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

FORM 20-F/A

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934.
Or
☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended May 31, 2010.
Or
☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from _____ to _____.
Or
☐ Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Date of event requiring this shell company report _____.

Commission file number 001-32001

LORUS THERAPEUTICS INC.

(Exact Name of Registrant as Specified in Its Charter)

Canada
(Jurisdiction of Incorporation or Organization)

2 Meridian Road
Toronto, Ontario, Canada
M9W 4Z7
(Address of Principal Executive Offices)

Elizabeth Williams
Telephone: (416) 798-1200
Facsimile: (416) 798-2200
2 Meridian Road
Toronto, Ontario, Canada
M9W 4Z7
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Shares	Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

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

Common Shares, without par value at May 31, 2010: 9,933, 454

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☒

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Explanatory Note

This filing has been amended to change the Auditors Report on page F2.

TABLE OF CONTENTS

General

On July 10, 2007 (the "**Arrangement Date**"), Lorus Therapeutics Inc. completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc. (now Global Summit Real Estate 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 of our common shares and the assets (excluding certain future tax assets and related valuation allowance) and liabilities of Old Lorus (including all of the shares of its subsidiaries) were transferred, directly or indirectly, to our corporation and/or our subsidiaries. We 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. In this Annual Report on Form 20-F, all references to "**Lorus**" the "**Corporation**", the "**Company**", "**we**", "**our**", "**us**" and similar expressions, unless otherwise stated, are references to Old Lorus prior to the Arrangement Date and us after the Arrangement Date. References to this "**Form 20-F**" and this "**Annual Report**" mean references to this Annual Report on Form 20-F for the year ended May 31, 2010.

We use the Canadian dollar as our reporting currency. All references in this Annual Report to "dollars" or "$" are expressed in Canadian dollars, unless otherwise indicated. See also "Item 3. Key Information" for more detailed currency and conversion information. Our consolidated financial statements, which form part of the Annual Report, are presented in Canadian dollars and are prepared in accordance with accounting principles generally accepted in Canada ("**Canadian GAAP**") which differ in certain respects from accounting principles generally accepted in the United States ("**U.S. GAAP**"). The differences between Canadian GAAP and U.S. GAAP, as they relate to our business, are explained in the Supplementary Information included with the Financial Statements included in this Annual Report.

Special note regarding forward-looking statements in this Annual Report

This Annual Report may contain forward-looking statements within the meaning of securities laws. Such statements include, but are not limited to, statements relating to:

- *our ability to obtain the substantial capital required to fund research and operations;*
- *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;*
- *our expectations regarding future financings;*
- *our plans to conduct clinical trials and pre-clinical programs;*
- *the length of clinical trials;*
- *the partnering potential of our products;*
- *our business strategy;*
- *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, 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 continue to operate as a going concern;*
- *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;*
- *our ability to recruit patients for clinical trials;*
- *the progress of our clinical trials;*
- *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 Report 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.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables present our selected consolidated financial data. You should read these tables in conjunction with our audited consolidated financial statements and accompanying notes included in Item 18 of this Annual Report and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 5 of this Annual Report.

The financial data as at May 31, 2010, 2009, 2008, 2007 and 2006 and for the years ended May 31, 2010, 2009, 2008, 2007 and 2006 have been derived from, and are qualified in their entirety by reference to, our audited consolidated financial statements, which have been prepared in accordance with Canadian GAAP and reconciled to U.S. GAAP in the Supplementary Information included with the Financial Statements included in this Annual Report.

The following table presents a summary of our consolidated statement of operations derived from our audited financial statements for the years ended May 31, 2010, 2009, 2008, 2007 and 2006.

Consolidated statements of operations data

(In thousands, except per share data)

	Years Ended May 31,				
	2010[1] [2]	**2009[1] [2]**	**2008[1] [2]**	**2007[1] [2]**	**2006[1] [2]**
In accordance with Canadian GAAP					
Revenue	**$ 131**	$ 184	$ 43	$ 107	$ 26
Research and development [(a)]	**$ 2,517**	$ 3,757	$ 6,620	$ 3,505	$ 10,237
General and administrative [(a)]	**$ 2,964**	$ 2,958	$ 3,715	$ 3,727	$ 4,334
Net earnings (loss)	**$ 5,331**	$ (8,860)	$ (6,334)	$ (9,638)	$ (17,909)
Basic and diluted earnings (loss) per share	**$ 0.57**	$ (1.08)	$ (0.87)	$ (1.41)	$ (3.10)
Weighted average number of common shares outstanding	**9,364**	8,236	7,169	6,829	5,784
In accordance with U.S. GAAP[2]					
Net earnings (loss)	**$ 5,705**	$ (7,735)	$ (5,526)	$ (9,150)	$ (16,388)
Basic and diluted loss per share	**$ 0.61**	$ (0.94)	$ (0.77)	$ (1.41)	$ (2.83)

(a) Amounts in 2008 and 2007 have been reclassified to conform to the financial statement presentation adopted in 2009.

The following table presents a summary of our consolidated balance sheet as at May 31, 2010, 2009, 2008, 2007 and 2006.

Consolidated balance sheet data

(In Thousands)	As at May 31,				
	2010 [2]	**2009 [2]**	**2008 [1] [2]**	**2007 [1] [2]**	**2006 [1] [2]**
In accordance with Canadian GAAP					
Cash and cash equivalents	**$ 667**	$ 5,374	$ 2,652	$ 1,405	$ 2,692
Marketable securities and other investments	**$ 247**	$ 490	$ 6,784	$ 10,993	$ 5,627
Total assets	**$ 2,303**	$ 7,527	$ 11,607	$ 15,475	$ 11,461
Total debt	**$ 2,845**	$ 15,878	$ 15,459	$ 14,714	$ 14,017
Total shareholders' deficit	**$ (542)**	$ (8,351)	$ (3,852)	$ 761	$ (2,556)
Number of common shares outstanding	**9,933**	8,560	7,255	7,075	5,823
Dividends paid on common shares	**-**	-	-	-	-
In accordance with U.S. GAAP [2]					
Total assets	**$ 2,303**	$ 7,592	$ 11,911	$ 15,579	$ 11,625
Total debt	**$ 2,845**	$ 16,322	$ 17,314	$ 17,232	$ 17,277
Total shareholders' deficit	**$ (542)**	$ (8,729)	$ (5,403)	$ (1,653)	$ (5,652)

Footnotes:

(1) On July 10, 2007 , the Company completed a plan of arrangement and corporate reorganization with Old Lorus, 6707157 Canada Inc. and Pinnacle International Lands Inc. 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 assets and related valuation allowance) and liabilities of Old Lorus were transferred 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 Board of 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 above reflect that of the Company as if it had always carried on the business formerly carried on by Old Lorus.

(2) At our annual and special meeting of shareholders held on November 30, 2009, our shareholders approved a special resolution permitting our board of directors, in its sole discretion, to file an amendment to our articles of incorporation to consolidate our issued and outstanding common shares. On May 12, 2010, our board approved the share consolidation on the basis of one post-consolidation common share for every 30 pre-consolidation common shares. The record date and effective date for the share consolidation was May 25, 2010. Our common shares began trading on the TSX on a post consolidation basis on May 31, 2010, and were quoted on the OTCBB on a post-consolidation basis beginning on June 1, 2010. The share consolidation resulted in an adjustment to the exercise price and number of common shares issuable upon exercise of outstanding stock options and warrants. In this annual report, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation unless noted otherwise.

Changes in accounting polices:

(a) Goodwill and intangible assets:

Effective June 1, 2009, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and establishes the standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard did not have an impact on the Company's consolidated financial statements.

(b) Financial instruments:

Effective June 1, 2009, the Company adopted the amendments under Handbook Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of the new standard did not have a material impact on the consolidated financial statements.

(c) Credit risk and fair value of financial assets and financial liabilities:

Effective January 1, 2009, the Company adopted Emerging Issue Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Emerging Issue Committee Abstract 173 requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the new standard did not have a material impact on the consolidated financial statements.

(2) The significant differences between the line items under Canadian GAAP and those as determined under U.S. GAAP arise primarily from:

Fiscal 2006 to 2010

The following table reconciles the loss per Canadian GAAP to loss per U.S. GAAP for years ended May 31, 2006, 2007, 2008, 2009 and 2010:

(In Thousands, except per common share data)	**Years ended May 31,**				
	2010	**2009**	**2008**	**2007**	**2006**
Net Earnings (loss) per Canadian GAAP	**$ 5,331**	$ (8,860)	$ (6,334)	$ (9,638)	$ (17,909)
Gain on repurchase of convertible debenturesand transfer of assets (i)	**328**	**-**	**-**	**-**	**-**
Accretion of convertible debentures (i)	**54**	1,222	903	741	480
Amortization and write off of debt issue costs (i)	**(4)**	(48)	(40)	(59)	(108)
Stock compensation expense (ii)	**4**	(39)	(47)	(194)	1,149
Short-term investments (iii)	**(8)**	(10)	(7)	**-**	**-**
Earnings (Loss) per U.S. GAAP	**5,705**	(7,735)	(5,526)	(9,150)	(16,388)
Other comprehensive loss (iii)	**8**	10	(20)	-	-
Earnings (loss) and comprehensive loss per U.S. GAAP	**5,713**	(7,725)	(5,546)	(9,150)	(16,388)
Basic and diluted earnings (loss) per common share per U.S. GAAP	**$ 0.61**	$ (0.94)	$ (0.77)	$ (1.41)	$ (2.83)

Under U.S. GAAP, the number of weighted average common shares outstanding for basic and diluted loss per share is the same as under Canadian GAAP.

(i) Convertible debentures

On June 22, 2009, the Company reached a settlement with the debenture holders with respect to the purchase and settlement of the convertible debentures. Under the agreement, Lorus purchased all of the convertible debentures from The Erin Mills Investment Corporation for consideration that included a cash payment of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals Inc, LLC ("ZOR"), certain intellectual property associated with Virulizin and all of Lorus' shares in its wholly owned subsidiary, Pharma Immune, which held an equity interest in ZOR. As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of $11.0 million reflecting the difference between the fair value of the debentures at the repurchase date, net of transaction costs of approximately $221 thousand, and the cash payment amount of $3.3 million. The gain on repurchase of the debentures did not result in income taxes payable as the Company has sufficient capital loss and non-capital loss carryforwards to shelter these gains. As the carrying value of the convertible debenture was different under U.S, GAAP, as explained below, the Company recognized an additional gain of $328 thousand on the repurchase of the convertible debentures and transfer of assets including the write-down of the deferred financing charges compared to under Canadian GAAP in the year ended May 31, 2010.

Under Canadian GAAP, the conversion option embedded in the convertible debentures is presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option is not subject to bifurcation and is thus presented as a liability along with the balance of the convertible debentures. Measurement differences from the accretion of the value attributed to the conversion option on the convertible debentures and amortization of debt issue costs are further explained in the supplementary information entitled "Reconciliation of Canadian and United States Generally Accepted Accounting Principles".

(ii) Stock options

For fiscal 2006, the Company followed the fair value based method of recording stock compensation expense under Canadian GAAP, and an intrinsic value method of recording stock compensation expense under U.S. GAAP. This is further explained in the supplementary information entitled "Reconciliation of Canadian and United States Generally Accepted Accounting Principles".

Effective June 1, 2006 the Company adopted the fair value-based method of accounting for stock options granted to employees and directors as required by FASB Statement No. 123R in accordance with the modified prospective method. Accordingly the company has applied the fair value-based method to all employee stock options granted after June 1, 2006. Additionally, compensation costs for awards granted in prior periods for which the requisite service period has not been rendered as of June 1, 2006 will be recognized in the consolidated statement of operations and deficit as the requisite service is rendered.

During fiscal 2007, the Company recorded stock compensation expense of $503 thousand (2006 - $1.2 million) in accordance with Canadian GAAP in the consolidated statement of operations, representing the amortization applicable to the current year at the estimated fair value of options granted since June 1, 2002, and an offsetting adjustment to stock options of $503 thousand in the consolidated balance sheets. Under U.S. GAAP, the Company recognized $697 thousand in expense during the same period as a result of adopting SFAS 123R.

The primary reason for the difference between US GAAP and Canadian GAAP relating to fiscal years 2008, 2009 and 2010 is due to estimation of forfeitures in the determination of the stock-based compensation expense under US GAAP and accounting for forfeitures as they occur under Canadian GAAP.

(iii) Financial instruments

Effective June 1, 2007, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' Handbook Section 3855, Financial Instruments - Recognition and Measurement, retroactively without restatement of prior periods. This section provides standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives.

As part of the adoption of the new standards on June 1, 2007, the Company designated certain short term investments consisting of corporate instruments as "held-for-trading". This change in accounting policy for Canadian GAAP resulted in a decrease in the carrying amount of these investments amounting to $27 thousand and an increase in the fiscal 2008 opening deficit accumulated during the development stage of $27 thousand. Further, the Company recognized a net unrealized gain in the consolidated statements of operations for the year ended May 31, 2010 of $8 thousand (2009 - $10 thousand, 2008 - $7 thousand).

Under U.S. GAAP, the Company previously accounted for these investments as "held-to-maturity" in accordance with SFAS 115, now Accounting Standards (ASC) 320, Investments in Debt and Equity Securities. Because the Company did not have the ability or intent to hold these investments until their stated maturity date, the Company made a reassessment of the appropriateness of the previous classification and reallocated these investments as "available-for-sale" as of May 31, 2008, in accordance with SFAS 115. Consequently, an unrealized holding gain in the amount of $8 thousand for the year ended May 31, 2010 (2009 - $10 thousand gain, 2008 - loss of $20 thousand) was recorded in other comprehensive income.

We publish our consolidated financial statements in Canadian ("**CDN**") dollars. In this Annual report, except where otherwise indicated, all amounts are stated in CDN dollars.

The following table sets out the exchange rates of CDN$ for 1 US$ for the following periods as taken from the Bank of Canada website:

Period	Average Close	High	Low
October, 2010	1.0184	1.0319	1.0048
September, 2010	1.0336	1.0535	1.0256
August, 2010	1.0412	1.0665	1.0166
July, 2010	1.0429	1.0650	1.0283
June, 2010	1.0396	1.0646	1.0212
May, 2010	1.0391	1.0700	1.0106
Fiscal Year Ended May 31, 2010	1.0635	1.1676	0.9988
Fiscal Year Ended May 31, 2009	1.1567	1.2991	1.0012
Fiscal Year Ended May 31, 2008	1.0140	1.0750	0.9170
Fiscal Year Ended May 31, 2007	1.1366	1.1855	1.0696
Fiscal Year Ended May 31, 2006	1.1701	1.2460	1.0948

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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 in this Annual Report. Additional risks not currently known by us or that we consider immaterial at the present time may also impair our business, financial condition, prospects or results of operations. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely be affected. 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. The risks set out below are not the only we currently face; other risks may arise in the future.

RISKS RELATED TO OUR BUSINESS

We might not be able to continue as a going concern.

Management has forecasted that the Company's current level of cash and cash equivalents and short-term investments will not be sufficient to execute its current planned expenditures for the next twelve months without further investment.

Mr. Abramson, a member of our Board of Directors, advanced three tranches of $500 thousand to the Company on each of August 11, September 13, and October 5, 2010 by way of six month 10% interest promissory notes. On August 27, 2009 the company obtained a standby purchase commitment of $4.0 million from Mr. Abramson in connection with a rights offering to its existing shareholders. The rights offering closed on November 9, 2010 with the Company raising total proceeds of $4.6 million before expenditures. A total of 4.2 million units (each unit consisting of one common share and one common share purchase warrant exercisable at a price of $1.33 for 18 months) of the Company at a price of $1.11 per unit were issued in connection with the rights offering with 3.6 million being issued to Mr. Abramson in satisfaction of the $4.0 million standby purchase commitment. From the proceeds the Company repaid the $1.5 million in outstanding promissory notes to Mr. Abramson.

Management believes that with the additional funds received in November 2010, it has sufficient funding to continue to execute its planned expenditures without interruption for the next six months without spending reductions. The Company maintains a very low overhead burden which allows spending to be reduced or increased as the market allows, should the Corporation be unable to secure the additional funding to continue its planned operations over the next few months, the Corporation will implement a reduced spending strategy that may involve reduction of personnel and reduction of spending on earlier stage research programs. The Corporation believes that this strategy will enable it to maintain its key research programs for the next 12 months. The Company continues to pursue additional funding and partnership opportunities to execute its planned expenditures in the future. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is a significant doubt as to whether the Company will be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

We need to raise additional capital.

We need to raise additional capital. To obtain the necessary capital, we must rely on some or all of the following: 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 that are acceptable to us or in amounts that will enable us to carry out our business plan.

If we cannot obtain the necessary capital on acceptable terms, 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;
- considerably reduce operations; or
- 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. Under Canadian GAAP, we reported net (earnings) losses of ($5.3 million), $8.9 million and $6.3 million for the years ended May 31, 2010, 2009 and 2008, respectively and as of May 31, 2010, we had an accumulated deficit of $184.1 million.

To date we have only generated nominal revenues from the sale of Virulizin™ in Mexico and revenues associated with the license agreement with ZOR Pharmaceuticals, LLC. We stopped selling Virulizin™ in Mexico in July 2005 and assigned the rights under the license agreement with ZOR Pharmaceuticals, LLC to The Erin Mills Investment Corporation as part of the consideration for our repurchase of secured convertible debentures in June 2009. 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 candidate, 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.

We have indemnified our predecessor, Old Lorus, and its directors, officers and employees in respect of the Arrangement.

In connection with the reorganization that we undertook in fiscal 2008, 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 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 of the Arrangement;

(ii) prior to, at or after the effective time of the Arrangement 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 of the Arrangement 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 affect our share price. In addition, our partners might not satisfy their contractual responsibilities or devote sufficient resources to our partnership.

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 Virulizin™ 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; and
- 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.

Our competitor's 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 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 United States 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 an application to register the Virulizin™ trademark with the United States 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 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.

Other than limited quantities for research purposes, 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 be 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 cover all 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

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:

- our financial position and doubt as to whether we will be able to continue as a going concern;
- our ability to raise additional capital;
- 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.

The issuance of common shares by us could result in significant dilution in the equity interest of existing shareholders and adversely affect the market price of our common shares. Sales by existing shareholders of a large number of our common shares in the public market and the issuance 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 decline.

There is a limited market for our common shares in the United States.

Our common shares are quoted on the Over-the-Counter Bulletin Board market ("**OTCBB**"). There is no assurance that an active trading market will develop on the OTCBB. If a shareholder in the United States is unable to sell their common shares in the United States, they will be forced to sell their common shares over the Toronto Stock Exchange ("**TSX**"), which may expose the selling shareholder to currency exchange risk. In addition, because we are not listed on any United States stock exchange, resales of our common shares to United States persons under state securities or "blue sky" laws are likely to be limited to unsolicited transactions.

Our share price is volatile.

The market price of our common shares, like that of the securities of many other biotechnology companies in the development stage, has been, and is likely to continue to be, highly volatile. This increases the risk of securities litigation related to such volatility. Factors such as the results of our preclinical studies and clinical trials, as well as those of our collaborators or our competitors; other evidence of the safety or effectiveness of our products or those of our competitors; announcements of technological innovations or new products by us or our competitors; governmental regulatory actions; developments with our collaborators; developments (including litigation) concerning patent or other proprietary rights of our company or our competitors; concern as to the safety of our products; period-to-period fluctuations in operating results; changes in estimates of our performance by securities analysts; market conditions for biotechnology stocks in general; and other factors not within the control of our company could have a significant adverse effect on the market price of our common shares.

Our outstanding common shares could be subject to dilution.

The exercise of stock options and warrants already issued by us, and the issuance of other additional securities in the future, could result in dilution in the value of our common shares and the voting power represented by the common shares. Furthermore, to the extent holders of our stock options or other securities exercise their securities and then sell the common shares they receive, our share price may decrease due to the additional amount of our common shares available in the market.

It may be difficult for non-Canadian investors to obtain and enforce judgments against us because of our Canadian incorporation and presence.

We are a corporation existing under the laws of Canada. Most of our directors and officers, and all of the experts named in this prospectus and the documents incorporated by reference into this prospectus, are residents of Canada, and all or a substantial portion of their assets, and a substantial portion of our assets, are located outside the United States. Consequently, although we have appointed an agent for service of process in the United States, it may be difficult for holders of these securities who reside in the United States to effect service within the United States upon those directors and officers, and the experts who are not residents of the United States. It may also be difficult for holders of these securities who reside in the United States to realize in the United States upon judgments of courts of the United States predicated upon our civil liability and the civil liability of our directors, officers and experts under the United States federal securities laws. Investors should not assume that Canadian courts (i) would enforce judgments of United States courts obtained in actions against us or such directors, officers or experts predicated upon the civil liability provisions of the United States federal securities laws or the securities or "blue sky" laws of any state within the United States or (ii) would enforce, in original actions, liabilities against us or such directors, officers or experts predicated upon the United States federal securities laws or any such state securities or "blue sky" laws. In addition, we have been advised by our Canadian counsel that in normal circumstances, only civil judgments and not other rights arising from United States securities legislation are enforceable in Canada and that the protections afforded by Canadian securities laws may not be available to investors in the United States.

We are likely a "passive foreign investment company" which will likely have adverse U.S. federal income tax consequences for U.S. shareholders.

U.S. investors in our common shares should be aware that the Company believes it was classified as a passive foreign investment company ("**PFIC**") during the tax year ended May 31, 2010, and based on current business plans and financial expectations, the Company believes that it will be a PFIC for the current tax year. If the Company is a PFIC for any year during a U.S. shareholder's holding period, then such U.S. shareholder generally will be required to treat any gain realized upon a disposition of common shares, or any so-called "excess distribution" received on its common shares, as ordinary income, and to pay an interest charge on a portion of such gain or distributions, unless the shareholder makes a timely and effective "qualified electing fund" election ("**QEF Election**") or a "mark-to-market" election with respect to the common shares. A U.S. shareholder who makes a QEF Election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is a PFIC, whether or not the Company distributes any amounts to its shareholders. However, U.S. shareholders should be aware that there can be no assurance that we will satisfy record keeping requirements that apply to a qualified electing fund, or that we will supply U.S. shareholders with information that such U.S. shareholders require to report under the QEF Election rules, in the event that we are a PFIC and a U.S. shareholder wishes to make a QEF Election. Thus, U.S. shareholders may not be able to make a QEF Election with respect to their common shares. A U.S. shareholder who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's basis therein. This paragraph is qualified in its entirety by the discussion below under the heading "Certain United States Federal Income Tax Considerations." Each U.S. shareholder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences of the PFIC rules and the acquisition, ownership, and disposition of our common shares.

Item 4. Information on the Company

A. History and Development of the Company

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 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 Report 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 report by reference.

Our common shares are listed on the TSX under the symbol "LOR". Our shares are quoted on the OTCBB under the symbol under the symbol "LRUSF".

Lorus currently has one subsidiary, NuChem Pharmaceuticals Inc., 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. Effective May 31, 2009, the Company wound up GeneSense Technologies Inc., a corporation incorporated under the laws of Canada, of which Lorus owned 100% of the issued and outstanding share capital into Lorus. On June 22, 2009, the Company transferred its ownership in Pharma Immune Inc. to The Erin Mills Investment Corporation as part of the consideration provided on the repurchase of the convertible debentures.

Lorus Therapeutics Inc. is a biopharmaceutical company focused on the discovery, research and development of novel 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 preparation for initiation of a Phase III 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. It costs millions of dollars and takes many years before a product candidate may be approved for therapeutic use in humans and the risk exists that 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, which has recently completed an advanced Phase II clinical trial, and LOR-1284, which is in the pre-clinical stage of development. See “-- Clinical Development” and “Business of the Company - DNA/RNA-based Therapeutics”.

Small Molecule

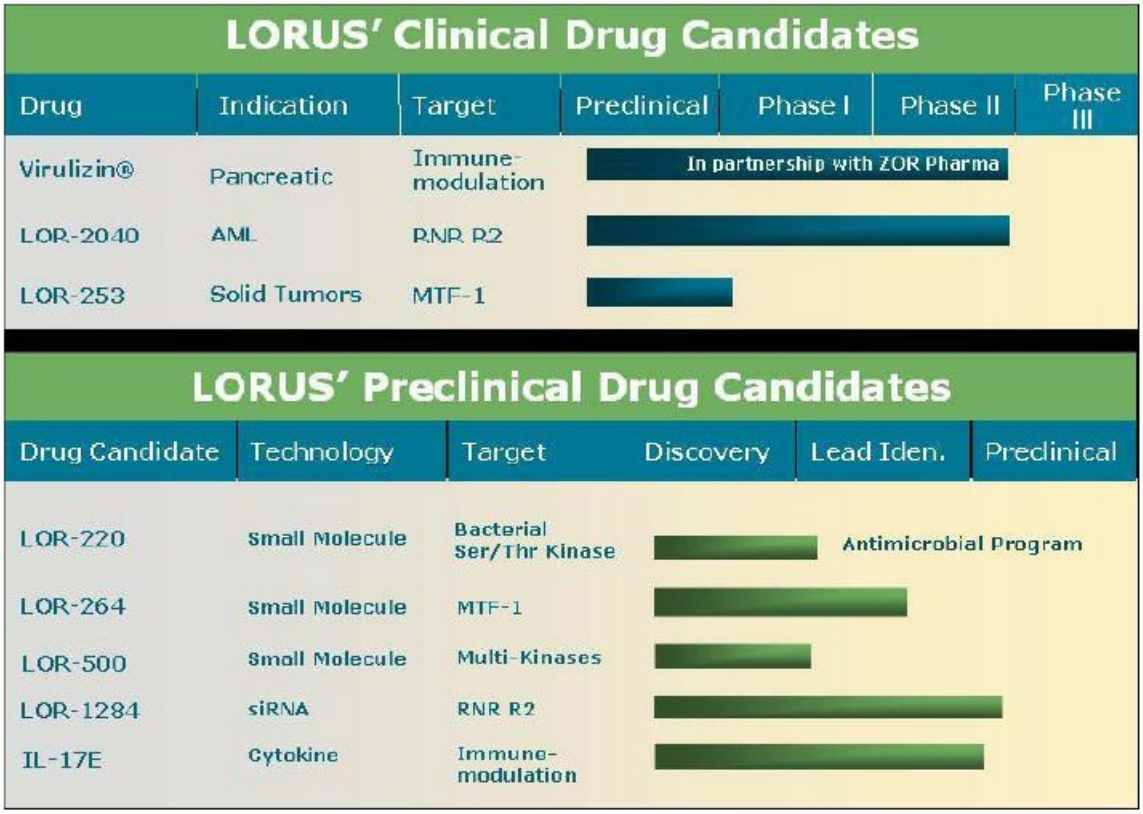
We have small molecule drug screening technologies and preclinical scientific expertise, which we are using to create a drug candidate pipeline. Our proprietary group of small molecule compounds, which include the lead compound LOR-253, have unique structures and modes of action, and are promising candidates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

Immunotherapy

In June 2009, as part of the consideration for the repurchase of the secured convertible debentures from The Erin Mills Investment Corporation, Lorus’ assigned to The Erin Mills Investment Corporation its rights under the license agreement with ZOR Pharmaceuticals, LLC, and sold to The Erin Mills Investment Corporation its intellectual property rights associated with Virulizin®. See “-- Business of the Company - Immunotherapy” and “The Company - Secured Convertible Debentures” for more details. Lorus also has a drug candidate Interleukin-17E which is a protein-based therapeutic that Lorus is developing as an immunotherapy for cancer treatment. See “-- Clinical Development”, “Business of the Company - Immunotherapy” and “The Company - Secured Convertible Debentures” 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 report.



Capital Expenditures and Divestitures

N/A

B. Business Overview

Overview

Chemotherapeutic drugs have been the mainstay 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 conventional chemotherapy drugs are relatively non-specific and as a result toxic to normal cells, these new generation agents specifically target individual molecules or genes that are involved in disease and are therefore preferentially toxic to tumor cells. The increased targeted 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, targeted drug regimens that combine novel small molecule therapies with biological agents, based on emerging understanding of cancer development, are of considerable and growing 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. These drugs may not only provide effective cancer treatment and contribute to an improved quality of life for cancer patients, but may also be commercially attractive as they could more easily be combined 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 therapies; (ii) small molecule therapies; and (iii) immunotherapeutics. Lorus has certain commercial rights in Virulizin™ as described in "Immunotherapy".

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 is 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-targeted therapeutics offer a novel approach to treatment in that they are designed to prevent the production of proteins causing disease.

Our RNA-targeted drugs consist of 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 is based on altering gene expression at the mRNA level, prior to protein synthesis, and is intended to achieve better drug specificity towards the biochemical target. 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 capable of acting as 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 multiple Phase I/II clinical trial programs in cooperation with the U.S. National Cancer Institute ("**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.

In June 2009, we announced the publication of an article entitled, "A LC-MS/MS Method for the Analysis of Intracellular Nucleoside Triphosphate Levels" in the peer-reviewed journal Pharmaceutical Research. In the article investigators at the Ohio State University presented data showing the pharmacological activity of LOR-2040 in five leukemia cell lines and in bone marrow samples of a patient with AML treated with LOR-2040 in a Phase II clinical trial. The tumor cells examined with the novel analytical method showed a significant decrease in intracellular deoxynucleoside triphosphate levels required for DNA synthesis, confirming the target inhibition effect of LOR-2040.

In November 2009, we announced that a Phase II clinical trial in refractory and relapsed AML with LOR- 2040 in combination with cytarabine had been successfully completed to the end-of-stage assessment time point, with favorable results. The Steering Committee review required at this stage determined that the Phase II efficacy and safety results fulfilled the protocol criteria for continued patient enrolment and were consistent with the promising Phase Ib clinical findings in relapsed and refractory AML. It was further agreed that based on the strength of the Phase Ib and II clinical data in a total of 48 patients treated in this indication, expansion to a definitive comparative trial was the most appropriate next step to support registration. On this basis we are proceeding with protocol development for the expanded development program. It is notable that the current preliminary evaluation found the response rate to be twice that expected from a risk-matched historical control, and that this is consistent with a further similar analysis of the findings from the prior Phase Ib clinical study.

In June 2010, we announced the presentation of Phase II clinical trial data for LOR-2040 in combination with high dose cytarabine in the treatment of AML. The presentation assessed the safety and efficacy data from the recently completed Phase II clinical trial. This Phase II study was conducted at six major U.S. cancer centers under the overall direction of Principal Investigator Dr. Klisovic at the Arthur G. James Cancer Hospital, Ohio State University. The investigators concluded that the favorable safety and efficacy demonstrated in the Phase II clinical study, and in the prior Phase Ib clinical trial in similar high risk AML patients, merits further development of LOR-2040 in combination with HiDAC in a larger randomized clinical trial.

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. Although in published reports LOR-1284 has shown significant in vivo anti-tumor activity on its own, we are collaborating with investigators at Ohio State University to develop a novel nanotechnology formulation based on LOR-1284 to enhance uptake of the drug in tissues and to provide a selective affinity for specific tumors. Research is continuing to optimize delivery of siRNA in vivo, and is expected to be the key to the future therapeutic promise of siRNA therapeutics to effectively target specific genes associated with cancer.

Clinical Development

NCI Sponsored Trials

Program in Solid Tumors and Other Indications

Following completion by Lorus in the prior period of a Phase I dose escalation trial in solid tumors and a Phase I/II trial of LOR-2040 in combination with capecitabine in renal cell carcinoma, much of the clinical development for LOR-2040 was performed in conjunction with the NCI, which paid for the cost of the sponsored clinical trials. See "-- Agreements - Collaboration Agreements - National Cancer Institute". To date we have 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 evaluation of the final clinical data emerging from the completed NCI clinical trials, Lorus will analyze and make decisions regarding the strategic direction of our antisense portfolio. We do not believe that the data obtained 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.

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 as an additional NCI-sponsored initiative. 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 now ongoing but fully enrolled and pending analysis and final reporting.

Other Research Initiatives

In May 2009, Lorus announced the extension of a cooperative research agreement with the NCI for preclinical evaluation of LOR-2040 and other Lorus RNA-targeted drugs as part of a novel combination therapeutic strategy to target the renal tumor and not the normal regenerating kidney.

Acute Myeloid Leukemia: NCI Sponsored Trial Program

In July 2003, we announced the FDA's approval of the NCI-sponsored Investigational New Drug 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.

Additional research in this program has continued to add scientific support for action of LOR-2040 in AML. In September 2008, Lorus announced a further publication by the investigators presenting results on the metabolism of LOR-2040 in these AML patients along with supporting experiments. This identified factors including activity of liver microsomes that together predicted the circulating drug levels and clearance rates. The investigators also performed additional studies to further elucidate the intracellular activity of LOR-2040 in AML which were announced by Lorus in April 2009 following the presentation to the American Association for Cancer Research, and in June 2009 following their final publication of this data in *Pharmaceutical Research 26(6) 2009.* A novel analytical method was used to monitor the intracellular activity of LOR-2040 in both preclinical models and in a patient's samples and confirm an important mechanism of action of the drug to reduce the dNTP molecules in tumor cells that are required for DNA synthesis.

Acute Myeloid Leukemia: Lorus Sponsored Trial Program

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. The decision to advance clinical development of LOR-2040 into Phase II 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. This Phase II study included 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 was evaluated in two groups, to determine the contribution of each agent alone and in combination. The second stage of the trial was to provide efficacy evaluation in a larger patient population.

On November 30, 2009, we announced successful completion of the Phase II end of stage assessment of LOR-2040 in combination with high dose Ara-C (HiDAC) as salvage therapy in refractory/relapsed AML patients of 60 years of age or younger with favorable results. The Steering Committee review required at this stage determined that the Phase II efficacy and safety results fulfilled the protocol criteria and are consistent with the promising Phase Ib clinical findings. It was further determined on the strength of the Phase Ib and II clinical data that expansion to a definitive comparative trial is the appropriate next step to support registration. A preliminary evaluation found the response rate to be twice that expected from a risk-matched historical control.

On June 14, 2010, we announced presentation of Phase II clinical trial data for LOR-2040 in combination with high dose cytarabine in the treatment of AML at the 15th Annual Congress of the European Hematology Association in Barcelona, Spain. This showed in patients under 60 years of age with relapsed and refractory AML that 28% achieved complete remission ("**CR**") or CR with incomplete blood count recovery ("**CRi**") and an additional 4% achieved partial remission. The investigators noted that this compares favorably with the expected risk-matched historical CR rate of approximately 14% in this high risk AML patient group. In addition, 12-month overall survival of 41% was shown with median overall survival of 10.3 months, assessed as favorable in this predominantly high risk population, and merits further development in a larger randomized clinical trial.

Based on the data from two completed Phase Ib and II clinical trials, Lorus plans to move this clinical program to a larger, randomized, comparative trial in a multinational setting in order to achieve rapid enrolment.

On August 5, 2009, we announced the allowance of a patent from the Japan Patent Office for LOR-2040 which protects LOR-2040 composition and its use in treatment of cancer. On May 3, 2010, we announced allowance of a new patent in Australia for LOR-2040 in treatment of AML as a single agent and in combination therapies with cytarabine, which extends the patent life in Australia to 2024.

Orphan Drug Status

In May 2005, Lorus received orphan drug designation from the FDA for LOR-2040 in the treatment of AML. In June 2008, Lorus announced that the European Medicines Agency had granted orphan drug designation to LOR-2040 for development in 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

Lorus has selected two leading small molecule compounds from a series of novel small molecules discovered by our scientists that exhibit potent anticancer activity in *in vitro* screens. The results of characterization studies on one of these compounds were published in Cancer Chemotherapy and Pharmacology. From these two compounds, LOR-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.

In September 2009, we announced the publication from our research team of an article entitled "A Novel Small Molecule with Potent Anticancer Activity Inhibits Cell Growth by Modulating Intracellular Labile Zinc Homeostasis" in the peer-reviewed journal Molecular Cancer Therapeutics. The article presented data from the preclinical evaluation of ML-133, a parent compound that was a precursor in the development of LOR-253. The studies demonstrated potent anticancer activity in cancer cell lines and in an animal model of human colon cancer. Further examinations on the mechanism of action confirmed target dependent induction of the novel tumor suppressor called Krüppel-like factor 4, a critical checkpoint protein that inhibits cell cycle progression in several cancer types. The mechanism of activity of this promising new class of antitumor agent described in the publication suggested a novel method for treating several different types of cancer.

Lorus has completed formal Good Lab Practises (GLP) toxicology studies for LOR-253 and in April 2010, we announced that the production of the first clinical batch of LOR-253 had been successfully completed. The clinical batch of LOR-253 was manufactured in full compliance with current Good Manufacturing Practice and is to be used in the Phase I study.

On June 1, 2010, Lorus announced the filing of an Investigational New Drug application with the FDA which was for a first-in-man Phase I dose escalation trial in advanced or metastatic solid tumors.

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-500 platform. LOR-500 targets multikinases including tyrosine kinase family members and a member of the calcium/calmodulin dependent protein kinase family. Hit-to-lead optimization of LOR-500 is being currently conducted to identify a lead drug candidate.

