We may not be able to negotiate collaborative arrangements on favourable terms, or at all, in the future, or that our current or future collaborative arrangements will be successful.

If we cannot negotiate collaboration, licence or partnering agreements, we may never achieve profitability.

Clinical trials are long, expensive and uncertain processes and Health Canada or the FDA may ultimately not approve any of our product candidates. We may never develop any commercial drugs or other products that generate revenues.

None of our product candidates has received regulatory approval for commercial use and sale in North America. We cannot market a pharmaceutical product in any jurisdiction until it has completed thorough preclinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of our product candidates before we can submit any regulatory applications.

Clinical trials are long, expensive and uncertain processes. Clinical trials may not be commenced or completed on schedule, and Health Canada or the FDA or any other regulatory body may not ultimately approve our product candidates for commercial sale.

The clinical trials of any of our drug candidates could be unsuccessful, which would prevent us from advancing, commercializing or partnering the drug.

Even if the results of our preclinical studies or clinical trials are initially positive, it is possible that we will obtain different results in the later stages of drug development or that results seen in clinical trials will not continue with longer term treatment. Positive results in early Phase I or Phase II clinical trials may not be repeated in larger Phase II or Phase III clinical trials. For example, results of our Phase III clinical trial of Virulizinâ did not meet the primary endpoint of the study despite promising preclinical and early stage clinical data. All of our potential drug candidates are prone to the risks of failure inherent in drug development.

Preparing, submitting and advancing applications for regulatory approval is complex, expensive and time intensive and entails significant uncertainty. A commitment of substantial resources to conduct time-consuming research, preclinical studies and clinical trials will be required if we are to complete development of our products.

Clinical trials of our products require that we identify and enrol a large number of patients with the illness under investigation. We may not be able to enrol a sufficient number of appropriate patients to complete our clinical trials in a timely manner particularly in smaller indications such as acute myeloid leukemia. If we experience difficulty in enrolling a sufficient number of patients to conduct our clinical trials, we may need to delay or terminate ongoing clinical trials and will not accomplish objectives material to our success that could affect the price of our common shares. Delays in planned patient enrolment or lower than anticipated event rates in our current clinical trials or future clinical trials may result in increased costs, program delays, or both.

In addition, unacceptable toxicities or adverse side effects may occur at any time in the course of preclinical studies or human clinical trials or, if any product candidates are successfully developed and approved for marketing, during commercial use of any approved products. The appearance of any such unacceptable toxicities or adverse side effects could interrupt, limit, delay or abort the development of any of our product candidates or, if previously approved, necessitate their withdrawal from the market. Furthermore, disease resistance or other unforeseen factors may limit the effectiveness of our potential products.

Our failure to develop safe, commercially viable drugs would substantially impair our ability to generate revenues and sustain our operations and would materially harm our business and adversely affect our share price. We may never achieve profitability.

As a result of intense competition and technological change in the pharmaceutical industry, the marketplace may not accept our products or product candidates, and we may not be able to compete successfully against other companies in our industry and achieve profitability.

Many of our competitors have:

- drug products that have already been approved or are in development, and operate large, well-funded research and development programs in these fields;
- substantially greater financial and management resources, stronger intellectual property positions and greater manufacturing, marketing and sales capabilities, areas in which we have limited or no experience;
- significantly greater experience than we do in undertaking preclinical testing and clinical trials of new or improved pharmaceutical products and obtaining required regulatory approvals;
- Consequently, our competitors may obtain Health Canada, FDA and other regulatory approvals for product candidates sooner and may be more successful in manufacturing and marketing their products than we or our collaborators are;
- Existing and future products, therapies and technological approaches will compete directly with the products we seek to develop. Current and prospective competing products may provide greater therapeutic benefits for a specific problem or may offer easier delivery or comparable performance at a lower cost.;
- Any product candidate that we develop and that obtains regulatory approval must then compete for market acceptance and market share. Our product candidates may not gain market acceptance among physicians, patients, healthcare payers and the medical community. Further, any products we develop may become obsolete before we recover any expenses we incurred in connection with the development of these products.

As a result, we may never achieve profitability.

If we fail to attract and retain key employees, the development and commercialization of our products may be adversely affected.

We depend heavily on the principal members of our scientific and management staff. If we lose any of these persons, our ability to develop products and become profitable could suffer. The risk of being unable to retain key personnel may be increased by the fact that we have not executed long term employment contracts with our employees, except for our senior executives. Our future success will also depend in large part on our ability to attract and retain other highly qualified scientific and management personnel. We face competition for personnel from other companies, academic institutions, government entities and other organizations.

We may be unable to obtain patents to protect our technologies from other companies with competitive products, and patents of other companies could prevent us from manufacturing, developing or marketing our products.

Patent protection:
The patent positions of pharmaceutical and biotechnology companies are uncertain and involve complex legal and factual questions.

The United States (U.S.) Patent and Trademark Office and many other patent offices in the world have not established a consistent policy regarding the breadth of claims that they will allow in biotechnology patents.

Allowable patentable subject matter and the scope of patent protection obtainable may differ between jurisdictions. If a patent office allows broad claims, the number and cost of patent interference proceedings in the U.S. or analogous proceedings in other jurisdictions and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our rights under our patents, licenses and patent applications may also decrease.

The scope of the claims in a patent application can be significantly modified during prosecution before the patent is issued. Consequently, we cannot know whether our pending applications will result in the issuance of patents or, if any patents are issued, whether they will provide us with significant proprietary protection or will be circumvented, invalidated or found to be unenforceable.