- LOR-220 platform. LOR-220 is a novel compound that targets novel bacterial Ser/Thr kinases. Structural optimization of LOR-220 is currently underway to identify several novel drug candidates that show potent antimicrobial activity in animal models. In October 2010, a patent was allowed in the United States covering composition of matter of LOR-220 and related small molecules

In July, 2010, Lorus announced the approval of the Investigational New Drug application for LOR-253 by the FDA. Based on the approval of the IND by the FDA, Lorus plans to proceed with a first-in-man Phase I dose escalation trial with LOR-253 in advanced or metastatic solid tumors. The trial will assess the safety profile, tolerability, and antitumor activity of LOR-253 in cancer patients, as well as pharmacokinetic and pharmacodynamic properties of LOR-253. The Phase I trial will be conducted at Memorial Sloan-Kettering Cancer Center in New York, NY.

Immunotherapy

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.

Interleukin-17E

Interleukin-17E ("**IL-17E**") is a protein-based therapeutic that Lorus is developing as an immunotherapy for cancer treatment. We have shown that IL-17E has anticancer activity against a range of human cancers. In February 2010, we announced the publication of an article entitled "IL-17E, a proinflammatory cytokine, has antitumor efficacy against several tumor types in vivo", in the peerreviewed journal Cancer Immunology Immunotherapy. In this article, we demonstrated the antitumor effects of IL-17E alone and in combination with a number of approved anticancer agents in preclinical models. The studies showed that IL-17E alone had potent antitumor activity in a number of solid tumors, including melanoma, breast, colon, pancreatic, and non-small cell lung cancers. In combination studies, IL-17E was compatible with a wide variety of approved anticancer drugs, including Avastin, Tarceva, Taxol, Cisplatin, Dacarbazine, Irinotecan, and Gemzar. Furthermore, the combination of IL-17E with each of these anticancer agents showed greater anticancer efficacy than either agent alone without additional toxicity. The article also provided data on the mechanism of anticancer activity for IL-17E, showing that IL-17E activated the immune system, specifically acting on eosinophils and B cells.

Additional preclinical studies are being done to further evaluate the efficacy and toxicity profile of IL-17E in comparison to other cancer-approved cytokines, including interferon-alpha and IL-2, and further nonclinical studies are planned to assess toxicity and optimize the therapeutic dose.

Virulizin™

In April 2008, Lorus entered into an exclusive licensing deal with a subsidiary of Zoticon Bioventures' subsidiary, ZOR Pharmaceuticals, LLC, for Virulizin™. The license, covering North and South America, Europe and Israel, granted 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 Pharmaceuticals, LLC. ZOR Pharmaceuticals, LLC is responsible for all future clinical developments, regulatory submissions, and all commercial activities. In June 2009, Lorus assigned these rights and the rights to the intellectual property associated with Virulizin™ to The Erin Mills Investment Corporation as part of the consideration for Lorus' repurchase of the secured convertible debentures. (See "Business Overview - Secured Convertible Debentures")

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 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. Current Good Manufacturing Practice batches of our drug candidates are subjected to prospectively designed stability test protocols.

License Agreements

Ion Pharmaceuticals

In December 1997, Lorus, through NuChem Pharmaceuticals Inc., 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 Pharmaceuticals Inc. had made cash payments totalling US $500 thousand 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 ending May 31, 2011 or 2012 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.

University of Manitoba

The University of Manitoba, Dr. Jim Wright, Dr. Aiping Young and Cancer Care entered into an exclusive license agreement with GeneSense Technologies Inc. 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 of Manitoba 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 ending May 31, 2011 or 2012.

Effective May 31, 2009, this agreement was assigned from GeneSense Technologies Inc. to Lorus.

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., a research-driven biopharmaceutical group, to further develop and commercialize Virulizin™ for human therapeutic applications. As discussed above, in June 2009, Lorus assigned these rights and the rights to the intellectual property associated with Virulizin® to The Erin Mills Investment Corporation as part of the consideration for Lorus' repurchase of the secured convertible debentures. (See "Business Strategy - Secured Convertible Debentures")

As part of the Zoticon agreement, we entered into a service agreement in which we agreed to provide ZOR Pharmaceuticals, LLC with 120 hours of consulting service at its own expense and thereafter will provide services at an agreed upon rate. This agreement expired in October 2009.

National Cancer Institute

In February 2003, Lorus and the NCI 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. The studies conducted under this agreement are now complete.

In May 2009, Lorus entered into an additional agreement with the NCI for the study of LOR-2501, LOR- 2040, and LOR-1284 in combination with commercially-available drugs, to develop a drug cocktail(s) that is more effective for the treatment of Renal Cell Carcinoma tumors than for normal regenerating kidney.

In regards to future payment obligations, Lorus' obligations under these agreements 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.

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.

Business Strategy

Our business strategy is based on the identification and development of novel therapies aimed at validated cancer targets. We believe that these target-based approaches hold the promise of more effective therapies with fewer side effects. A target-based approach is increasingly recognized as several targeted agents are already approved by regulatory authorities around the globe. In order to minimize single technology-related risks, we have adopted three different technology approaches:

1. RNA-targeted technologies such as antisense and siRNA.

2. Development of small molecules that recognize specific targets in cancer cells.

3. Immunotherapy using safe and efficacious products to stimulate the natural anticancer properties of the immune system.

The first two approaches utilize selection strategies for identification and development of highly specific targeted drug candidates, capitalizing on proprietary libraries of compounds developed in-house.

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 development process and consider commercialization opportunities when appropriate. In the next fiscal year, we intend to pursue partnerships for our lead compounds and further the development of our promising pipeline. More specifically, our main objectives are (i) to maximize the therapeutic value and potential commercial success of LOR-2040 by initiating a Phase III registration clinical trial in AML in collaboration with a co-development or licensing partners (such partners or collaborators have not yet been secured); (ii) to conduct a Phase I clinical trial of our lead small molecule drug, LOR-253; and (iii) to commit resources to advancing our in-house pipeline of novel preclinical 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 financings, and collaborative and licensing agreements. We intend to pursue financing opportunities as they arise.

Rights Offering and Financing Commitment

Subsequent to the year ended May 31, 2010, due to unfavourable market conditions, the Company withdrew a previously announced equity issue.

On September 27, 2010 Lorus filed a final short form prospectus in each of the provinces of Canada in connection with a distribution to its shareholders in eligible jurisdictions outside the United States of rights exercisable for units of the Company.

Under the Rights Offering, holders of common shares of the Company as of October 12, 2010, the record date, received one right for each common share held as of the record date. Each two rights entitled the holder thereof to purchase a unit of the Company at a price of $1.11 per unit. The subscription price of $1.11 per unit represents a discount of 10% to the volume weighted average closing price of the Company's shares for the five trading days immediately prior to filing of the final prospectus. Each unit consists of one common share of the Company and one warrant to purchase an additional common share of the Company at a price of $1.33 until May 2012. If at any time after 6 months following November 9, 2010 the price of Lorus' common shares on the TSX equals or exceeds $2.33 for five consecutive trading days, Lorus may call the warrants for cancellation. The expiry date for the rights offering was 5:00 P.M. (Eastern) on November 8, 2010.

A total of 4.2 million units of the Company at a price of $1.11 per unit were issued in connection with the rights offering. As a result of the rights offering Lorus issued 4.2 million common shares and 4.2 million common share purchase warrants.

In connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Herbert Abramson, one of Lorus' directors. Mr. Abramson agreed to make an investment such that the minimum gross proceeds of the proposed rights offering would be $4 million. No fee was payable to Mr. Abramson for this commitment. In accordance with the terms of the stand-by purchase agreement, Mr. Abramson subscribed for 3.6 million of the 4.2 million units of the offering for $4.0 million.

The Company used some of the proceeds to repay the $1.5 million interim financing promissory notes to Mr. Abramson as well as to prepay the $1 million promissory note outstanding to Trapeze Capital Corporation, a corporation affiliated with Mr. Abramson. The Company expects to use the remaining proceeds from the offering to fund research and development activities and for general working capital purposes. Following these transactions the Company has no debt other than trade accounts payables.

Share Consolidation

At our annual and special meeting of shareholders held on November 30, 2009, our shareholders approved a special resolution permitting our board of directors, in its sole discretion, to file an amendment to our articles of incorporation to consolidate our issued and outstanding common shares.

On May 12, 2010, our board approved the share consolidation on the basis of one post-consolidation common share for every 30 pre-consolidation common shares. The record date and effective date for the share consolidation was May 25, 2010. Our common shares began trading on the TSX on a postconsolidation basis on May 31, 2010, and were quoted on the OTCBB on a post-consolidation basis beginning on June 1, 2010. The share consolidation resulted in an adjustment to the exercise price and number of common shares issuable upon exercise of outstanding stock options and warrants.

In this annual report, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation unless noted otherwise.

Promissory Notes

On August 27, 2010 the Company announced that a director of the Company Mr. Abramson would provide the Company with interim financing by way of three $500 thousand monthly loans, advanced on August 11, 2010, September 13, 2010 and October 5, 2010. The loans were unsecured, have a six-month term (or the earlier of the closing of the rights issue) and bore interest at the annual rate of 10%. All three notes were repaid upon the close of the rights offering described above.

In April 2010, the Company entered into a loan agreement with Trapeze Capital Corporation, a corporation affiliated with Mr. Abramson, to borrow $1 million. The loan amount, which was received on April 14, 2010, is unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The funds were used for general working capital purposes. Lorus decided to prepay the $1.0 million promissory note outstanding to Trapeze Capital Corporation with the proceeds of the rights offering described above.

In October 2009, the Company entered into a loan agreement with Mr. Abramson to borrow $1 million. The loan amount, which was received on October 6, 2009, was unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The principal and interest was due in six months. The principal amount of $1.0 million was applied to subscribe for units as part of the November 27, 2009 private placement described below.

Share Issuances

On November 27, 2009, pursuant to a private placement, the Company issued 41.0 million (preconsolidation) common shares and 20.5 million (pre-consolidation) common share purchase warrants in exchange for cash consideration of $2.5 million. This amount includes the principal amount of $1.0 million originally received by way of a loan from a director on October 6, 2009 which was applied to subscribe for units as part of the private placement. In addition, the Company issued 2.2 million (pre-consolidation) brokers' warrants to purchase an equivalent number of common shares at $0.08 (pre-consolidation) until May 27, 2011.

Secured Convertible Debentures

On October 6, 2004, the Company entered into a Subscription Agreement with The Erin Mills Investment Corporation to issue an aggregate of $15.0 million of secured convertible debentures issuable in three tranches of $5.0 million each, in each of, October 2004, January 2005 and April 2005. The debentures were due on October 6, 2009.

On June 22, 2009, the Company reached a settlement with The Erin Mills Investment Corporation with respect to the purchase and settlement of the $15.0 million the Debentures.

Under the settlement agreement, Lorus purchased all of the debentures from The Erin Mills Investment Corporation for a cash payment of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals, LLC, sale of intellectual property associated with Virulizin and sale of Lorus' shares in its wholly-owned subsidiary Pharma Immune Inc. which holds an equity interest in ZOR. Under the agreement, Lorus is entitled to 50% of any royalties received under the ZOR license agreement and 50% of the deal value of any transaction completed in territories not covered by the ZOR license agreement. Lorus also retains a perpetual, royalty free license for the animal use of Virulizin. The Erin Mills Investment Corporation will be fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR license agreement. Lorus will assist The Erin Mills Investment Corporation with certain agreed upon services.

For receipt of the intellectual property associated with Virulizin and all of Lorus' shares in Pharma Immune Inc., The Erin Mills Investment Corporation released all security interest in the assets of Lorus.

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, 2010, we owned or had rights to 18 issued patents and 39 pending patent applications worldwide.

RNA-targeted Therapies

We have been issued two patents in Canada, nine patents in the United States and twelve patents in other jurisdictions around the world relating to our DNA/RNA-based therapeutics, which includes antisense and siRNA molecules. We also have 13 pending patents worldwide for this class of therapies. These patents include composition of matter and method claims.

Small Molecule

We have been issued three patents and have 23 pending patents worldwide for out in-house small molecules. These patents cover composition of matter and method claims.

Immunotherapy

We have three pending patents for our IL-17E immunotherapy program.

Risks Relating to Intellectual Property

We either own these issued patents discussed above 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 Health Canada, the federal government department which, among other responsibilities, regulates the use and sale of therapeutic drug products in Canada and the FDA in the United States, the European Medicines Agency 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.

Revenues

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

Employees

As at May 31, 2010, we employed 17 full-time persons and three part-time people in research and drug development and administration activities. Of our employees, seven 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 and alternative compensation plans and employees can participate in the employee share purchase plan.

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.

Office Facilities

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.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. There are numerous players 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 partnerships with biotechnology and pharmaceutical companies and academic institutions. Many of these other companies however are not solely focused on cancer, as is the mission of our drug development strategy to specialize in the development of drugs for the treatment and management of cancer.

Competition with our products may include chemotherapeutic agents, monoclonal antibodies, antisense therapies, small molecules, biologics 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 cancer targets. 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.

Government Regulation

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 current Good Manufacturing Practice 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.

Regulation in Canada

In Canada, the manufacture and sale of new drugs are controlled by Health Canada. 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 to begin clinical trials involving humans.

To study a drug in Canadian patients, a clinical trial application submission must be filed with Health Canada. The clinical trial application 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 Health Canada does not reject a clinical trial application 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 application to Health Canada for marketing approval. The new drug submission 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 new drug submission includes its proper name, its chemical name, and details on its method of manufacturing and purification, and its biological, pharmacological and toxicological properties. The new drug submission 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 completed to assess the production process and manufacturing facility. It is required prior to the issuance of a notice of compliance. All aspects of the new drug submission are critically reviewed by Health Canada. If a new drug submission is found satisfactory, a notice of compliance is issued permitting the new drug to be sold. In Canada an Establishment license must be obtained prior to marketing the product.

Health Canada 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 Health Canada 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.

A post surveillance program involves clinical trials conducted after a drug is marketed (referred to as phase 4 studies in the United States) and is an important source of information on as yet undetected adverse outcomes, especially in populations that may not have been involved in the premarketing trials (e.g., children, the elderly, pregnant women) and the drug's long-term morbidity and mortality profile. Regulatory authorities may require companies to conduct Phase 4 studies as a condition of market approval. Companies often conduct post-marketing studies in the absence of a regulatory mandate.

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, Health Canada 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 Health Canada 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 Health Canada. In addition, the practitioner must agree to report to both the drug manufacturer and Health Canada the results of the new drug's use in the medical emergency, including information concerning adverse reactions, and must account to Health Canada 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 Health Canada authorization or the approval of regulatory authorities of other countries will be accepted by regulatory authorities outside Canada or such other countries.

Regulation in the United States

In the United States, the Food & Drug Administration ("**FDA**") controls the manufacture and sale of new drugs. New drugs require FDA approval of a New Drug Application prior to commercial sale. In the case of a biological product, a biological license application must be obtained prior to marketing and batch releasing. 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 clinical trial application 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 current Good Manufacturing Practice regulations for drugs or biological products both in a pre-licensing inspection before product licensing and in subsequent periodic inspections after licensing. An establishment license grants the sponsor permission to fabricate, package, label, distribute, import, wholesale or test of the newly approved drug. A five-year period of market exclusivity for a drug comprising a new chemical entity is available to an applicant that succeeds in obtaining FDA approval of a new chemical entity, provided the active ingredient of the new chemical entity has never before been approved in an New Drug Application. During this exclusivity period, the FDA may not approve any abbreviated application filed by another sponsor for a generic version of the new chemical entity. To extend this market protection, especially important when the original patent may be close to expiration, new indications or dosage forms of previously approved drugs can receive new use or new clinical study exclusivity- up to a three-year period of market exclusivity. During this time, the FDA may not approve an abbreviated application filed by another sponsor for a generic version of the product for that use or indication. For orphan drugs or biologics, a seven-year period exclusivity is granted to benefit the marketing of a drug, which treats rare diseases or conditions with less than 200,000 patients.

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 New Drug Application. 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).

The above describes briefly what is necessary for a new drug to be approved for marketing in North America. The European Medicines Agency and Japanese Pharmaceuticals and Medical Devices Agency are also important regulatory authorities in drug development. Together with the FDA, they are the three International Conference on Harmonization parties which oversee the three largest markets for drug sales.

C. Organizational Structure

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 Canadian 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 Old Lorus changed its name from Lorus Therapeutics Inc. to 4325231 Canada Inc. and on October 17, 2007 changed its name to Global Summit Real Estate Inc. As of the Arrangement Date, Old Lorus is not related to New Lorus.

New Lorus was incorporated on November 1, 2006 as 6650309 Canada Inc. under the *Canada Business Corporations Act*.

On the Arrangement Date, Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6650309 Canada Inc., subsequently renamed Lorus Therapeutics Inc. ("**New Lorus**"), 6707157 Canada Inc. and Pinnacle International Lands, Inc. 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 New Lorus 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. 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 directors as Old Lorus prior to the Arrangement Date. At the Arrangement Date, New Lorus' articles of incorporation were amended to change the name of the Company from 6650309 Canada Inc. to Lorus Therapeutics Inc.

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 Form 20-F by reference.

Our common shares are listed on the TSX under the symbol "LOR" and on the OTCBB under the symbol "LRUSF".

Lorus' subsidiary is NuChem Pharmaceuticals Inc., 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. On May 31, 2009, GeneSense Technologies Inc., of which Lorus owned 100% of the issued and outstanding share capital was wound up into Lorus and subsequently dissolved. Until June 22, 2009 Lorus owned 100% of the issued and outstanding share capital of Pharma Immune Inc., a corporation incorporated under the laws of Delaware, at which time it disposed of these shares (See "The Company - Secured Convertible Debentures").

D. Property, Plant and Equipment

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.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

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

A. Operating Results

The following discussion should be read in conjunction with the audited financial statements of the Company for the year ended May 31, 2010 and the accompanying notes (the "**Financial Statements**") set forth elsewhere in this report. The Financial Statements, and all financial information discussed below, have been prepared in accordance with Canadian GAAP. Significant differences between Canadian GAAP and U.S. GAAP are identified in the Supplementary Information included with the Financial Statements included in this Annual Report. All amounts are expressed in Canadian dollars unless otherwise noted. In this Management's Discussion and Analysis, "Lorus", the "Company", "we", "us" and "our" each refers to Lorus Therapeutics Inc. both before and after the Arrangement Date.

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 loss from operations for the year ended May 31, 2010 decreased to $5.7 million ($0.61 per share) compared to $9.3 million ($1.13 per share) during the same period in fiscal 2009. The current year net earnings and other comprehensive earnings of $5.3 million (earnings of $0.57 per share) are a result of the $11.0 million gain recognized on the extinguishment of our convertible debentures in June 2009 (described below in the section titled "Gain on repurchase of convertible debentures and transfer of assets") as well as the gain on sale of shares related to the Arrangement (as described in the section titled "Gain on sale of share") of $50 thousand due to a reduction in the indemnification liability (described below). For the year ended May 31, 2009 the Company recorded a gain on sale of shares of $450 thousand resulting in a net loss and other comprehensive loss for the period of $8.9 million ($1.08 per share). During the year ended May 31, 2008, the Company realized a gain on the sale of shares related to the Arrangement in the amount of $6.3 million resulting in net loss and other comprehensive loss for the period of $6.3 million ($0.87 per share).

The decrease in net loss from operations for the year ended May 31, 2010 compared with the prior year is due primarily to lower research and development costs of $1.2 million resulting from less spending on GLP-toxicity studies as well as an overall reduction in company spending to conserve cash balances, as well as reduced interest and accretion charges of $653 thousand and $1.6 million respectively, resulting from the settlement of the convertible debentures described below and lower stock based compensation costs of $270 thousand as a result of a lower share price in the current year. These reductions were offset by a decrease in interest income from $270 thousand for the year ended May 31, 2009 to $21 thousand for the year ended May 31, 2010 as a result of lower cash and investment balances.

We utilized cash of $3.7 million in our operating activities in the year ended May 31, 2010 compared with $7.2 million in the prior year. The decrease is primarily a result of a reduced loss from operations and increased accounts payable and accrued liabilities balances in the current year.

At May 31, 2010, we had cash and cash equivalents and short-term investments of $914 thousand compared to $5.9 million at May 31, 2009.

As a result of the Company's current cash position, management is currently undertaking actions to reduce expenditures while at the same time pursuing investment and other opportunities aimed at funding its research and development programs. As part of its cost reduction strategies, management expects to reduce its research and development costs by limiting activities and reduce its general and administrative costs by limiting expenditures and reducing its labour costs, among other things, until such time as the Company has sufficient capital to support a full development program.

Selected Annual Financial Data

The following selected consolidated financial data has been derived from, and should be read in conjunction with, the accompanying audited Financial Statements for the year ended May 31, 2010 which are prepared in accordance with Canadian GAAP.

Consolidated Statements of Loss and Deficit[1]

(amounts in Canadian 000's except for per common share data)	Years Ended May 31		
	2010	**2009**	2008
REVENUE	**$ 131**	$ 184	$ 43
EXPENSES			
Cost of sales	**-**	-	2
Research and development	**2,517**	3,757	6,260
General and administrative	**2,964**	2,958	3,715
Stock-based compensation	**176**	446	719
Depreciation and amortization	**86**	189	317
Operating expenses	**5,743**	7,350	11,013
Interest expense on convertible debentures	**54**	707	1,029
Accretion in carrying value of secured convertible debentures	**80**	1,707	1,176
Amortization of deferred financing charges	**-**	-	-
Interest income	**(21)**	(270)	(542)
Loss from operations for the period	**(5,725)**	(9,310)	(12,633)
Gain on sale of shares	**50**	450	6,299
Net earnings (loss) and other comprehensive income	**5,331**	(8,860)	(6,334)
Basic and diluted earnings (loss) per common share	**$ 0.57**	$ (1.08)	$ (0.87)
Weighted average number of common shares outstanding used in the calculation of			
basic earnings (loss) per share	**9,364**	8,236	7,169
diluted earnings (loss) per share[2]	**9,379**	8,236	7,169
Total Assets	**$ 2,303**	$ 7,527	$ 11,607
Total Long-term liabilities	**$ -**	$ -	$ 12,742

(1) On July 10, 2007, the Company completed the Arrangement. As a result of the Arrangement, each common share of Old Lorus was exchanged for one common share of the Company and the assets (excluding certain future tax assets and related valuation allowance) and liabilities of Old Lorus were transferred 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 above reflect that of the Company as if it had always carried on the business formerly carried on by Old Lorus.

(2) In accordance the authority granted by shareholders at the Company's annual and special meeting on November 30, 2009 to permit it to implement a consolidation of the Company's outstanding common shares in a ratio of between 1-for-10 and 1-for-50 at any time prior to November 30, 2010, the Company's Board of Directors approved a 1-for-30 share consolidation which became effective May 25, 2010. The share consolidation affects all of the Company's common shares, stock options and warrants outstanding at the effective time. Prior to consolidation the Company had approximately 298 million shares outstanding. Following the share consolidation, the Company had approximately 9.9 million common shares outstanding. Similarly, prior to consolidation, the Company had approximately 20.2 million stock options and 36.9 million warrants to purchase common shares outstanding. Following the share consolidation, the Company had approximately 673 thousand stock options and 1.3 million warrants to purchase common shares outstanding. All references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation. All amounts based on the number of shares, stock options or warrants, unless otherwise specified, such as earnings (loss) per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of 1-for-30 share consolidation.

Recent Accounting Pronouncements Adopted -Canadian GAAP

The following accounting policies were adopted during the year ended May 31, 2010.

Goodwill and Intangible Assets:

Effective June 1, 2009, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and establishes the standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard did not have an impact on the Company's consolidated financial statements.

Financial instruments:

Effective June 1, 2009, the Company adopted the amendments under Handbook Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of the new standard did not have a material impact on the consolidated financial statements.

The following accounting policies were adopted during the year ended May 31, 2009.

Credit risk and fair value of financial assets and financial liabilities:

Effective January 1, 2009, the Company adopted Emerging Issue Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Emerging Issue Committee Abstract 173 requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the new standard did not have a material impact on the consolidated financial statements.

Capital disclosures:

Effective June 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1535, Capital Disclosures. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about: (i) an entity's objectives, policies and processes for managing capital; (ii) an entity's compliance with any capital requirements; and (iii) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by Section 1535 in note 8 of the financial statements included in Item 18 of this Annual Report.

Financial instruments:

Effective June 1, 2008, the Company adopted the new recommendations of Canadian Institute of Chartered Accountants Handbook Section 3862, Financial Instruments - Disclosures and Handbook Section 3863, Financial Instruments - Presentation. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. The Company has included disclosures recommended by these new Handbook Sections in note 9 of the financial statements included in Item 18 of this Annual Report.

General standards of financial statement presentation:

In May 2007, the Accounting Standards Board amended Canadian Institute of Chartered Accountants Handbook Section 1400 "General Standards of Financial Statement Presentation", to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern.

The main features of the changes are as follows:

i. management is required to make an assessment of an entity's ability to continue as a going concern;

ii. in making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;

iii. financial statements must be prepared on a going concern basis unless management either intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;

iv. disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and

v. when financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

The effective date of these amendments is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically June 1, 2008 for the Company. The new disclosure requirements pertaining to this Section are contained in note 1 of the financial statements included in Item 18 of this Annual Report.

The following accounting policies were adopted during the year ended May 31, 2008.

Financial instruments - disclosure and presentation

Effective June 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement, 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 GAAP. As a result of adopting the above standards, the Company did not recognize any other comprehensive income in its financial statements.

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

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.

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, 2010 of $8 thousand (2009 - $10 thousand, 2008 - $7 thousand).

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.

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 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.

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.

Recent Accounting Pronouncements Adopted - U.S. GAAP

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"), which is primarily codified in ASC Topic 820 and delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the Company's fiscal 2010 year. The adoption of this standard, when applied to non-financial assets and non-financial liabilities, did not have a material impact on the results of operations or financial position.

In December 2007, the FASB issued Statement No. 141R, which is primarily codified in ASC Topic 805,and requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. ASC Topic 805 applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under ASC Topic 805, all business combinations will be accounted for by applying the acquisition method. ASC Topic 805 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, specifically June 1, 2009 for the Company. As the Company did not enter into any business combination transactions on or after June 1, 2009, the adoption of this standard did not have any impact on the consolidated interim financial statements.

In December 2007, the FASB issued Statement No. 160, which is primarily codified in ASC Subtopic 810-10, and requires non-controlling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside permanent equity. ASC Subtopic 810-10 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. ASC Subtopic 810-10 is effective for annual periods beginning on or after December 15, 2008, specifically June 1, 2009 for the Company. The adoption of this standard did not have an impact on the results of operations or financial position.

In December 2007, the FASB ratified EITF No. 07-1, Accounting for Collaborative Agreements ("EITF 07-1"), which is primarily codified in ASC Topic 808 and provides guidance on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure requirements. ASC Topic 808 is effective for the first annual or interim reporting period beginning after December 15, 2008, specifically June 1, 2009 for the Company and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The adoption of this standard did not have an impact on the results of operations or financial position.

On June 1, 2008, the Company adopted ASC Subtopic 820-10 "Fair Value Measurements" formerly FASB Statement No. 157, which defines fair value, establishes a framework for measuring fair value under United States GAAP, and expands disclosures about fair value measurements. ASC Subtopic 820-10 applies to other accounting pronouncements that require or permit fair value measurements.

ASC Subtopic 820-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability. The adoption of this standard did not have an impact on the results of operations or financial position other than the additional disclosures as shown below.

(i) Fair value hierarchy:

ASC Subtopic 820-10 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Subtopic 820-10 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC Subtopic 820-10 prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 - applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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 Annual Report. Other important accounting polices are described in note 3 of the Financial Statements included in Item18 of this Annual Report.

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 Canadian GAAP.

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. 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 Canadian 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 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.

To date management believes that there have been no material changes to the assumptions used in the preparation of these financial statements that would materially affect the valuations of the above. The Company continues to actively use its long lived assets.

Recent Accounting Pronouncements Yet To Be Adopted - Canadian GAAP

The following Recent Accounting Pronouncements under Canadian GAAP have yet to be adopted:

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board requires all Canadian publicly accountable entities to adopt International Financial Reporting Standards ("**IFRS**") for years beginning on or after January 1, 2011. The Company's first annual filing under IFRS will be for the year ended May 31, 2012; its first quarterly filing under IFRS will be for the quarter ending August 31, 2011 and will include IFRS comparative figures for the period ended August 31, 2010. Accordingly, the Company's adoption date for IFRS is June 1, 2011, but its transition date ("Transition Date") is June 1, 2010 in order to present IFRS comparative figures in the Company's 2011 consolidated financial statements.

IFRS uses a conceptual framework similar to Canadian GAAP, however, there are significant differences in recognition, measurement and disclosure. Given the nature of Lorus' business and the make-up of its current balance sheets, IFRS could have an impact on its reported financial statements. The Company's implementation of IFRS will require the Company to make and disclose certain policy choices and increase the amount of disclosure necessary to fulfill its IFRS reporting obligations.

During 2009, a detailed project plan with expected milestones was established and approved by senior management of the Company. There are three phases to the plan: a diagnostic phase, a solution development phase and an implementation phase. The plan involves an assessment of the impact of the move to IFRS on accounting and reporting (including any Impact on the Company's internal controls over financial reporting, disclosure controls and procedures, IT systems and processes, and the business implications of this conversion). The Company has allocated resources and included in its project plan training required for both the conversion team and all impacted employees of the organization.

The Company has substantially completed the diagnostic phase and has begun the second and third phases of its plan. During 2010, the Company continued to make progress on its established milestones including analyzing its policy selections both on conversion and post conversion as well as evaluating new financial statement disclosure requirements.

Moving forward, the Company expects to meet all milestones leading up to the conversion in 2012. In 2011, the Company expects to finalize the elections under IFRS 1, publish new policy choices and quantify the impact of the changes to the consolidated financial statements in preparation for the 2012 conversion.

Recent Accounting Pronouncements Yet To Be Adopted - U.S. GAAP

The following Recent Accounting Pronouncements under U.S. GAAP have yet to be adopted:

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 "Fair Value Measurement and Disclosures Topic 820 - Measuring Liabilities at Fair Value", which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of liabilities. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-08 "Earnings Per Share - Amendments to Section 260-10-S99", which represents technical corrections to topic 260-10-S99, Earnings per share. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. This update addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than a combined unit and will be separated in more circumstances than under existing US GAAP. This amendment has eliminated the residual method of allocation And is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

Operating Results

Revenue

For the year-ended May 31, 2010, revenue decreased to $131 thousand from $184 thousand in the same period last year and $43 thousand in 2008. This decrease in revenue in the current year is related to the timing of recognition of milestone payments associated with the license of Virulizin to ZOR Pharmaceuticals. In prior years Lorus received two milestone payments under the license agreement, one upon signing the agreement and a second upon ZOR achieving a financing milestone. The milestone revenue has been recognized over the period of a service contract period whereby Lorus agreed to provide consulting services to ZOR. The milestone revenue was fully recognized by the end of the second quarter of 2010 as the service agreement with ZOR expired in October 2009.

The increased revenue in 2009 compared with 2008 is primarily related to the recognition of the milestone revenue from ZOR.

Research and Development

Research and development expenses totaled $2.5 million in the year ended May 31, 2010 compared to $3.8 million during the prior year and $6.3 million in 2008. The decrease in expenditures of $1.2 million during the current year compared to the same period in the prior year is primarily a result of the cost of toxicity studies for our lead small molecule drug candidate LOR-253 completed in fiscal 2009. No similar costs were incurred in the current year. In addition, we reduced overall, non-critical research and development costs in response to the current cash position.

The decrease in spending during the year ended May 31, 2009 compared with the prior year is due to the GLP-toxicity studies for both our LOR-2040 bladder cancer and LOR-253 small molecule programs during the 2008 fiscal year as well as the cost of manufacturing LOR-2040 further increasing the research and development spending costs in 2008. In 2009, we manufactured LOR-253 drug, our lead small molecule, the manufacturing cost of which is significantly less than LOR-2040.

Costs incurred during the current period and to date are summarized in note 11 to the Financial Statements. In respect of future costs to be incurred on the Company's principal pipeline products:

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 NCI. Lorus selected AML as a lead cancer indication for clinical development of LOR-2040. LOR-2040 has completed 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. The Company is currently developing the protocol for a Phase III clinical trial to further develop LOR-2040 and actively seeking partnerships to share in the future development.

Small Molecule

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. The Company is preparing for the initiation of a Phase I clinical trial for the further development of LOR-2040.

Immunotherapy

This clinical approach stimulates the body's natural defences against cancer. The Company's immunotherapy product candidate is IL-17E. The Company also retains economic interests in Virulizin®

In April 2008, the Company announced the signing of an exclusive multinational license agreement with ZOR Pharmaceuticals, LLC to further develop and commercialize Virulizin™ for human therapeutic applications. In June 2009, as part of the consideration for our repurchase of the secured convertible debentures from The Erin Mills Investment Corporation ("TEMIC"), the Company assigned to TEMIC the rights under the license agreement with ZOR Pharmaceuticals, LLC, sold to TEMIC the intellectual property associated with Virulizin, but retained a perpetual royalty free license for the animal use of Virulizin. TEMIC is fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR Pharmaceuticals, LLC license agreement.

IL-17E is a protein-based therapeutic that the Company is developing as an immunotherapy for cancer treatment currently in the pre-clinical development stage.

General and Administrative

General and administrative expenses totaled $3.0 million for the year ended May 31, 2010 compared to $3.0 million in the prior year and $3.7 million in 2008. While the general and administrative expenses in the current year were consistent with the prior year, there were significant reductions to personnel, travel, board of directors and general office costs as we work to conserve cash and reduce our burn rate these savings were offset by financing costs of $569 thousand associated with a financing terminated subsequent to year end (described below). The decrease in general and administrative costs for 2009 compared to 2008 is the result of lower personnel, travel, board of directors and general office costs.

Stock-Based Compensation

Stock-based compensation expense, net of forfeitures, totaled $176 thousand for the year ended May 31, 2010 compared with $446 thousand in the prior year and $719 thousand in 2008. The lower stock based compensation for the year ending May 31, 2010 is due primarily to a lower share price and therefore lower fair value for options granted in the current year. The decrease in option expense for the year ended May 31, 2009 compared with May 31, 2008 is the result of expense associated with a one-time increase in options granted that vested immediately in order to bring option granting practices in line with industry standards in 2008, no similar transaction occurred in 2009 or 2010. Also in 2008, the Company recorded an expense of $83 thousand relating to the extension of options to directors not standing for re-election at the Company's annual general meeting and Dr. Wright for options granted in his capacity as President and CEO. A similar extension was made in 2009 for directors not seeking re-election resulting in a $3 thousand additional expense.

Depreciation and Amortization

Depreciation and amortization expenses decreased to $86 thousand in the year ended May 31, 2010 as compared to $189 thousand in the prior year and $317 thousand in 2008. The decrease in depreciation and amortization expense is the result of reduced capital asset purchases over the past several fiscal years. During 2009, we acquired research and development equipment that provides us with the ability to do certain testing in house that was previously outsourced.

Interest Expense

Interest expense was $54 thousand compared with $707 thousand for the prior year and $1.0 million in 2008. During the year ended May 31, 2010 $27 thousand interest expense was paid to the debenture holders (prior to June 22, 2010) with $15 thousand in common shares and $12 thousand in cash with the remaining $27 thousand in interest expense accrued on the two $1 million, 10% interest promissory notes (described under 'transactions with related parties') advanced during the year. The interest expense in 2009 and 2008 was for non-cash payments related to the interest payable at a rate of prime plus 1% on the $15.0 million convertible debentures which were repurchased in June 2009. The Company benefited from lower interest rates in 2009 as compared to 2008 due to a reduced prime rate of interest. All interest on the debentures (prior to May 31, 2009) was paid in common shares of the Company.

Accretion in Carrying Value of Secured Convertible Debentures

Accretion in the carrying value of the Company's secured convertible debentures was $80 thousand in the year ended May 31, 2010 compared with $1.7 million in the prior year and $1.2 million in 2008. The current year amount of $80 thousand relates to the period in the current year during which the convertible debentures were outstanding, June 1, 2009 to June 19, 2009. Accretion 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 was required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures would have been the face value of $15.0 million. The increase in expense year ended May 31, 2009 compared with the prior year is due to the increasing principal balance to which the implicit interest is applied in determining the accretion amount.

Interest Income

Interest income totalled $21 thousand in the year ended May 31, 2010 compared to $270 thousand in the prior year and $542 thousand in 2008. The decrease in interest income during the current year is due to significantly lower average cash and marketable securities balances throughout the year and lower interest rates available on investments in comparison with the prior years.

Loss from operations for the period

For the reasons discussed above, our loss from operations for the year ended May 31, 2010 decreased to $5.7 million ($0.61 per share) compared to $9.3 million ($1.13 per share) in the prior year and $12.6 million ($1.74 per share) in 2008. During the current year the Company recognized a $11.0 million gain on the extinguishment of its convertible debentures in June 2009 and a gain of $50 thousand related to a reduction in the indemnification liability. These gains resulted in net earnings and other comprehensive earnings of $5.3 million (earnings $0.57 per share) for the year ended May 31, 2010. During the year ended May 31, 2009 the Company recorded a gain on sale of shares related to the Arrangement of $450 thousand which resulted in a net loss and other comprehensive loss of $8.9 million ($1.08 per share). During the year ended May 31, 2008, the Company realized a gain related to the Arrangement in the amount of $6.3 million resulting in a net loss and other comprehensive loss for the period of $6.3 million ($0.87 per share).