Until recently, patent applications in the U.S. were maintained in secrecy until the patents issued, and publication of discoveries in scientific or patent literature often lags behind actual discoveries. Patent applications filed in the United States after November 2000 generally will be published 18 months after the filing date unless the applicant certifies that the invention will not be the subject of a foreign patent application. In many other jurisdictions, such as Canada, patent applications are published 18 months from the priority date. We cannot assure you that, even if published, we will be aware of all such literature. Accordingly, we cannot be certain that the named inventors of our products and processes were the first to invent that product or process or that we were the first to pursue patent coverage for our inventions.

Enforcement of intellectual property rights:
Protection of the rights revealed in published patent applications can be complex, costly and uncertain. Our commercial success depends in part on our ability to maintain and enforce our proprietary rights. If third parties engage in activities that infringe our proprietary rights, our management's focus will be diverted and we may incur significant costs in asserting our rights. We may not be successful in asserting our proprietary rights, which could result in our patents being held invalid or a court holding that the third party is not infringing, either of which would harm our competitive position.

Others may design around our patented technology. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, European opposition proceedings, or other analogous proceedings in other parts of the world to determine priority of invention and the validity of patent rights granted or applied for, which could result in substantial cost and delay, even if the eventual outcome is favourable to us. We cannot assure you that our pending patent applications, if issued, would be held valid or enforceable.

Trademark protection:
In order to protect goodwill associated with our company and product names, we rely on trademark protection for our marks. For example, we have registered the Virulizin® trademark with the U.S. Patent and Trademark Office. A third party may assert a claim that the Virulizin® mark is confusingly similar to its mark and such claims or the failure to timely register the Virulizin® mark or objections by the FDA could force us to select a new name for Virulizin®, which could cause us to incur additional expense.

Trade secrets:
We also rely on trade secrets, know-how and confidentiality provisions in our agreements with our collaborators, employees and consultants to protect our intellectual property. However, these and other parties may not comply with the terms of their agreements with us, and we might be unable to adequately enforce our rights against these people or obtain adequate compensation for the damages caused by their unauthorized disclosure or use of our trade secrets or know how. Our trade secrets or those of our collaborators may become known or may be independently discovered by others.

Our products and product candidates may infringe the intellectual property rights of others, which could increase our costs.

Our success also depends on avoiding infringement of the proprietary technologies of others. In particular, there may be certain issued patents and patent applications claiming subject matter which we or our collaborators may be required to license in order to research, develop or commercialize at least some of our product candidates, including Virulizin®, LOR-2040 and small molecules. In addition, third-parties may assert infringement or other intellectual property claims against us based on our patents or other intellectual property rights. An adverse outcome in these proceedings could subject us to significant liabilities to third-parties, require disputed rights to be licensed from third-parties or require us to cease or modify our use of the technology. If we are required to license such technology, we cannot assure you that a license under such patents and patent applications will be available on acceptable terms or at all. Further, we may incur substantial costs defending ourselves in lawsuits against charges of patent infringement or other unlawful use of another's proprietary technology.

If product liability claims are brought against us or we are unable to obtain or maintain product liability insurance, we may incur substantial liabilities that could reduce our financial resources.

The clinical testing and commercial use of pharmaceutical products involves significant exposure to product liability claims. We have obtained limited product liability insurance coverage for our clinical trials on humans; however, our insurance coverage may be insufficient to protect us against all product liability damages. Further, liability insurance coverage is becoming increasingly expensive and we might not be able to obtain or maintain product liability insurance in the future on acceptable terms or in sufficient amounts to protect us against product liability damages. Regardless of merit or eventual outcome, liability claims may result in decreased demand for a future product, injury to reputation, withdrawal of clinical trial volunteers, loss of revenue, costs of litigation, distraction of management and substantial monetary awards to plaintiffs. Additionally, if we are required to pay a product liability claim, we may not have sufficient financial resources to complete development or commercialization of any of our product candidates and our business and results of operations will be adversely affected.

We have no manufacturing capabilities. We depend on third-parties, including a number of sole suppliers, for manufacturing and storage of our product candidates used in our clinical trials. Product introductions may be delayed or suspended if the manufacture of our products is interrupted or discontinued.

We do not have manufacturing facilities to produce supplies of LOR-2040, small molecule or any of our other product candidates to support clinical trials or commercial launch of these products, if they are approved. We are dependent on third parties for manufacturing and storage of our product candidates. If we are unable to contract for a sufficient supply of our product candidates on acceptable terms, or if we encounter delays or difficulties in the manufacturing process or our relationships with our manufacturers, we may not have sufficient product to conduct or complete our clinical trials or support preparations for the commercial launch of our product candidates, if approved.

Our operations involve hazardous materials and we must comply with environmental laws and regulations, which can he expensive and restrict how we do business.

Our research and development activities involve the controlled use of hazardous materials, radioactive compounds and other potentially dangerous chemicals and biological agents. Although we believe our safety procedures for these materials comply with governmental standards, we cannot entirely eliminate the risk of accidental contamination or injury from these materials. We currently have insurance, in amounts and on terms typical for companies in businesses that are similarly situated, that could coverall or a portion of a damage claim arising from our use of hazardous and other materials. However, if an accident or environmental discharge occurs, and we are held liable for any resulting damages, the associated liability could exceed our insurance coverage and our financial resources.

Our interest income is subject to fluctuations of interest rates in our investment portfolio.

Our investments are held to maturity and have staggered maturities to minimize interest rate risk. We cannot assure you that interest income fluctuations will not have an adverse impact on our financial condition. We maintain all our accounts in Canadian dollars, but a portion of our expenditures are in foreign currencies. We do not currently engage in hedging our foreign currency requirements to reduce exchange rate risk.

RISKS RELATED TO OUR COMMON SHARES AND CONVERTIBLE DEBENTURES

Our share price has been and may continue to be volatile and an investment in our common shares could suffer a decline in value.

You should consider an investment in our common shares as risky and invest only if you can withstand a significant loss and wide fluctuations in the market value of your investment. We receive only limited attention by securities analysts and frequently experience an imbalance between supply and demand for our common shares. The market price of our common shares has been highly volatile and is likely to continue to be volatile. Factors affecting our common share price include but are not limited to:

- the progress of our and our collaborators' clinical trials, including our and our collaborators' ability to produce clinical supplies of our product candidates on a timely basis and in sufficient quantities to meet our clinical trial requirements;
- announcements of technological innovations or new product candidates by us, our collaborators or our competitors;
- fluctuations in our operating results;
- published reports by securities analysts;
- developments in patent or other intellectual property rights;
- publicity concerning discovery and development activities by our licensees;
- the cash and short term investments held us and our ability to secure future financing;
- public concern as to the safety and efficacy of drugs that we and our competitors develop;
- governmental regulation and changes in medical and pharmaceutical product reimbursement policies; and
- general market conditions.

Future sales of our common shares by us or by our existing shareholders could cause our share price to fall.

Additional equity financings or other share issuances by us could adversely affect the market price of our common shares. Sales by existing shareholders of a large number of shares of our common shares in the public market and the sale of shares issued in connection with strategic alliances, or the perception that such additional sales could occur, could cause the market price of our common shares to drop.

Conversion of our secured convertible debentures will dilute the ownership interest of existing shareholders.

The conversion of some or all of our convertible debentures will dilute the ownership interests of existing shareholders. Any sales in the public market of the common shares issuable upon such conversion could adversely affect prevailing market prices of our common shares. In addition, the existence of the secured convertible debentures may encourage short selling by market participants.

We maybe unable to maintain the listing requirements on one or more of the stock exchanges our shares are currently listed on.

We are currently not in compliance with the listing standards of the American Stock Exchange ("AMEX"). However, we have been granted 18 months by the AMEX to regain compliance based on a business plan approved by the AMEX in May 2008. We may be unable to reach or sustain the listing requirements which would result in our shares being delisted from the exchange. This would result in our shareholders only being able to trade shares on the Toronto Stock Exchange.

DIVIDENDS

Dividends on our common shares are declared at the discretion of our board of directors. To date, we have not paid any dividends and do not expect to do so in the foreseeable future.

SHARE CAPITAL AND MARKET FOR SECURITIES

Share Capital

We are authorized to issue an unlimited number of common shares. As of August 26, 2008, there were 247,534,622 common shares issued and outstanding. In addition, as of August 26, 2008 there were 20,475,000 common shares issuable upon the exercise of outstanding stock options and 14,269,444 common shares issuable upon the exercise of common share purchase warrants priced at $0.18 and expiring August 7, 2010. 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 our remaining property and assets upon our dissolution or winding up. Our 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.

Market for Securities

Our common shares are currently listed on The Toronto Stock Exchange ("TSX") under the symbol "LOR" and on the American Stock Exchange under the symbol "LRP". The following table sets out the price ranges and trading volumes of our common shares on the TSX for the periods indicated:

	High ($)	Low ($)	Volume (#)
2008			
May	0.17	0.14	2,288,715
April	0.21	0.15	4,557,627
March	0.18	0.15	1,745,678
February	0.20	0.17	3,012,035
January	0.21	0.16	3,930,559
2007			
December	0.21	0.17	4,753,403
November	0.25	0.18	4,759,335
October	0.24	0.17	5,473,330
September	0.24	0.19	3,514,762
August	0.25	0.16	3,637,104
July	0.24	0.21	1,420,246
June	0.26	0.23	3,887,713

Principal Shareholders

To our knowledge, based on publicly available information, the only persons or entities that own more than 5% of our issued and outstanding common shares are Technifund Inc. and its related parties, which currently owns approximately 19% of our issued and outstanding common shares and High Tech that holds, approximately 14.7% of the issued and outstanding shares of the company. See Business of the Company - Financial Strategy".

DIRECTORS AND OFFICERS

The following table and notes thereto provide the name, province or state and country of residence, positions with the Company and term of office of each person who serves as a director or executive officer of Lorus as at the date hereof.

Each director has been elected or appointed to serve until the next annual meeting or until a successor is elected or appointed. We have an Audit Committee, an Environmental, Health and Safety Committee, a Corporate Governance and Nominating Committee and a Compensation Committee the members of each such committee are shown below. As at May 31, 2008, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over approximately 88,524,000 common shares or approximately 36% of our outstanding common shares.