Gain on repurchase of convertible debentures and transfer of assets

The terms of the secured convertible debentures are described in note 13 to the Company's annual financial statements for the period ended May 31, 2010. The Company repurchased these debentures, which were originally due on October 6, 2009, on June 19, 2009.

Under the agreement, Lorus repurchased all of the convertible debentures from The Erin Mills Investment Corporation for consideration that included a cash payment on close of the transaction of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals Inc, LLC, certain intellectual property associated with Virulizin and all of Lorus' shares in its wholly owned subsidiary, Pharma Immune Inc., which held an equity interest in ZOR. Under the agreement, Lorus is entitled to 50% of any royalties received under the ZOR license agreement and 50% of the value of any transaction completed in territories not covered by the ZOR license agreement. Lorus also retains a perpetual royalty free license for the animal use of Virulizin. The Erin Mills Investment Corporation will be fully responsible for all clinical and regulatory costs associated with the commercialization of Virulizin in territories not covered by the ZOR license agreement. Lorus will assist The Erin Mills Investment Corporation with certain agreed upon services.

For receipt of the intellectual property associated with Virulizin and all of Lorus' shares in Pharma Immune Inc., The Erin Mills Investment Corporation released all security interest in the assets of Lorus.

As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of $11.0 million reflecting the difference between the fair value of the debentures at the repurchase date, net of transaction costs of approximately $221 thousand, and the cash payment amount of $3.3 million. In addition, as a result of extinguishing the debentures in the amount of $3.8 million, the equity portion of the debentures, was transferred to contributed surplus. The gain on repurchase of the debentures does not result in income taxes payable as the Company has sufficient capital loss and non-capital loss carryforwards to shelter these gains. Capital loss and non-capital loss carryforwards, and the associated valuation allowance have been reduced accordingly.

Gain on sale of shares

As a result of the Arrangement described above, the Company recognized a gain on the sale of the shares of Old Lorus to the investor of approximately $6.3 million for the year ended May 31, 2008 and a gain on sale in 2009 of $450 thousand which represents the $600 thousand released from escrow less $150 thousand accrued as management's estimate of the fair value of the liability associated with the indemnification described below. This liability was reduced to $100 thousand in the current year resulting in a gain on sale of $50 thousand in the year ended May 31, 2010. The reduction in liability is the result of the passage of time and related reduction in risk associated with claims under the liability. This liability is included on the balance sheet in Accrued Liabilities as at May 31, 2010.

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 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 of the Arrangement; (ii) prior to, at or after the effective time of the Arrangement 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 of the Arrangement and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the Arrangement.

There have been no claims under this indemnification to date.

Terminated US financing

In April 2010, the Company filed a Registration Statement on Form F-1 with the SEC for an offering of up to US$17.5 million of units in the United States. In August 2010, subsequent to year end, the Company announced that due to unfavourable market conditions the F1 would be withdrawn and the public financing would not proceed.

The Company incurred fees of approximately $569 thousand related to this filing which have been included in general and administrative expenses for the year ended May 31, 2010 and an additional $200 thousand in fees incurred subsequent to year end which will be paid in the year ended May 31, 2011.

Share Consolidation

In accordance the authority granted by shareholders at the Company's annual and special meeting on November 30, 2009 to permit it to implement a consolidation of the Company's outstanding common shares in a ratio of between 1-for-10 and 1-for-50 at any time prior to November 30, 2010, the Company's Board of Directors approved a 1-for-30 share consolidation which became effective May 25, 2010. The share consolidation affects all of Lorus' common shares, stock options and warrants outstanding at the effective time. Fractional shares were not issued. Prior to consolidation the Company had approximately 298 million shares outstanding. Following the share consolidation, Lorus has approximately 9.9 million common shares outstanding. Similarly, prior to consolidation, the Company had approximately 20.2 million stock options and 36.9 million warrants to purchase common shares outstanding. Following the share consolidation, the Company had approximately 673 thousand stock options and 1.3 million warrants to purchase common shares outstanding.

In this Annual Report, all references to number of shares, stock options and warrants in the current and past periods unless otherwise specified, have been adjusted to reflect the impact of the consolidation, All amounts based on the number of shares, stock options or warrants, such as (earnings) loss per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of the 1 for 30 share consolidation.

License Transactions

Effective April 8, 2008, we entered into a non-exclusive multinational license agreement with ZOR Pharmaceuticals, LLC 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 received an upfront licensing fee of $100 thousand and a subsequent milestone payment of $170,000, and were entitled to receive in excess of US$12 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 Pharmaceuticals, LLC assumed all future costs for the development of the licensed technology.

At the same time, we entered into a service agreement with ZOR Pharmaceuticals, LLC to assist in the transfer of knowledge. Under this agreement, we agreed to provide ZOR Pharmaceuticals, LLC with 300 hours of consulting service during a period of 18 months.

In addition, we acquired a 25% equity interest in ZOR Pharmaceuticals, LLC in exchange for a capital contribution of $2,500.

On June 22, 2009, the Company reached a settlement with The Erin Mills Investment Corporation with respect to the purchase and settlement of the $15.0 million secured convertible debentures.

Under the agreement, Lorus purchased all of the convertible debentures from The Erin Mills Investment Corporation for a cash payment on close of the transaction of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals, LLC, sale of intellectual property associated with Virulizin and sale of Lorus' shares in its wholly owned subsidiary, Pharma Immune Inc., which holds an equity interest in ZOR Pharmaceuticals, LLC. Under the agreement, Lorus will be entitled to 50% of any royalties received under the ZOR Pharmaceuticals, LLC license agreement and 50% of the value of any transaction completed in territories not covered by the ZOR Pharmaceuticals, LLC license agreement. Lorus also retains a perpetual royalty free license for the animal use of Virulizin. The Erin Mills Investment Corporation will be fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR Pharmaceuticals, LLC license agreement. Lorus will assist The Erin Mills Investment Corporation with certain agreed upon services.

For receipt of the intellectual property associated with Virulizin and all of Lorus' shares in Pharma Immune Inc., The Erin Mills Investment Corporation has released all security interest in the assets of Lorus.

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 TSX and the NSYE Amex (formerly the American Stock Exchange). As discussed under the heading "Regulatory Matters" below, the Company voluntarily delisted from the NYSE Amex effective October 31, 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. In October 2007, Old Lorus changed its name from 4325231 Canada Inc. to Global Summit Real Estate Inc.

Quarterly Results of Operations

The selected financial information provided below is derived from the Company's unaudited quarterly financial statements for each of the last eight quarters.

Revenue recognized over the past eight quarters is primarily related to milestone payments received from ZOR Pharmaceuticals, LLC for the license of Virulizin. Lorus received two milestone payments under the license agreement, one upon signing the agreement and a second upon ZOR Pharmaceuticals, LLC achieving a financing milestone. The milestone revenue was recognized over the period of a service contract period whereby Lorus agreed to provide consulting services to ZOR Pharmaceuticals, LLC. The milestone revenue was fully recognized by the end of the second quarter of 2010 as the service agreement with ZOR Pharmaceuticals, LLC expired in October 2009.

Research and development expenditures have been consistent over the past eight quarters with increased activity in the quarters ended February 28, 2009 and August 31, 2008. The increase in August 31, 2008 was a result of increased activity related to the LOR-2040 bladder cancer studies and LOR-253 GLP toxicity costs which were predominantly wrapped up in this quarter. Increased research and development spending in the quarter ended February 28, 2009 was due to the manufacture of LOR-253 drug.

General and administrative expenses have trended lower for the past year quarter over quarter due to reduced headcount, a small board of directors (and related costs) as well as an overall reduction in spending to conserve cash balances. The increase in general and administrative costs for the quarter ended May 31, 2010 was due to the write off of $569K in costs associated with a terminated financing initiative.

The net earnings shown in the quarter ended August 31, 2009 is related to the gain on settlement of the convertible debentures described above.

Cash used in operating activities was significantly lower in the quarters ended May 31, 2010, November 30, 2009 and August 31, 2009 due to increased accounts payables and accrued liabilities balances.

(Amounts in 000's except for per common share data)	**May 31, 2010**	**Feb 28, 2010**	**Nov. 30, 2009**	**Aug. 31, 2009`**	**May 31, 2009**	**Feb 28, 2009**	**Nov. 30, 2008**	**Aug. 31, 2008**
Revenue	$ -	$ 3	$ 79	$ 49	$ 78	$ 64	$ 39	$ 3
Research and development expense [(1)]	601	718	658	540	701	1,090	741	1,225
General and administrative expense[(1)]	1,173	515	743	533	516	775	873	794
Net (loss) earnings	(1,820)	(1,343)	(1,266)	9,760	(1,895)	(2,469)	(2,284)	(2,212)
Basic and diluted net (loss) earnings per share	$ (0.18)	$ (0.14)	$ (0.14)	$ 1.14	$ (0.22)	$ (0.29)	$ (0.27)	$ (0.29)
Cash used in operating activities	$ (271)	$ (1,812)	$ (651)	$ (987)	$ (1,394)	$ (1,789)	$ (2,080)	$ (1,950)

(1) Prior quarter amounts have been reclassified to conform to the financial statement presentation subsequent to that date.
Earnings per share (EPS) is shown as reported as per the quarterly published financial statements. Share issuances during the second quarter result in different weighted average share numbers each quarter and as such the quarterly EPS will not total the annual EPS.

Outstanding Share Data

As at November 26, 2010, the Company had 14,103,030 common shares issued and outstanding and 4,924,623 common share purchase warrants convertible into an equal number of common shares. In addition, the Company had issued and outstanding 599,813 stock options to purchase an equal number of common shares.

B. Liquidity and capital resources

The Company's objectives when managing capital are to:

- Maintain its ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders;
- Maintain a flexible capital structure which optimizes the cost of capital at acceptable risk;
- Ensure sufficient cash resources to fund its research and development activity, to pursue partnership and collaboration opportunities and to maintain ongoing operations.

At May 31, 2010, the capital structure of the Company consisted of equity comprised of share capital, warrants, stock options, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, acquiring or disposing of assets, adjusting the amount of cash and short-term investments balances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company settled its secured convertible debentures and extinguished its liability in the amount of $15.0 million for consideration consisting of cash and other assets in June 2009. The Company expects that its current capital resources will not be sufficient to carry out its research and development plans and operations for the next twelve months without further investment. (See "Liquidity and Capital Resources")

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2009.

Promissory notes

On August 27, 2010, subsequent to the year end, the Company announced a proposed rights offering as described above including a $4 million standby purchase agreement from a director of the Company Mr. Abramson. Mr. Abramson also provided the Company with interim financing by way of three $500 thousand six month loans, advanced on August 11, 2010, September 13, 2010 and October 5, 2010. The loans were unsecured, have a six-month term (or the earlier of the closing of the rights issue) and bore interest at the annual rate of 10%. All three notes were repaid upon the close of the rights offering described above.

In April 2010, the Company entered into a loan agreement with a company related to a member of its Board of Directors to borrow $1 million. The loan amount, which was received on April 14, 2010, is unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The funds were used for general working capital purposes.

In October 2009, the Company entered into a loan agreement with the same member of our Board of Directors to borrow $1 million. The loan amount, which was received on October 6, 2009, was unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The principal and interest were due in six months. The principal amount of $1.0 million was applied to subscribe for Units as part of the November 27, 2009 private placement.

Private Placement

On November 27, 2009, pursuant to a private placement, the Company issued 1.366 million common shares and 683 thousand common share purchase warrants in exchange for cash consideration of $2.5 million. This amount includes the principal amount of $1.0 million originally received by way of a loan from a director on October 6, 2009 which was applied to subscribe for Units as part of the private placement. In addition, the Company issued 72 thousand brokers' warrants to purchase an equivalent number of common shares at $2.40 until May 27, 2011. The total costs associated with the transaction were approximately $250 thousand which included the $77 thousand which represented the fair value of the brokers' warrants. The Company has allocated the net proceeds of the private placement to the common shares and the common share purchase warrants based on their relative fair values. Based on relative fair values, $1.7 million of the net proceeds was allocated to the common shares and $545 thousand to the common share purchase warrants.

Rights Offering

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 for the rights offering, received one right for each common share held as of the record date. Each four rights entitled the holder thereof to purchase a unit of Lorus. Each unit consists of one common share of Lorus at $3.90 and a one-half common share purchase warrant to purchase additional common shares of Lorus at $4.53 per common share until August 7, 2010.

Pursuant to the rights offering the Company issued 951 thousand common shares and 571 thousand common share purchase warrants in exchange for cash consideration of $3.7 million. The total costs associated with the transaction were $500 thousand. The Company allocated the net proceeds of $3.2 million received from the issuance of the units to the common shares and the common share purchase warrants based on their relative fair values. The fair value of the common share purchase warrants has been determined based on an option pricing model. The allocation based on relative fair values resulted in the allocation of $2.8 million to the common shares and $417 thousand to the common share purchase warrants.

Cash Position

At May 31, 2010, Lorus had cash and cash equivalents and short-term investments totalling $914 thousand compared to $5.9 million at May 31, 2009. 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, cash equivalents, short term investments and other current assets less current liabilities) at May 31, 2010 was a deficiency of $1.3 million as compared to a deficiency of $9.2 million at May 31, 2009 (which included the $15 million convertible debentures)).

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.

If we are able to secure additional financing, we intend to use these 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 ability of the Company to raise additional capital, 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.

As discussed above, management has forecasted that the Company's current level of cash, cash equivalents and short-term investments will not be sufficient to execute its current planned expenditures for the next twelve months without further investment.

Subsequent Events

Subsequent to the year ended May 31, 2010, due to unfavourable market conditions, the Company withdrew a previously announced equity issue.

On September 27, 2010 Lorus filed a final short form prospectus in each of the provinces of Canada in connection with a distribution to its shareholders in eligible jurisdictions outside the United States of rights exercisable for units of the Company.

Under the Rights Offering, holders of common shares of the Company as of October 12, 2010, the record date, received one right for each common share held as of the record date. Each two rights entitled the holder thereof to purchase a unit of the Company at a price of $1.11 per unit. The subscription price of $1.11 per unit represents a discount of 10% to the volume weighted average closing price of the Company's shares for the five trading days immediately prior to filing of the final prospectus. Each unit consists of one common share of the Company and one warrant to purchase an additional common share of the Company at a price of $1.33 until May 2012. If at any time after 6 months following November 9, 2010 the price of Lorus' common shares on the TSX equals or exceeds $2.33 for five consecutive trading days, Lorus may call the warrants for cancellation. The expiry date for the rights offering was 5:00 P.M. (Eastern) on November 8, 2010.

A total of 4.2 million units of the Company at a price of $1.11 per unit were issued in connection with the rights offering. As a result of the rights offering Lorus issued 4.2 million common shares and 4.2 million common share purchase warrants.

In connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Herbert Abramson, one of Lorus' directors. Mr. Abramson agreed to make an investment such that the minimum gross proceeds of the proposed rights offering would be $4 million. No fee was payable to Mr. Abramson for this commitment. In accordance with the terms of the stand-by purchase agreement, Mr. Abramson subscribed for 3.6 million of the 4.2 million units of the offering for $4.0 million.

The Company used some of the proceeds to repay the $1.5 million interim financing promissory notes to Mr. Abramson as well as to prepay the $1 million promissory note outstanding to Trapeze Capital Corporation, a corporation affiliated with Mr. Abramson. The Company expects to use the remaining proceeds from the offering to fund research and development activities and for general working capital purposes. Following these transactions the Company has no debt other than trade accounts payables.

See also "Item 7 - Major Shareholders and Related Party Transactions."

C. Research and development, patents and licenses, etc.

Certain information concerning research and development and intellectual property is set forth in Item 4, "Information on the Company".

D. Trend information

The Company does not currently know of any significant trends that would be material to our operations.

E. Off-balance sheet arrangements

As at May 31, 2010, we have not entered into any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations

(Amount in '000s)

	Less than 1 year	1-3 years	More than 3 years	Total
Operating leases	129	9	-	138
Total	**129**	**9**	**-**	**138**

Lorus has incurred approximately $200 thousand in costs, subsequent to the year-end, related to the postponed US financing which are owed despite the termination of the proposed financing.

In addition, the Company is party to certain licensing agreements that require it to pay a proportion of any fees that it may receive from future revenues or milestone payments. As of May 31, 2010 no amounts have been received by the Company relating to these licensing agreements and therefore, no amounts are owing and the amount of future fees is not determinable.

The Company has entered into various consulting agreements that upon execution of a partnership agreement could result in liabilities owing to such consultants. The amounts payable in these agreements are contingent on the amounts receivable by Lorus under such partnership agreements. As of May 31, 2010 no amounts were owing and the amount of future fees payable to the consultants are not determinable.

Under the Arrangement, Lorus 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 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.

Lorus has recorded a liability of $100 thousand, which we believe is a reasonable estimate of the fair value of the obligation for the indemnifications provided. The liability has been reduced in the current year to $100 thousand from $150 thousand due to changes in assumption resulting from the passage of time. There have been no claims under this indemnification to date. This amount is included on the balance sheet in Accrued Liabilities at May 31, 2010.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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, a Corporate Governance and Nominating Committee and a Compensation Committee the members of each such committee are shown below. As at May 31, 2010, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over approximately 1.6 million common shares or approximately 16% of our outstanding common shares.

Name and Province/State and Country of Residence	Position	Director or Officer Since
Directors:		
Herbert Abramson(3) (1) Ontario, Canada	Director	July 2007
Denis Burger(1)(2) Oregon, United States	Chairman, Director	September 2007
Dr. Mark Vincent(3) Ontario, Canada	Director	September 2007
Dr. Jim Wright(2) Ontario, Canada	Director, former President and Chief Executive Officer	October 1999
Officers:		
Dr. Aiping Young Ontario, Canada	President and Chief Executive Officer, Director	October 1999
Dr. Saied 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.

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

Herbert Abramson: Mr. Abramson is a co-founder and Chairman of Trapeze Capital Corp., an investment dealer and portfolio management company and is also Chairman of Trapeze Asset Management Inc., an affiliated investment counselling 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.

Dr Denis Burger: Dr. Burger is currently Executive Chairman of Biocide, Inc. (2009 to present) and 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.

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 Nu Quest Bio Inc. and has been since 2006. As of July 1, 2010 Dr. Wright has accepted a position as Adjunct Professor in the Department of Biochemistry and Biomedical sciences at McMaster University. 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 Technologies Inc. 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. Saied 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 Technologies Inc. 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.

There are no family relationships among the persons named above and there are no arrangements or understanding with major shareholders, customers, suppliers or others pursuant to which any person was selected as a director or member of senior management.

The following table outlines other reporting issuers that Board members are directors of:

Director	Reporting Issuer
Herbert Abramson	St Andrew Goldfields Ltd.
Denis Burger	Trinity Biotech plc BioCurex, Inc.
Mark Vincent	-
Jim A. Wright	-
Aiping Young	-

B. Compensation

Summary of Executive Compensation

The following table details the compensation information for the most recent fiscal year of the Corporation, for the President and Chief Executive Officer, the Director of Finance and Acting Chief Financial Officer, the Vice President of Business Development and the Vice President of Research ("**named executive officers**"). The figures are in Canadian dollars.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary ($)	Share-based awards ($)	Option-based awards[1] ($)	Non-equity incentive plan compensation		Total Compensation ($)
					Annual incentive plans ($)	Long-term incentive plans	
Dr. Aiping Young President and Chief Executive Officer	2010	336,480	N/A	70,500	129,792	Nil	536,772
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer[2]	2010	16,319	N/A	7,050	11,933	Nil	35,299
Dr. Saied Babaei Vice President Business Development	2010	155,951	N/A	21,150	29,630	Nil	206,731
Dr. Yoon Lee ice President Research	2010	132,810	N/A	21,150	25,632	Nil	179,592

1. In determining the fair value of these option awards, the Black-Scholes valuation methodology was used with the following assumptions: (i) expected life of five years; (ii) volatility of 83%; (iii) risk free interest rate of 2.51%; and (iv) no dividend yield.

2. Ms. Williams was on maternity leave from July 2009 to June 2010.

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation ($)
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options/SARs Granted (#)[1]	
Dr. Aiping Young President and Chief Executive Officer	2010	336,480	129,792	Nil	50,000	Nil
Ms. Elizabeth Williams [2] Director of Finance, Acting Chief Financial Officer	2010	16,319	11,933	Nil	5,000	Nil
Dr. Saied Babaei Vice President, Business Development	2010	155,951	29,630	Nil	15,000	Nil
Dr. Yoon Lee Vice President, Research	2010	132,810	25,632	Nil	15,000	Nil

(1) Number of stock options granted during fiscal 2010. These options were granted on July 16, 2009 at a price of $2.10 and have a ten-year life.

Directors' Compensation

The following table details the compensation received by each Director for the year ended May 31, 2010:

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)[3]	All Other Compensation ($)	Total Compensation ($)
Mr. Herbert Abramson	37,500	Nil	9,750	Nil	47,250
Dr. Denis Burger[2]	74,040	Nil	19,500	Nil	93,540
Mr. Georg Ludwig[2][1]	20,603	Nil	9,750	Nil	30,353
Dr. Mark Vincent	29,000	Nil	9,750	Nil	38,750
Dr. Jim Wright	29,500	Nil	9,750	Nil	39,250

(1) Mr. Ludwig resigned from the Board of Directors on March 4, 2010.
(2) Non-Canadian directors were paid in U.S. dollars. The amounts disclosed above are in Canadian dollars converted from U.S. dollars at rates prevailing at the time of payment (December 1, 2009 - 1U.S.$ = CDN.$1.0432, January 7, 2010 - 1U.S.$ = CDN.$1.0525, April 14, 2010 - 1U.S.$ = CDN.$1.0435).
(3) In determining the fair value of these option awards, the Black-Scholes valuation methodology was used with the following assumptions: (i) expected life of five years; (ii) volatility of 114%; (iii) risk free interest rate of 2.44%; and (iv) no dividend yield.

During the fiscal year ended May 31, 2010, each director who was not an officer of the Corporation was entitled to receive 150,000 stock options (the Chair received 300,000) and, at their election, common shares, deferred share units and/or cash compensation for attendance at the board of directors of the Corporation committee meetings. Compensation consisted of an annual fee of $15,000 (the Chair received $35,000) and $1,500 per Board meeting attended ($4,500 to the Chair of a Board meeting). Members of the Audit Committee received an annual fee of $8,000 (the Chair received $10,000). Each member of the Compensation Committee and Corporate Governance and Nominating Committee received an annual fee of $5,000 per committee. Board members (including the Chair) receive $500 for meetings held via conference call. There have not been any changes to the fees from the prior year. Non-executive directors are reimbursed for any out-of pocket travel expenses incurred in order to attend meetings.

On December 3, 2009, stock options to purchase 30,000 common shares at a price of $2.40 per share expiring December 2, 2019 were granted, in aggregate, to our directors. These options vested 50% upon issuance and the remaining 50% will vest after one year.

Directors are entitled to participate in our Deferred Share Unit Plan. See "Equity Compensation Plans - Directors' and Officers' Deferred Share Unit Plan". None of our directors participated in this plan in the years ended May 31, 2010 or 2009.

Management Contracts

Under the employment agreement with President and Chief Executive Officer of the Corporation, Dr. Aiping Young, dated September 21, 2006, Dr. Young's salary for fiscal 2010 was $336,500. This agreement provides for a notice period equal to 18 months plus one additional month for each year of employment under the agreement in the event of termination without cause or a resignation. If within 18 months of a change of control of Lorus, Dr. Young's employment is terminated without cause or if she terminates the agreement with good reason as defined in the agreement, then she is entitled to receive the equivalent of two years' of her basic salary plus one month salary for each year under the agreement, plus an annual bonus prorated over the severance period (based on the bonus paid in respect of the last completed fiscal year).

Dr. Young will also be entitled to benefits coverage for the severance period or a cash payment in lieu thereof. The employment agreement provides that the Corporation may at any time assign Dr. Young to perform other functions that are consistent with her skills, experience and position within the Corporation. Dr. Young reports directly to the Board. The bonus and options allocation of the President and Chief Executive Officer is determined by the Board and is awarded based 100% on achievement of corporate objectives. Dr. Young is entitled to five weeks annual vacation prorated to reflect a period of employment less than a full calendar year.

Under the employment agreement with Director of Finance of the Corporation, Ms. Elizabeth Williams, dated May 31, 2004, Ms. Williams' salary for fiscal 2010 was $66,500. Ms Williams currently provides services on a part-time basis. This agreement provides for a notice period equal to the greater of one month and the applicable notice entitlement under employment legislation in the event of termination. Ms. Williams reports to the Chief Executive Officer. The bonus and options allocation of the Director of Finance is as recommended to the Board by the Chief Executive Officer. Ms Williams is entitled to four weeks of paid vacation, pro rated to reflect a period of employment less than a full calendar year.

Under the employment agreement with Vice President, Business Development of the Corporation, Dr. Saied Babaei, dated May 5, 2008; Dr. Babaei's salary for fiscal 2010 was $156,000. This agreement provides for a notice period equal to 4 months plus one additional month for each year of employment, to a maximum of 12 months. Dr. Babaei reports to the Chief Executive Officer. The bonus and options allocation of the Vice President, Business Development is as recommended to the Board by the Chief Executive Officer. Dr. Babaei is entitled to four weeks of paid vacation, pro rated to reflect a period of employment less than a full calendar year.

Under the employment agreement with Vice President of Research of the Corporation, Dr. Yoon Lee, dated May 5, 2008, Dr. Lee's salary of for fiscal 2010 was $133,000. This agreement provides for a notice period equal to 4 months plus one additional month for each year of employment, to a maximum of 12 months. Dr. Lee reports to the Chief Executive Officer. The bonus and options allocation of the Vice President of Research is as recommended to the Board by the Chief Executive Officer. Dr. Lee is entitled to five weeks of paid vacation, pro rated to reflect a period of employment less than a full calendar year.

Salary and bonus amounts for each of the Named Executive Officers paid during the fiscal year 2010 were as set out in the above Summary Compensation Table.

Equity Compensation Plans

The following table sets forth certain details as at the end of the fiscal year ended May 31, 2010 and at November 26, 2010 with respect to compensation plans pursuant to which equity securities of the Company are authorized for issuance.

	Number of Shares to be issued upon exercise of outstanding options (a)			Number of Common shares remaining available for future issuance under the equity compensation plans (Excluding Securities reflected in Column (a)) (c)		Total Stock Options outstanding and available for Grant (a) + (c)	
Plan Category	**Number**	**% of Common shares outstanding**	**Weighted-average exercise price of outstanding options (b)**	**Number**	**% of Common shares outstanding**	**Number**	**% of Common shares outstanding**
Equity compensation plans approved by Shareholders	599,813	4.3%	$6.78	1,515,641	10.7%	2,115,454	15.0%

Stock Option Plans

The stock option plans were established to advance the interests of Lorus by:

- Providing Eligible Persons (as defined below) with additional incentives;
- Encouraging stock ownership by Eligible Persons;
- Increasing the interest of Eligible Persons in the success of Lorus;
- Encouraging Eligible Persons to remain loyal to Lorus; and
- Attracting new Eligible Persons to Lorus.

Our original stock option plan was established in 1993 pursuant to our 1993 Stock Option Plan (the "**1993 Plan**"); however, due to significant developments in the laws relating to share option plans and our then future objectives, in November 2003 we created the 2003 Stock Option Plan (the "**2003 Plan**"), ratified by our Shareholders, pursuant to which all future grants of stock options would be made.

The Compensation Committee as authorized by the Board administers our stock option plans (collectively the "**Stock Option Plans**").

The 1993 Plan

Under the 1993 Plan, options were granted to directors, officers, consultants and employees of the Corporation or its subsidiaries ("**Eligible Persons**"). The total number of options issued under the 1993 Plan is 27,450. This represents 0.2% of the Company's issued and outstanding capital as at November 26, 2010. There were no further option grants made under the 1993 Plan after November 2003. Therefore, no further options are issuable under the 1993 Plan. The total number of common shares issuable under actual grants pursuant to the 1993 Plan is 27,450 being 0.2% of the Company 's issued and outstanding capital as at November 26, 2010.

The number of common shares issuable to insiders, at any time, under the 1993 Plan and any other compensation arrangement of the Corporation cannot exceed 10% of the issued and outstanding common shares of the Corporation. The number of shares issued to insiders, within any one year period, under the 1993 Plan and any other compensation arrangement of the Corporation cannot exceed 10% of the issued and outstanding common shares of the Corporation. The maximum percentage of common shares reserved for issuance to any one person is 5% of the issued and outstanding common shares of the Corporation. The exercise price of options granted under the 1993 Plan was established by the Board on the basis of the closing market price of common shares of the Corporation on the TSX on the last trading day preceding the date of grant. If such a price was not available, the exercise price was to be determined on the basis of the average of the bid and ask for the common shares on the TSX on the date preceding the date of grant. The Board determined the vesting period of options at the time of granting the option. The term of options granted under the 1993 Plan and outstanding as of October 7, 2004 is 10 years from the date of grant.

If an option holder ceases to be an officer, director, continuing consultant or employee of the Corporation or a subsidiary, each unexpired, vested option may be exercised within three months of the date of cessation. In the event of the death of an optionee, each unexpired, vested option may be exercised within nine months of the option holder's date of death.

Options granted under the 1993 Plan are not transferable. Currently, the 1993 Plan may be amended by the Board subject to regulatory approval in certain circumstances.

The 2003 Plan

Under the 2003 Plan, options may be granted to Eligible Persons. At November 26, 2010, the total number of options outstanding under the 2003 Plan is 572,363 representing 4.1% of the Corporation's issued and outstanding capital. Options to purchase up to an additional 1,515,641 common shares, being 10.7% of common shares issued and outstanding, remain available for grant under the 2003 Plan. The total number of common shares issuable under the 2003 Plan is 2,088,004. This represents 14.8% of the Corporation's issued and outstanding capital as at November 26, 2010. The total number of options issued under the 2003 Plan combined with those issued under the 1993 Plan and shares issued under the Alternative Compensation Plan will not exceed 15% of the common shares issued and outstanding at any time.

The maximum number of common shares reserved for issuance to insiders, at any time, under the 2003 Plan and any other compensation arrangement of the Corporation is 10% of the issued and outstanding common shares of the Corporation. The maximum number of common shares that may be issued to insiders, at any time, under the 2003 Plan and any other compensation arrangement of the Corporation within a 12 month period is 10% of the issued and outstanding common shares of the Corporation. The maximum number of common shares reserved for issuance to any one person is 5% of the issued and outstanding common shares of the Corporation. The exercise price of options granted under the 2003 Plan is established by the Board and will be equal to the closing market price of the common shares on the TSX on the last trading day preceding the date of grant. If there is no trading on that date, the exercise price will be the average of the bid and ask on the TSX on the last trading date preceding the date of grant. If not otherwise determined by the Board, an option granted under the 2003 Plan will vest as to 50% on the first anniversary of the date of grant of the option and an additional 25% on the second and third anniversaries after the date of grant. The Board fixes the term of each option when granted, but such term may not be greater than 10 years from the date of grant.

If an option holder is terminated without cause, resigns or retires, each option that has vested will cease to be exercisable thee months after the option holder's termination date. Any portion of an option that has not vested on or prior to the termination date will expire immediately. If an option holder is terminated for cause, each option that has vested will cease to be exercisable immediately upon the Corporation's notice of termination. Any portion of an option that has not vested on or prior to the termination date will expire immediately.

Options granted under the 2003 Plan are not assignable.

Currently, the Board may amend the 2003 Plan subject to regulatory approval, provided that the Board may not make the following amendments without the approval of Shareholders:

- an amendment to the maximum number of common shares reserved for issuance under the 2003 Plan and under any other security based compensation arrangement of the Corporation;

- a reduction in the exercise price for options held by insiders;
- an extension to the term of options held by insiders; and
- an increase in the 10% limits on grants to insiders.

During the period June 1, 2009 to May 31, 2010, options to purchase 189,406 common shares were granted under the 2003 Plan at exercise prices between $2.10 and $3.60 per common share. During the year ended May 31, 2010, we granted options to employees, other than executive officers of the Corporation, to purchase 41,073 common shares, being 22% of the total incentive stock options granted during the year to employees, executive officers and directors.

Alternative Compensation Plan

On November 30, 2009, after receiving shareholder approval, the Company adopted an alternate compensation plan (the "**ACP**") which enables Lorus to meet its obligations to pay directors' fees, salary and performance bonuses to certain employees in the form of common shares. The ACP permits the Corporation to, in circumstances considered appropriate by the Board of Directors (the "Board"), encourage the ownership of equity of the Corporation by its directors and senior employees ("**Participants**"), enhance the Corporation's ability to retain key personnel and reward significant performance achievements while preserving the cash resources of the Corporation.

Under the ACP, Participants have the option of receiving director's fees, salary, bonuses or other remuneration, as applicable ("**Remuneration**") by the allotment and issuance from treasury of such number of common shares as will be equivalent

to the cash value of the Remuneration determined by dividing the Remuneration by the weighted average closing common share price for the five (5) trading days prior to payment date (the "**5-day VWAP**"). The issue price of common shares issued under the ACP is the 5-day VWAP.

The maximum number of common shares reserved for issuance under the ACP, when combined with the Stock Option Plans described under "Equity Compensation Plan Information" section, will not exceed 15% of the Corporation's issued and outstanding common shares at any given time.

There have been no shares issued under the ACP.

Employee Share Purchase Plan

We have an Employee Share Purchase Plan ("**ESPP**") with the purpose of the ESPP to assist the Corporation to retain 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 Corporation. The ESPP provides a means by which employees of the Corporation and its affiliates may purchase common shares at a 15% discount through accumulated payroll deductions. Eligible participants in the ESPP include all employees, including executive officers, who work at least 20 hours per week and are customarily employed by the Corporation or an affiliate of the Corporation for at least six months per calendar year. Generally, each offering is of three months' duration with purchases occurring every quarter. 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, 2010, a total of 3,159 common shares had been purchased by employees under the ESPP at prices per share between $2.12 and $2.85 per common share and a weighted average purchase price of $2.42. During the year ended May 31, 2010, under the ESPP, Named Executive Officers, as a group did not purchase any shares.

Directors' and Officers' Deferred Share Unit Plan

We have a deferred share unit plan for directors and officers (the "**Deferred Share Unit Plan**"). Under the Deferred Share Unit Plan, participating directors ("**Participating Directors**") may elect to receive either a portion or all of their annual fees for acting as a director ("**Annual Fees**") from us in deferred share units. Under the Deferred Share Unit Plan, the Compensation Committee may at any time during the period between the annual meetings of our Shareholders, in its discretion recommend the Corporation credit to each participating director who has elected under the terms of the Deferred Share Unit Plan, the number of units equal to the gross amount of the Annual Fees to be deferred divided by the fair market value of the common shares. The fair market value of the common shares is determined as the closing price of the common shares on the TSX on the day immediately preceding such recommendation by the Compensation Committee or such other amount as determined by the Board and permitted by the stock exchanges or other market(s) upon which the common shares are from time to time listed for trading and by any other applicable regulatory authority (collectively, the "**Regulatory Authorities**").

In addition, the Participating Directors may elect under the Deferred Share Unit Plan to receive deferred share units in satisfaction for meeting fees earned by the Participating Directors as a result of attendance at meetings of the Board held between the annual meetings of our Shareholders by the credit to each Participating Director of the number of units equal to the gross amount of the meeting fees to be deferred divided by the fair market value of the common shares, being the closing price of the common shares on the TSX on the day immediately preceding the recommendation by the Compensation Committee or such other amount as determined by the Board and permitted by the Regulatory Authorities.

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

Option Grants During Fiscal Year 2010

The following tables set forth the options granted to and exercised by each of the Named Executive Officers during the year ended May 31, 2010:

Option/SAR Grants During the Most Recently Completed Financial Year

Name and Principal Position	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year (%)	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
Dr. Aiping Young President and Chief Executive Officer	50,000(1)	26.4	2.10	2.10	July 15, 2019
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer	5,000 (1)	2.6	2.10	2.10	July 15, 2019
Dr. Saied Babaei Vice President, Business Development	15,000 (1)	7.9	2.10	2.10	July 15, 2019
Dr. Yoon Lee Vice President, Research	15,000 (1)	7.9	2.10	2.10	July 15, 2019

(1) These options to purchase common shares are incentive options. The options only vest upon the attainment of specific undertakings based on certain corporate performance objectives; failing to achieve the undertakings will result in forfeiture on the specified deadline. Upon achieving the specific undertakings, 50% of the options vest followed by 25% on the first anniversary and 25% on the second anniversary of the date of granting.

Outstanding Share-Based Awards and Option-Based Awards

The following table shows all awards outstanding to each NEO as at the financial year ended May 31, 2010:

	Option-based Awards			
Name	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($) (1)**
Dr. Aiping Young	1,666	75.00	Oct 10, 2010	Nil
	833	9.00	Oct 10, 2010	Nil
	3,776	48.30	Dec 17, 2010	Nil
	1,888	9.00	Dec 17, 2010	Nil
	2,500	28.50	Sept 17, 2011	Nil
	2,500	28.50	Sept 17, 2011	Nil
	1,250	9.00	Sept 17, 2011	Nil
	1,250	9.00	Sept 17, 2011	Nil
	2,500	28.50	July 6, 2012	Nil
	1,250	9.00	July 6, 2012	Nil
	2,500	9.90	Sep 24, 2012	Nil
	1,250	9.00	Sep 24, 2012	Nil
	2,500	36.60	July 15, 2013	Nil
	1,250	9.00	July 15, 2013	Nil
	5,000	35.10	Sep 7, 2013	Nil
	2,500	9.00	Sep 7, 2013	Nil
	2,500	23.40	July 20, 2014	Nil
	5,833	23.40	July 20, 2014	Nil
	1,250	9.00	July 20, 2014	Nil
	2,916	9.00	July 20, 2014	Nil
	2,500	23.40	July 19, 2015	Nil
	6,944	23.40	July 19, 2015	Nil
	1,250	9.00	July 19, 2015	Nil
	3,472	9.00	July 19, 2015	Nil
	1,666	7.80	Nov 30, 2015	Nil
	1,666	9.00	Jan 5, 2016	Nil
	2,500	9.90	July 27, 2016	Nil
	33,333	8.10	Oct 5, 2016	Nil
	16,333	8.10	Oct 5, 2016	Nil
	15,000	6.60	July 21, 2017	Nil
	30,000	6.15	Jan 14, 2018	Nil
	50,000	3.60	Aug 10, 2018	Nil
	40,000	2.10	July 15, 2019	800

Option-based Awards

Name	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($) [1]
Ms. Elizabeth Williams	79	23.40	Jul 20, 2014	Nil
	39	9.00	Jul 20, 2014	Nil
	1,666	21.60	Nov 17, 2014	Nil
	833	9.00	Nov 17, 2014	Nil
	1,816	23.40	July 19, 2015	Nil
	908	9.00	July 19, 2015	Nil
	1,666	7.80	Nov 30, 2015	Nil
	1,666	9.00	Jan 5, 2016	Nil
	4,494	9.90	July 27, 2016	Nil
	833	9.90	July 27, 2016	Nil
	5,000	6.60	July 21, 2017	Nil
	1,666	6.60	July 21, 2017	Nil
	15,000	3.60	Aug 10, 2018	Nil
	5,000	2.10	July 15, 2019	100
Dr. Saied Babaei	5,000	6.60	July 21, 2017	Nil
	5,000	5.70	Feb 4, 2018	Nil
	15,000	3.60	Aug 10, 2018	Nil
	7,500	2.10	July 15, 2019	150
Dr. Yoon Lee	184	9.00	Oct 10, 2010	Nil
	386	9.00	Sep 17, 2011	Nil
	575	9.00	July 6, 2012	Nil
	166	9.00	July 15, 2013	Nil
	461	9.00	July 15, 2013	Nil
	908	9.00	July 20, 2014	Nil
	919	9.00	July 19, 2015	Nil
	1,666	7.80	Nov 30, 2015	Nil
	1,666	9.00	Jan 5, 2016	Nil
	4,694	9.00	July 27, 2016	Nil
	5,000	6.60	July 21, 2017	Nil
	5,000	5.70	Feb 4, 2018	Nil
	15,000	3.60	Aug 10, 2018	Nil
	13,500	2.10	July 15, 2019	270

(1) These amounts are calculated based on the difference between the market value of the securities underlying the options at the end of the year ($2.12), and the exercise price of the options.

The options granted to the Named Executive Officers during the year ended May 31, 2010 vest contingently upon the achievement of corporate objectives that the Compensation Committee has deemed to be the value drivers of Shareholder value. These stock options vest 50% upon the achievement of the stated objectives, 25% on the next anniversary and 25% on the second anniversary.

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

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options/SARs at May 31, 2010 (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options/SARs at May 31, 2010 ($) Exercisable/ Unexercisable
Dr. Aiping Young President and Chief Executive Officer Former Chief Operating Officer	Nil	Nil	211,576/40,000	400/400
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer	Nil	Nil	26,500/14,166	0/100
Dr. Saied Babaei Vice President, Business Development	Nil	Nil	17,500/15,000	75/75
Dr. Yoon Lee Vice President, Research	Nil	Nil	32,125/18,000	135/135

C. Board Practices

Lorus is authorized to have a board of at least one director and no more than ten. Lorus currently has five directors. Directors are elected for a term of about one year, from annual meeting to annual meeting, or until an earlier resignation, death or removal. Each officer serves at the discretion of the Board or until an earlier resignation, death or removal. There are no family relationships among any of our directors or officers.

Our non-management directors have no service contracts with us or our subsidiaries that provide for benefits upon termination of employment.

Committees of the Board of Directors

The Company has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation Committee and an Environment, Health and Safety Committee.

The members of these committees were as follows from September 19, 2007 to October 2, 2008:

Audit Committee:	J. Kevin Buchi, Denis Burger and Alan Steigrod
Compensation Committee:	Alan Steigrod, Denis Burger and Susan Koppy
Nominating and Corporate Governance Committee:	Herbert Abramson, J. Kevin Buchi, and Susan Koppy
Environment, Health and Safety Committee:	Mark Vincent, Jim Wright and Aiping Young

The members of these committees were as follows October 2, 2008 to March 4, 2010:

Audit Committee:	Denis Burger, Georg Ludwig, Herbert Abramson
Compensation Committee:	Denis Burger, Jim Wright
Nominating and Corporate Governance Committee:	Herbert Abramson, Mark Vincent

The members of these committees effective March 4, 2010 are as follows:

Audit Committee:	Denis Burger, Herbert Abramson
Compensation Committee:	Denis Burger, Jim Wright
Nominating and Corporate Governance Committee:	Herbert Abramson, Mark Vincent

Compensation Committee

Composition of the Compensation Committee

The Board, upon the advice of the Compensation Committee, determines executive compensation. During the period from June 1 to October 2, 2008, the Compensation Committee was comprised of three directors, Mr. Steigrod (former director of the Company), Mr. Burger and Ms. Koppy (former Director of the Company). From October 2, 2008 to present, the Compensation committee is comprised of Mr. Burger and Mr. Wright. Mr. Burger is chair of the Compensation Committee. The Compensation Committee met four times during the fiscal year ended May 31, 2010.

Compensation Objectives and Philosophy

The Compensation Committee's mandate is to review and advise the Board on the recruitment, appointment, performance, compensation, benefits and termination of executive officers. The Compensation Committee also administers and reviews procedures and policies with respect to our 1993 and 2003 Stock Option Plans, employee benefit programs, pay equity and employment equity and reviews executive compensation disclosure where it is publicly disclosed.

The market for biotechnology companies in the development phase has been extremely challenging throughout fiscal 2010 and it has been negatively impacted further by the deterioration of the capital markets late in calendar 2008 and continuing in 2009 and 2010. The Compensation Committee has taken these factors into consideration when recommending the compensation for named executive officers and focuses the assessment on achievement of the corporate objectives described below as being the key value drivers of the Corporation.

Lorus' executive compensation program is designed to:

- attract and retain qualified, motivated and achievement-oriented individuals by offering compensation that is competitive in the industry and marketplace;
- align executive interests with the interests of shareholders; and
- ensure that individuals continue to be compensated in accord with their personal performance and responsibilities and their contribution to the overall objectives of the Company.

These objectives are achieved by offering executives and employees a compensation package that is competitive and rewards the achievement of both short-term and long-term objectives of the Company. As such, our compensation package consists of three key elements:

- base salary and initial stock options;
- short-term compensation incentives to reward corporate and personal performance through potential annual cash bonuses;
- long-term compensation incentives related to long-term increase in share value through participation in the 2003 Stock Option Plan.

Base Salary - Initial Stock Options

In establishing base salaries, the objective of the Compensation Committee is to establish levels that will enable Lorus to attract and retain executive officers who can effectively contribute to the long-term success of Lorus. Base salary for each executive officer is a function of the individual's skills, abilities, experience, past performance and anticipated future contribution to the success of Lorus. The Compensation Committee uses private and public compensation surveys and their knowledge of industry trends to assist with the determination of an appropriate compensation package for each executive officer. In certain cases, the Compensation Committee may recommend inclusion of automobile allowances, fitness allowances and the payment of certain professional dues as a component of an overall remuneration package for executives.

In certain cases, executive officers may be granted stock options on the commencement of employment with Lorus in accordance with the responsibility delegated to each executive officer for achieving corporate objectives and enhancing shareholder value in accordance with those objectives.

Short-Term Compensation Incentives

The role of short-term compensation incentives at Lorus is to reward corporate and personal performance. Each year, the Board approves the annual corporate objectives encompassing scientific, clinical, regulatory, business and corporate development and financial criteria. The annual cash bonus for the President and Chief Executive Officer and the other executive offices is based, at least in part, on the level of achievement of these annual objectives. One hundred percent of the President and Chief Executive Officer's and seventy-five percent of the other executive officers' cash bonus is based on the level of achievement of corporate objectives. The balance of the other executive officers' bonus is based on achievement of individual/departmental objectives.

All corporate and executive officer objectives are reviewed by the Compensation Committee and approved by the Board. The Compensation Committee recommends to the Board the awarding of bonuses, payable in cash, stock or stock options, to reward extraordinary individual performance.

For each executive officer, during the year ended May 31, 2010, the potential annual cash bonuses range from 15% to 40% of base salary when all corporate and individual executive officer objectives were achieved.

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

Long-Term Incentive Plan

The role of long-term compensation incentives at Lorus is to reward an executive's contribution to the attainment of Lorus' long-term objectives, align an executive's performance with the long-term performance of Lorus and to provide an additional incentive for an executive to enhance shareholder value. Long-term incentive compensation for directors, officers, employees and consultants is reviewed annually and is accomplished through the grant of stock options under our 2003 Stock Option Plan.

The number options granted for executives of Lorus for the 2010 fiscal year was based on achievement of both corporate and executive officer objectives. The Compensation Committee approves the allocation of options and options are priced using the closing market price of the common shares on the TSX on the last trading day prior to the date of grant. Options to purchase common shares expire ten years from the date of grant and vest over a term determined by the Compensation Committee. The granting of options to purchase common shares for Named Executive Officers is included in the Summary Compensation Table in the year that they are earned.

Performance Metrics

The performance of the President and Chief Executive Officer and other Named Executive Officers for the 2010 financial year was measured in the following areas:

1. Maximizing the value of LOR-2040;
2. Maximizing the value of LOR-253;
3. Advancing another lead drug candidate in preparation for GLP-toxicology studies;
4. Establishing at least one corporate partnership;
5. Formulating a detailed strategic plan; and
6. Equity financing of at least $10 million subject to the Board approval.

Each of the above is weighted 20%, 20%, 10%, 20%, 5% and 25% in relation to assessment of satisfaction of overall corporate objective and determination of any general corporate bonuses. Based on these criteria the Board assigned an achievement of 80.5%. In its evaluation, the Board also considered the impact of negotiating the repurchase of the convertible debt on management's attainment of the objectives during the year and in recognition of the significance of this achievement determined that management receive an overall rating of 100%. Incentive compensation related to the attainment of these objectives will be paid in fiscal 2011. Similar performance metrics were established for the year-ended May 31, 2011 based on the approved business plan for the current year.

Audit Committee

The current members of the audit committee are Herb Abramson and Denis Burger. Mr. Ludwig was also a member of the Audit Committee prior to resigning in March 2010. The Board intends to add a member to the Committee following the 2010 Annual General Meeting. Pursuant to Canadian securities laws, our board of directors has determined that Messrs. Abramson and Burger are financially literate as all have experience in reviewing and analysing the financial reports and ascertaining the financial position of a corporation. Mr. Abramson is the chairman of two investment management companies and is educated and experienced in reading and analyzing financial statements. Mr. Burger, in his previous position as Chairman and CEO of AVI Biopharma, is educated and experienced in reading and analyzing financial statements. Mr. Abramson sits on the Audit Committee of a publicly listed mining company. Mr. Burger has also served on the audit committee of three other publicly listed biotechnology companies. Additionally, we believe that the members of the audit committee qualify as "independent" as that term is defined in the relevant securities laws relating to the composition of the audit committee.

Audit Committee Mandate

The Audit Committee's mandate is to assist the board of directors in fulfilling its oversight responsibilities. In particular, the Audit Committee:

(a) serves as an independent and objective party to monitor the integrity of our financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance, including the review of our financial statements, MD&A and annual and interim results;

(b) identifies and monitors the management of the principal risks that could impact our financial reporting;

(c) monitors the independence and performance of our independent auditors, including the pre-approval of all audit fees and all permitted non-audit services;

(d) provides an avenue of communication among the independent auditors, management, and our board of directors; and

(e) encourages continuous improvement of, and foster adherence to, our policies, procedures and practices at all levels.

The Audit Committee is also responsible for implementing and overseeing our whistle-blowing procedures.

D. Employees

As at May 31, 2010, we employed 17 full-time persons and three part-time people in research and drug development and administration activities. Of our employees, seven hold Ph.D.s. All employees work at the Company's primary location. 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 and alternative compensation plans and employees can participate in the employee share purchase plan.

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.

E. Share Ownership

The following table sets forth information regarding beneficial ownership of our common shares as of November 26, 2010, by our officers and directors individually and as a group.

	Number of Shares	Warrants[1]	Total Number of Shares Beneficially Owned	Percentage of Shares Outstanding	Options to Purchase Shares		
					Number of Underlying Shares (#)	Exercise Price (Range) ($)	Expiry Date (Range-Year)
Dr. Aiping H. Young	112,584	45,000	112,584	0.62%	249,910	$2.10-$48.30	2010-2019
Elizabeth Williams	427	142	569	0.00%	40,666	$2.10-$23.40	2014-2019
Dr. Saied Babaei	1,605	450	2,055	0.01%	32,500	$2.10-$6.60	2017-2019
Dr. Yoon Lee	Nil	Nil	Nil	Nil	49,941	$2.10-$9.00	2011-2019
Dr. Jim A. Wright	156,659	2,000	158,659	0.88%	16,665	$2.40-$9.00	2016-2019
Herbert Abramson[2]	5,027,811	3,883,592	8,911,403	49.41%	14,999	$2.40-$6.60	2017-2019
Dr. Denis Burger	1,9870	Nil	1,987	0.01%	29,999	$2.40-$6.60	2017-2019
Dr. Mark Vincent	Nil	Nil	Nil	Nil	14,999	$2.40-$6.60	2017-2019
All directors and executive officers as a group	5,256,073	3,931,184	9,187,257	50.93%	449,679	$2.10-$48.30	2010-2019

(1) Warrants to purchase common shares were acquired pursuant to a rights offering completed on November 8, 2010. Each warrant represents the right to acquire a common share at an exercise price of $1.33. These warrants will expire on May 8, 2012. Included in the amount for Mr. Abramson are 283,333 warrants to purchase shares that were acquired pursuant to a private placement that was completed on November 27, 2009. Each warrant represents the right to acquire a common share at an exercise price of $2.40. These warrants will expire on May 27, 2010.

(2) In addition to shares held personally, Mr. Abramson is deemed to control the shares held by Technifund Inc. in his capacity as sole owner of Technifund.

See item 6.B for a description of arrangements pursuant to which employees may become involved in the capital of Lorus.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

To the knowledge of our directors and officers, as of the date hereof, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, more than 5% of the outstanding common shares, other than as described below.

All of our shareholders have equal voting rights.

High Tech Beteiligungen GmbH & Co. KG

On July 13, 2006, Lorus entered into a share purchase 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 transaction closed on August 30, 2006. Subsequent to that date, High Tech indirectly acquired an additional 290,000 common shares. On August 7, 2008, High Tech acquired 7.3 million common shares and 3.6 million warrants to purchase common shares at an exercise price of $0.18 pursuant to a rights offering; warrants expire on August 7, 2010 if unexercised. As of November 27, 2009, based solely on public filings with securities regulators, High Tech holds approximately 12% of the issued and outstanding common shares of Lorus.

Herbert Abramson and Affiliates

On July 24, 2006 Lorus entered into a share purchase agreement with Technifund Inc., a company affiliated with Herbert Abramson, one of our directors, to issue, on a private placement basis, 5,000,000 common shares at $0.36 for gross proceeds of $1,800,000. On August 7, 2008, Technifund Inc. acquired 15.2 million common shares and 7.6 million warrants to purchase common shares at an exercise price of $0.18 pursuant to a rights offering. The warrants expired on August 9, 2010.

On October 6, 2009 the Company received a loan by way of a promissory note from Mr. Abramson. The principal amount of $1.0 million bears interest at a rate of 10% per annum. Principal and interest were originally due six months from the date the loan was entered into. On November 27, 2009, the loan was repaid as part of a private placement, whereby Mr. Abramson acquired 17.0 million common shares and 8.5 million warrants to purchase common shares of the Company at an exercise price of $0.08; the warrants expire on May 27, 2011 if unexercised.

In April 2010, the Company entered into a loan agreement with Trapeze Capital Corporation, a corporation affiliated with Mr. Abramson, to borrow $1 million. The loan amount, which was received on April 14, 2010, is unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The funds were used for general working capital purposes. In addition, in August 2010, the Company obtained interim financing from Mr. Abramson by way of three $500 thousand six month loans, the first of which was advanced on August 11, 2010 and the second and third on September 13, 2010 and October 5, 2010, respectively.

In August 2010, in connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Mr. Abramson, pursuant to which Mr. Abramson agreed to make an investment such that the minimum gross proceeds of the rights offering would be $4 million. No fee was payable to Mr. Abramson for this commitment. In accordance with the terms of the stand-by purchase agreement, Mr. Abramson subscribed at price of $1.11 per unit for 3.6 million units of the offering for $4.0 million. The Company has repaid the $1 million promissory note outstanding to Trapeze Capital Corporation and the interim financing promissory notes outstanding to Mr. Abramson with the proceeds of the completed rights offering. For further information regarding the rights offering, see “Business Overview - Financial Strategy - Rights Offering and Financing Commitment” for a description of the rights offering.

As of November 26, 2010, Mr Abramson and his affiliated company, Technifund Inc., hold approximately 35.7% of the issued and outstanding common shares of Lorus.

Other Parties

To our knowledge, based on publicly available information filed on form 13-G, The Erin Mills Investment Corporation holds approximately 5.1% and William Richard Hermon holds approximately 5.6% of the Company’s issued and outstanding common shares.

B. Related Party Transactions

See Item 7.A.

During the year ended May 31, 2010, the Company expensed consulting fees of nil to a director of the Company (2009 - $25 thousand; 2008 - $31 thousand). There was no amount payable at May 31, 2010 (2009 - nil; 2008 - $30 thousand). 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.

In order to effectively execute our business strategy, we expect to continue outsourcing various functions to the expertise of third-parties such as contract manufacturing organizations, contract research organizations, and other research organizations. These relationships are with non-related third-parties and occur at arm’s length and on normal commercial terms.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Financial Statements and Other Financial Information

See Item 18.

B. Significant Changes

None.

Item 9. The Offer and Listing

A. Offer and Listing details

Not applicable, except for Item 9A (4) and Item 9C.

Price Range of Common Stock and Trading Markets

Our common shares are currently listed on the TSX under the symbol "LOR". Until October 31, 2008 our shares were also listed on the American Stock Exchange (now the NYSE Amex) under the symbol "LRP". The following table sets out the price ranges and trading volumes of our common shares on the TSX and AMEX for the periods indicated below. Effective October 31, 2008, the Company voluntarily delisted from the AMEX, therefore no prices are provided for periods after that date.

	American Stock Exchange/ NYSE Amex (US$)**		Toronto Stock Exchange/TSX (CDN$)*	
Five most recent full fiscal years:	High	Low	High	Low
Year ended May 31, 2010	**	**	3.90	1.80
Year ended May 31, 2009	**	**	0.16	0.03
Year ended May 31, 2008	0.27	0.11	0.26	0.14
Year ended May 31, 2007	0.34	0.14	0.39	0.22
Year ended May 31, 2006	0.79	0.19	0.92	0.22
Year ended May 31, 2010				
Quarter ended May 31, 2010	**	**	3.60	2.40
Quarter ended February 28, 2010	**	**	3.90	2.10
Quarter ended November 30, 2009	**	**	3.00	1.80
Quarter ended August 31, 2009	**	**	2.70	1.80
Year ended May 31, 2009				
Quarter ended May 31, 2009	**	**	0.21	0.14
Quarter ended February 28, 2009	**	**	0.21	0.16
Quarter ended November 30, 2008	0.27	0.14	0.25	0.17
Quarter ended August 31, 2008	0.26	0.15	0.26	0.16
October 2010	**	**	1.18	0.95
September 2010	**	**	1.40	1.05
August 2010	**	**	1.88	1.25
July 2010	**	**	2.10	1.72
June 2010	**	**	2.55	2.00
May 2010	**	**	3.30	2.04

*Effective May 31, 2010 the Company consolidated its shares on a 1:30 basis. Share prices for 2010 have been restated to show the impact of the consolidation.
**Effective October 31, 2008 the Company voluntarily de-listed from the AMEX, therefore prices per share not available after that date.

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

Item 10. Additional Information

A. Not Applicable

B. Articles of Incorporation and By-laws

We are incorporated pursuant to the laws of Canada. Our Articles of Incorporation and by-laws provide no restrictions as to the nature of our business operations. Under Canadian law, a director must inform us, at a meeting of the Board of Directors, of any interest in a material contract or proposed material contract with us. Directors may not vote in respect of any such contracts made with us or in any such contract in which a director is interested, and such directors shall not be counted for purposes of determining a quorum. However, these provisions do not apply to (i) a contract relating primarily to their remuneration as a director, officer, employee or agent of the Corporation or affiliate, (ii) a contract for their indemnity or insurance as permitted under the *Canada Business Corporations Act*, or (iii) a contract with an affiliate.

We are authorized to issue an unlimited number of common shares. Our stockholders have no rights to share in our profits, are subject to no redemption or sinking fund provisions, have no liability for further capital calls and are not subject to any discrimination due to number of shares owned. By not more than 50 days or less than seven days in advance of a dividend, the Board of Directors may establish a record date for the determination of the persons entitled to such dividend.

The rights of holders of our common shares can be changed at any time in a stockholder meeting where the modifications are approved by 66 2/3% of the shares represented by proxy or in person at a meeting at which a quorum exists.

All holders of our common shares are entitled to vote at annual or special meetings of stockholders, provided that they were stockholders as of the record date. The record date for stockholder meetings may precede the meeting date by no more than 50 days and not less than 21 days, provided that notice by way of advertisement is given to stockholders at least seven days before such record date. Notice of the time and place of meetings of stockholders may not be less than 21 or greater than 50 days prior to the date of the meeting. There are no:

- limitations on share ownership;
- provisions of the Articles or by-laws that would have the effect of delaying, deferring or preventing a change of control of our company;
- by-law provisions that govern the ownership threshold above which stockholder ownership must be disclosed; and
- conditions imposed by the Articles or by-laws governing changes in capital, but Canadian Corporate law requires any changes to the terms of share capital be approved by 66.66% of the shares represented by proxy or in person at a stockholders' meeting convened for that purpose at which a quorum exists.

Common Shares

Each holder of record of common shares is entitled to one vote for each share held on all matters properly submitted to the stockholders for their vote, except matters which are required to be voted on as a particular class or series of stock. Cumulative voting for directors is not permitted.

Holders of outstanding common shares are entitled to those dividends declared by the Board of Directors out of legally available funds. In the event of liquidation, dissolution or winding up our affairs, holders of common shares are entitled to receive, pro rata, our net assets available after provision has been made for the preferential rights of the holders of preferred stock. Holders of outstanding common shares have no pre-emptive, conversion or redemption rights. All of the issued and outstanding common shares are, and all unissued common shares, when offered and sold will be, duly authorized, validly issued, fully paid and non-assessable. To the extent that additional common shares may be issued in the future, the relative interests of the then existing stockholders may be diluted. There were 9,933,454 common shares issued and outstanding at May 31, 2010.

Convertible Debentures

On October 6, 2004, we entered into an agreement to raise aggregate net proceeds of $13.9 million through the issuance of secured convertible debentures and warrants. The debentures were secured by a first charge over all of the assets of the Company. We 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 were due on October 6, 2009 and subject to interest payable monthly at a rate of prime plus 1%. Interest was payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest will be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest were issued at an amount 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. For the year ended May 31, 2010, the Company issued 7,000 common shares in settlement of $15 thousand in interest. For the year ended May 31, 2009, the Company issued 10,620,000 common shares in settlement of $707 thousand in interest. For the year ended May 31, 2008, the Company has issued 5,383,000 common shares in settlement of $1 million in interest.

On June 22, 2009, the Company reached a settlement with The Erin Mills Investment Corporation with respect to the purchase and settlement of the convertible debentures.

Under the agreement, Lorus purchased all of the convertible debentures from The Erin Mills Investment Corporation for a cash payment on close of the transaction of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals, LLC, sale of intellectual property associated with Virulizin and sale of Lorus' shares in its wholly owned subsidiary, Pharma Immune Inc., which holds an equity interest in ZOR Pharmaceuticals, LLC. Under the agreement, Lorus will be entitled to 50% of any royalties received under the ZOR Pharmaceuticals, LLC license agreement and 50% of the value of any transaction completed in territories not covered by the ZOR Pharmaceuticals, LLC license agreement. Lorus also retains a perpetual royalty free license for the animal use of Virulizin. The Erin Mills Investment Corporation will be fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR Pharmaceuticals, LLC license agreement. Lorus will assist The Erin Mills Investment Corporation with certain agreed upon services.

For receipt of the intellectual property associated with Virulizin and all of Lorus' shares in Pharma Immune Inc., The Erin Mills Investment Corporation has released all security interest in the assets of Lorus.

As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of $11.0 million reflecting the difference between the carrying value of the debentures at the repurchase date, net of transaction costs of approximately $221 thousand, and the cash payment amount of $3.3 million. In addition, as a result of extinguishing the debentures, the equity portion of the debentures in the amount of $3.8 million was transferred to contributed surplus. The gain on repurchase of the debentures does not result in income taxes payable as the Company has sufficient capital loss and non-capital loss carryforwards to shelter this gain.

Shares Eligible for Future Sale

Future sales of substantial amounts of our common shares in the public market or even the perception that such sales may occur, could adversely affect the market price for our common shares and could impair our future ability to raise capital through an offering of our equity securities.

At May 31, 2010, there were 672,901 options outstanding under the plan to purchase an equal number of common shares. The outstanding options are exercisable at a weighted average price per share of $6.60.

Indemnification of Executive Officers and Directors

We have agreed to indemnify our executive officers and directors for all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by them in respect of any civil, criminal or administrative action or proceeding to which they are made a party by reason of being or having been a director or officer, if (a) they acted honestly and in good faith with a view to our best interests, and (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, they had reasonable grounds for believing that their conduct was lawful.

C. Material Contracts

Other than the agreements described below, we have not, in the two years preceding the date hereof, entered into any material agreements other than contracts in the ordinary course of business.

1. Share Purchase Warrant Indenture dated October 4, 2010 between the Company and Computershare Trust Company of Canada regarding the provision for issuance of common share purchase warrants.

2. Standby Purchase Agreement dated September 16, 2010 between the Company and Herbert Abramson in connection with the November 2010 rights Offering

3. Standby Purchase Agreement Amendment dated September 27, 2010.

4. Form of Canadian Subscription agreement used in connection with November 2009 private placement.

5. Form of Canadian Warrant issued in connection with November 2009 private placement.

6. Form of United States Subscription agreement used in connection with November 2009 private placement.

7. Form of United States Warrant agreement issued in connection with November 2009 private placement.

8. Promissory note dated October 6, 2009 between the Company and Herbert Abramson regarding a loan to the Company of $1,000,000.

9. Promissory note dated April 14, 2010 between the Company and Herbert Abramson regarding a loan to the Company of $1,000,000.

10. Settlement Agreement dated June 19, 2009 between the Company and The Erin Mills Investment Corporation with respect to the purchase and settlement of $15 million secured convertible debentures.

11. Asset Purchase Agreement dated June 19, 2009 between the Company and The Erin Mills Investment Corporation under which the Company sold the intellectual property associated with Virulizin.

12. Supply and Services Agreement dated June 19, 2009 between the Company and Erin Mills Biotech Inc. under which the Company agreed to provide certain business development services associated with the Virulizin intellectual property sold.

13. Share Purchase Agreement dated June 19, 2009 between the Company and The Erin Mills Investment Corporation under which the Company sold the sale of Lorus' shares in its wholly-owned subsidiary Pharma Immune Inc.

14. Animal Rights License Agreement dated June 19, 2009 between the Company and Erin Mills Biotech Inc. under which the Company is granted certain rights to develop and market Virulizin for use in animals.

15. Amendment, Assignment, Assumption, Novation and Consent Agreement dated June 19, 2009 between the Company, ZOR Pharmaceuticals, LLC, Erin Mills Biotech Inc. and The Erin Mills Investment Corporation under which the Company assigned its rights under the licence agreement with ZOR Pharmaceuticals, LLC.

16. Share Purchase Warrant Indenture dated June 27, 2008 between the Company and Computershare Trust Company of Canada regarding the provision for issuance of common share purchase warrants.

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

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

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

Please refer to Item 4 - Business Overview - Financial Strategy - Share Issuances, for details of the share purchase agreements entered into with each of High Tech and Technifund Inc. and the November 2009 private placement. Please refer to Item 4 - Business Overview - Financial Strategy - Secured Convertible Debentures, for details of the subscription agreement, debentures and warrants entered into with The Erin Mills Investment Corporation. Please refer to Item 4 - Business Overview - Financial Strategy - Plan of Arrangement and Corporate Reorganization.

Other than the agreements described in the preceding paragraphs, we have not, in the two years preceding the date hereof, entered into any material contracts other than contracts in the ordinary course of business. The Company is not a party to any other material contracts entered into since January 1, 2002 and still in effect.

D. Exchange Controls

There is no law or governmental decree or regulation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to non-resident holders of our voting shares, other than withholding tax requirements.

There is no limitation imposed by Canadian law or by our Articles or our other charter documents on the right of a non-resident to hold or vote voting shares, other than as provided by the *Investment Canada Act*, the North American Free Trade Agreement Implementation Act (Canada) and the World Trade Organization Agreement Implementation Act.

The Investment Canada Act requires notification and, in certain cases, advance review and approval by the government of Canada of the acquisition by a non-Canadian of control of a Canadian business, all as defined in the *Investment Canada Act.* Generally, the threshold for review will be higher in monetary terms for a member of the World Trade Organization or North American Free Trade Agreement.

E. Taxation

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of certain U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of common shares.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, and disposition of common shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. This summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of common shares. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of common shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the "**IRS**") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "**Canada-U.S. Tax Convention**"), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

U.S. Holders

For purposes of this summary, the term "**U.S. Holder**" means a beneficial owner of common shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust that (a) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (b) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Non-U.S. Holders

For purposes of this summary, a "**non-U.S. Holder**" is a beneficial owner of common shares that is not a U.S. Holder. This summary does not address the U.S. federal income tax consequences to non-U.S. Holders arising from and relating to the acquisition, ownership, and disposition of common shares. Accordingly, a non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any income tax treaties) relating to the acquisition, ownership, and disposition of common shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including the following: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a "functional currency" other than the U.S. dollar; (e) U.S. Holders that own common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (f) U.S. Holders that acquired common shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) U.S. Holders that hold common shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); or (h) U.S. Holders that own or have owned (directly, indirectly, or by attribution) 10% or more of the total combined voting power of the outstanding shares of the Company. This summary also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are: (a) U.S. expatriates or former long-term residents of the U.S.; (b) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the *Income Tax Act* (Canada) (the "**ITA**"); (c) persons that use or hold, will use or hold, or that are or will be deemed to use or hold common shares in connection with carrying on a business in Canada; (d) persons whose common shares constitute "taxable Canadian property" under the ITA; or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences relating to the acquisition, ownership and disposition of common shares.

If an entity that is classified as a partnership (or "pass-through" entity) for U.S. federal income tax purposes holds common shares, the U.S. federal income tax consequences to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners (or owners). Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisor regarding the U.S. federal income tax consequences arising from and relating to the acquisition, ownership, and disposition of common shares.

Passive Foreign Investment Company Rules

If the Company were to constitute a "passive foreign investment company" under the meaning of Section 1297 of the Code (a "**PFIC**", as defined below) for any year during a U.S. Holder's holding period, then certain different and potentially adverse rules will effect the U.S. federal income tax consequences to a U.S. Holder resulting from the acquisition, ownership and disposition of common shares. In addition, in any year in which the Company is classified as a PFIC, such holder would be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidelines may require.

PFIC Status of the Company

The Company generally will be a PFIC if, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income (the "**income test**") or (b) 50% or more of the value of the Company's assets either produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets (the "**asset test**"). "Gross income" generally means all sales revenues less the cost of goods sold, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, "passive income" does not include any interest, dividends, rents, or royalties that are received or accrued by the Company from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

In addition, under certain attribution rules, if the Company is a PFIC, U.S. Holders will be deemed to own their proportionate share of the stock of any subsidiary of the Company which is also a PFIC (a ''Subsidiary PFIC''), and will be subject to U.S. federal income tax on their proportionate share of (a) a distribution on the stock of a Subsidiary PFIC and (b) a disposition or deemed disposition of the stock of a Subsidiary PFIC, both as if such U.S. Holders directly held the stock of such Subsidiary PFIC.

The Company believes that it was classified as a PFIC during the tax year ended May 31, 2010, and based on current business plans and financial expectations, the Company believes that it will be a PFIC for the current tax year. The determination of whether any corporation was, or will be, a PFIC for a tax year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether any corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such tax year and, as a result, cannot be predicted with certainty as of the date of this document. Accordingly, there can be no assurance that the IRS will not challenge any determination made by the Company (or a Subsidiary PFIC) concerning its PFIC status or that the Company (and each Subsidiary PFIC) was not, or will not be, a PFIC for any tax year. Each U.S. Holder should consult its own tax advisor regarding the PFIC status of the Company and each Subsidiary PFIC.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of common shares will depend on whether such U.S. Holder makes an election to treat the Company and each Subsidiary PFIC as a "qualified electing fund" or "QEF" under Section 1295 of the Code (a "**QEF Election**") or a mark-to-market election under Section 1296 of the Code (a '**Mark-to-Market Election**"). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of common shares and (b) any excess distribution received on the common shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received during the three preceding tax years (or during a U.S. Holder's holding period for the common shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of common shares, and any "excess distribution" received on common shares, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the respective common shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income. The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible.

If the Company is a PFIC for any tax year during which a Non-Electing U.S. Holder holds common shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent tax years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such common shares were sold on the last day of the last tax year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a timely and effective QEF Election for the first tax year in which its holding period of its common shares begins, generally, will not be subject to the rules of Section 1291 of the Code discussed above with respect to its common shares. However, a U.S. Holder that makes a timely and effective QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Holder that made a QEF Election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a QEF Election generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the common shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of common shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the common shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such year.

A timely QEF Election will apply to the tax year for which such QEF Election is made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent tax year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent tax year in which the Company qualifies as a PFIC.

U.S. Holders should be aware that there can be no assurances that the Company will satisfy the record keeping requirements that apply to a QEF, or that the Company will supply U.S. Holders with information that such U.S. Holders require to report under the QEF rules, in the event that the Company is a PFIC. Thus, U.S. Holders may not be able to make a QEF Election with respect to their common shares. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if the common shares are marketable stock. The common shares generally will be "marketable stock" if the common shares are regularly traded on (a) a national securities exchange that is registered with the SEC, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks. If such stock is traded on such a qualified exchange or other market, such stock generally will be "regularly traded" for any calendar year during which such stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

A U.S. Holder that makes a Mark-to-Market Election with respect to its common shares generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to such common shares. However, if a U.S. Holder does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Holder's holding period for the common shares or such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the common shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares, as of the close of such tax year over (b) such U.S. Holder's tax basis in such common shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (a) such U.S. Holder's adjusted tax basis in the common shares, over (b) the fair market value of such common shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the common shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of common shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years).

A Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the common shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to the common shares, no such election may be made with respect to the stock of any Subsidiary PFIC that a U.S. Holder is treated as owning, because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to eliminate the interest charge described above with respect to deemed dispositions of Subsidiary PFIC stock or distributions from a Subsidiary PFIC.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of common shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which common shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses common shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such common shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and a U.S. Holder should consult with their own tax advisor regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

Ownership, and Disposition of Shares

The following discussion is subject to the rules described above under the heading "Passive Foreign Investment Company Rules."