Name and Province/State and Country of Residence	Position	Director or Officer Since
Directors:		
Herbert Abramson[3] Ontario, Canada	Director	July 2007
J. Kevin Buchi[1][3] Pennsylvania, United States	Director	December 2002
Denis Burger[1][2] Oregon, United States	Chairman, Director	September 2007
Susan Koppy[2][3] California, United States	Director	September 2007
Georg Ludwig Eschen, Liechtenstein	Director	September 2006

Alan Steigrod[2][1] Florida, United States	Director	May 2001
Dr. Mark Vincent[4] Ontario, Canada	Director	September 2007
Dr. Jim Wright[4] Ontario, Canada	Director, former President and Chief Executive Officer,	October 1999
Officers:		
Dr. Aiping Young[4] Ontario, Canada	President and Chief Executive Officer, Director, and former Chief Operating Officer	October 1999
Dr. Saeid Babaei Ontario, Canada	Vice President, Business Development	May 2008
Dr. Yoon Lee Ontario, Canada	Vice President Research	May 2008
Elizabeth Williams Ontario, Canada	Acting Chief Financial Officer and Director of Finance	November 2005

(1) Member of Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Corporate Governance and Nominating Committee.
(4) Member of Environment, Health and Safety Committee.

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

Herbert Abramson: M. Abramson is a co-founder, Chairman and CEO of Trapeze Capital Corp., an investment dealer and portfolio management company and is also Chairman of Trapeze Asset Management Inc., an affiliated investment counseling company. Mr. Abramson is a member of the Law Society of Upper Canada and practiced corporate/securities law for 12 years before going into the investment business.

J. Kevin Buchi: Mr. Buchi is Executive Vice President and Chief Financial Officer of Cephalon Inc., an international biopharmaceutical company. Mr. Buchi is responsible for finance, strategic planning and business development and has been involved in raising significant financing for Cephalon. He is a certified public accountant and has received a master's degree in management from the J.L. Kellogg Graduate School of Management at Northwestern University.

Dr Denis Burger: Dr. Burger was the past Chairman, Chief Executive Officer and a director of AVI Biopharma Inc, an Oregon based biotechnology company from 1992 to March 2007. Dr. Burger is also a partner in Sovereign Ventures, a healthcare consulting and funding firm based in Portland, Oregon. Dr. Burger received his MSc and PhD in Microbiology and Immunology from the University of Arizona.

Susan Koppy: Ms. Koppy is a Vice President of Corporate Development at Trancept Pharmaceuticals. Ms. Koppy has previously held executive business development and strategy roles at Idenix Pharmaceuticals, Applied Biosystems, Inc. and Novartis Pharmaceuticals.

Georg Ludwig: Mr. Ludwig is Managing Director of ConPharm Anstalt a consulting and managment company for life science funds, located in Lechteinstein.

Alan Steigrod: Mr. Steigrod is Managing Director of Newport Healthcare Ventures, a consulting firm for the healthcare industry, located in Newport Beach, California.

Dr. Mark Vincent: Dr. Mark Vincent is the co-founder and Chief Executive Officer of Sarissa, Inc. since 2000. Dr. Vincent is an Associate Professor of Oncology at the University of Western Ontario and a staff medical oncologist at the London Regional Cancer Program.

Dr. Jim Wright: Dr. Wright is presently Chief Executive Officer of NuQuest Bio Inc. Dr. Wright co-founded GeneSense Technologies Inc. in 1996, and served as Lorus' President, Chief Scientific Officer and a member of the Board of Directors in October 1999 on a merger with GeneSense. In September 2006 he stepped down as the President and Chief Executive Officer of Lorus.

Dr. Aiping Young: Dr. Young has been our President and Chief Executive Officer since September 21, 2006 and was a cofounder with Dr. Wright of GeneSense Technologies Inc. Dr. Young previously held the position of Chief Operating Officer, Senior Vice President, Research and Development and Chief Technical Officer at Lorus.

Dr. Saeid Babaei: Dr. Babaei is currently Vice-President of Business Development. Dr Babaei joined Lorus in 2006 and has held progressive positions as Associate Director of Corporate Affairs and Director of Corporate Development. Prior to his employment with Lorus Dr. Babaei was the Director of Corporate Development at Northern Therapeutics Inc.

Dr. Yoon Lee: Dr. Lee is currently Vice President of Research. Dr. Lee has been with Lorus for ten years, most recently serving as the Director of Research. He joined Lorus in 1999 through the merger with GeneSense Technologies Inc., where he was a Research Scientist integrally involved in the development of GeneSense oligonucleotide therapeutics program.

Elizabeth Williams: Prior to joining Lorus in July 2004, Ms. Williams was an Audit Manager with Ernst and Young LLP. Ms. Williams is a chartered accountant and has received a bachelor's degree in business administration. Ms. Williams lectured on introductory auditing at Wilfrid Laurier University during 2005.

COMMITTEE INFORMATION

Audit Committee

The charter of our audit committee is attached as Schedule A. The current members of the audit committee are J. Kevin Buchi, Denis Burger and Alan Steigrod. Pursuant to Canadian securities laws, our board of directors has determined that Messrs. Buchi, Burger and Steigrod are financially literate as all have experience in reviewing and analysing the financial reports and ascertaining the financial position of a corporation. Mr. Buchi is a certified public accountant and holds the position of Chief Financial Officer in a public pharmaceutical company. Pursuant to United States securities laws, Mr. Buchi is also an audit committee "financial expert". Mr. Burger, in his previous position as Chairman and CEO of AVI Biopharma, is educated and experienced in reading and analyzing financial statements. Mr. Burger has also served on the audit committee of three other publicly listed biotechnology companies. Mr. Steigrod has experience with reading and analysing financial statements as President of his own bio pharmaceutical consulting firm. Additionally, we believe that all three members of the audit committee qualify as "independent" as that term is defined in the relevant Canadian and United States securities laws relating to the composition of the audit committee.