Distributions on Shares

Subject to the PFIC rules discussed above, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to a common share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the common shares and thereafter as gain from the sale or exchange of such common shares. (See " Sale or Other Taxable Disposition of Shares" below). However, the Company may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the common shares will constitute ordinary dividend income. Dividends received on common shares generally will not be eligible for the "dividends received deduction". In addition, the Company does not anticipate that its distributions will be eligible for the preferential tax rates applicable to long-term capital gains. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Shares

Subject to the PFIC rules discussed above, upon the sale or other taxable disposition of common shares, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash plus the fair market value of any property received and such U.S. Holder's tax basis in such common shares sold or otherwise disposed of. Subject to the PFIC rules discussed above, gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the common shares have been held for more than one year.

Preferential tax rates apply to long-term capital gain of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gain of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Recent Legislative Developments

Newly enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, dividends and capital gains for tax years beginning after December 31, 2012. In addition, for tax years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include the common shares) to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of common shares.

Additional Considerations

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or on the sale, exchange or other taxable disposition of common shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). If the foreign currency received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who receives payment in foreign currency and engages in a subsequent conversion or other disposition of the foreign currency may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Foreign Tax Credit

Subject to the PFIC rules discussed above, a U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the common shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." Generally, dividends paid by a foreign corporation should be treated as foreign source for this purpose, and gains recognized on the sale of stock of a foreign corporation by a U.S. Holder should be treated as U.S. source for this purpose, except as otherwise provided in an applicable income tax treaty, and if an election is properly made under the Code. However, the amount of a distribution with respect to the common shares that is treated as a "dividend" may be lower for U.S. federal income tax purposes than it is for Canadian federal income tax purposes, resulting in a reduced foreign tax credit allowance to a U.S. Holder. In addition, this limitation is calculated separately with respect to specific categories of income. The foreign tax credit rules are complex, and each U.S. Holder should consult its own U.S. tax advisor regarding the foreign tax credit rules.

Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on U.S. Holders that hold certain specified foreign financial assets in excess of $50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their common shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult with their own tax advisors regarding the requirements of filing information returns, and, if applicable, filing obligations relating to a Mark-to-Market or QEF Election.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, common shares generally may be subject to information reporting and backup withholding tax, at the rate of 28% (and increasing to 31% for payments made after December 31, 2010), if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations under the Income Tax Act (Canada) (the **Tax Act**") generally applicable to a holder of common shares of the Corporation ("**Common Shares**") and who, for purposes of the Tax Act and at all relevant times, is neither resident in Canada nor deemed to be resident in Canada for purposes of the Tax Act and any applicable income tax treaty or convention, and who does not use or hold (and is not deemed to use or hold) the Common Shares in carrying on a business in Canada, deals at arm's length with and is not affiliated with the Corporation and holds the Common Shares as capital property (a "**Holder**"). Generally, the Common Shares will be considered to be capital property to a Holder thereof provided that the Holder does not hold the Common Shares in the course of carrying on a business of buying and selling securities and such Holder has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Holder (i) that is a "financial institution" for purposes of the mark-to-market rules contained in the Tax Act; (ii) that is a "specified financial institution" as defined in the Tax Act; (iii) an interest in which is a "tax shelter investment" as defined in the Tax Act; or (iv) that has elected to report its tax results in a functional currency other than Canadian currency. Special rules, which are not discussed in this summary, may apply to a Holder that is an "authorized foreign bank" within the meaning of the Tax Act or an insurer carrying on business in Canada and elsewhere. Such Holders should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act (including the regulations ("**Regulations**") thereunder) in force as of the date hereof and our understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published in writing by the CRA prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act (and the Regulations) publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and assumes that the Tax Proposals will be enacted in the form proposed, although no assurance can be given that the Tax Proposals will be enacted in their current form or at all. This summary does not otherwise take into account any changes in law or in the administrative policies or assessing practices of the CRA, whether by legislative, governmental or judicial decision or action. This summary is not exhaustive of all possible Canadian federal income tax considerations, and does not take into account other federal or any provincial, territorial or foreign income tax legislation or considerations, which may differ materially from those described in this summary.

This summary is of a general nature only and is not, and is not intended to be, and should not be construed to be, legal or tax advice to any particular Holder, and no representations concerning the tax consequences to any particular Holder are made. **Holders should consult their own tax advisors regarding the income tax considerations applicable to them having regard to their particular circumstances.**

Dividends

Dividends paid or credited (or deemed to be paid or credited) to a Holder by the Corporation are subject to Canadian withholding tax at the rate of 25% unless reduced by the terms of an applicable tax treaty. For example, under the Canada-United States Income Tax Convention (1980) (the "**US Treaty**"), as amended, the dividend withholding tax rate is generally reduced to 15% in respect of a dividend paid or credited to a Holder beneficially entitled to the dividend who is resident in the U.S. for purposes of the US Treaty and whose entitlement to the benefits of the US Treaty is not limited by the limitation of benefits provisions of the US Treaty. Holders are urged to consult their own tax advisors to determine their entitlement to relief under the US Treaty or any other applicable tax treaty as well as their ability to claim foreign tax credits with respect to any Canadian withholding tax, based on their particular circumstances.

Disposition of Common Shares

A Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Common Share, unless the Common Share constitutes or is deemed to constitute "taxable Canadian property" to the Holder thereof for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of an applicable tax treaty.

In general, provided the Common Shares are listed on a "designated stock exchange" (which currently includes the TSX) at the date of the disposition, the Common Shares will only constitute "taxable Canadian property" of a Holder where, at any time within the 60-month period preceding the disposition: (i) such Holder has, either alone or in combination with persons with whom the holder does not deal at arm's length, owned 25% or more of the issued shares of any class or series of the Corporation's capital stock, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of (A) real or immovable property situated in Canada, (B) Canadian resource properties, (C) timber resource properties, and (D) options in respect of, or interests in, or for civil law rights in, property described in any of subparagraphs (ii)(A) to (C), whether or not the property exists. However, and despite the foregoing, in certain circumstances the Common Shares may be deemed to be "taxable Canadian property" under the Tax Act.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and file periodic reports and other information with the SEC. However, as a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal stockholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Our reports and other information filed with the SEC may be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials may be obtained at prescribed rates from the SEC at that address. Our reports and other information can also be inspected at no charge on the SEC's website at www.sec.gov.

We are also subject to the information and reporting requirements of the *Securities Act* (Ontario) and the Canada Business Corporations Act. Such reports and information can be inspected at no charge on the website www.sedar.com.

If you are a stockholder, you may request a copy of these filings at no cost by contacting us at:

2 Meridian Road
Toronto, Ontario, M9W 4Z7
Canada
Phone (416) 798-1200
Fax (416) 798-2200

I. Subsidiary Information

Lorus' currently has one subsidiary, NuChem Pharmaceuticals Inc., 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. Effective May 31, 2009, the Company wound up GeneSense Technologies Inc., a corporation incorporated under the laws of Canada, of which Lorus owned 100% of the issued and outstanding share capital into Lorus. On June 22, 2009, the Company transferred its ownership in Pharma Immune Inc. to The Erin Mills Investment Corporation as part of the consideration provided on the repurchase of the convertible debentures.

Item 11. Qualitative and Quantitative Disclosures about Market Risk

Refer to notes 8 and 9 of the consolidated financial statements in Item 18.

The Company is not exposed to significant market risks. The Company does not currently have significant interest, credit or foreign currency risk.

The Company does not utilize derivative financial instruments to hedge its interest rate or foreign currency rate risks.

Interest rate risk

The Company invests its cash resources in liquid government and corporate debt instruments. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on our investments, owing to the relative short-term nature of the investments.

Credit Risk

Financial instruments potentially exposing the Company to a concentration of credit risk consist principally of cash and cash equivalents and marketable securities. The Company manages this credit risk by maintaining bank accounts with Schedule I banks and investing only in highly rated Canadian with securities that are traded on active markets and are capable of prompt liquidation.

Exchange rate sensitivity

The functional currency of the Company is the Canadian dollar. The company does not have significant cash balances in any foreign currencies, does not generally invest in marketable securities denominated in currencies other than Canadian dollars and does not have significant ongoing supply contracts or revenue sources denominated in foreign currencies. Any foreign exchange gains and losses are included in the determination of loss for the period.

Limitations

The above discussion includes only those exposures that exist as of May 31, 2010, and as a result, does not consider exposures or positions that could arise after that date. The Company's ultimate realized gain or loss with respect to interest rate and exchange rate fluctuations would depend on the exposures that arise during the period.

Risk Factors

See item 3.D.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividends, Arrearages and Delinquencies

Not applicable.

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

Not applicable.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

As of the end of our fiscal year ended May 31, 2010, an evaluation of the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), was carried out by our management under the supervision of and with the participation of the principal executive officer and principal financial officer. Based upon on that evaluation, our principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while our principal executive officer and principal financial officer believe that our disclosure controls and procedures are effective and provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as such term is defined in Rules 13a - 15(f) and 15d-15(f) under the Exchange Act). Our internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that our assets are safeguarded.

Management has assessed the effectiveness of our internal control over financial reporting as at May 31, 2010. In management's opinion, the internal control over financial reporting is effective as at May 31, 2010. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control - Integrated Framework to evaluate the effectiveness of our internal control over financial reporting. As part of its assessment, management has identified the following two deficiencies described below, but believes that the Company's limited number of transactions, day-to-day management involvement in operations and reporting and access to third party experts sufficiently limit the risk of material misstatement in our financial statements.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management's report in this annual report.

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. We believe that our current level of staffing is commensurate with the size of our operations and nature of our business.

Complex and Non-Routine Transactions

As required, we record complex and non-routine transactions in our financial statements. These transactions 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 there is a risk that these 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 identification, 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, 2010, no material misstatements were identified.

(c) Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during the year ended May 31, 2010, that have materially affected, or are reasonably likely to materially affect our' internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Denis Burger, a director of the Company and the Acting Chairman of the Audit Committee, possesses the attributes required of an "audit committee financial expert," and is "independent," under applicable NYSE Amex rules.

Item 16B. Code of Ethics

We have adopted a Code of Ethics, which applies to all of our officers, directors, employees and consultants. A copy of the Code of Ethics is available upon written request from our Director of Finance at our offices located at 2 Meridian Road, Toronto, Ontario M9W 4Z7. There were no amendments to, or waivers granted under, the Code of Ethics during our fiscal year ended May 31, 2010.

Item 16C. Principal Accountant Fees and Services

KPMG LLP has served as our principal independent auditors since October 1994. The total fees billed for professional services by KPMG LLP (our independent auditors) for the years ended May 31, 2010 and 2009 are as follows:

		2010		2009
Audit Fees	$	379,500	$	252,000
Tax Fees	$	19,150	$	39,000
All Other Fees	$	36,638	$	19,000
Total	$	435,288	$	310,000

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 filing of a registration statement on Form F-1 with the SEC and a Canadian prospectus with the Canadian securities regulatory authorities and other regulatory assistance. Tax fees relate to assistance provided with review of tax returns and assistance with specific tax issues. Other fees consist of CPAB Fees and expenses.

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 audit and non-audit services must also 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 year ended May 31, 2010.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

PART III

Item 17. Financial Statements

We have responded to Item 18 in lieu of responding to this Item.

Item 18. Financial Statements

The Consolidated Financial Statements of Lorus Therapeutics Inc. are attached as follows:

Item 19. Exhibits

Number	Exhibit
1.1 *	Articles of Arrangement
1.2 *	By-law #2 of the Registrant
2.1**	Share Purchase Agreement dated as of July 13, 2006 between Lorus and High Tech Beteiligungen GmbH & Co. KG
2.2**	Registration Rights Agreement dated as of August 30, 2006 between Lorus and High Tech Beteiligungen GmbH & Co. KG
2.3**	Share Purchase Agreement dated as of July 24, 2006 between Lorus and Technifund Inc.
2.4 ***	Subscription Agreement entered into with The Erin Mills Investment Corporation dated October 6, 2004
2.5**	Convertible Secured Debentures issued to The Erin Mills Investment Corporation on April 15, 2005, January 14, 2005 and October 6, 2004
2.6****	Arrangement Agreement dated May 1, 2007, as amended, between the Company, Old Lorus, 6707157 Canada Inc., NuChem Pharmaceuticals Inc., GeneSense Technologies Inc. and Pinnacle International Lands Inc., as amended May 14, 2007 and July 4, 2007.
2.7*****	Warrant Repurchase Agreement dated May 1, 2007 between the Company and The Erin Mills Investment Corporation
2.8*****	Assignment, Novation and Amendment Agreement and Consent dated May 1, 2007 among the Company, Old Lorus, GeneSense Technologies Inc. and The Erin Mills Investment Corporation as amended June 28, 2007
2.9+	Tangible Business Assets Transfer Agreement dated July 10, 2007 between Old Lorus and GeneSense Technologies Inc.
2.10+	Antisense Patent Transfer Agreement dated July 10, 2007 between the Company and GeneSense Technologies Inc.
2.11+	Virulizin and Small Molecule Patent Assets Transfer Agreement dated July 10, 2007 between Old Lorus and GeneSense Technologies Inc.
2.12+	Prepaid Expenses and Receivables Transfer Agreement dated July 10, 2007 between Old Lorus and GeneSense Technologies Inc.
2.13+	NuChem Pharmaceuticals Inc. Share Purchase Agreement dated July 10, 2007 between Old Lorus and GeneSense Technologies Inc.
2.14+	GeneSense Technologies Inc. Share Purchase Agreement dated July 10, 2007 between Old Lorus and New Lorus
2.15*****	Pinnacle Share purchase agreement dated July 10, 2007 between Old Lorus and 6707157 Canada Inc.
2.16+	Indemnification Agreement dated July 10, 2007 between Old Lorus and the Company
2.17+	Escrow Agreement between 6707157 Canada Inc, the Company and Equity Transfer & Trust Company dated July 10, 2007
2.18+	Amended and Restated Guarantee and Indemnity between GeneSense Technologies Inc. and The Erin Mills Investment Corporation dated July 10,
2.19+	Amended and Restated Share Pledge Agreement between the Company and The Erin Mills Investment Corporation dated July 10, 2007
2.20##	Form of Canadian Subscription agreement used in connection with November 2009 private placement.
2.21##	Form of Canadian Warrant agreement issued in connection with November 2009 private placement.
2.22##	Form of United States Subscription agreement used in connection with November 2009 private placement.
2.23##	Form of United States Warrant issued in connection with November 2009 private placement.

2.24##	Promissory note dated October 6, 2009 between the Company and Herbert Abramson.
2.25#	Share Purchase Warrant Indenture dated June 27, 2008 between the Company and Computershare Trust Company of Canada.
2.26#	Settlement Agreement dated June 19. 2009 between the Company and The Erin Mills Investment Corporation with respect to the purchase and settlement of $15 million secured convertible debentures.
2.27#	Asset Purchase Agreement dated June 19, 2009 between the Company and The Erin Mills Investment Corporation under which the Company sold the intellectual property associated with Virulizin.
2.28#	Supply and Services Agreement dated June 19, 2009 between the Company and Erin Mills Biotech Inc.
2.29#	Share Purchase Agreement regarding sale of Pharma Immune Inc dated June 19, 2009 between the Company and The Erin Mills Investment Corporation.
2.30#	Animal Rights License Agreement dated June 19, 2009 between the Company and Erin Mills Biotech Inc.
2.31#	Amendment, Assignment, Assumption, Novation and Consent Agreement dated June 19, 2009 between the Company, ZOR Pharmaceuticals, LLC, Erin Mills Biotech Inc. and The Erin Mills Investment Corporation.
2.32	Promissory note dated April 14, 2010 between the Company and Herbert Abramson.
2.33##	List of subsidiaries
2.34##	Code of Business Conduct and Ethics
2.35	Share Purchase Warrant Indenture dated October 4, 2010 between the Company and Computershare Trust Company of Canada regarding the provision for issuance of common share purchase warrants.
2.36	First Supplemental Indenture dated as of the 18th day of October, 2010
2.37	Standby Purchase Agreement dated September 16, 2010 between the Company and Herbert Abramson in connection with the November 2010 rights Offering
2.38	Standby Purchase Agreement Amendment dated September 27, 2010.
4.1+++	Stock Option Plans
4.2+++	Form of Officer and Director Indemnity Agreement
4.3 ++	Amalgamation Agreement dated August 23, 1991, among the Company, Mint Gold Resources Ltd., Harry J. Hodge and Wayne Beach.
4.4 ++++	Exclusive License Agreement dated April 8, 2008 between the Company and ZOR Pharmaceuticals, LLC Pharmaceuticals LLC.
4.5++++	Independent Contractor Services Agreement dated April 8, 2008 between the Company and ZOR Pharmaceuticals, LLC Pharmaceuticals LLC.
4.6++++	Limited Liability Company Agreement dated April 8, 2008 between the Company and ZBV I, LLC.
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
13.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
13.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
*	Incorporated by reference to File 0-32001, Form 6-K dated November 19, 2007.
**	Incorporated by reference to File 1-32001, Form 20 F, Annual Report, dated November 21, 2006.
***	Incorporated by reference to File 1-32001, Form 6-K dated February 10, 2005.
****	Incorporated by reference to File 1-32001, Form 6-K dated May 30, 2007.
*****	Incorporated by reference to File 1-32001, Form 6-K dated November 20, 2007.

+	Incorporated by reference to File 1-32001, Form 6-K dated September 4, 2007.
++	Incorporated by reference to File 0-19763, Registration Statement on Form 20-FR, dated March 4, 1992.
+++	Incorporated by reference to File 1-32001, Form 20 F, Annual Report, dated November 29, 2007.
++++	Incorporated by reference to File 1-32001, Form 6K dated April 21, 2008
#	Incorporated by reference to File 1-32001, Form 6K dated November 16, 2009
##	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, dated November 30, 2009.

Signatures

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

LORUS THERAPEUTICS INC.

By: /s/ Aiping H. Young
Name: Aiping H. Young
Title: President and Chief Executive Officer

Date: November 29, 2010

By: /s/ Elizabeth Williams
Name: Elizabeth Williams
Title: Director of Finance and Acting Chief Financial Officer

Date: November 29, 2010

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Lorus Therapeutics Inc. and other financial information contained in this annual report are the responsibility of Management and have been approved by the Board of Directors of the Company.

The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using Management's best estimates and judgments where appropriate. In the opinion of Management, these consolidated financial statements reflect fairly the financial position and the results of operations and cash flows of the Company within reasonable limits of materiality. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the consolidated financial statements. The integrity and objectivity of data in the financial statements and elsewhere in this annual report are the responsibility of Management.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains a system of internal controls designed to provide reasonable assurance, at appropriate cost, that transactions are authorized, assets are safeguarded and proper records are maintained. Management believes that the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements, and that assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors, through an Audit Committee, oversees management's responsibilities for financial reporting. This committee, which consists of three independent directors, reviews the audited consolidated financial statements and recommends the financial statements to the Board for approval. Other key responsibilities of the Audit Committee include reviewing the adequacy of the Company's existing internal controls, audit process and financial reporting with management and the external auditors.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, who are independent auditors appointed by the shareholders of the Company upon the recommendation of the Audit Committee. Their report follows. The independent auditors have free and full access to the Audit Committee.

Aiping Young
President and Chief Executive Officer

Elizabeth Williams
Director of Finance (Acting Chief Financial Officer)

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Lorus Therapeutics Inc.

We have audited the accompanying consolidated balance sheets of Lorus Therapeutics Inc. as at May 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive income, deficit and cash flows for each of the years in the three-year period ended May 31, 2010 and for the period from inception on September 5, 1986 to May 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2010 and for the period from inception on September 5, 1986 to May 31, 2010, in conformity with Canadian generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1(a) to the consolidated financial statements, the Company has significant doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 1(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 2 to the consolidated financial statements, effective June 1, 2009, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3064, Goodwill and Intangible Assets, the amendments under Section 3862, Financial Instruments - Disclosures.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
August 23, 2010, except as to note 18 which is as of October 12, 2010

LORUS THERAPEUTICS INC.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

May 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents (notes 9 and 12)	$ 667	$ 5,374
Short-term investments (notes 4 and 9)	247	490
Prepaid expenses and other assets	636	826
	1,550	6,690
Fixed assets (note 5)	147	231
Goodwill	606	606
	$ 2,303	$ 7,527
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable	$ 387	$ 299
Accrued liabilities	1,458	1,131
Promissory note payable (note 17)	1,000	-
Secured convertible debentures (note 13)	-	14,448
	2,845	15,878
Shareholders' deficiency:		
Share capital (note 6):		
Common shares	163,920	162,240
Equity portion of secured convertible debentures (note 13)	-	3,814
Stock options	3,704	3,845
Contributed surplus	14,875	10,744
Warrants	1,039	417
Deficit accumulated during development stage	(184,080)	(189,411)
	(542)	(8,351)
Basis of presentation (note 1)		
Contingencies, commitments and guarantees (note 14)		
Subsequent events (note 18)		
	$ 2,303	$ 7,527

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Denis R. Burger" Director

"Aiping H. Young" Director

LORUS THERAPEUTICS INC.

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

	Years ended May 31,			Period from inception on September 5, 1986 to May 31,
	2010	2009	2008	2010
Revenue	$ 131	$ 184	$ 43	$ 1,171
Expenses:				
Research and development (note 11)	2,517	3,757	6,260	126,514
General and administrative	2,964	2,958	3,715	60,839
Stock-based compensation (note 7)	176	446	719	8,594
Depreciation and amortization of fixed assets	86	189	317	9,817
Cost of sales	-	-	2	105
	5,743	7,350	11,013	205,869
Other expenses (income):				
Interest expense	54	707	1,029	4,022
Accretion in carrying value of convertible debentures (note 13)	80	1,707	1,176	4,983
Amortization of deferred financing costs (note 13)	-	-	-	412
Interest income	(21)	(270)	(542)	(12,257)
	113	2,144	1,663	(2,840)
Loss from operations	(5,725)	(9,310)	(12,633)	(201,858)
Gain on repurchase of convertible debentures and transfer of assets (note 13)	11,006	-	-	11,006
Gain on sale of shares (notes 1(b) and 14)	50	450	6,299	6,799
Net earnings (loss) for the period and other comprehensive income (loss)	$ 5,331	$ (8,860)	$ (6,334)	$ (184,053)
Basic and diluted earnings (loss) per common share	$ 0.57	$ (1.08)	$ (0.87)	
Weighted average number of common shares outstanding used in the calculation of (in thousands):				
Basic earnings per share	9,364	8,236	7,169	
Diluted earnings per share	9,379	8,236	7,169	

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

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

	Years ended May 31,			Period from inception on September 5, 1986 to May 31,
	2010	2009	2008	2010
Deficit, beginning of period:				
As previously reported	$ (189,411)	$ (180,551)	$ (174,190)	$ -
Change in accounting policy	-	-	(27)	(27)
As restated	(189,411)	(180,551)	(174,217)	(27)
Net earnings (loss) for the period	5,331	(8,860)	(6,334)	(184,053)
Deficit, end of period	$ (184,080)	$ (189,411)	$ (180,551)	$ (184,080)

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

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

	Years ended May 31, 2010	2009	2008	Period from inception on September 5, 1986 to May 31, 2010
Cash flows from operating activities:				
Net earnings (loss) for the period	$ 5,331	$ (8,860)	$ (6,334)	$ (184,053)
Items not involving cash:				
Gain on repurchase of convertible debentures and transfer of assets (note 13)	(11,006)	-	-	(11,006)
Gain on sale of shares (note 1(b) and 14)	(50)	(450)	(6,299)	(6,799)
Stock-based compensation	176	446	719	8,594
Interest on convertible debentures	15	707	1,029	3,983
Accretion in carrying value of convertible debentures	80	1,707	1,176	4,983
Amortization of deferred financing costs	-	-	-	412
Depreciation, amortization and write-down of fixed assets and acquired patents and licenses	86	189	317	22,378
Other	(8)	(10)	(7)	437
Change in non-cash operating working capital (note 12)	1,655	(942)	(794)	1,201
Cash used in operating activities	(3,721)	(7,213)	(10,193)	(159,870)
Cash flows from financing activities:				
Issuance of debentures, net of issuance costs	-	-	-	12,948
Issuance (repurchase) of warrants	-		(252)	37,153
Payment on settlement of convertible debentures, including transaction costs (note 13)	(3,521)	-	-	(3,521)
Proceeds on sale of shares, net of arrangement costs (note 1(b) and 14)	-	600	7,561	6,899
Issuance of common shares and warrants, net of issuance costs (note 6)	2,287	3,207	-	114,519
Cash provided by financing activities	(1,234)	3,807	7,309	167,998
Cash flows from investing activities:				
Maturity (purchase) of investments, net	250	6,304	4,189	(250)
Business acquisition, net of cash received	-	-	-	(539)
Acquired patents and licenses	-	-	-	(715)
Additions to fixed assets	(2)	(176)	(58)	(6,305)
Proceeds on sale of fixed assets	-	-	-	348
Cash provided by (used in) investing activities	248	6,128	4,131	(7,461)
Increase (decrease) in cash and cash equivalents	(4,707)	2,722	1,247	667
Cash and cash equivalents, beginning of period	5,374	2,652	1,405	-
Cash and cash equivalents, end of period	$ 667	$ 5,374	$ 2,652	$ 667

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

(a) Going concern:

Lorus Therapeutics Inc. (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. The Company has no current sources of significant payments from strategic partners.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern basis because management has forecasted that the Company's current level of cash and cash equivalents and short-term investments, including the $4 million investment described in note 18, will not be sufficient to execute its current planned expenditures for the next 12 months without further investment. The Company is currently in discussion with several potential investors to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. The Company is also considering alternatives to delay its research program until financing is available, amongst other cost savings measures. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is a significant doubt as to whether the Company will 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 sheets classifications used.

1. Basis of presentation (continued):

(b) Reorganization:

On November 1, 2006, the Company 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 (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 the Company (the "Exchange") and the board of directors and management of Old Lorus continued as the board of directors and management of the Company.

In connection with the Arrangement, the Company received cash consideration of approximately $8.5 million less an escrowed amount of $600 thousand related to the indemnification (received in July 2008), before transaction costs. After completion of the Arrangement, the Company is not related to Old Lorus, which was subsequently renamed Global Summit Real Estate Inc.

Under the Arrangement, the Company 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 14.

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.

1. Basis of presentation (continued):

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

(c) Share consolidation:

In accordance the authority granted by shareholders at the Company's annual and special meeting on November 30, 2009 to permit it to implement a consolidation of the Company's outstanding common shares in a ratio of between 1-for-10 and 1-for-50 at any time prior to November 30, 2010, the Company's Board of Directors approved a 1-for-30 share consolidation which became effective May 25, 2010. The share consolidation affects all of the Company's common shares, stock options and warrants outstanding at the effective time. Fractional shares were not issued. Prior to consolidation the Company had approximately 298 million shares outstanding. Following the share consolidation, the Company has approximately 9.9 million common shares outstanding. Similarly, prior to consolidation, the Company had approximately 20.2 million stock options and 36.9 million warrants to purchase common shares outstanding. Following the share consolidation, the Company had approximately 673 thousand stock options and 1.3 million warrants to purchase common shares outstanding.

In these consolidated financial statements, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation. All amounts based on the number of shares, stock options or warrants, unless otherwise specified, such as earnings (loss) per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of 1-for-30 share consolidation.

2. Changes in accounting policies:

(a) Goodwill and intangible assets:

Effective June 1, 2009, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible Assets ("Section 3062"), and Section 3450, Research and Development Costs and establishes the standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard did not have an impact on the Company's consolidated financial statements.

(b) Financial instruments:

Effective June 1, 2009, the Company adopted the amendments under Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of the new standard did not have a material impact on the consolidated financial statements.

(c) Credit risk and fair value of financial assets and financial liabilities:

Effective January 1, 2009, the Company adopted Emerging Issue Committee Abstract 173 ("EIC 173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC 173 requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the new standard did not have a material impact on the consolidated financial statements.

3. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its 80% owned subsidiary, NuChem Pharmaceuticals Inc. ("NuChem"). On May 31, 2009, its wholly owned subsidiary, GeneSense Technologies Inc. ("GeneSense") was wound up and its operations and net assets assumed by Lorus Therapeutics, the parent company. On June 19, 2009 the Company disposed of its shares of Pharma Immune Inc. ("Pharma Immune") (note 13). 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 collectability 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.

Revenue from multiple element arrangements consisting of non-refundable license fees, receipt of milestone payments, royalty and delivery of services over a defined term are recognized in accordance with Emerging Issues Committee Abstract No. 142, Revenue Arrangements with Multiple Deliverables. The Company recognizes the non-refundable license fee as revenue when the technology license is delivered, the fee is fixed or determinable, collection of the amount was probable and there is no continuing involvement or obligation to perform under the arrangement. Any milestone payment subsequently received from the customer is recognized when the customer acknowledges achievement of the milestone, when the fee is fixed or determinable and collection of the amount is probable. If the multiple deliverables in an arrangement do not meet the criteria for separation, the proceeds from the entire arrangement are deferred and recognized as revenue on a proportionate performance basis, or over the term of the arrangement.

3. Significant accounting policies (continued):

(c) Financial instruments:

Financial instrument classification:

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Transaction costs with respect to instruments not classified as held-for-trading are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Company's financial instruments were classified in the following categories:

(i) Cash and cash equivalents:

Cash and cash equivalents 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 and comprehensive income. As a result of adopting the new standards, there was no material change in valuation of these assets.

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):

(ii) Short-term investments:

Short-term investments are liquid Canadian government or corporate instruments having original maturity dates greater than three months and less than one year and are classified as held-to-maturity investments, except where the Company does not intend to, or cannot reasonably expect to hold the investment to maturity in which case 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 and comprehensive income.

Upon adoption of CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), on June 1, 2007, the Company designated certain corporate instruments then having 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 these investments of $27 thousand and a corresponding increase in the opening deficit at June 1, 2007. The Company recognized a net unrealized gain in the consolidated statements of operations and comprehensive income for the year ended May 31, 2010 of $8 thousand (2009 - $10 thousand, 2008 - $7 thousand).

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

(iii) Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities and promissory note payable are typically short-term in nature and classified as other financial liabilities. These liabilities are carried at amortized cost.

(iv) Secured convertible debentures:

The secured convertible debentures, prior to their repurchase in June 2009, were classified as other financial liabilities and accounted for at amortized cost using the effective interest method. The deferred financing charges related to the secured convertible debentures for the periods presented were included as part of the carrying value of the secured convertible debentures and were amortized using the effective interest method.

3. Significant accounting policies (continued):

(v) Embedded derivatives:

Where applicable, the Company separates embedded derivatives from a related host contract and measures those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statements of operations and comprehensive income in the period in which the change occurs. In the periods, presented, the Company did not identify any embedded derivatives that require separation from the related host contract.

(vi) Transaction costs:

Transaction costs 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.

(vii) Fair value hierarchy:

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Financial instruments are required to be measured at fair value at each reporting. Financial instruments have been ranked using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements:

- Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

3. Significant accounting policies (continued):

- Level 3 - applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

See note 15 for a breakdown of these financial instruments.

(d) Fixed assets:

Fixed assets are recorded at cost less accumulated depreciation and amortization. The Company records depreciation and amortization at rates that 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

(e) 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.

(f) Goodwill:

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. The impairment test is carried out in two steps.

3. Significant accounting policies (continued):

In the first step, the carrying amount of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit including goodwill exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination.

The Company has identified no impairment relating to goodwill for 2010, 2009 and 2008.

(g) Acquired patents and licenses:

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

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 assets have now been fully amortized.

(h) Impairment of long-lived assets:

The Company reviews long-lived assets which include fixed assets and intangible assets with finite useful lives for impairment annually or more frequently if 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.

The Company has identified no impairment relating to long-lived assets for 2010, 2009 and 2008.

3. Significant accounting policies (continued):

(i) Stock-based compensation:

The Company has a stock-based compensation plan (the "Plan") available to officers, directors, employees and consultants with grants under the Plan approved by the Company's Board of Directors. Under the Plan, the exercise price of each option equals the closing trading price of the Company's stock on the day prior to the grant. Vesting is provided for at the discretion of the Board of Directors and the expiration of options is to be no greater than 10 years from the date of grant.

The Company uses the fair value based method of accounting for employee awards granted under the Plan. The Company calculates the fair value of each stock option grant using the Black Scholes Option Pricing model at the grant date. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options. Actual forfeitures are accounted for as they occur.

Stock options awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received. The Company calculates the fair value of each stock option grant using the Black Scholes Option Pricing model at the grant date. Consideration paid on the exercise of stock options and warrants is credited to common shares.

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. For units issued under this plan, the Company 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. There are currently no units issued under this plan.

The Company has an alternate compensation plan ("2009 ACP") that provides directors and senior management ("participants") with the option of receiving director's fees, salary, bonuses or other remuneration ("Remuneration") in common shares rather than cash. Under the plan, the participant receives an allotment from treasury of such number of shares as will be equivalent to the cash value of the Remuneration determined by dividing the Remuneration by the weighted average closing common share price for the five trading days prior to payment date (the "5-day VWAP"). The issue price of the shares is the 5-day VWAP. There are currently no shares allotted for issuance under this plan.

3. Significant accounting policies (continued):

(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, 2010 of $400 thousand are classified as prepaid expenses and other assets (2009 - $600 thousand).

(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) Earnings (loss) per share:

Basic earnings (loss) per common share is calculated by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (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 and warrants as applicable, 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.

3. Significant accounting policies (continued):

(m) Segmented information:

The Company is organized and operates as one operating segment, the research and development of anti-cancer therapies. Substantially all of the Company's identifiable assets as at May 31, 2010 and 2009 are located in Canada.

(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 sheets 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 reporting periods. Actual results could differ from those estimates and assumptions. Significant areas requiring the use of management estimates include the historical valuation of the convertible debentures, fair value of guarantees, fair value of the obligation for indemnifications provided on the Arrangement between the Company and Old Lorus, the fair value of long-lived assets and the determination of impairment thereon, the economic lives of intangible assets, the recoverability of future income tax assets, the determination of fair values of financial instruments, as well as the determination of stock-based compensation and the fair value of warrants issued.

(p) Recent Canadian accounting pronouncements not yet adopted:

The Canadian Accounting Standards Board ("AcSB") requires all Canadian publicly accountable entities to adopt International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. The Company's first annual filing under IFRS will be for the year ended May 31, 2012; its first quarterly filing under IFRS will be for the quarter ending August 31, 2011 and will include IFRS comparative figures for the period ended August 31, 2010. Accordingly, the Company's adoption date for IFRS is June 1, 2011, but its transition date ("Transition Date") is June 1, 2010 in order to present IFRS comparative figures in the Company's 2011 consolidated financial statements.

3. Significant accounting policies (continued):

IFRS uses a conceptual framework similar to Canadian GAAP, however, there are significant differences in recognition, measurement and disclosure. Given the nature of Lorus' business and the make-up of its current balance sheets, IFRS could have an impact on its reported financial statements. The Company's implementation of IFRS will require the Company to make and disclose certain policy choices and increase the amount of disclosure necessary to fulfill its IFRS reporting obligations.

During 2009, a detailed project plan with expected milestones was established and approved by senior management of the Company. There are three phases to the plan: a diagnostic phase, a solution development phase and an implementation phase. The plan involves an assessment of the impact of the move to IFRS on accounting and reporting (including any Impact on the Company's internal controls over financial reporting, disclosure controls and procedures, IT systems and processes, and the business implications of this conversion). The Company has allocated resources and included in its project plan training required for both the conversion team and all impacted employees of the organization.

The Company has substantially completed the diagnostic phase and has begun the second and third phases of its plan. During 2010, the Company continued to make progress on its established milestones including analyzing its policy selections both on conversion and post conversion as well as evaluating new financial statement disclosure requirements.

Moving forward, the Company expects to meet all milestones leading up to the conversion in 2012. In 2011, the Company expects to finalize the elections under IFRS 1, publish new policy choices and quantify the impact of the changes to the consolidated financial statements in preparation for the 2012 conversion.

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

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

2010	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Corporate investments (guaranteed investment certificates)	$ 247	$ -	$ 247	-

2009	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Corporate investments (guaranteed investment certificates)	$ 248	$ 242	$ 490	-

Certain corporate investments, totalling $247 thousand at May 31, 2010 (2009 - $490 thousand), have been designated as held-for-trading investments, and have been classified 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, 2010 amounted to $8 thousand (2009 - $10 thousand) and has been included in the consolidated statements of operations and comprehensive income in interest income.

5. Fixed assets:

2010	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	$ 2,907	$ 2,760	$ 147

5. Fixed assets (continued):

2009	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	$ 2,905	$ 2,674	$ 231

6. Share capital:

(a) Continuity of common shares and warrants:

	Common shares		Warrants	
	Number	Amount	Number	Amount
	(in thousands)		(in thousands)	
Balance, May 31, 2007	7,076	$ 157,714	-	$ -
Interest payments (note 13)	179	1,029	-	-
Balance, May 31, 2008	7,255	158,743	-	-
Interest payments (note 13)	354	707	-	-
Issuance of units (b)	951	2,790	571	417
Balance, May 31, 2009	8,560	162,240	571	417
Interest payments (note 13)	7	15	-	-
Issuance of units (b)	1,366	1,665	755	622
Balance, May 31, 2010	9,933	$ 163,920	1,326	$ 1,039

6. Share capital (continued):

(b) Share issuances:

On November 27, 2009, pursuant to a private placement, the Company issued 1.366 million common shares and 683 thousand common share purchase warrants in exchange for cash consideration of $2.5 million. This amount includes the principal amount of $1.0 million originally received by way of a loan from a director on October 6, 2009 which was applied to subscribe for units of the Company ("Units") as part of the private placement. In addition, the Company issued 72 thousand brokers' warrants to purchase an equivalent number of common shares at $2.40 until May 27, 2011. The total costs associated with the transaction were approximately $250 thousand which included the $77 thousand which represented the fair value of the brokers' warrants. The Company has allocated the net proceeds of the private placement to the common shares and the common share purchase warrants based on their relative fair values. Based on relative fair values, $1.7 million of the net proceeds was allocated to the common shares and $545 thousand to the common share purchase warrants.

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 rights entitled the holder thereof to purchase a Unit. Each Unit consists of one common share of the Company at $3.90 and a one-half common share purchase warrant to purchase additional common shares of the Company at $4.53 until August 7, 2010. All unexercised rights expired on August 7, 2008. Pursuant to the rights offering, the Company issued 951 thousand common shares and 571 thousand common share purchase warrants in exchange for cash consideration of $3.7 million. The total costs associated with the transaction were approximately $500 thousand. The Company has allocated the net proceeds of $3.2 million received from the issuance of the Units to the common shares and the common share purchase warrants based on their relative fair values. The fair value of the common share purchase warrants has been determined based on an option-pricing model. The resulting allocation based on relative fair values resulted in the allocation of $2.8 million to the common shares and $417 thousand to the common share purchase warrants.

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

6. Share capital (continued):

On July 10, 2007, as part of the Arrangement described in note 1(b), the Company surrendered its original common share issued when the Company was incorporated, ("Original Share"), and exchanged all of the shares in Old Lorus for an equivalent number of shares of the Company.

(c) Terminated U.S. financing:

In April 2010, the Company filed a Registration Statement on Form F-1 (the "Registration Statement") with the United States Securities and Exchange Commission (the "SEC") for an offering of up to US$17.5 million of units in the United States.

In August 2010, subsequent to year end, the Company announced that due to unfavourable market conditions the Registration Statement would be withdrawn and the public financing would not proceed.

The Company incurred fees of approximately $569 thousand related to this filing which have been included in general and administrative expenses for the year ended May 31, 2010 and an additional $200 thousand in fees incurred subsequent to year end which will be paid in the year ended May 31, 2011.

(d) Contributed surplus:

	2010	2009	2008
Balance, beginning of year	$ 10,744	$ 9,181	$ 8,525
Forfeiture of stock options	317	1,563	656
Equity portion of secured convertible Debenture (note 13)	3,814	-	-
Balance, end of year	$ 14,875	$ 10,744	$ 9,181

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

6. Share capital (continued):

(e) Continuity of stock options:

	2010	2009	2008
Balance, beginning of the year	$ 3,845	$ 4,961	$ 4,898
Stock option expense	176	446	719
Forfeiture of stock options	(317)	(1,562)	(656)
Balance, end of year	$ 3,704	$ 3,845	$ 4,961

(f) Alternate compensation plans:

The Company did not issue any share units under its deferred share unit plan or allot any shares for issuance under its 2009 ACP.

(g) Employee share purchase plan:

The Company' has an employee share purchase plan ("ESPP"). 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 with each offering having a three month duration. 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, 2010, 3,159 (2009 - 7,966; 2008 - 9,400) common shares have been purchased under the ESPP, and the Company has recognized an expense of $2 thousand (2009 - $3 thousand; 2008 - $10 thousand) related to this plan in these consolidated financial statements.

(h) Earnings/loss per share:

For the year ended May 31, 2010, the determination of diluted earnings per share includes in the calculation all common shares potentially issuable upon the exercise of stock options and share purchase warrants, using the treasury stock method.

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

6. Share capital (continued):

Diluted earnings per share, using the treasury stock method, assumes outstanding stock options and share purchase warrants are exercised at the beginning of the period, and the Company's common shares are purchased at the average market price during the period from the funds derived on the exercise of these outstanding options and share purchase warrants. Stock options and share purchase warrants with a strike price above the average market price for the period were excluded from the calculation of fully diluted earnings per share as to include them would have increased the earnings per share.

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 1,490,000 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, 2010 are summarized as follows:

	2010		2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	562,358	$ 8.66	547,874	$ 13.52	432,830	$ 17.69
Granted	189,406	2.41	170,807	3.39	201,637	6.26
Exercised	-	-	-	-	-	-
Forfeited	(78,863)	11.24	(156,323)	19.94	(86,593)	17.44
Outstanding, end of year	672,901	6.60	562,358	8.66	547,874	13.52
Exercisable, end of year	439,452	$ 8.54	323,555	$ 11.39	341,296	$ 14.91

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

7. Stock-based compensation (continued):

The following table summarizes information about stock options outstanding at May 31, 2010:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Options	Weighted average exercise price
$2.10 - $7.49	484,152	8.31	$ 3.81	250,703	$ 4.64
$7.50 - $14.99	146,955	5.39	8.88	146,955	8.88
$15.00 - $29.99	28,852	3.88	24.62	28,852	24.62
$30.00 - $75.00	12,942	2.08	44.38	12,942	44.38
	672,901	7.36	6.60	439,452	8.54

For the year ended May 31, 2010, stock option expense comprised $83 thousand (2009 - $127 thousand; 2008 - $171 thousand) related to research and development and $93 thousand (2009 - $319 thousand; 2008 - $548 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:

	2010	2009	2008
Risk-free interest rate	2.44% - 2.60%	2.00% - 3.50%	3.75% - 4.70%
Expected volatility	82% - 124%	76%	77% - 80%
Expected dividend yield	-	-	-
Expected life of options	5 years	5 years	5 years
Weighted average fair value of options granted or modified during the year	$ 1.43	$ 2.16	$ 4.05

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

8. Capital risk management:

The Company's objectives when managing capital are to:

(a) maintain its ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders;

(b) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and

(c) ensure sufficient cash resources to fund its research and development activity, to pursue partnership and collaboration opportunities and to maintain ongoing operations.

At May 31, 2010, the capital structure of the Company consisted of equity comprised of share capital, warrants, stock options, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, acquiring or disposing of assets, adjusting the amount of cash and short-term investments balances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company has forecasted that its current capital resources will not be sufficient to carry its research and development plans and operations for the next twelve months (note 1(a)) without additional financing.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2009.

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

9. Financial instruments and risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	2010	2009
Financial assets:		
Cash and cash equivalents, consisting of term deposits and guaranteed investment certificates at fair value	$ 667	$ 5,374
Short-term investments, held-for-trading, recorded at fair value	247	490
Financial liabilities:		
Accounts payable, measured at amortized cost	387	299
Accrued liabilities, measured at amortized cost	1,458	1,131
Secured convertible debentures, measured at amortized cost	-	14,448
Promissory note payable, measured at amortized cost	1,000	-

(b) Financial risk management:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents and short-term investments. The carrying amount of the financial assets represents the maximum credit exposure.

9. Financial instruments and risk management (continued):

The Company manages credit risk for its cash and cash equivalents and short-term investments by maintaining minimum standards of R1 low or A low investments and the Company invests only in highly rated Canadian corporations with debt securities that are traded on active markets and are capable of prompt liquidation.

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board considers securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. Refer to note 1(a) for further discussion on the Company's ability to continue as a going concern.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Company's income or the value of its financial instruments.

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relative short-term nature of the investments. The Company does not have any material interest bearing liabilities subject to interest rate fluctuations.

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

9. Financial instruments and risk management (continued):

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of accounts payable and accrued liabilities. The Company holds minimal amounts of U.S. dollar denominated cash, purchasing on an as needed basis to cover U.S. dollar denominated payments. At May 31, 2010, U.S. dollar denominated accounts payable and accrued liabilities amounted to $270 thousand (2009 - $70 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss for the year and comprehensive loss of $27 thousand (2009 - $7 thousand). The Company does not have any forward exchange contracts to hedge this risk.

The Company does not invest in equity instruments of other corporations.

10. 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:

	2010	2009
Non-capital loss carryforwards	$ 2,197	$ 3,099
Capital loss carryforwards	-	218
Research and development expenditures	4,237	4,518
Book over tax depreciation	529	749
Intangible asset	3,115	3,386
Ontario harmonization tax credit	347	179
Other	172	-
Future tax assets	10,597	12,149
Valuation allowance	(10,597)	(12,149)
	$ -	$ -

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

10. Income taxes (continued):

During the year ended May 31, 2010, the Company reached a settlement with the convertible debenture holders (note 13) which resulted in an accounting gain of $11.0 million. For tax purposes this transaction resulted in a taxable capital gain of $5.7 million. There are no taxes payable on this gain as the Company has sufficient capital and non-capital losses to offset the gain.

During the year ended May 31, 2008, 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 the Company and the balance remained with Old Lorus and is subject to the indemnification agreement (note 1(b)). 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.

The Company has undeducted research and development expenditures, totalling $16.9 million that can be carried forward indefinitely. In addition, the Company has non-capital loss carryforwards of $8.8 million. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

2015	$ 10
2026	11
2027	4
2028	4,359
2029	4,387
2030	16
	$ 8,787

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

10. Income taxes (continued):

Income tax rate reconciliation:

	2010	2009	2008
Income tax expense (recovery) based on statutory rate of 32.6% (2009 - 33.3%, 2008 - 35.0%)	$ 1,738	$ (2,950)	$ (2,217)
Expiry of losses	46	247	127
Change in valuation allowance	(1,552)	3,068	2,048
Non deductible accretion, stock-based compensation and capital gains	(1,694)	582	(1,880)
Ontario harmonization tax credit	-	(260)	-
Change in substantively enacted tax rates	1,643	299	1,585
Adjustment of prior year research and development expenditures	-	(856)	-
Other	(181)	(130)	337
	$ -	$ -	$ -

11. Research and development programs:

The Company has product candidates in three classes of anticancer therapies:

- RNA-targeted (antisense and siRNA) therapies, based on synthetic segments of DNA or RNA designed to bind to the messenger RNA that is responsible for the production of proteins over-expressed in cancer cells;
- small molecule therapies based on anti-angiogenic, anti-proliferative and anti-metastatic agents; and
- immunotherapy, based on macrophage-stimulating biological response modifiers.

11. Research and development programs (continued):

(a) RNA-Targeted Therapies:

The Company's RNA-targeted drug candidates include LOR-2040 and LOR-1284. The Company has reported Phase II clinical results, completed to the end-of-stage assessment time point, of LOR-2040 in combination with cytarabine in relapsed and refractory acute myeloid leukemia ("AML") patient population. Based on these data, the Company is proceeding with protocol development for the expanded development program. LOR-1284 is in pre-clinical stage of development.

(b) Small Molecule Program:

The Company has small molecule drug screening technologies and preclinical scientific expertise, which it is using to create a drug candidate pipeline. The Company's proprietary group of small molecule compounds includes lead drug LOR-253.

(c) Immunotherapy:

The Company's immunotherapy product candidates are Virulizin® and Interleukin-17E ("IL-17E"). In June 2009, as part of the consideration for our repurchase of the secured convertible debentures from The Erin Mills Investment Corporation ("TEMIC"), the Company assigned to TEMIC its rights under the license agreement with Zor Pharmaceuticals, LLC ("ZOR"), and sold to TEMIC its intellectual property rights associated with Virulizin®. In return, the Company will be entitled to 50% of the deal value of any transaction completed in ZOR and non-ZOR territories. IL-17E is a protein-based therapeutic that the Company is developing as an immunotherapy for cancer treatment.

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

11. Research and development programs (continued):

	Years ended May 31,			Period from inception on September 5, 1986 to May 31,
	2010	2009	2008	2010
RNA-Targeted Therapies:				
Expensed	$ 945	$ 1,123	$ 3,291	$ 36,904
Acquired	-	-	-	11,000
Small molecules:				
Expensed	1,572	2,634	2,821	14,413
Acquired	-	-	-	1,228
Immunotherapy:				
Expensed	-	-	148	75,197
Total expensed	$ 2,517	$ 3,757	$ 6,260	$ 126,514
Total acquired	$ -	$ -	$ -	$ 12,228

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

12. Supplemental cash flow and other information:

Cash and cash equivalents consist of:

	2010	2009
Cash	$ 667	$ 2,676
Term deposits and guaranteed investment certificates	-	2,698
	$ 667	$ 5,374

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

12. Supplemental cash flow and other information (continued):

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

	Years ended May 31,			Period from inception on September 5, 1986 to May 31,
	2010	2009	2008	2010
Prepaid expenses and other assets	$ 190	$ (105)	$ (386)	$ (60)
Accounts payable	88	(624)	(181)	(857)
Accrued liabilities	377	(213)	(227)	1,118
Promissory note payable	1,000	-	-	1,000
	$ 1,655	$ (942)	$ (794)	$ 1,201

During the year ended May 31, 2010, the Company received interest of $139 thousand (2009 -$367 thousand; 2008 - $519 thousand).

During the year ended May 31, 2010, the Company paid $27 thousand (2009 - nil; 2008 - nil) in cash interest related to the convertible debentures settled on June 22, 2009.

During the year ended May 31, 2010, the Company paid nil (2009 - nil; 2008 - nil) in income taxes and received nil (2009 - nil; 2008 - nil) in income taxes.

13. 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") to TEMIC (the "debenture holder"). The debentures were secured by a first charge over all of the assets of the Company.

13. Convertible debentures (continued):

The Company received three tranches of $5.0 million on each of October 6, 2004, January 14 and April 15, 2005. All debentures issued under the Agreement were due on October 6, 2009 and subject to interest payable monthly at a rate of prime plus 1%. Interest was payable in common shares of the Company. Common shares issued in payment of interest were 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, 2010, the Company issued 7,000 (2009 - 354,000; 2008 - 179,433) shares in settlement of approximately $15 thousand (2009 - $707 thousand; 2008 - $1.0 million) in interest. In addition the Company paid $12 thousand of interest expense in cash.

With the issuance of each $5.0 million debenture, the Company issued to the debenture holder from escrow 33,333 purchase warrants expiring October 6, 2009 to buy common shares of the Company at a price per share equal to $30.00. In July 2007, the 100,000 common share purchase warrants were repurchased in connection with the Arrangement (note 1(b)).

The debentures contained both a liability and an equity element, represented by the conversion option and, therefore, under Canadian GAAP, these two elements were split and classified separately as debt and equity. In addition, as noted above, the debenture holder received 33,333 purchase warrants on the issuance of each tranche of convertible debt (warrants were repurchased in July 2007). The Company allocated the total proceeds received from the issuance of the debentures to these three elements based on their relative fair values. The fair value of the purchase warrants was determined based on an option pricing model. The fair value of the debt was based on the discounted cash flows using an estimated cost of borrowing of 15% to represent an estimate of what the Company may have borrowed as secured debt without a conversion option or purchase warrant. The debentures conversion option was valued using a trinomial model. The resulting allocation based on relative fair values resulted in the allocation of $9.8 million to the debt instrument, $4.1 million to the conversion option and $1.1 million to the purchase warrants. The financing fees totalling $1.1 million related to the issuance of the convertible debentures were allocated pro rata between deferred financing charges of $652 thousand, against the equity portion of the convertible debentures of $322 thousand and against the purchase warrants of $87 thousand. This allocation resulted in net amounts allocated to the equity portion of the debentures and warrants of $3.8 million and $991 thousand, respectively.

13. Convertible debentures (continued):

Prior to the adoption of Section 3855 on June 1, 2007, deferred financing costs were amortized over the five-year life of the Agreement. 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 were recognized in the consolidated statements of operations as accretion expense.

Each reporting period, the Company was 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, 2010, the Company has recognized $80 thousand (2009 - $1.7 million; 2008 - $1.2 million) in accretion expense.

On June 22, 2009, the Company reached a settlement with TEMIC with respect to the purchase and settlement of the $15.0 million secured convertible debentures.

Under the Agreement, the Company purchased all of the convertible debentures from TEMIC for consideration that included a cash payment on close of the transaction of $3.3 million, the assignment of the rights under the license agreement with ZOR certain intellectual property associated with Virulizin® and all of the Company's shares in its wholly owned subsidiary, Pharma Immune, which held an equity interest in ZOR (the "Consideration"). Under the agreement, the Company is entitled to 50% of any royalties received under the ZOR license agreement and 50% of the value of any transaction completed in territories not covered by the ZOR license agreement. The Company also retains a perpetual royalty free license for the animal use of Virulizin®. TEMIC will be fully responsible for all clinical and regulatory costs associated with the commercialization of Virulizin® in territories not covered by the ZOR license agreement. The Company will assist TEMIC with certain agreed upon services.

For receipt of the Consideration, TEMIC has released all security interest in the assets of the Company.

13. Convertible debentures (continued):

As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of $11.0 million reflecting the difference between the fair value of the debentures at the repurchase date, net of transaction costs of approximately $221 thousand, and the cash payment amount of $3.3 million. In addition, as a result of extinguishing the debentures in the amount of $3.8 million, the equity portion of the debentures, was transferred to contribute surplus. The gain on repurchase of the debentures did not result in income taxes payable as the Company has sufficient capital loss and non-capital loss carryforwards to shelter these gains. Capital loss and non-capital loss carryforwards, and the associated valuation allowance have been reduced accordingly.

14. 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 $129 thousand in 2011, $9 thousand in 2012. The Company's current facility lease expires in March 2011.

During the year ended May 31, 2010, operating lease expenses were $146 thousand (2009 - $143 thousand; 2008 - $140 thousand).

(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 a 20% share interest in NuChem; a payment of US$350 thousand in shares of the Company; and up to US$3.5 million in cash.

To date, the Company has made cash payments of US$500 thousand. The remaining balance of up to US$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.

14. Contingencies, commitments and guarantees (continued):

The Company did not meet any of these milestones during the current year and does not currently expect to achieve any of the above milestones in fiscal years ended May 31, 2011 or 2012 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.

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, 2011 or 2012, 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.

14. Contingencies, commitments and guarantees (continued):

(d) Indemnification on Arrangement:

Under the Arrangement (note 1(b)), 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 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.

Subsequent to the release of the escrowed amount of $600 thousand in July 2008, the Company recorded a liability of $150 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided at that time. This liability was reduced to $100 thousand in the current year resulting in a gain on sale of $50 thousand in the year ended May 31, 2010 (2009 - $450 thousand). The reduction in liability is the result of the passage of time and related reduction in risk associated with claims under the liability as there have been no claims under this indemnification to date. This amount is included on the consolidated balance sheets in accrued liabilities as at May 31, 2010.

(e) Financing fees:

The Company has incurred approximately $200 thousand in fees subsequent to year end related to the financing in note 6(c) which will be paid despite the termination of the financing.

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

14. Contingencies, commitments and guarantees (continued):

(f) Regulatory matter:

On October 31, 2008, the Company voluntarily delisted its common shares from trading on the NYSE Alternext US LLC (formerly the American Stock Exchange or AMEX). The Company was eligible to apply for deregistration from the Security Exchange Commission one year after delisting from the NYSE Alternext US LLC.

15. 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.

Cash and cash equivalents, short-term investments, other assets, accounts payable, accrued liabilities and promissory note payable:

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.

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.

Assets measured at fair value on a recurring basis as of May 31, 2010 and May 31, 2009 were as follows:

2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 667	$ -	$ -	$ 667
Short-term investments, consisting of guaranteed investment certificates	247	-	-	247
	$ 914	$ -	$ -	$ 914

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

15. Financial instruments (continued):

2009	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 5,374	$ -	$ -	$ 5,374
Short-term investments, consisting of guaranteed investment certificates	490	-	-	490
	$ 5,864	$ -	$ -	$ 5,864

16. License agreement:

Effective April 8, 2008, the Company entered into a non-exclusive multinational license agreement with 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 received an upfront licensing fee of $100 thousand, was eligible to receive certain milestone payments totalling approximately US$10 million based on progress through financing and clinical development, and royalties on net sales that vary from 10% to 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. In 2009, the Company received an additional payment of $178 thousand (US$150 thousand).

As described in note 13, on June 22, 2009, this license agreement was assigned to TEMIC as part of the Consideration for the repayment of the convertible debentures.

The Company also entered into a service agreement with ZOR to assist in the transfer of knowledge. Under this agreement, the Company agreed to provide ZOR with 300 hours of consulting service during a period of 18 months (the agreement expired in October 2009).

The initial fee of $100 thousand and a milestone payment of $178 thousand (US$150 thousand) were deferred under this arrangement and revenue was 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 these initial fee and 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. All of the revenue received under this agreement has now been recognized.

16. License agreement (continued):

In addition, the Company acquired an equity interest in ZOR in exchange for a capital contribution of $2,500. As described in note 13, on June 22, 2009, as part of the agreement to repurchase the convertible debentures, the Company disposed of its interest in ZOR and assigned the licence agreement to TEMIC.

17. Related party transactions:

In October 2009, the Company entered into a loan agreement with a member of its Board of Directors to borrow $1 million. The loan amount, which was received on October 6, 2009, was unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The principal and interest were due in six months. The principal amount of $1.0 million was applied to subscribe for Units as part of the November 27, 2009 private placement.

In April 2010, the Company entered into a loan agreement with a company related to the same member as above of its Board of Directors to borrow $1 million. The loan amount, which was received on April 14, 2010, is unsecured, evidenced by a promissory note and bears interest at the annual rate of 10%. The principal and interest amount are due in six months. The funds will be used for general working capital purposes.

During the year ended May 31, 2010, the Company expensed consulting fees of nil to a director of the Company (2009 - $25 thousand; 2008 - $31 thousand). There was no amount payable at May 31, 2010 (2009 - nil; 2008 - $30 thousand).

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.

See also note 18 for additional related party transactions.

18. Subsequent events:

On August 27, 2010, subsequent to the year end, the Company announced a proposed rights offering as described below including a $4 million standby purchase agreement from a director of the Company Mr. Abramson. Mr. Abramson also provided the Company with interim financing by way of three $500 thousand monthly loans, advanced on August 11, 2010, September 13, 2010 and October 5, 2010. The loans were unsecured, have a six-month term (or the earlier of the closing of the rights issue) and bore interest at the annual rate of 10%. All three notes were repaid upon the close of the rights offering described below.

On September 27, 2010 Lorus filed a final short form prospectus in each of the provinces of Canada in connection with a distribution to its shareholders in eligible jurisdictions outside the United States of rights exercisable for units of the Company (the “Rights Offering”).

Under the Rights Offering, holders of common shares of the Company as of October 12, 2010, the record date, received one right for each common share held as of the record date. Each two rights entitled the holder thereof to purchase a unit of the Company at a price of $1.11 per unit. Each unit consisted of one common share of the Company and one warrant to purchase an additional common share of the Company at a price of $1.33 until May 2012.

A total of 4.2 million units of the Company at a price of $1.11 per unit were issued in connection with the rights offering. As a result of the rights offering Lorus issued 4.2 million common shares and 4.2 million common share purchase warrants.

In connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Herbert Abramson, one of Lorus’ directors. Mr. Abramson agreed to make an investment such that the minimum gross proceeds of the proposed rights offering would be $4 million. No fee was payable to Mr. Abramson for this commitment. In accordance with the terms of the stand-by purchase agreement, Mr. Abramson subscribed for 3.6 million of the 4.2 million units of the offering for $4.0 million.

Supplementary Information
(In Canadian dollars)

LORUS THERAPEUTICS INC.

Years ended May 31, 2010, 2009 and 2008

AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of Lorus Therapeutics Inc.

Under date of August 23, 2010, except as to note 18 which was under date of August 27, 2010 we reported on the consolidated balance sheets of Lorus Therapeutics Inc. (the "Company") as at May 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive income, deficit and cash flows for each of the years in the three-year period ended May 31, 2010 and period from inception on September 5, 1986 to May 31, 2010, included in the Annual Report on Form 20-F. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related supplementary information entitled "Reconciliation of Canadian and United States Generally Accepted Accounting Principles" as included in Form 20-F in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). This supplementary information is the responsibility of the Company's management. Our responsibility is to express an opinion on this supplementary information based on our audits.

In our opinion, such supplementary information, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein as at May 31, 2010 and 2009 and for each of the years in the three-year period ended May 31, 2010.

Chartered Accountants, Licensed Public Accountants

/s/ KPMG LLP

Toronto, Canada

November 29, 2010

LORUS THERAPEUTICS INC.

Supplementary Information

Reconciliation of Canadian and United States Generally Accepted Accounting Principles
(Tabular amounts in thousands of Canadian dollars, except per share amounts)

Years ended May 31, 2010, 2009 and 2008

The consolidated financial statements as at May 31, 2010 and 2009 and for each of the years in the three-year period ended May 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which differ in some respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The following reconciliation identifies material differences in the Company's consolidated statements of operations and comprehensive income and consolidated balance sheets.

(a) Consolidated statements of operations and comprehensive income:

	2010	2009	2008
Income (loss) for the year per Canadian GAAP	$ 5,331	$ (8,860)	$ (6,334)
Gain on repurchase of convertible debentures and transfer of assets (i)	328	—	—
Accretion of convertible debentures (i)	54	1,222	902
Amortization and write off of debt issue costs (i)	(4)	(48)	(40)
Stock-based compensation expense (ii)	4	(39)	(47)
Short-term investments (iii)	(8)	(10)	(7)
Income (loss) for the year per U.S. GAAP	$ 5,705	$ (7,735)	$ (5,526)
Other comprehensive loss (iii):			
Unrealized gain (loss) on short-term investments	$ 8	$ 10	$ (20)
Income (loss) for the year and comprehensive gain (loss) per U.S. GAAP	$ 5,713	$ (7,725)	$ (5,546)
Basic and diluted earnings (loss) per share per U.S. GAAP	$ 0.61	$ (0.94)	$ (0.77)

Under U.S. GAAP, the number of weighted average common shares outstanding for basic and diluted loss per share is the same as under Canadian GAAP.

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

(b) Consolidated balance sheets:

2010	Canadian GAAP	Adjustments: Convertible debentures (i)	Adjustments: Stock options (ii)	Adjustments: Other	U.S. GAAP
Stock options	(3,704)	–	3,704	–	–
Contributed surplus/additional paid-in capital	(14,875)	3,757	1,422	–	(9,696)
Warrants	(1,039)	–	–	–	(1,039)
Accumulated other comprehensive loss	–	–	–	2	2
Deficit	184,080	(3,757)	(5,126)	(2)	175,195

2009	Canadian GAAP	Adjustments: Convertible debentures (i)	Adjustments: Stock options (ii)	Adjustments: Other	U.S. GAAP
Deferred financing charges	$ –	$ 65	$ –	$ –	$ 65
Secured convertible debentures	(14,448)	(444)	–	–	(14,892)
Equity portion of secured convertible debentures	(3,814)	3,814	–	–	–
Stock options	(3,845)	–	3,845	–	–
Contributed surplus/additional paid-in capital	(10,744)	(57)	1,276	–	(9,525)
Warrants	(417)	–	–	–	(417)
Accumulated other comprehensive loss	–	–	–	10	10
Deficit	189,411	(3,379)	(5,121)	(10)	180,901

(i) Convertible debentures:

On June 22, 2009, the Company reached a settlement with the debenture holders with respect to the purchase and settlement of the convertible debentures.

Under the agreement, Lorus purchased all of the convertible debentures from The Erin Mills Investment Corporation (“TEMIC “) for consideration that included a cash payment on close of the transaction of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals Inc, LLC (“ZOR”), certain intellectual property associated with Virulizin and all of Lorus' shares in its wholly owned subsidiary, Pharma Immune, which held an equity interest in ZOR (the "Consideration"). Under the agreement, Lorus is entitled to 50% of any royalties received under the ZOR license agreement and 50% of the value of any transaction completed in territories not covered by the ZOR license agreement. Lorus also retains a perpetual royalty free license for the animal use of Virulizin. TEMIC will be fully responsible for all clinical and regulatory costs associated with the commercialization of Virulizin in territories not covered by the ZOR license agreement. Lorus will assist TEMIC with certain agreed upon services.

As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of $11.0 million reflecting the difference between the fair value of the debentures at the repurchase date, net of transaction costs of approximately $221 thousand, and the cash payment amount of $3.3 million. The gain on repurchase of the debentures did not result in income taxes payable as the Company has sufficient capital loss and non-capital loss carryforwards to shelter these gains. Capital loss and non-capital loss carryforwards, and the associated valuation allowance have been reduced accordingly. As a result of the settlement of the convertible debentures, the deferred financing charges amounting to $52 thousand were written off in the year ended May 31, 2010. As the carrying value of the convertible debenture was different under U.S, GAAP, as explained below, the Company recognized an additional gain of $328 thousand on the repurchase of the convertible debentures and transfer of assets including the write-down of the deferred financing charges compared to under Canadian GAAP in the year ended May 31, 2010.

Under Canadian GAAP, the conversion option embedded in the convertible debentures was presented separately as a component of shareholders' equity (deficiency). Under U.S. GAAP, the embedded conversion option was not subject to bifurcation since, as a conventional convertible debt, the holder of the debentures may have only realized the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares. Accordingly, the conversion option was included in the carrying amount of the secured convertible debentures, presented as a liability resulting in a higher carrying amount of the convertible debenture than that measured under Canadian GAAP. In accordance with U.S. GAAP, the warrants issued in connection with the convertible debentures financing were recorded as additional paid-in capital ("APIC") and a reduction to the proceeds from the issuance of convertible debentures. The warrants were presented as a separate component of shareholders' equity (deficiency) for Canadian GAAP purposes. Under U.S. GAAP, the Company allocated the total proceeds received from the issuance of the convertible debentures to the debt and warrant components based on their relative fair values. The fair value of the warrants was determined based on an option pricing model. The resulting allocation based on relative fair values on issuance of the convertible debentures resulted in the allocation of $13.9 million to the debt instrument and $1.1 million to the warrants. The financing costs totalling $1.1 million related to the issuance of the convertible debentures were allocated on a pro rata basis to deferred financing charges of $964 thousand and to the warrants of $97 thousand. This allocation resulted in the net amount allocated to the warrants of $1.0 million. In May 2007, the Company entered into an agreement with the holder of the convertible debentures to repurchase its outstanding 3,000,000 common share purchase warrants at a purchase price of $252 thousand in connection with the Arrangement. The difference between the repurchase liability and the carrying amount of the warrants has been recorded as APIC.

Under Canadian GAAP, prior to the adoption of Section 3855, deferred financing costs were amortized over the five-year life of the debentures. 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. Under Canadian GAAP, deferred financing costs were recognized in the consolidated statements of operations and comprehensive income as accretion expense.

Each reporting period, the Company was required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures would have been their face value of $15.0 million. Up to May 31, 2009, the Company has recognized $1.0 million in accretion expense under U.S. GAAP. This accretion expense had increased the carrying value of the convertible debentures from $13.9 million to $14.9 million at May 31, 2009.

(ii) Stock-based compensation:

Under Canadian GAAP, effective June 1, 2004, the Company adopted the fair value-based method of accounting for employee stock options granted on or after June 1, 2002, retroactively without restatement as allowed under the transitional provisions of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. As a result, the opening balances of deficit and stock options were increased by $2.8 million at June 1, 2004.

Under U.S. GAAP, on June 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires companies to recognize in the statement of operations and comprehensive income all share-based payments to employees, including grants of employee stock options, based on their fair values. The statement eliminates the ability to account for share-based compensation transactions, as the Company formerly did, using the intrinsic value method as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees.

The Company adopted SFAS 123(R) using the modified prospective method, which requires the application of the accounting standards as of June 1, 2006. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the consolidated statement of operations and comprehensive income during fiscal 2007 included compensation expense for stock-based payment awarded prior to, but not yet vested as of June 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosures ("SFAS 148"), and compensation expense for the stock-based payment awards granted subsequent to May 31, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R). As stock-based compensation expense recognized in statement of operations and comprehensive income commencing fiscal 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. There was no material cumulative effect adjustment to APIC relating to estimating forfeitures on recognized stock-based compensation cost in periods prior to the adoption of SFAS 123(R).

The Company recorded stock-based compensation of $171 thousand for the year ended May 31, 2010 (2009 - $485 thousand, 2008 - $766 thousand) which is $4 thousand lower than the expense recorded in accordance with Canadian GAAP, substantially arising from the impact of estimating forfeitures as explained above. For the year ended May 31, 2010, stock-based compensation expense comprised $81 thousand (2009 - $138 thousand; 2008 - $182 thousand) related to research and development and $90 thousand (2009 - $347 thousand; 2008 - $584 thousand) related to general and administrative expenses. The Company used the Black-Scholes valuation model to determine the fair value of options granted in each of the fiscal years beginning in 2007 and valuation assumptions are consistent with those used under Canadian GAAP.

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 under both Canadian GAAP and SFAS 123(R), 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.

As at May 31, 2010, the aggregate intrinsic values for options outstanding was $2,500 and options exercisable was nil. There were no options exercised during the years ended May 31, 2010 and 2009.

The weighted average remaining contractual term of options exercisable as at May 31, 2010 is 8.54 years.

Total unrecognized compensation cost relating to unvested stock options at May 31, 2010, prior to the consideration of expected forfeitures, is approximately $236 thousand and is expected to be recognized over a weighted average period of 1.4 years.

(iii) Short-term investments:

Effective June 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, retroactively without restatement of prior periods. This section provides standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives.

As part of the adoption of the new standards on June 1, 2007, the Company designated certain short-term investments consisting of corporate instruments as "held-for-trading". This change in accounting policy under Canadian GAAP resulted in a decrease in the carrying amount of these investments amounting to $27 thousand and an increase in the fiscal 2008 opening deficit accumulated during the development stage of $27 thousand. Further, the Company recognized a net unrealized gain in the consolidated statement of operations and comprehensive income for the year ended May 31, 2010 of $8 thousand (2009 - $10 thousand, 2008 - $7 thousand).

Under U.S. GAAP, the Company previously accounted for these investments as "held-to-maturity" in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"). Because the Company did not have the ability or intent to hold these investments until their stated maturity date, the Company made a reassessment of the appropriateness of the previous classification and reallocated these investments as "available-for-sale" as of May 31, 2008, in accordance with SFAS 115. An unrealized holding gain in the amount of $8 thousand (2009 - gain of $10 thousand, 2008 - loss of $20 thousand) was recorded in other comprehensive income relating to these investments.

(c) Consolidated statements of cash flows:

There are no differences between Canadian and U.S. GAAP that impact the consolidated statements of cash flows.

(d) Investment tax credits:

Prepaid expenses and other assets as at May 31, 2010 include investment tax credits receivable of $400 thousand (2009 - $600 thousand, 2008 - $400 thousand).

Under Canadian GAAP, investment tax credits and other research and development credits are deducted from research and development expense for items of a current nature, and deducted from property and equipment for items of a capital nature. Under U.S. GAAP, these tax credits would be reclassified as a reduction of income tax expense. The impact would be higher research and development expense and an income tax recovery of $242 thousand for the year ended May 31, 2010 (2009 - $200 thousand; 2009 - $200 thousand) with no net impact to loss for the year or loss per share.

(e) Income taxes:

In accordance with U.S. GAAP, the Company uses enacted tax rates to record the future tax balances arising from temporary differences, whereas, under Canadian GAAP, the Company uses substantively enacted tax rates to record its future tax balances. As a result of the difference between substantively enacted tax rates and enacted tax rates at May 31, 2009, the gross future tax asset recognized under U.S. GAAP would be lower than that recorded in accordance with Canadian GAAP. However, since the Company has a full valuation allowance against the future tax assets, there are no measurement differences in the net future tax assets between Canadian and U.S. GAAP as of May 31, 2009. For the year ended May 31, 2010 all tax rates used to record future tax balances were enacted and as such no US GAAP difference would exist.

The Company fully recognizes its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. The Company does not expect significant changes in its unrecognized tax benefits for the next 12 months.

The Company and its Canadian subsidiary each file Canadian federal and provincial income tax returns. The Company, its subsidiaries and former subsidiary remain open to tax examinations by the Canadian federal and provincial tax authorities for years ended after the 2003 and 2002 taxation years, respectively.

The Company's former U.S. subsidiary filed U.S. federal and state income tax returns. The former U.S. subsidiary is subject to federal and state income tax examinations by U.S. tax authorities for taxation years ended May 31, 2008 and 2009.
The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended May 31, 2010 and 2009, there was no such interest or penalties.

(f) Adoption of new accounting pronouncements under U.S. GAAP:

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (“FSP 157-2”), which is primarily codified in ASC Topic 820 and delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the Company’s fiscal 2010 year. The adoption of this standard, when applied to non-financial assets and non-financial liabilities, did not have a material impact on the results of operations or financial position.

In December 2007, the FASB issued Statement No. 141R, which is primarily codified in ASC Topic 805,and requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. ASC Topic 805 applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under ASC Topic 805, all business combinations will be accounted for by applying the acquisition method. ASC Topic 805 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, specifically June 1, 2009 for the Company. As the Company did not enter into any business combination transactions on or after June 1, 2009, the adoption of this standard did not have any impact on the consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, which is primarily codified in ASC Subtopic 810-10, and requires non-controlling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside permanent equity. ASC Subtopic 810-10 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. ASC Subtopic 810-10 is effective for annual periods beginning on or after December 15, 2008, specifically June 1, 2009 for the Company. The adoption of this standard did not have an impact on the results of operations or financial position.