Independent Auditors

Auditor's Fees

The total fees billed for professional services by KPMG LLP (our independent auditors) for the years ended May 31, 2008 and 2007 are as follows:

		2008		2007
Audit Fees	$	308,000	$	330,000
Tax Fees	$	4,000	$	8,500
Total	$	312,000	$	338,500

Audit fees consist of the fees paid with respect to the audit of our consolidated annual financial statements, quarterly reviews and accounting assistance and fees for services associated with the filing of the management proxy circular in May 2007 and other regulatory assistance. Tax fees relate to assistance provided with review of tax returns.

Pre-Approval Policies and Procedures

The audit committee of our board of directors has, pursuant to the audit committee charter, adopted specific responsibilities and duties regarding the provision of services by our external auditors, currently KPMG LLP. Our charter requires audit committee pre-approval of all permitted audit and audit-related services. Any non-audit services must be submitted to the audit committee for review and approval. Under the charter, all permitted services to be provided by KPMG LLP must be pre-approved by the audit committee.

Subject to the charter, the audit committee may establish fee thresholds for a group of pre-approved services. The audit committee then recommends to the board of directors approval of the fees and other significant compensation to be paid to the independent auditors.

No services were provided by KPMG LLP under a *de minimus* exemption for our fiscal years ended May 31, 2008 and 2007.

LEGAL PROCEEDINGS

We are not a party to, nor the subject of, any outstanding legal proceedings, nor are we aware of any contemplated proceedings.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common shares is Computershare Investor Services Inc. at its principal office in the City of Toronto.

MATERIAL CONTRACTS

Other than the agreements described below, we have not, during our financial year ending May 31, 2008, entered into any material agreements other than contracts in the ordinary course of business. Agreements completed prior to July 10, 2007 are filed on SEDAR under Global Summit Real Estate and those completed after July 10, 2007 are filed on SEDAR under Lorus.

1. Exclusive License Agreement dated April 8, 2008 between the Company and Zor Pharmaceuticals LLC. See "Collaboration Agreements - Zoticon Bioventures LLC".

2. Independent Contractor Services Agreement dated April 8, 2008 between the Company and Zor Pharmaceuticals LLC. See "Collaboration Agreements - Zoticon Bioventures LLC".

3. Limited Liability Company Agreement dated April 8, 2008 between the Company and ZBV I, LLC. See "Collaboration Agreements - Zoticon Bioventures LLC".

4. Tangible Business Assets Transfer Agreement dated July 10, 2007 between Old Lorus and Genesense under which Old Lorus transferred certain depreciable property to Genesense, as contemplated in the plan of arrangement.

5. Antisense Patent Transfer Agreement dated July 10, 2007 between the Company and Genesense under which Genesense transferred certain Antisense patent assets to the Company in exchange for a demand non-interest bearing promissory note issued by the Company.

6. Virulizin and Small Molecule Patent Assets Transfer Agreement dated July 10, 2007 between Old Lorus and Genesense under which Old Lorus transferred Virulizin and Small Molecule Patent Assets to Genesense in consideration for the issuance by Genesense of one common share of Genesense.

7. Prepaid Expenses and Receivables Transfer Agreement dated July 10, 2007 between Old Lorus and Genesense under which Old Lorus transferred certain prepaid expenses and receivables to Genesense in exchange for the issuance by Genesense of one common share of Genesense.

8. Share Purchase Agreement dated July 10, 2007 under which Old Lorus transferred all of the common shares of NuChem held by it to the Company at a price equal to their fair market value in consideration for the issuance of a demand non-interest bearing promissory note.

9. Share Purchase Agreement dated July 10, 2007 under which Old Lorus transferred all of the common shares of Genesense held by it to the Company at a price equal to their fair market value in exchange for the assumption by the Company of Old Lorus' remaining liabilities and the issuance of a demand non-interest bearing promissory note.

10. Share purchase agreement dated July 10, 2007 under which the Company transferred certain shares of Old Lorus held by it to 6707157 Canada Inc. in consideration of a cash payment as specified in the plan of arrangement, subject to payment and adjustment in accordance with such agreement and a holdback to an escrow agreement.

11. Indemnification Agreement dated July 10, 2007 between Old Lorus and the Company. See "Business of the Company - Financial Strategy - Plan of Arrangement and Corporate Reorganization".

12. Escrow Agreement between 6707157 Canada Inc, the Company and Equity Transfer & Trust Company dated July 10, 2007 providing for an escrow amount related to the plan of arrangement. See “Business of the Company - Financial Strategy - Plan of Arrangement and Corporate Reorganization”.

13. Amended and Restated Guarantee and Indemnity between GeneSense and TEMIC dated July 10, 2007 reaffirming TEMIC’s guaranties and indemnities in respect of TEMIC’s Debentures.

14. Amended and Restated Share Pledge Agreement between the Company and TEMIC dated July 10, 2007 reaffirming the Company’s pledge of shares in its subsidiaries in respect of TEMIC’s Debentures.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of our directors, executive officers or to our knowledge, principal shareholders, or any associate or affiliate of the forgoing, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to the date of this annual information form that has materially affected or will materially affect us.

INTERESTS OF EXPERTS

KPMG LLP, the Company’s external auditor, has reported on the consolidated financial statements of the Company for each of the years in the three-year period ended May 31, 2008. KPMG LLP is independent of Lorus in accordance with the applicable Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario, and within the meaning of the Securities Acts administered by the United States Securities and Exchange Commission.

ADDITIONAL INFORMATION

Additional information relating to Lorus may be found on SEDAR at www.sedar.com. Certain additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities, and securities authorized for issuance under our stock option plan, is contained in the Company’s management information circular dated August 26, 2008 for the October 2, 2008 annual and special meeting of shareholders (the “Circular”). Additional financial information is provided in our financial statements and management’s discussion and analysis for the financial year ended May 31, 2008 (the “2008 Financial Statements”). Copies of:

- the Circular;
- the 2008 Financial Statements and our most recent unaudited financial statements that have been filed, if any, for any period subsequent to the year ended May 31, 2008;
- this annual information form and any document or the pertinent pages of any document incorporated by reference in this annual information form; and
- any other documents that are incorporated by reference into a short form prospectus or preliminary short form prospectus otherwise not referred to therein when our securities are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus,,

may be obtained upon request from our Director of Finance at our offices located at 2 Meridian Road, Toronto, Ontario, M9W 4Z7, Canada. If our securities are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus, copies of the foregoing documents are available free of charge. At all other times, a reasonable fee may be charged if a person who is not a security holder of Lorus makes the request for copies.

GLOSSARY

The following is a glossary of terms that are used in this annual information form:

Analog:	a chemical derivative or variation of a parent molecule
Anti-proliferative:	preventing cell division
Ara-C:	chemotherapy drug most commonly used in treatment of AML, chronic myeloid leukemia, acute lymphoid leukemia and lymphomas
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 further test for safety and may test for efficacy 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 HC and the FDA and EMEA
Complete response:	When all signs of cancer disappear in response to treatment. This is based on symptoms, physical exam, and radiology and lab tests. This does not always mean the cancer has been cured. Also called complete remission.
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
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
Deoxyribonucleotides:	a nucleotide having a purine or pyrimidine base bonded to deoxyribose, which in turn is bonded to a phosphate group.
Disease stabilization:	“no change” category for clinical response, that is, no increase or decrease in tumour dimensions or change in extent or severity of disease state as pre-defined in a clinical protocol. Usually requires more than one measurement of stable disease and/or stable disease over a pre-determined length of time
ECOG:	Eastern Cooperative Oncology Group
Efficacy:	the ability of a drug to produce a desired result

Efficacy evaluable population:	patients that meet pre-defined protocol requirements (criteria usually found in the Statistical Analysis Plan) for inclusion in efficacy evaluation datasets.
EMEA:	European Medicines 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
HC:	Health Canada, the federal government department which among other responsibilities regulates the use and sale of therapeutic drug products in Canada
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 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*)
Krüppel-like factor 4:	an epithelial cell-enriched, zinc finger-containing transcription factor, the expression of which is associated with growth arrest
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)
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 HC after completion of human clinical trials
NOC:	Notice of Compliance
NuChem Analogs:	analogs of CLT licensed by us for anticancer indications

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
Pharmacodynamic:	the division of pharmacology that studies the effects of drugs and their mechanisms of action in the body.
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
PSA response:	a measured decrease in the levels of prostate specific antigen in patients receiving treatment for prostate cancer. Clinically significant response defined within a clinical protocol, i.e. 50% reduction in PSA levels measured at least twice over a defined period of time. PSA is a substance produced by the prostate that may be found in elevated amounts in the blood of men who have prostate cancer or other medical conditions affecting the prostate
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
ribonucleotide reductase (RNR):	a protein complex that converts ribonucleotide diphosphates (NDPs) into corresponding deoxyribonucleotide diphosphates (dNDPs).
Single-arm pilot study:	a pilot study is usually an initial study examining a new method or treatment. A single-arm clinical study is when a drug is administered to a single group of patients and the results are compared to historical data of untreated patients. These studies do not have a control arm and typically enrol a small number of patients.
siRNA:	a short sequence of RNA that can decrease gene expression in a highly specific manner (gene silencing).
Toxicity:	a condition that results from exposure to a substance at levels causing deleterious side effects which may be harmful to an organism
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
Tumorigenesis:	the process of initiation and progression of a tumor.
Xenograft:	an implant of a foreign substance

SCHEDULE A

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

OF LORUS THERAPEUTICS INC. (the "Company")

I. PURPOSE

The Audit Committee is a committee of the board of directors of the Company (the "Board"). The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

1. Serve as an independent and objective party to oversee the integrity of the Company's financial reporting process, audits of the Company's financial statements and systems of internal controls regarding finance, accounting, and legal compliance;

2. Identify and monitor the management of the principal risks that could impact the financial reporting of the Company;

3. Monitor the independence and performance of the Company's independent auditors;

4. Provide an avenue of communication among the independent auditors, management, and the Board; and

5. Encourage continuous improvement of, and foster adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the Company. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. The Company shall also provide appropriate funding, as determined by the Audit Committee, for payment of compensation to any external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

II. COMPOSITION AND MEETINGS

Audit Committee members shall meet the requirements of the Canadian securities regulatory authorities, United States securities laws and applicable stock exchange requirements.

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent as defined by MI 52-110-Audit Committees, U.S. securities laws and applicable stock exchange rules. All members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flows statement and at least one member of the Committee shall have accounting or related financial management expertise and be "financially sophisticated" within the meaning of applicable stock exchange rules.

Audit Committee members shall be appointed by the Board. If an Audit Committee Chair is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee membership.

The Audit Committee shall meet at least four times annually, or more frequently as circumstances require. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting.

The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. The Audit Committee should meet privately in executive session at least annually with management, the independent auditors, and as a committee to discuss any matters that the Audit Committee or each of these groups believe should be discussed. In addition, the Audit Committee should communicate with management and the external auditors at least quarterly to review the Company's financial statements.