In December 2007, the FASB ratified EITF No. 07-1, Accounting for Collaborative Agreements ("EITF 07-1"), which is primarily codified in ASC Topic 808 and provides guidance on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure requirements. ASC Topic 808 is effective for the first annual or interim reporting period beginning after December 15, 2008, specifically June 1, 2009 for the Company and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The adoption of this standard did not have an impact on the results of operations or financial position.

On June 1, 2008, the Company adopted ASC Subtopic 820-10 “Fair Value Measurements” formerly FASB Statement No. 157, which defines fair value, establishes a framework for measuring fair value under United States GAAP, and expands disclosures about fair value measurements. ASC Subtopic 820-10 applies to other accounting pronouncements that require or permit fair value measurements.

ASC Subtopic 820-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability. The adoption of this standard did not have an impact on the results of operations or financial position other than the additional disclosures as shown below.

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

(i) Fair value hierarchy:

ASC Subtopic 820-10 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Subtopic 820-10 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC Subtopic 820-10 prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 - applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

(ii) Assets measured at fair value on a recurring basis:

Assets measured at fair value on a recurring basis as of May 31, 2010 and May 31, 2009 were as follows:

May 31, 2010

(amounts in 000's)	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 667	$ -	$ -	$ 667
Short-term investments, consisting of guaranteed investment certificates	247		-	247
Total	$ 914	$ -	$ -	$ 914

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

May 31, 2009

(amounts in 000's)	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 5,374	$ -	$ -	$ 5,374
Corporate investments, consisting of guaranteed investment certificates	490	-	-	490
Total	$ 5,864	$ -	$ -	$ 5,864

The Company does not carry any liabilities that are measured at fair value on a recurring basis.

In June 2009, the FASB issued Statement No. 168 ("SFAS 168"), The FASB Accounting Standards Codification™ ("Codification") and the Hierarchy of Generally Accepted Accounting Principles to replace SFAS 162, The Hierarchy of Generally Accepted Accounting Principles, which became effective November 13, 2008. The Codification will become the source of authoritative United States GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative United States GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 did not have an impact on the Company's consolidated financial statements other than changes to note disclosures.

(g) New accounting pronouncements not yet adopted under U.S. GAAP:

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 “Fair Value Measurement and Disclosures Topic 820 - Measuring Liabilities at Fair Value”, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of liabilities. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-08 “Earnings Per Share - Amendments to Section 260-10-S99”, which represents technical corrections to topic 260-10-S99, Earnings per share. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. This update addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than a combined unit and will be separated in more circumstances than under existing US GAAP. This amendment has eliminated the residual method of allocation And is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

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

(h) Consolidated statement of shareholders' equity (deficiency) for the period from June 1, 1998 to May 31, 2010 prepared in accordance with US GAAP:

	Number of shares	Amount	Warrants	Contributed surplus/ APIC	Deficit	Accumulated other comprehensive loss	Total
Balance, May 31, 1998	1,226	$ 37,180	$ –	$ 667	$ (32,946)	$ –	$ 4,901
Exercise of special warrants	178	1,004	–	(1,217)	–	–	(213)
Exercise of stock options	2	48	–	–	–	–	48
Issue of warrants	–	–	–	1,217	–	–	1,217
Issue of special warrants	–	–	–	213	–	–	213
Other issuances	19	379	–	–	–	–	379
Deficit	–	–	–	–	(4,623)	–	(4,623)
Balance, May 31, 1999	1,425	38,611	–	880	(37,569)	–	1,922
Exercise of warrants	419	7,546	–	(534)	–	–	7,012
Issuance of special and purchase warrants	–	–	–	8,853	–	–	8,853
Issuance of public offering	512	41,952	–	659	–	–	42,611
Issued of acquisition	1,201	14,000	–	–	–	–	14,000
Exercise of units	29	1,821	–	(321)	–	–	1,500
Issuance under alternate compensation plan	1	15	–	–	–	–	15
Exercise of special warrants	1,010	8,438	–	(8,438)	–	–	–
Exercise of stock options	58	1,113	–	–	–	–	1,113
Stock-based compensation	–	869	–	–	–	–	869
Deficit	–	–	–	–	(8,599)	–	(8,599)
Balance, May 31, 2000	4,655	114,365	–	1,099	(46,168)	–	69,296
Exercise of warrants	6	93	–	(25)	–	–	68
Issuance under alternate compensation plan	1	49	–	–	–	–	49
Exercise of stock options	85	1,866	–	–	–	–	1,866
Stock-based compensation	–	351	–	–	–	–	351
Deficit	–	82	–	–	(15,213)	–	(15,131)
Balance, May 31, 2001	4,747	116,806	–	1,074	(61,381)	–	56,499
Exercise of compensation warrants	15	265	–	(71)	–	–	194
Exercise of stock options	52	1,194	–	–	–	–	1,194
Stock-based compensation	–	(100)	–	–	–	–	(100)
Deficit	–	–	–	–	(13,488)	–	(13,488)

LORUS THERAPEUTICS INC.

Supplementary Information

Reconciliation of Canadian and United States Generally Accepted Accounting Principles
(Tabular amounts in thousands of Canadian dollars, except per share amounts)

Years ended May 31, 2010, 2009 and 2008

	Number of shares	Amount	Warrants	Contributed surplus/ APIC	Deficit	Accumulated other comprehensive loss	Total
Balance, May 31, 2002	4,814	118,165	–	1,003	(74,869)	–	44,299
Exercise of stock options	29	715	–	–	–	–	715
Stock-based compensation	–	558	–	–	–	–	558
Deficit	–	–	–	–	(16,634)	–	(16,634)
Balance, May 31, 2003	4,843	119,438	–	1,003	(91,503)	–	28,938
Share issuance	874	24,121	–	4,325	–	–	28,446
Exercise of stock options	10	171	–	–	–	–	171
Stock-based compensation	–	(88)	–	–	–	–	(88)
Other issuances	–	28	–	–	–	–	28
Deficit	–	–	–	–	(30,301)	–	(30,301)
Balance, May 31, 2004	5,727	143,670	–	5,328	(121,804)	–	27,194
Interest payment	14	300	–	–	–	–	300
Exercise of stock options	9	112	–	–	–	–	112
Expiry of compensation options	–	–	–	1,405	–	–	1,405
Issuance under alternate compensation plan	2	37	–	–	–	–	37
Issuance of warrants	–	–	–	1,048	–	–	1,048
Deficit	–	–	–	–	(20,298)	–	(20,298)
Balance, May 31, 2005	5,752	144,119	–	7,781	(142,102)	–	9,798
Interest payment	71	882	–	–	–	–	882
Stock-based compensation	–	–	–	56	–	–	56
Deficit	–	–	–	–	(16,388)	–	(16,388)
Balance, May 31, 2006	5,823	145,001	–	7,837	(158,490)	–	(5,652)
Equity issuance	1,127	11,641	–	–	–	–	11,641
Interest payments	124	1,050	–	–	–	–	1,050
Exercise of stock options	1	22	–	(9)	–	–	13
Repurchase of warrants	–	–	–	(252)	–	–	(252)
Stock-based compensation	–	–	–	697	–	–	697
Deficit	–	–	–	–	(9,150)	–	(9,150)
Balance, May 31, 2007	7,075	157,714	–	8,273	(167,640)	–	(1,653)
Interest payments	180	1,029	–	–	–	–	1,029
Stock-based compensation	–	–	–	767	–	–	767
Other comprehensive loss	–	–	–	–	–	(20)	(20)
Deficit	–	–	–	–	(5,526)	–	(5,526)
Balance, May 31, 2008	7,255	158,743	–	9,040	(173,166)	(20)	(5,403)
Interest payments	354	707	–	–	–	–	707
Share issuance	951	2,790	–	–	–	–	2,790
Warrant issuance	–	–	417	–	–	–	417
Stock-based compensation	–	–	–	485	–	–	485
Other comprehensive income	–	–	–	–	–	10	10
Deficit	–	–	–	–	(7,735)	–	(7,735)
Balance, May 31, 2009	8,560	$ 162,240	$ 417	$ 9,525	$ (180,901)	$ (10)	$ (8,729)
Interest payments	7	15	–	–	–	–	15
Share issuance	1,366	1,665	–	–	–	–	1,665
Warrant issuance	–	–	622	–	–	–	622
Stock-based compensation	–	–	–	171	–	–	171
Other comprehensive income	–	–	–	–	–	8	8
Deficit	–	–	–	–	5,706	–	5,706
Balance, May 31, 2010	9,933	$ 163,920	$ 1,039	$ 9,696	$ (175,195)	$ (2)	$ (542)

(i) Subsequent events:

On August 27, 2010, subsequent to the year end, the Company announced a proposed rights offering as described below including a $4 million standby purchase agreement from a director of the Company Mr. Abramson. Mr. Abramson also provided the Company with interim financing by way of three $500 thousand monthly loans, advanced on August 11, 2010, September 13, 2010 and October 5, 2010. The loans were unsecured, have a six-month term (or the earlier of the closing of the rights issue) and bore interest at the annual rate of 10%. All three notes were repaid upon the close of the rights offering described below.

On September 27, 2010 Lorus filed a final short form prospectus in each of the provinces of Canada in connection with a distribution to its shareholders in eligible jurisdictions outside the United States of rights exercisable for units of the Company (the “Rights Offering”).

Under the Rights Offering, holders of common shares of the Company as of October 12, 2010, the record date, received one right for each common share held as of the record date. Each two rights entitled the holder thereof to purchase a unit of the Company at a price of $1.11 per unit. Each unit consisted of one common share of the Company and one warrant to purchase an additional common share of the Company at a price of $1.33 until May 2012.

A total of 4.2 million units of the Company at a price of $1.11 per unit were issued in connection with the rights offering. As a result of the rights offering Lorus issued 4.2 million common shares and 4.2 million common share purchase warrants.

In connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Herbert Abramson, one of Lorus’ directors. Mr. Abramson agreed to make an investment such that the minimum gross proceeds of the proposed rights offering would be $4 million. No fee was payable to Mr. Abramson for this commitment. In accordance with the terms of the stand-by purchase agreement, Mr. Abramson subscribed for 3.6 million of the 4.2 million units of the offering for $4.0 million.

PROMISSORY NOTE

FOR VALUE RECEIVED, Lorus Therapeutics Inc. (the "**Debtor**") hereby promises to pay to or to the order of Trapeze Capital Corp. (the "**Lender**") the principal amount of $1,000,000 (the "**Principal Amount**") in lawful money of Canada, with interest thereon at the rate of 10% per annum. The outstanding Principal Amount, together with any accrued and unpaid interest thereon, will be payable by the Debtor to the Lender upon the business day which is the day before the six month anniversary of the date of this Promissory Note.

This Promissory Note shall enure to the benefit of and be enforceable by the Lender and any of his respective heirs, executors, administrators or other legal representatives.

All payments hereunder will be made without days of grace, presentment, protest, notice of dishonour or any other notice whatsoever, all of which are hereby expressly waived by the maker and each endorser hereof.

The Debtor hereby acknowledges that the Lender may declare the Principal Amount outstanding under this Promissory Note to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Debtor, upon the occurrence of any of the following events:

(a) the Debtor fails to pay any or all interest payable when due;

(b) the Debtor ceases or threatens to cease to carry on the business currently being carried on by it or a substantial portion thereof or makes or agrees to make an assignment, disposition or conveyance, whether by way of sale or otherwise, of its assets in bulk;

(c) the Debtor is an insolvent person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) or commits or threatens to commit any act of bankruptcy; or

(d) the commencement of any proceeding or the taking of any step by or against the Debtor for the dissolution, liquidation or winding-up of the Debtor or for any relief under the laws of any jurisdiction relating to bankruptcy, insolvency, reorganization, arrangement, compromise or winding-up, or for the appointment of one or more of a trustee, receiver, receiver and manager, custodian, liquidator or any other person with similar powers with respect to the Debtor.

The Principal Amount hereof, together with interest accrued thereon, may at any time be repaid in full by the Debtor without bonus or penalty and with prior written notice to the Lender.

Neither the extension of time for making any payment which is due and payable under this Promissory Note at any time or times, nor the failure, delay, or omission of the Lender to exercise or enforce any of its rights or remedies under this Promissory Note, will constitute a waiver by the Lender of its right to enforce any such rights and remedies subsequently. The single or partial exercise of any such right or remedy will not preclude the Lender's further exercise of such right or remedy or any other right or remedy.

This Promissory Note will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

DATED as of the 14 day of April, 2010.

LORUS THERAPEUTICS INC.

_____

Aiping Young

Acknowledged and agreed:

TRAPEZE CAPITAL CORP.

_____

Herbert Abramson

Exhibit 2.35

SHARE PURCHASE WARRANT INDENTURE

LORUS THERAPEUTICS INC.

- AND -

COMPUTERSHARE TRUST COMPANY OF CANADA

Providing for the issue
of up to 4,966,740 Common Share Purchase Warrants

October 4, 2010

TABLE OF CONTENTS

THIS COMMON SHARE PURCHASE WARRANT INDENTURE is made as of the 4th day of October 2010.

BETWEEN:

LORUS THERAPEUTICS INC., a company existing under the laws of Canada

(hereinafter the "**Company**")

AND:

COMPUTERSHARE TRUST COMPANY OF CANADA, a trust company duly organized and existing under the laws of Canada

(hereinafter called the "**Warrant Agent**").

RECITALS

WHEREAS:

A. The Company may issue up to 4,966,740 Warrants under this Indenture pursuant to the Rights Offering;

B. Each Warrant will be exercisable to acquire, subject to adjustment in stated circumstances, one Share at the Exercise Price at any time before the Warrant Expiry Time on the Warrant Expiry Date on the terms and conditions set forth herein;

C. The Company is duly authorized to create and issue the Warrants to be issued as herein provided;

D. The Warrant Agent has agreed to enter into this Indenture and to hold all rights, interests and benefits contained herein for and on behalf of the persons who become Warrantholders; and

E. The foregoing recitals A, B and C are made as representations and statements of fact by the Company and not by the Warrant Agent.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, the Company hereby appoints the Warrant Agent as trustee, for the Warrantholders, to hold all rights, interests and benefits contained herein for and on behalf of those persons who become holders of Warrants from time to time issued pursuant to this Indenture and the parties hereto agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Indenture and in the Warrant Certificates:

"**1933 Act**" means the United States Securities Act of 1933, as amended;

"**Affiliate**" has the meaning ascribed to that term in the *Canada Business Corporations Act*;

"**Applicable Legislation**" means the provisions of the *Canada Business Corporations Act*, as from time to time amended, and any statute of Canada or a province thereof, and the published regulations and rules under any such named or other statute relating to trust indentures or the rights, duties or obligations of corporations and trustees under trust indentures as are from time to time in force and applicable to this Indenture;

"**auditors**" of the Company means a chartered accountant or firm of chartered accountants as may be duly appointed as auditor of the Company from time to time and that are qualified under National Instrument 52-108 - *Auditor Oversight*;

"**business day**" means a day that is not a Saturday, Sunday or civic or statutory holiday in the City of Toronto, Ontario;

"**Closing Date**" means the date of closing of the Rights Offering as confirmed in writing by the Company;

"**Convertible Securities**" means securities of the Company or any other issuer that are convertible into or exchangeable or exercisable for or otherwise carry the right to acquire, whether directly or indirectly through one or more Convertible Securities, Shares and "**Convertible Security**" means any one of them;

"**Corporate Reorganization**" has the meaning ascribed thereto in Section 3.6.7;

"**Current Market Price**", at any date, means the volume weighted average trading price per Share at which the Shares have traded on the Exchange or such other stock exchange which constitutes the principal trading market (by volume) for the Shares during the twenty consecutive trading days ending on the third trading day immediately before such date, and the volume weighted average trading price shall be determined by (i) dividing the aggregate sale price of all Shares sold on the Exchange or market, as the case may be, during the twenty consecutive trading days by (ii) the number of Shares sold; and provided further that if the Shares are not then listed or traded on any Exchange, then the Current Market Price shall, absent manifest error, be determined by such firm of independent chartered accountants as may be selected by the directors of the Company. Whenever the Current Market Price is required to be determined hereunder, the Company shall deliver to the Warrant Agent a certificate of an officer specifying such Current Market Price and setting out the details of its calculation. In the event of any subsequent dispute as to the determination of the Current Market Price, the Company's auditors shall make such determination which, absent manifest error, shall be binding for all purposes hereunder;

"**Date of Issue**" means the date upon which Warrants are issued from time to time, each such date being the '**Date of Issue**";

"**Directors**" means the board of directors of the Company and reference to actions taken by the Directors shall mean any action by the Directors as a board or by any authorized committee thereof;

"**dividends**" means dividends (payable in cash or in securities, property or assets of equivalent value) declared payable on the Shares or other securities of the Company, as applicable;

"**Exchange**" means the Toronto Stock Exchange, or if the Shares are not listed on that exchange, such other stock exchange or quotation system on which the Shares may then be listed, traded or quoted, as applicable;

"**Exercise Price**" means $1.33 per Share, as adjusted in accordance with the terms of this Indenture, from time to time, provided that if at any time after 6 months following the closing of the Rights Offering the price of Shares on the Exchange equals or exceeds 175% of the Exercise Price for five consecutive trading days, the Company may within five business days after such fifth consecutive trading day, call the Warrants for cancellation;

"**Extraordinary Resolution**" means an extraordinary resolution of Warrantholders as defined in Section 6.12 and includes a written instrument signed by Warrantholders pursuant to the provisions of Section 6.12;

"**Indenture**", "**herein**", "**hereto**", "**hereunder**", "**hereof**", "**hereby**" and similar expressions mean or refer to this Indenture and not to any particular Article, Section, subsection, paragraph, clause, subdivision or portion hereof and include any indenture, deed or instrument supplemental or ancillary hereto; and the expressions "Article", "Section", "subsection" and "paragraph" followed by a number mean and refer to the specified Article, Section, subsection or paragraph of this Indenture;

"**person**" means an individual, a corporation, a partnership, a government or any department or agency thereof, a joint venture, a trust, an estate, an unincorporated organization and the heirs, executors, administrators or other legal representatives of an individual; and pronouns and other words importing persons have a similarly extended meaning;

"**Qualifying Jurisdictions**" means each of the provinces of Canada and such other jurisdictions which are confirmed in writing by the Company;

"**Regulation S**" means Regulation S under the 1933 Act;

"**Rights Offering**" means the offering to Shareholders of rights to subscribe for up to 4,966,740 Units of the Company in the Qualifying Jurisdictions;

"**Securities Commissions**" means, collectively, the securities commissions or other securities regulatory authorities under the applicable Securities Laws of each of the Canadian Qualifying Jurisdictions;

"**Securities Laws**" means, collectively, the applicable securities laws of each of the Canadian Qualifying Jurisdictions and the respective regulations made and forms prescribed thereunder together with all applicable published policy statements, rules, instruments, blanket orders and rulings of the Securities Commissions;

"**Shares**" means a fully paid and non-assessable common share without par value in the capital of the Company as constituted on the date hereof, provided that in the event of any adjustment pursuant to Article 3, "**Shares**" will thereafter mean the shares or other securities or property resulting from such adjustment that a Warrantholder is entitled to acquire on exercise of a Warrant after the adjustment;

"**Shareholder**" means an owner of record of one or more Shares or shares of any other class or series of the Company;

"**Share Reorganization**" has the meaning ascribed thereto in Section 3.6.2;

"**Subsidiary**" means a corporation, a majority of the outstanding voting shares of which is owned, directly or indirectly, by the Company, or by one or more Subsidiaries of the Company and, as used in this definition, "**voting shares**" means shares of a class or classes ordinarily entitled to vote for the election of a majority of the directors of a corporation irrespective of whether or not shares of any other class or classes shall have or might have the right to vote for directors by reason of the happening of any contingency, whether or not such contingency shall have happened;

"**Time of Exercise**" means the time that surrender of the Warrant Certificate, the Warrant Exercise Form (attached hereto as part of Schedule "A") and payment of the Exercise Price is effected by a Warrantholder according to the provisions of Section 3.1 hereof;

"**trading day**" means a day on which the Exchange is open for business;

"**United States**" means the United States as that term is defined in Regulation S under the 1933 Act;

"**Units**" means the units issued pursuant to the Rights Offering at a purchase price of $1.11 per Unit, each Unit comprised of one previously unissued Share and one Warrant;

"**U.S. Person**" means a U.S. person as that term is defined in Regulation S under the 1933 Act;

"**Warrant Agent**" means Computershare Trust Company of Canada or any lawful successor thereto from time to time under this Indenture;

"**Warrant Certificate**" means a certificate substantially in the form specified in Schedule "A" hereto evidencing one or more Warrants;

"**Warrant Exercise Form**" means the exercise form forming part of each Warrant Certificate as more particularly described in Section 3.1.4 hereof;

"**Warrant Expiry Date**" means the date that is 18 months following the Closing Date of the Rights Offering;

"**Warrant Expiry Time**" means 5:00 p.m. (Toronto time) on the Warrant Expiry Date;

"**Warrantholder**", "**Holder**" or "**Holder of Warrants**" means with respect to the Warrants, a person entered on the register to be maintained under Section 2.9 as the registered holder of a Warrant for the time being; and

"**Warrants**" means the Share purchase warrants of the Company issued and certified hereunder and for the time being outstanding, each exercisable into one, previously unissued Share upon due exercise and payment of the Exercise Price at any time prior to the Warrant Expiry Time.

1.2 Meaning of "outstanding" for Certain Purposes

Every Warrant Certificate countersigned by the Warrant Agent shall be deemed to be outstanding until the Warrant Expiry Time or until it shall be surrendered to the Warrant Agent upon the exercise thereof pursuant to Article 3, provided however that:

(a) a Warrant which has been partially exercised shall be deemed to be outstanding only to the extent of the unexercised part of the Warrant;

(b) where a Warrant Certificate has been issued in substitution for a Warrant Certificate which has been lost, stolen or destroyed, only one of them shall be counted for the purpose of determining the number of Warrants outstanding; and

(c) for the purpose of any provision of this Indenture entitling holders of outstanding Warrants to vote, sign consents, requests or other instruments or take any other action under this Indenture, Warrants owned legally or equitably by the Company or any Subsidiary or Affiliate thereof shall be disregarded, except that:

(i) for the purpose of determining whether the Warrant Agent shall be protected in relying on any such vote, consent, request or other instrument or other action, only the Warrants of which the Warrant Agent has notice that they are so owned by the Company or any Subsidiary or Affiliate shall be so disregarded; and

(ii) Warrants so owned which have been pledged in good faith other than to the Company or any Subsidiary thereof shall not be so disregarded if the pledgee shall establish to the satisfaction of the Warrant Agent the pledgee's right to vote the Warrants in his discretion free from the control of the Company or any Subsidiary or Affiliate thereof, as the case may be, and the terms of the pledge thereof as to the right to vote shall govern.

1.3 Day not a Business Day

If the day on or before which any action would otherwise be required to be taken or is contemplated to commence hereunder is not a business day, then that action will be required to be taken and such procedure will commence on or before the requisite time on the next succeeding day that is a business day.

1.4 Words Importing the Singular and Gender

Words importing the singular include the plural and vice versa and words importing a particular gender include all genders.

1.5 Time of the Essence

Time shall be of the essence in this Indenture and in the Warrant Certificates.

1.6 Interpretation not Affected by Headings, etc.

The division of this Indenture into Articles, and Sections and subsections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.7 Applicable Law and Attornment

This Indenture and the Warrant Certificates shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and shall be treated in all respects as Ontario contracts. The parties irrevocably attorn and submit to the non-exclusive jurisdiction of the Courts of the Province of Ontario with respect to any matter arising under or related to this Indenture.

1.8 Trust Indenture Legislation

1.8.1 If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of Applicable Legislation, the mandatory requirement will prevail.

1.8.2 Each of the Company and the Warrant Agent will at all times in relation to this Indenture and any action to be taken hereunder observe and comply with and be entitled to the benefits of Applicable Legislation.

1.9 Beneficiaries

This Indenture is entered into by the Warrant Agent for the benefit of all such persons who are issued Warrants and each of them will, upon such issuance, be entered in the register as Warrantholders. The Warrant Agent hereby declares that it holds all rights, interest and benefits to be derived therefrom for and on behalf of all such persons in accordance with the terms and restrictions contained herein. Each such person by its acceptance of the Warrants issued to it, is consenting to be bound by the terms of this Indenture.

1.10 Conflicts

In the event there is any conflict between this Indenture and any Warrant Certificate, the provisions in this Indenture shall govern and prevail.

1.11 Severability

In the event that any provision hereof shall be determined to be invalid or unenforceable in any respect, such determination shall not affect such provision in any other respect or any other provision hereof, all of which shall remain in full force and effect.

1.12 Entire Agreement

This Indenture and the agreements referred to herein constitute the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties and there are no general or specific warranties, representations or other agreement by or among the parties in connection with the entering into of this Indenture or the subject matter hereof except as specifically set forth herein.

1.13 Currency

Unless otherwise stated, all dollar amounts referred to in this Indenture are references to Canadian dollars.

ARTICLE 2
ISSUE OF WARRANTS

2.1 Creation and Issue of Warrants

2.1.1 The Company hereby creates and authorizes for issuance up to 4,966,740 Warrants, each Warrant entitling Warrantholders to acquire, upon payment of the Exercise Price and subject to adjustment, one Share for each whole Warrant. On the Closing Date, Warrant Certificates will be executed by the Corporation and delivered to the Warrant Agent, certified by or on behalf of the Warrant Agent and delivered upon written order of the Corporation by the Warrant Agent to the Corporation or to the order of the Corporation pursuant to an order of the Corporation, without any further act of or formality on the part of the Corporation.

2.1.2 Subject to the provisions hereof, the number of Warrants issued under this Indenture are limited in the aggregate to 4,966,740and each Warrant entitles the holder thereof to acquire from and after the Date of Issue up to and including the Warrant Expiry Time, upon payment of the Exercise Price, one previously unissued Share, provided that the number of Shares receivable on exercise of a Warrant and the Exercise Price thereof is subject to increase or decrease so as to give effect to the adjustments required by this Indenture.

2.2 Form and Terms of Warrant Certificates

Warrant Certificates shall be substantially in the form set out in Schedule “A” hereto with such additions, variations or omissions as may be permitted by the provisions of this Indenture or may from time to time be agreed upon between the Company and the Warrant Agent and shall be numbered in the manner as the Company, with the approval of the Warrant Agent, may prescribe. All Warrants are, save as to denominations, of like tenor and effect. The Warrant Certificates may be engraved, printed, lithographed, or partly in one form and partly in another, as the Company may determine. No change in the form of the Warrant Certificates is required by reason of any adjustment made pursuant to this Indenture in: (i) the number of Warrant Shares which may be acquired pursuant to the exercise of the Warrants; (ii) the Exercise Price; or (iii) the Warrant Expiry Date. No Warrant Certificates representing fractional Warrants will be issued under this Indenture, and save and except as otherwise provided for herein, any fractional Warrants will be rounded down to the nearest whole Warrant.

2.3 Issue of Warrant Certificates

Warrant Certificates to be issued and delivered from time to time under this Indenture shall be executed by the Company and certified by the Warrant Agent pursuant to or upon the written order of the Company, without the Warrant Agent receiving any consideration therefor.

2.4 Warrantholder not a Shareholder

Nothing in this Indenture or in the ownership of a Warrant evidenced by a Warrant Certificate, or otherwise, will be construed as conferring on a Warrantholder any right or interest whatsoever as a Shareholder of the Company, including but not limited to any right to vote at, to receive notice of, or to attend, any meeting of Shareholders or any other proceeding of the Company or any right to receive any dividend or other distribution, except as provided for in this Indenture or in the Warrant Certificate.

2.5 Execution of Warrant Certificates

Warrant Certificates may be signed by any one director or officer of the Company manually or may be engraved, lithographed, or otherwise mechanically or photostatically reproduced or printed in facsimile and shall be dated the Date of Issue. A facsimile signature upon any Warrant Certificate is for all purposes hereof deemed to be the signature of the person whose signature it purports to be and to have been signed at the time such facsimile signature is reproduced. Notwithstanding that any of the persons whose signature appears on any Warrant Certificates as one of the officers or directors may no longer, before the certification and delivery of the Warrant Certificate, hold the official capacity in which he signed, any Warrant Certificate signed as aforesaid shall be valid and binding upon the Company when the Warrant Certificate has been certified by the Warrant Agent in accordance with Section 2.6 and the registered holder thereof shall be entitled to the benefits of this Indenture.

2.6 Certification by Warrant Agent

2.6.1 No Warrant Certificate shall be issued, or if issued, shall be valid or entitle the holder to the benefit hereof until it has been certified by the Warrant Agent by being manually countersigned by or on behalf of the Warrant Agent and the countersignature upon any Warrant Certificate shall be conclusive evidence as against the Company that the Warrant Certificate so countersigned has been duly issued hereunder and is a valid obligation of the Company, and that the Warrantholder is entitled to the benefit hereof.

2.6.2 The countersigning by or on behalf of the Warrant Agent on any Warrant Certificate issued hereunder shall not be construed as a representation or warranty by the Warrant Agent as to the validity of this Indenture or of the Warrants and the Warrant Agent shall in no respect be liable or answerable for the use made of any Warrant Certificate or of the consideration therefor, except as otherwise specified herein. The countersignature of or on behalf of the Warrant Agent shall, however, be a representation and warranty by the Warrant Agent that the Warrant Certificate has been duly countersigned by or on behalf of the Warrant Agent pursuant to the provisions of this Indenture or the Warrant Certificate.

2.7 Exchange of Warrant Certificates

The holder of a Warrant Certificate may at any time after the date of issue thereof and before the Warrant Expiry Time, upon surrender thereof to the Warrant Agent at its principal transfer office in the City of Toronto, Ontario or at any other place that is designated by the Company with the approval of the Warrant Agent, exchange the same for Warrant Certificates entitling the holder to subscribe in the aggregate for the same number of Shares for which the holder may subscribe under the surrendered Warrant Certificate. On each exchange, the Warrant Agent may levy a charge sufficient to reimburse it for any tax or other governmental charge required to be paid, which shall be paid by the party requesting the exchange, and, in addition, a reasonable charge for every Warrant Certificate issued upon the exchange and such additional charge shall be paid by the Company promptly, as a condition precedent thereto. The Company shall execute and the Warrant Agent shall certify in accordance with Sections 2.5 and 2.6 all Warrant Certificates necessary to carry out exchanges contemplated herein.

2.8 Issue in Substitution for Lost Certificates

2.8.1 If a Warrant Certificate that is issued and certified becomes mutilated or is lost, destroyed or stolen, the Company, subject to applicable law and subject to subsection 2.8.2, will issue and thereupon the Warrant Agent will countersign or certify and deliver a new certificate of like denomination, date and tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and on surrender and cancellation of the mutilated certificate or in lieu of and in substitution for the lost, destroyed or stolen certificate, and the substituted Warrant Certificate shall entitle the holder thereof to the same rights and benefits and will bear the same legends, if applicable, as the certificate being replaced and shall rank equally in accordance with its terms with all other Warrant Certificates issued or to be issued hereunder.

2.8.2 The applicant for the issue of a new certificate pursuant to this section will bear the cost of the issue thereof and in case of loss, destruction or theft will, as a condition precedent to the issue thereof furnish to the Company and the Warrant Agent such evidence of ownership and of the loss, destruction or theft of the certificate to be replaced as is satisfactory to the Company and to the Warrant Agent in their discretion.

2.8.3 The Warrant Agent and the Company may require such applicant to furnish an indemnity and surety bond in amount and form satisfactory to the Company and to the Warrant Agent, in their discretion, and the applicant shall pay the reasonable charges of the Company and the Warrant Agent in connection therewith.

2.9 Registration and Transfer of Warrants

2.9.1 The Company shall cause to be kept by the Warrant Agent at the principal offices of the Warrant Agent in the City of Toronto, Ontario and at such other place or places, if any, as the Company may designate with the approval of the Warrant Agent, registers in which shall be entered in alphabetical order the names and addresses (including street and number, if any) of the holders of Warrants and particulars of the Warrants held by them respectively. Such registration shall be noted on the Warrant Certificates by the Warrant Agent.

2.9.2 The Warrants may only be transferred in accordance with applicable Securities Laws and any other applicable securities laws and upon compliance with the conditions set forth herein. No transfer of a Warrant shall be valid unless made on any one of the registers upon surrender of the Warrant Certificate to the Warrant Agent accompanied by a written instrument of transfer in the form attached to the Warrant Certificate or this Indenture, as applicable, and executed by the registered holder or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Warrant Agent and upon compliance with such reasonable requirements, including those set forth in Section 2.14 hereof, if applicable, as the Warrant Agent may prescribe, nor, except in the case where a new Warrant Certificate is issued upon a transfer, unless the transfer shall have been noted by the Warrant Agent.

2.9.3 Upon compliance with all conditions required by this Indenture or any applicable laws, the transferee is entitled to be, and shall be, entered on one of the registers as the owner of the Warrants free from all equities or rights of set-off or counterclaim between the Company and his transferor or any previous holder of the Warrants, save in respect of the equities of which the Company is required to take notice by statute or by order of a court of competent jurisdiction or by applicable law.

2.9.4 The Company shall also cause to be kept by the Warrant Agent at the principal office of the Warrant Agent in the City of Toronto, Ontario and at such other place or places, if any, as the Company may designate with the approval of the Warrant Agent, registers in which all transfers of Warrants and the date and other particulars of each transfer shall be set out.

2.9.5 Upon becoming a Warrantholder in accordance with the provisions of this Indenture, the transferee thereof shall be deemed to have acknowledged and agreed to be bound by this Indenture. Upon registration of such transferee as the Warrantholder of the Warrant, the transferor shall cease to have any further rights under this Indenture with respect to such Warrants or Shares issuable in respect thereof.

2.9.6 Subject to the provisions of this Indenture and applicable law, the registered Warrantholder is entitled to the rights and privileges attaching to the Warrants, and the issue of Shares by the Company on exercise of Warrants by any Warrantholder thereof in accordance with the terms and conditions herein contained discharges all responsibilities of the Company and the Warrant Agent with respect to such Warrants and neither the Company nor the Warrant Agent is bound to inquire into the title of any such registered holder.

2.9.7 The Company and the Warrant Agent shall deem and treat the registered holder of any Warrant as the absolute legal and beneficial owner thereof for all purposes and neither the Company nor the Warrant Agent is affected by any notice to the contrary.

2.9.8 Subject to applicable law, neither the Company nor the Warrant Agent shall be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Warrant or Warrant Certificate, and may transfer the same on the direction of the person registered as the holder thereof, as though that person were the beneficial owner thereof.

2.9.9 The register required to be kept in the City of Toronto, Ontario shall at all reasonable times during the regular business hours of the Warrant Agent be open for inspection by the Company or any Warrantholder. The Warrant Agent shall from time to time when requested to do so by the Company or by a Warrantholder and, if required, by the Warrant Agent, upon payment by the Company or Warrantholder of a reasonable fee, furnish the Company or the Warrantholder, as the case may be, with a list of names and addresses of holders of Warrants entered on the registers kept by them and showing the number of Warrants held by each such holder.

2.10 Enforcement of Rights of Warrantholders

2.10.1 Subject to the rights which are hereby conferred upon the Warrant Agent and subject to the provisions of Section 8.1, all or any of the rights conferred upon a Warrantholder by the terms of the Warrants held by him and/or by the terms of this Indenture may be enforced by such Warrantholder by appropriate legal proceedings. The Warrant Agent shall also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may reasonably be advised shall be necessary or advisable to preserve and protect the interests of the Warrantholder.

2.10.2 No Warrantholder (whether acting alone or with any number of other Warrantholders) has any right to institute any action, suit or proceeding at law or in equity for the purpose of enforcing the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or for a receiving order under the *Bankruptcy and Insolvency Act* (Canada) or to have the Company wound up or to file or prove a claim in any liquidation or bankruptcy proceedings or for any other remedy hereunder unless the Warrantholders by Extraordinary Resolution have made a request to the Warrant Agent and the Warrant Agent has been afforded reasonable opportunity (not to exceed 30 days) to proceed or complete any action or suit for any such purpose whether or not in its own name and the Warrantholders or any or them have furnished to the Warrant Agent, when so requested by the Warrant Agent sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby and the Warrant Agent has failed to act within a reasonable time (not to exceed 30 days) or the Warrant Agent has failed to actively pursue any such act or proceeding (not to exceed 30 days).

2.10.3 Subject to Applicable Legislation, no recourse under or upon any obligation, covenant or agreement contained in this Indenture or in the Warrant Certificates shall be had against any shareholder, officer or director, past, present or future, of the Company or of any of its Subsidiaries or of any successor corporation or any subsidiary, either directly or through the Company, or the Subsidiaries.