III RESPONSIBILITIES AND DUTIES

A. Review Procedures

1) Maintain a Charter that sets out the Audit Committees mandate and responsibilities. Review and reassess the adequacy of this Charter at least annually.

2) Review and discuss with management and the external auditors the Company's financial statements, MD&A and annual and interim results press releases prior to filing or distribution. The Audit Committee must be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements (other than public disclosure of financial statements, MD&A and annual and interim results press releases), and must periodically assess the adequacy of those procedures. Consider the independent auditors' judgements about the quality and appropriateness, not just the acceptability, of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or minority practices.

3) Consider and approve, if appropriate, major changes to the Company's accounting principles and practices as suggested by the independent auditors or management and assure that the reasoning is described in determining the appropriateness of changes in accounting principles and disclosures.

4) In consultation with the management and the independent auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.

5) The Audit Committee is directly responsible for overseeing the work of the independent auditors including the review of any disagreements among management and the independent auditors in connection with financial statements, and overseeing the resolution of any such disagreements.

6) Annually review policies and procedures as well as audit results associated with directors' and officers expense accounts and perquisites. Annually review a summary of director and officers' related party transactions and potential conflicts of interest.

7) Annually conduct self-assessment of Audit Committee performance including a review and discussion of the Audit Committee roles and responsibilities, seeking input from senior management, the full Board and others if needed.

B. Independent Auditors

1) The independent auditors are accountable to the Audit Committee and the Board and shall report directly to the Audit Committee. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board:

    1) The external auditor to be nominated for the purpose of preparing or issuing an auditor's report and performing other audit, review and attest services for the Company as required;

    2) The compensation of such external auditor; and

    3) To approve any discharge of such external auditors when circumstances warrant.

2) Pre-approve all audit fees and terms and all permitted non-audit services (including the fees and terms thereof) to be provided by the external auditor, and consider whether these services are compatible with the auditors' independence. Any member of the Audit Committee may approve additional proposed non-audit services that arise between Audit Committee meetings provided that the decision to pre-approve the services is presented at the next scheduled Audit Committee meeting. The approval of all non-audit services will be evidenced by the completion and approval of the Non-Audit Services Request Form (attached as Schedule "A" hereto).

3) On an annual basis, the Audit Committee should review and discuss with the external auditors all relationships they have with the Company that could impair the auditors' independence. In particular, the Audit Committee is responsible for ensuring its receipt from the external auditors of a formal written statement delineating all relationships between the external auditors and the Company, consistent with applicable regulations, actively engaging in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors, and taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditors.

4) Review the external auditors' audit plan - discuss scope, staffing, locations, reliance upon management and general audit approach.

5) Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

6) Prior to releasing the year-end results, discuss the results of the audit with the external auditors. Discuss with management and the external auditors matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.

7) Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former independent auditors of the Company.

8) Review and discuss quarterly reports from the external auditors on:

i. All critical accounting policies and practices to be used;

ii. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and

iii. Other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences.

C. Ethical and Legal Compliance

1) On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

2) Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Audit Committee or the Board deems necessary or appropriate.

D. Whistle Blowing

The Audit Committee shall put in place procedures for:

1) The receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

2) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

E. Other Audit Committee Responsibilities

1) Create an agenda for the ensuing year.

2) Describe in the Company's annual information form the Audit Committee's composition and responsibilities and how they were discharged in accordance with the requirements of 52-110F1.

3) Submit the minutes of all meetings of the Audit Committee to the Board.

4) Provide any other disclosure required to be included with respect to the Audit Committee or the Company's securities law filings.

Schedule "A"

Non-Audit Services Request Form

LORUS THERAPEUTICS INC.

Non-Audit Services Request Form

The Audit Committee pre-approves all audit fees and terms and all permitted non-audit services (including the fees and terms thereof) to be provided by the independent auditor and considers whether these services are compatible with the auditor's independence. Any member of the Audit Committee, subject to appropriate delegation, may approve additional proposed non-audit services that arise between Audit Committee meetings provided that the decision to approve the service is presented at the next scheduled Audit Committee meeting. This form documents the member's approval of the non-audit service in a form suitable for distribution at meetings of the Audit Committee.

Request Made By

Name, Title, Date: _____

Detailed Description of Non-Audit Service Requested *(including a general description of the nature of the services that may make up the project)*

Engagement Fee or Range of Fees for this Service

Prohibited Services

In this section please confirm that these services are not "prohibited services" under section 201 of the Sarbanes-Oxley Act of 2002 and other related rules or regulations.

These services would not be considered prohibited services

Issues considered in forming the conclusion above that should be considered by the Audit Committee

Compatibility with Auditors' Independence

In this section please state whether these services are compatible with the auditors' independence.

These services are compatible with the auditors' independence

Issues considered in forming the conclusion above that should be considered by the audit committee

Management Approval

This form must be reviewed and approved by one authorized member of management (either the CEO, CFO or Director of Finance before submitting this form to an Audit Committee member for final approval.

Name, Title, Date: _____

Audit Committee Member Approval

Name, Date: _____

Exhibit 99.4

Form 52-109F1 - Certification of Annual Filings

I, Aiping Young, President and Chief Executive Officer of Lorus Therapeutics Inc. (Lorus) certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Lorus (the "issuer") for the period ending May, 31, 2008;

2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;

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

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over the financial reporting for the issuer, and we have:

   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and

   (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and

5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 29, 2008

/s/ Aiping Young
Aiping Young
President and Chief Executive Officer

Form 52-109F1 - Certification of Annual Filings

I, Elizabeth Williams, Director of Finance and Acting Chief Financial Officer of Lorus Therapeutics Inc. (Lorus) certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Lorus (the "issuer") for the period ending May, 31, 2008;

2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;

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

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over the financial reporting for the issuer, and we have:

   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and

   (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and

5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 29, 2008

/s/ Elizabeth Williams
Elizabeth Williams
Director of Finance and Acting Chief Financial Officer

Letter to Shareholders

Dear Shareholder:

I am pleased to have the opportunity to share with you the highlights of 2008 and our plans for 2009. Lorus has continued to make significant progress over the past year that continues to bring us closer to our goal in the fight against cancer.

Over the past two years Lorus has made important strategic and operational changes to better position the Company for success while our underlying philosophy and mandate remains the same: focus on innovation and quality. By repositioning our product portfolio and strategic focus, Lorus continues to achieve mile stones on our path to success.

Our strength is in our people and the dedicated research expertise they have brought. We are fortunate to have a team as dedicated to increasing stakeholder value as they are to our most passionate pursuit - -discovering and developing drugs with high safety profiles that will provide cancer patients with an extended, high quality of life that is both rewarding and productive. The near and long-term success of Lorus is based on the quality of our science and we take pride in our abilities to discover and develop novel products and technologies for the management of cancer.

Key Accomplishments in 2008

Product Development
We are very excited about the progress during the year in our promising small molecule drug program. We initiated GLP toxicology studies for our lead anticancer small molecule drug candidate LOR-253. The toxicology studies now completed but awaiting final results are designed to support the filing of an Investigational New Drug (IND) application with the U.S. FDA for LOR-253 to initiate a Phase I clinical study in cancer indications. Lorus intends to submit an IND for LOR-253 during the first quarter of calendar 2009,followingsuccessful completion of the toxicology program.

We continue to progress in the development of our lead clinical-stage drug LOR-2040. During the year we announced the completion of a proof-of-concept clinical trial in Acute Myeloid Leukemia (AML), and expansion of our LOR-2040 development program in this indication, with initiation of a more advanced Phase II clinical trial with LOR-2040 and high dose Ara-C in refractory and relapsed AML. The advanced Phase II clinical trial underway includes both an efficacy study and a novel additional study to measure intracellular target activities and pharmacological synergies between the two agents.

In order to increase the commercial opportunity of LOR-2040, Lorus commenced a development program aimed at expanding the therapeutic application of LOR-2040 for the treatment of superficial bladder cancer. We believe local administration into the bladder provides the opportunity to expose the bladder tumor to higher levels of drugs, with the objective to prevent tumor cells from becoming invasive and spreading to other organs, and represents a novel route of delivery for this compound. In August 2008 we announced the successful completion of GLP toxicology studies with LOR-2040. Two studies were conducted to assess toxicity of LOR-2040 when administered by intravesical (direct) administration into the bladder. In both studies, no evidence of toxicity was seen following single or repeated doses of LOR-2040 given with this method of administration. Toxicity was evaluated based on a wide range of observations including detailed examination of urinary tract tissues.

Corporate Developments
In April 2008 Lorus signed an exclusive multinational license agreement with Zor Pharmaceuticals LLC (“ZOR”) formed as a subsidiary of Zoticon Bioventures Inc., to further develop and commercialize Virulizin® for human therapeutic applications. ZOR is responsible for the cost of all the clinical development, regulatory submissions and commercialization of Virulizin® in North and South America, Europe and Israel. Under the terms of the licensing agreement, we are entitled to receive payments in excess of US$10 million in upfront and various clinical and regulatory milestones payments as well as royalties that vary from 10-20% depending on achieving of sales of Virulizin®. Lorus also received 25% of the initial equity in ZOR. In addition, Lorus entered into a Service Agreement with ZOR to assist in the transfer of knowledge for moving forward with the clinical development program for Virulizin®.

In July 2007 Lorus completed a corporate reorganization resulting in approximately $6.9 million in additional cash for Lorus without diluting the equity interests of existing securityholders.

In August 2008 we successfully completed a rights offering to Lorus shareholders to raise gross proceeds of $3.71 million. Each shareholder received one right for each common share and 4 rights entitled the holder to purchase one unit. Each unit consisted of a common share and ½ purchase warrant priced at $0.18expiringonAugust 7, 2010.

Building a Solid Foundation for 2009

Lorus is engaged in the discovery and development of novel and targeted cancer therapies. In fiscal 2009 we will continue to focus on the development of our small molecule drug platform, as we are optimistic that additional product candidates could be selected for clinical development. As part of our ongoing strategic development Lorus will continue to evaluate our strategic options with respect to partnerships and merger and acquisition opportunities. Developing new drug candidates with novel mechanisms of action takes many years and requires extensive experience and resources. Our business model for drug development involves advancing selected programs through our own efforts and simultaneously entering into partnerships with corporate partners that can provide drug development expertise and resources to late-stage programs.

We believe that we have set difficult, yet attainable, goals for 2009 and achievement of those goals will increase the value of Lorus as a partnership candidate and for our shareholders. We remain committed to building Lorus, the leading company engaged in the development of targeted therapies for the treatment of cancer. I truly appreciate your continued support and look forward to keeping you updated on our progress.

Sincerely yours,

President and Chief Executive Officer