2.10.4 This Indenture and the Warrants issued hereunder are solely obligations of the Company and, subject to Applicable Legislation, no personal liability whatsoever shall attach to or be incurred by the shareholders, officers or directors, past, present or future, of the Company, or of any of its Subsidiaries, or any successor corporations, under or by reason of the obligations, covenants or agreements contained in this Indenture or in the Warrant Certificates; and any personal liability of any nature whatsoever either at common law, in equity or by statute, and any right or claim against any such shareholder, officer or director are hereby expressly waived as a condition of and as consideration for the execution of this Indenture and the issue of the Warrants.

2.11 Warrants to Rank *Pari Passu*

Except as otherwise provided herein, all Warrants will rank *pari passu*, whatever may be the actual dates of issue of the Warrant Certificates that represent them.

2.12 Notice to Warrantholders

2.12.1 Unless herein otherwise expressly provided, a notice to be given hereunder to Warrantholders will be deemed to be validly given if the notice is sent by first class mail, postage prepaid, addressed to the holders or delivered by hand or prepaid overnight courier (or so mailed to certain holders and so delivered to the other holders) at their respective addresses appearing on any of the registers above mentioned; and if in the case of joint holders of any Warrant more than one address appears on the register in respect of the joint holding, the notice shall be addressed or delivered, as the case may be, only to the first address so appearing.

2.12.2 Any notice so given by mail or so delivered by hand shall be deemed to have been given on the fifth business day after it has been mailed or on the day upon which it has been delivered, or if sent by facsimile on the first business day following the transmission, as the case may be. In determining under any provision hereof the date when notice of any meeting or other event must be given, the date of giving the notice shall be included and the date of the meeting or other event shall be excluded. Accidental error or omission in giving notice or accidental failure to mail notice to any Warrantholder shall not invalidate any action or proceeding founded thereon.

2.12.3 If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, a notice to be given to the Warrantholders hereunder could reasonably be considered unlikely to reach or to be delayed in reaching its destination, the notice will be valid and effective only if it is published once in the Report on Business section in the national edition of *The Globe and Mail* newspaper, or, if there is a disruption of circulation of that newspaper, once in an English language newspaper of general circulation and approved by the Warrant Agent in the Cities of Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal and, in the case of notice convening a meeting of Warrantholders, with such additional publications, in the same or in other cities or both, as the Warrant Agent deems necessary for the reasonable protection of the Warrantholders or to comply with any applicable requirement of law or a stock exchange on which the Shares are listed and if a daily newspaper of general circulation is not, for any reason, published at the time in the English language in any city, the notice may be published in any other publication available in that city as is acceptable to the Warrant Agent. A notice so given will be deemed to have been given on the day on which it has been published in all of the cities in which publication was required (or first published in all the cities if more than one publication in any of them is required).

2.12.4 Any mailings to or from outside of Canada shall be made by postage prepaid first class mail or by prepaid overnight courier.

2.13 Notice to the Company or the Warrant Agent

2.13.1 Unless herein otherwise expressly provided, a notice to be given hereunder to the Company or the Warrant Agent will be validly given if delivered or if sent by postage prepaid mail or if transmitted by facsimile:

(a) if to the Company:

Lorus Therapeutics Inc.
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Chief Financial Officer
Facsimile: (416) 798-2200

With a copy, which shall not constitute notice to the Company, to:

McCarthy Tétrault LLP
66 Wellington Street West
Suite 5300, TD Bank Tower
Toronto Dominion Centre
Toronto, Ontario
M5K 1E6

Attention: Vanessa GRant
Facsimile: (403) 868-0673

(b) if to the Warrant Agent:

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario
M5J 2Y1

Attention: Manager, Corporate Trust Department
Facsimile: (416) 981-9777

and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery or, if mailed, on the fifth business day following the day of the mailing of the notice, or if transmitted by facsimile, on the first business day following the transmission.

2.13.2 The Company or the Warrant Agent, as the case may be, may from time to time notify the other in the manner provided in Section 2.13.1 of a change of address which, from the effective date of the notice and until changed by like notice, will be the address of the Company or the Warrant Agent, as the case may be, for all purposes of this Indenture.

2.13.3 If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, a notice to be given to the Warrant Agent or to the Company hereunder by registered mail could reasonably be considered unlikely to reach or to be delayed in reaching its destination, the notice will be valid and effective only if it is delivered to an officer of the party to which it is addressed or if it is delivered to that party at the appropriate address provided in Section 2.13.1 by cable, facsimile, telegram, or other means of prepaid transmitted, recorded communication, and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery to the officer or if delivered by cable, facsimile, telegram, telex or other means of prepaid, transmitted, recorded communication, on the first business day following the date of the sending of the notice.

2.13.4 Any mailings to or from outside of Canada shall be made by registered airmail, postage prepaid or by prepaid courier.

2.14 Transfer Restrictions and Legends

2.14.1 The Warrant Agent understands and acknowledges that the Warrants and the Shares issuable upon exercise of the Warrants have not been and will not be registered under the 1933 Act or the securities laws of any state of the United States.

2.15 Reliance by the Warrant Agent

The Warrant Agent shall have no obligation to ensure or verify compliance with any applicable laws or regulatory requirements on the issue, exercise or transfer of any Warrants or any Shares issuable upon the exercise thereof, provided such issue, exercise or transfer, as the case may be, is effected in accordance with the terms of this Agreement. The Warrant Agent shall be entitled to process all transfers and exercises of Warrants effected in accordance with the terms of this Agreement upon the presumption that such transfers or exercises are permissible pursuant to all applicable laws and regulatory requirements. The Warrant Agent may assume for the purposes of this Agreement that any address on the register of the Warrantholders is the holder's actual address and is also determinative as to residency and that the address of any transferee to whom any Shares or Warrants are to be registered, as shown on the transfer document, is the transferee's residency. The Warrant Agent shall have no obligation to ensure that any legends appearing on the Share certificates or Warrant Certificates comply with regulatory requirements or securities laws of any applicable jurisdiction, but shall ensure that the applicable legends required to be placed on the certificates evidencing the Shares and Warrants pursuant to this Agreement are placed thereon.

2.16 Purchase of Warrants for Cancellation

Subject to compliance with applicable securities laws, the Corporation may, at any time and from time to time, purchase the Warrants by invitation for tender, by private contact, on any stock exchange, in the open market or otherwise (which will include a purchase through an investment dealer or firm holding membership on a Canadian stock exchange) on such terms as the Corporation may determine. All Warrants purchased pursuant to the provisions of this Section 2.16 will forthwith be delivered to, cancelled and destroyed by the Warrant Agent and will not be reissued. If required by the Corporation, the Warrant Agent will furnish the Corporation with a certificate as to such destruction.

ARTICLE 3
EXERCISE OF WARRANTS

3.1 Method of Exercise of Warrants

3.1.1 A Warrantholder may, at any time before the Warrant Expiry Time, exercise all or any number of the Warrants which remain outstanding and are then held by the Warrantholder.

3.1.2 Subject to and upon compliance with the provisions of this Article, the holder of any Warrant Certificate may exercise the right of purchase therein provided for by surrendering the Warrant Certificate to the Warrant Agent at its principal transfer office in the City of Toronto, Ontario, or at such additional place or places as may be designated by the Company from time to time with the approval of the Warrant Agent during normal business hours on a business day at that place before the Warrant Expiry Time, together with the Warrant Exercise Form duly completed and executed by the holder for the number of Shares which the holder desires to purchase and payment of the aggregate Exercise Price applicable at the time of the surrender calculated in accordance with the provisions of this Indenture. The aggregate Exercise Price for Shares subscribed for under the Warrants shall be paid by certified cheque, bank draft or money order payable to or to the order of the Company at par at the city where the Warrant Certificate is surrendered.

3.1.3 Surrender of a Warrant Certificate with the Warrant Exercise Form duly completed and payment of the aggregate Exercise Price will be deemed to have been effected, and Warrants shall be deemed to have been exercised, only on personal delivery thereof to, or if sent by mail or other means of transmission on actual receipt thereof by, the Warrant Agent at one of the offices specified in this section. The exercise form attached to the Warrant Certificates shall not be deemed to be duly completed if the name and mailing address of the holder do not appear legibly on such exercise form and such exercise form is not signed by the holder, his executors, administrators, other legal representatives or such holder's attorney duly appointed.

3.1.4 Every Warrant Exercise Form shall be signed by the holder of the Warrant Certificate who desires to exercise in whole or in part the right of purchase therein provided for; (as adjusted from time to time in accordance with the provisions of this Indenture) shall specify the number of Shares that the subscriber wishes to purchase (being not more than he is entitled to purchase under the Warrant Certificate (as adjusted from time to time in accordance with the provisions of this Indenture)), the person or persons in whose name or names the Shares which the subscriber desires to purchase are to be issued and his or their address or addresses and the number of Shares to be issued to each such person, and if more than one is so specified, the form shall have one of the boxes in the Warrant Exercise Form checked; and shall be substantially in the form set out in the Warrant Certificate.

3.1.5 If any Shares subscribed for are to be issued to a person or persons other than the Warrantholder, the Warrantholder must pay to the Company or to the Warrant Agent on his behalf an amount equal to all applicable transfer taxes or other applicable government charges, and the Company will not be required to issue or deliver any certificate evidencing any Shares unless or until that amount has been so paid or the Warrantholder has established to the satisfaction of the Company that the taxes and charges have been paid or that no taxes or charges are owing.

3.1.6 The Warrants and the Shares issuable upon exercise thereof have not been registered under the 1933 Act or the securities law of any state of the United States, and the Warrants may not be exercised within the United States or by or on behalf of any U.S. Person unless the Warrants and the Shares are registered under the 1933 Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available. No exercise of any Warrants shall be effective, and no certificate representing Shares shall be issued or registered pursuant to the exercise of Warrants, unless the Warrant Exercise Form is executed specifying that the holder did not acquire the Warrants in the United States or for the account or benefit of a U.S. Person or a person in the United States, is not in the United States or a U.S. Person, is not exercising the Warrants on behalf of a U.S. Person or a person in the United States, and did not execute or deliver the Warrant Exercise Form in the United States.

3.2 Effect of the Exercise of Warrants

Subject to Section 3.8, on exercise of a Warrant, the Company shall cause to be issued to the person or persons in whose name or names the Shares so subscribed for are to be issued as specified in the Warrant Exercise Form, the number of Shares to be issued to such person or persons and such person or persons shall become a Shareholder or Shareholders of the Company in respect of those Shares with effect from the date on which the Warrant is exercised and shall be entitled to delivery of a certificate or certificates evidencing the Shares and the Company shall cause the certificate or certificates to be mailed by first class, insured mail or delivered as specified to such person or persons (or, if applicable, the trustee under the registered retirement savings plan which holds the Shares) at the address or addresses specified in the Warrant Exercise Form within five business days of the date on which the Warrant is exercised.

3.3 Partial Exercise of Warrants

A Warrantholder may exercise less than all of the Warrants held by such Warrantholder. In the event of any exercise of a number of Warrants less than the number which the holder is entitled to receive, the Warrantholder upon such exercise shall, in addition, be entitled to receive without charge therefor, a new Warrant Certificate(s) in respect of the balance of the Warrants represented by the surrendered Warrant Certificate and which are not then exercised.

3.4 Cancellation of Warrants

All Warrants exercised as provided in Section 3.1, partially exercised as provided in Section 3.3, or exchanged for other Warrants as provided in Section 2.7 or otherwise surrendered to the Warrant Agent shall be cancelled and either held by the Warrant Agent until termination of this Indenture or resignation of the Warrant Agent or destroyed by the Warrant Agent at the direction of the Company or after the period of retention required for such certificates and, if required by the Company, the Warrant Agent shall furnish the Company with a certificate as to the destruction.

3.5 Expiration of Warrants

After the Warrant Expiry Time, all rights under this Indenture and under any Warrant that has not been exercised shall wholly cease and terminate and the Warrant Certificate therefor shall be wholly void and of no effect.

3.6 Adjustment of the Exercise Price and Subscription Rights

3.6.1 In this section, the terms "**record date**" and "**effective date**" where used herein, shall mean the close of business on the relevant date.

3.6.2 If and whenever at any time from the date hereof until the Warrant Expiry Time, the Company shall:

(a) fix a record date for the issue of, or issues Shares or Convertible Securities to all or substantially all of the holders of Shares by way of stock dividend or other distribution;

(b) subdivides, re-divides or changes the outstanding Shares into a greater number of shares;

(c) fix a record date for the distribution to, or make a distribution to, the holders of all or substantially all of the Shares or Convertible Securities; or

(d) combines, consolidates or reduces the outstanding Shares into a lesser number of shares,

(each of such events being herein called a "**Share Reorganization**"), the Exercise Price will be adjusted effective immediately on the earlier of (i) the record date on which holders of Shares are determined for the purposes of the Share Reorganization and (ii) the effective date of the Share Reorganization, to the amount determined by multiplying the Exercise Price in effect immediately before that effective date or record date before giving effect to such Share Reorganization by a fraction:

(A) the numerator of which is the total number of Shares outstanding on that effective date or record date before giving effect to the Share Reorganization, and

(B) the denominator of which is the total number of Shares that are or would be outstanding immediately after that effective date or record date after giving effect to the Share Reorganization and assuming all Convertible Securities issued as part of the Share Reorganization had then been converted into or exchanged for Shares or all rights to acquire Shares had then been exercised.

For the purposes of determining the number of Shares outstanding at any particular time there shall be included that number of Shares which would have resulted from the conversion or exchange at that time of all Convertible Securities of the Company (other than any Convertible Securities issued to holders of Shares by way of a stock dividend or other distribution and otherwise included in computing the denominator in clause (B) hereof). Shares (and Shares issuable upon conversion or exchange of Convertible Securities) issued or to be issued under a Share Reorganization shall be deemed to be outstanding on the record date or effective date for such Share Reorganization for the purpose of calculating the number of outstanding Shares under Sections 3.6.3 and 3.6.5. To the extent that any Convertible Securities issued to holders of Shares by way of a stock dividend or other distribution are not so converted or exchanged into or for Shares before the expiration of the right to do so, the Exercise Price shall then be readjusted to the Exercise Price which would then be in effect based upon the number of Shares actually issued upon the conversion or exchange of the Convertible Securities.

To the extent that any adjustment in the Exercise Price occurs pursuant to this Section 3.6.2 as a result of the fixing by the Company of a record date for the distribution of Convertible Securities, the Exercise Price shall be readjusted immediately after the expiry of any relevant exchange or conversion right to the Exercise Price which would then be in effect based upon the number of Shares actually issued and remaining issuable after such expiry and shall be further readjusted in such manner upon the expiry of any further such right.

3.6.3 If and whenever at any time from the date hereof to the Warrant Expiry Time, the Company shall fix a record date for the issuance or distribution of rights, options or warrants to all or substantially all of the holders of the outstanding Shares entitling them, for a period expiring not more than 45 days after the record date for such issue, (the "**Rights Period**"), to subscribe for or purchase Shares or Convertible Securities at a price per Share (or having a conversion price per Share on the date of issue of such Convertible Securities) less than 95% of the Current Market Price on the record date (any such issuance being herein called a "**Rights Offering**"), the Exercise Price will be adjusted on the record date for the Rights Offering to the amount determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:

(a) the numerator of which shall be the aggregate of

(i) the number of Shares outstanding immediately prior to the record date for the Rights Offering; and

(ii) the quotient determined by dividing

(A) either (a) the product of the number of Shares offered during the Rights Period pursuant to the Rights Offering and the price at which such Shares are offered, or, (b) the product of the exchange or conversion price of the securities so offered and the number of Shares for or into which the securities offered pursuant to the Rights Offering may be exchanged or converted, as the case may be, by

(B) the Current Market Price of the Shares as of the record date for the Rights Offering; and

(b) the denominator of which shall be the aggregate of the number of Shares outstanding on such record date and the number of Shares offered pursuant to the Rights Offering (including in the case of the issue or distribution of Convertible Securities the number of Shares for or into which such securities may be exchanged or converted).

Any Shares owned by or held for the account of the Company or any Affiliates shall be deemed not to be outstanding for the purpose of such calculation. If by the terms of the rights, options, or warrants referred to in this Section 3.6.3, there is more than one purchase, conversion or exchange price per Share, the aggregate price of the total number of additional Shares offered for subscription or purchase, or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered, shall be calculated for purposes of the adjustment on the basis of the lowest purchase, conversion or exchange price per Share, as the case may be. Any Shares owned by or held for the account of the Company shall be deemed not to be outstanding for the purpose of any such calculation. To the extent that any adjustment in the Exercise Price occurs pursuant to this Section 3.6.3 as a result of the fixing by the Company of a record date for the issue or distribution of rights, options or warrants referred to in this Section 3.6.3, the Exercise Price shall be readjusted immediately after the expiry of any relevant exchange, conversion or exercise right to the Exercise Price which would then be in effect based upon the number of Shares actually issued and remaining issuable after such expiry and shall be further readjusted in such manner upon the expiry of any further such right.

The adjustment shall be made successively whenever a record date is fixed, and shall become effective immediately after the record date for determination of shareholders entitled to receive such Shares or Convertible Securities, provided that if two or more such record dates or dates of announcement, as applicable, referred to in subsection 3.6.3 are fixed within a period of 35 trading days, the adjustment shall be made successively as if each of such record dates occurred on the earliest of such record dates.

3.6.4 If and whenever at any time from the date hereof to the Warrant Expiry Time, the Company shall fix a record date for the issue of rights, options or warrants to all or substantially all the holders of the outstanding Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Shares or Convertible Securities at a price per Share (or having a conversion price per Share) not less than 95% of the Current Market Price on the record date, the Exercise Price will not be adjusted.

3.6.5 If and whenever at any time from the date hereof to the Warrant Expiry Time the Company shall fix a record date for the making of an issue or distribution to all or substantially all the holders of its outstanding Shares of (a) shares or securities of any class, whether of the Company or any other entity, (b) rights, options or warrants, (c) evidences of indebtedness of the Company or a Subsidiary, or (d) any property (including cash or securities) or other assets of the Company and if such issue or distribution does not constitute a Share Reorganization or a Rights Offering (any of such events being herein called a "**Special Distribution**") then, in each such case, the Exercise Price shall be adjusted on the record date to the number that is the product of the Exercise Price in effect immediately before the record date and the fraction:

(a) the numerator of which shall be the difference between

(i) the product of the number of Shares outstanding on such record date and the Current Market Price of the Shares on such record date, and

(ii) the fair value, as determined by the Directors (which determination, absent manifest error, shall be conclusive), to the holders of the Shares of the shares, securities, rights, options, warrants, evidences of indebtedness or property, cash or assets to be issued or distributed in the Special Distribution, and

(b) the denominator of which shall be the product obtained by multiplying the number of Shares outstanding on such record date by the Current Market Price of the Shares on such record date.

Any Shares owned by or held for the account of the Company or any Affiliates shall be deemed not to be outstanding for the purpose of such calculation. To the extent that any adjustment in the Exercise Price occurs pursuant to this Section 3.6.5 as a result of the fixing by the Company of a record date for the issue or distribution of rights, options or warrants to acquire Shares or securities exchangeable for or convertible into Common Shares referred to in this Section 3.6.5, the Exercise Price shall be readjusted immediately after the expiry of any relevant exercise, exchange or conversion right to the amount which would then be in effect if the fair market value had been determined on the basis of the number of Shares issued and remaining issuable immediately after such expiry, and shall be further readjusted in such manner upon the expiry of any further such right.

The adjustment shall be made successively whenever a record date is fixed, and shall become effective immediately after the record date for the determination of Shareholders entitled to receive such Special Distribution, provided that if two or more such record dates or dates of announcement, as applicable, referred to in subsection 3.6.5 are fixed within a period of 35 trading days, the adjustment shall be made successively as if each of such record dates occurred on the earliest of such record dates.

3.6.6 On any adjustment of the Exercise Price pursuant to subsections 3.6.2, 3.6.3 or 3.6.5, including any readjustment, the number of Shares (or other class of securities to which a Warrantholder may be entitled in accordance with this Indenture) purchasable on exercise of a Warrant will be adjusted or readjusted as the case may be, effective at the same time as the adjustment of the Exercise Price, by multiplying the number of Shares (or other class of securities to which a Warrantholder may be entitled in accordance with this Indenture) so purchasable immediately before the adjustment by a fraction, the numerator of which shall be the Exercise Price in effect immediately before the adjustment and the denominator of which shall be the Exercise Price resulting from such adjustment.

3.6.7 Subject to the prior written approval of the Exchange if and whenever at any time from the date hereof to the Warrant Expiry Time there is:

(a) a reclassification or redesignation of the Shares outstanding, a change of Shares into other shares or securities, or any other capital reorganization of the Company other than a Share Reorganization, Rights Offering or Special Distribution,

(b) a consolidation, merger, arrangement or amalgamation of the Company with or into another body corporate or other entity resulting in a reclassification or redesignation of outstanding Shares or a change of Shares into other shares or securities, or

(c) a transaction whereby all or substantially all the Company's undertaking and assets become the property of another corporation or other entity,

(any of those events being herein called a "**Corporate Reorganization**"), after the effective date of the Corporate Reorganization a holder who thereafter exercises Warrants will be entitled to receive and will accept, for the Exercise Price then in effect, in lieu of the Shares (and any other securities to which Warrantholders are then entitled on the exercise of Warrants) to which he would otherwise have been entitled on exercise immediately before the Corporate Reorganization, the kind and amount of shares or other securities or property (including cash) that he would have been entitled to receive as a result of the Corporation Reorganization if, on the effective date thereof, he had been the holder of the number of Shares (and any other securities to which Warrantholders are then entitled on the exercise of Warrants) to which he would have been entitled on the exercise of the Warrant or Warrants immediately before the Corporation Reorganization.

3.6.8 As a condition precedent to taking any action that would require an adjustment pursuant to Section 3.6.7, the Company will take all action that, in the opinion of counsel, is necessary in order that the Company, any successor or any successor to its assets and undertaking, shall be obligated to and may validly and legally issue as fully paid and non-assessable all the Shares or other shares or securities or property to which Warrantholders will be entitled on the exercise of Warrants thereafter.

3.6.9 Subject to receipt of applicable regulatory approvals, if necessary as a result of any Corporate Reorganization, appropriate adjustments will be made in the application of the provisions set forth in this Article 3 with respect to the rights and interests of Warrantholders to the end that the provisions set forth in this Article 3 will thereafter correspondingly be made applicable as nearly as may reasonably be possible to any shares or other securities or property thereafter deliverable on the exercise of a Warrant. Any such adjustment will be made by and set forth in an amendment hereto approved by the Directors and by the Warrant Agent, each acting reasonably, and will for all purposes, absent manifest error, be conclusively deemed to be an appropriate adjustment.

3.6.10 Subject to receipt of applicable regulatory approvals, in the event the purchase price provided for in any right, warrant or option issued in connection with a Rights Offering is decreased, or the conversion price for Convertible Securities issued in connection with a Share Reorganization is increased, the Exercise Price shall forthwith be changed to whatever Exercise Price would have been obtained had the adjustment made in connection with the issuance of all such rights, warrants, options or Convertible Securities been made upon the basis of the purchase price as so decreased or the conversion price as so increased, provided that the provisions of this subparagraph shall not apply to any increase or decrease resulting from provisions in any rights, warrants, options or securities designed to prevent dilution if the increase or decrease shall not have been proportionately greater than the change, if any, in the Exercise Price to be made at the same time pursuant to the provisions of this Section.

3.6.11 Subject to receipt of applicable regulatory approvals, if and whenever at any time before the Warrant Expiry Time the Company shall take any action affecting or relating to the Warrants, other than any action described in this section, which in the opinion of the Warrant Agent, acting reasonably and in good faith, based upon the advice of counsel, would prejudicially affect the rights of any holders of Warrants, the Exercise Price will be adjusted in such manner, if any, and at such time, as the Warrant Agent, may in good faith and based upon the advice of counsel, determine to be equitable in the circumstances to such holders.

3.7 Adjustment Rules for Exercise Price

The following rules and procedures will be applicable to adjustments made pursuant to Section 3.6:

(a) the adjustments and readjustments provided for in Section 3.6 shall be cumulative and, subject to paragraph (b), will apply (without duplication) to successive issues, subdivisions, combinations, consolidations, distributions and other events that require an adjustment;

(b) no adjustment in the Exercise Price, or resulting adjustment in the number of Shares issuable on exercise of Warrants, will be made unless the adjustment would result in a change of at least 0.1% in the prevailing Exercise Price and the number of Shares purchasable upon the exercise of the Warrants would change by at least one one-hundredth of a Share; provided, that any adjustment that would have been required to be made except for the provisions of this paragraph will be carried forward and taken into account in the next adjustment;

(c) notwithstanding anything else herein contained, no adjustment in the Exercise Price or the number of Shares which are issuable on the exercise of the Warrants will be made for ordinary course dividends consisting solely of cash made to all holders of Shares;

(d) no adjustment will be made in respect of an event described in paragraph 3.6.2(a) or subsections 3.6.3 or 3.6.5 if the Warrantholders are entitled to participate in the event on the same terms, mutatis mutandis, as if they had exercised their Warrants immediately before the effective date of or record date for the event, such participation being subject to the receipt of all required regulatory approvals, including Exchange approval;

(e) for the purposes of subsections 3.6.2, 3.6.3, 3.6.4 or 3.6.5, there will be deemed not to be outstanding:

(i) any Share owned by or held for the account of the Company,

(ii) any Share owned by or held for the account of any Subsidiary of the Company;

(f) subject to the prior written consent of the Exchange, any dispute that arises at any time with respect to any adjustment pursuant to this Indenture will be conclusively determined (as between the Company, the Warrantholders, the Warrant Agent and all transfer agents and shareholders of the Company) by the auditor of the Company or, if the auditor of the Company is unable or unwilling to act, by such firm of independent chartered accountants as is selected by the Directors and is acceptable to the Warrant Agent and any determination by them, absent manifest error, will be binding on the Company, the Warrantholders, the Warrant Agent and all transfer agents and Shareholders of the Company, and the Company shall notify the Warrantholders thereof;

(g) in the absence of a resolution of the Directors fixing the record date for an event referred to in Section 3.6, the Company will be deemed to have fixed as the record date therefor the date on which the event is effected or such other date as may be required by applicable law;

(h) subject to required regulatory approvals, as a condition precedent to the taking of any action which would require an adjustment in any of the rights under the Warrants, the Company will take any action which, in the opinion of counsel to the Company, may be necessary in order that the Company, or any successor to the Company or successor to the undertaking or assets of the Company will be obligated to and may validly and legally issue all the Shares or securities which the holders of the Warrants would be entitled to receive thereafter and to exercise such Warrants in accordance with the provisions hereof;

(i) subject to Sections 8.2 and 8.3, the Warrant Agent shall not at any time be under any duty or responsibility to any Warrantholder to determine whether any facts exist which may require any adjustment contemplated by Section 3.6, 3.7 or 3.11, or with respect to the nature or extent of any such adjustment made, or to review, verify or confirm any calculations made, or with respect to the method employed in making same. The Warrant Agent shall not be accountable for the validity or value of any Shares delivered upon the exercise or deemed exercise of any Warrants and shall not be responsible for any failure of the Company to make any payment, or to issue or deliver any securities or certificates represented hereby upon the exercise or deemed exercise of any Warrants;

(j) if the Company, after the date hereof, shall take any action affecting any Shares which in the opinion of the Directors acting reasonably and in good faith would have a material adverse effect upon the rights of Warrantholders, the Exercise Price and/or number of Shares issuable upon exercise of Warrants shall be adjusted, subject to regulatory approval, in such manner and at such time, as the Directors, in their sole discretion acting reasonably and in good faith, may determine to be equitable in the circumstances to adjust the rights of the Warrantholders to protect against dilution in accordance with the intent and purposes of this Indenture. Provided that the Directors have made a decision not to act and such decision is endorsed by a resolution of the Directors or by minutes of a meeting of Directors, the failure of the Directors to taken any action so as to provide for an adjustment in the Exercise Price before the effective date of any action by the Company affecting the rights of Warrantholders shall be conclusive evidence, absent bad faith, manifest error or negligence that the Directors have determined it is equitable to make no adjustment in the circumstances; and

(k) if the Company sets a record date to determine holders of Shares for the purpose of entitling such holders to receive any dividend or distribution or any subscription or purchase rights and shall thereafter and before the distribution to such holders of any such dividend, distribution or subscription or purchase rights legally abandon its plan to pay or deliver such dividend, distribution or subscription or purchase rights, no adjustment in the Exercise Price or the number of Shares purchasable upon the exercise of the Warrants shall be required by reason of the setting of such record date.

3.8 Postponement of Issue of Shares, etc.

In any case in which Section 3.6 requires an adjustment to take effect immediately after the effective date of or record date for an event, and a Warrant is exercised after that date and before the consummation of the event (which in the case of rights, options and warrants will be the date the rights, options and warrants are issued), the Company may postpone until consummation issuing to the Warrantholder such of the Shares, securities or property to which he is entitled if the Warrant had been exercised immediately before that date, provided however, that the Company will deliver to the Warrantholder an appropriate instrument evidencing such holder's right to receive such additional Shares, securities or property upon the occurrence and consummation of such event and the right to receive any dividend or other distribution in respect of such additional Shares, securities or property declared in favour of the holders of record of Shares or of such securities or property on or after that date or such later date as such holder would, but for the provisions of this Section, have become the holder of record of such additional Shares or of such securities or property pursuant to Section 3.6.

3.9 Notice of Certain Events

3.9.1 At least 21 business days before the effective date of or record date for any event referred to in Section 3.6 that requires or might require an adjustment in the subscription rights pursuant to a Warrant, including the Exercise Price and the number of Shares purchasable on exercise of a Warrant, the Company will:

(a) file with the Warrant Agent a certificate of the Company specifying the particulars of the event and, to the extent determinable, any adjustment required and the computation of the adjustment, and

(b) give notice to the Warrantholders of the particulars of the event and, to the extent, determinable, any adjustment required and the computation of adjustment.

The notice need only set forth particulars as have been determined at the date that notice is given.

3.9.2 If any adjustment for which a notice pursuant to subsection 3.9.1 is given is not then determinable, the Company will promptly after the adjustment is determinable:

(a) file with the Warrant Agent a certificate of the Company showing the computation of the adjustment, and

(b) give notice to the Warrantholders of the adjustment and the computation of the adjustment.

3.9.3 The Company hereby covenants and agrees that the register of transfers and share transfer books for the Common Shares will be open, and that the Company will not take any action which might deprive the Warrantholder of the opportunity of exercising the rights of subscription contained in the Warrants, during such twenty-one day period.

3.10 No Fractional Shares

The Company will not, pursuant to Section 3.6 or under any other circumstances, be obligated to issue any fraction of a Share upon the exercise of a Warrant or Warrants. To the extent that the holder of one or more Warrants would otherwise have been entitled to receive on the exercise or partial exercise thereof a fraction of a Share, that holder may exercise such right in respect of the fraction only in combination with another Warrant or Warrants that in the aggregate entitle the holder to purchase a whole number of Shares. If not so exercised, the Company shall not pay any amounts to the holder in satisfaction of the right to otherwise have received a fraction of a Share.

3.11 Reclassification, Reorganizations, etc.

3.11.1 In case of:

(a) any reclassifications or change of the Shares;

(b) any amalgamation, consolidation or merger of the Company with, or amalgamation, consolidation or merger of the Company into, any other corporation (other than an amalgamation, consolidation or merger in which the Company is the continuing corporation and which does not result in any reclassification or change, other than as aforesaid, of the Shares);

(c) a reorganization of the Company; or

(d) any sale, transfer or other disposition of all or substantially all of the assets of the Company,

the Company or the corporation formed by the amalgamation or the corporation into which the Company shall have been merged or been consolidated or the reorganized Company, or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Warrant Agent a supplemental indenture providing that the holder of each Warrant then outstanding shall have the right thereafter (until the Warrant Expiry Time) to exercise Warrants only into the kind and amount of shares and other securities and property (including cash) receivable upon such reclassification, change, amalgamation, consolidation, merger, reorganization, sale, transfer or other disposition by a holder of the number of Shares which were purchasable upon the exercise of the Warrants had the Warrants been exercised immediately before the reclassification, change, amalgamation, consolidation, merger, reorganization, sale, transfer or other disposition, in each case after giving effect to the adjustments provided for herein.

3.11.2 The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article.

3.11.3 The provisions of this section shall apply to successive reclassifications, changes, amalgamations, consolidations, mergers, reorganizations, sales, transfers or other dispositions.

ARTICLE 4
COVENANTS OF THE COMPANY

4.1 General Covenants

The Company represents, warrants and covenants with the Warrant Agent for the benefit of the Warrantholders that:

(a) it will at all times maintain its corporate existence and remain in good standing under the jurisdiction of its incorporation, carry on and conduct its business in a proper and business-like manner, keep or cause to be kept proper books of account in accordance with generally accepted accounting principles and to carry on its business in the ordinary course;

(b) it is duly authorized to create and issue the Warrants to be issued hereunder and the Warrant Certificates when issued and certified as herein provided will be legal, valid, binding and enforceable obligations of the Company;

(c) subject to the provisions of this Indenture, it will cause the Shares from time to time subscribed for and purchased pursuant to the exercise of Warrants and the certificates representing such Shares to be duly issued and delivered in accordance with the Warrants and the terms hereof;

(d) at all times while any Warrants are outstanding it shall reserve and there shall remain unissued and conditionally allotted out of its authorized capital a number of Shares sufficient to enable the Company to meet its obligations to issue Shares on the exercise of Warrants outstanding hereunder from time to time;

(e) upon the exercise by the holder of any Warrant of the right of purchase provided for therein and herein and upon payment of the Exercise Price applicable thereto for each Share in respect of which the right of purchase is so exercised, all Shares issuable upon the exercise shall be issued as fully paid and non-assessable;

(f) it will use its commercially reasonable efforts to ensure that the Shares issuable upon exercise of the Warrants will be listed for trading on the Exchange. For greater certainty, using "commercially reasonable efforts" shall not preclude the Directors from approving or recommending a transaction which may result in the acquisition of all or substantially all of the Shares which transaction may result in the delisting of the Shares;

(g) the Company will use its commercially reasonable efforts to maintain its status as a "reporting issuer" (or the equivalent thereof) not in default of the requirements of the Securities Laws in the Qualifying Jurisdictions;

(h) the issue of the Warrants does not and will not result in a breach by the Company of, and does not and will not create a state of facts which, after notice or lapse of time or both, will result in a breach by the Company of any Applicable Laws, and does not and will not conflict with any of the terms, conditions or provisions of the articles, by-laws or resolutions of the Company or any trust indenture, loan agreement or any other agreement or instrument to which the Company is a party or by which it is contractually bound on the date of this Indenture;

(i) it shall do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all other acts, deeds and assurances in law as the Warrant Agent may reasonably require for better accomplishing and effecting the intentions and provisions of this Indenture;

(j) with respect to any notices to be given or other acts to be performed or which may be given or performed by the Warrant Agent under or pursuant to this Indenture, the Company shall provide to the Warrant Agent in a timely manner all such information and documents as the Warrant Agent may reasonably request and are within the knowledge or control of the Company in order to verify the factual circumstances relating to such notices or acts and, if requested, such notices or acts and, if requested, such information and documents shall be certified as correct by an officer of the Company;

(k) generally, it will well and truly perform and carry out all of the acts or things to be done by it as provided in this Indenture and will not take any action which might reasonably be expected to deprive holders of Warrants their rights to acquire Shares on the exercise thereof;

(l) the Company shall promptly inform the Warrant Agent of the number of Warrants owned by the Company, a Subsidiary or any Affiliate in connection with any determination of "outstanding" pursuant to Section 1.2(c);

(m) it will make all requisite filings under applicable laws and regulations, including, without limitation, Securities Laws, including those necessary to remain a reporting issuer not in default of the requirements of the Securities Laws in the provinces of Canada in which it is a reporting issuer and those required on the exercise of the Warrants; and

(n) it will duly and punctually perform all of its covenants and satisfy all terms and conditions on its part to be performed and satisfied under this Indenture.

4.2 Securities Qualification Requirements

4.2.1 If, in the opinion of either counsel to the Warrant Agent or counsel to the Company, any instrument is required to be filed with, or any permission, order or ruling is required to be obtained from, any securities administrator or any other step is required under any federal or provincial law of Canada or any other Qualifying Jurisdiction before the Shares may be issued or delivered to an initial Warrantholder on the exercise of the Warrants or resold by such Warrantholder, the Company covenants that it will use its commercially reasonable efforts to file such instrument, obtain such permission, order or ruling or take all such other actions, at its expense, as is required or appropriate in the circumstances.

4.2.2 The Company will give written notice of the issue of Shares pursuant to the exercise of Warrants, in such detail as may be required, to each securities administrator in each jurisdiction in which there is legislation requiring the giving of any such notice.

4.3 Warrant Agent's Remuneration and Expenses

The Company will pay to the Warrant Agent from time to time such reasonable remuneration for its services hereunder as may be agreed upon between the Company and the Warrant Agent and will pay or reimburse the Warrant Agent upon its request for all reasonable expenses, disbursements and advances properly incurred or made by the Warrant Agent (including the reasonable compensation and the disbursements of its counsel and all other advisors and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties of the Warrant Agent shall be finally and fully performed, except any such expense, disbursement or advance as may arise from the gross negligence or fraud of the Warrant Agent, or other advisors or assistants aforesaid. Any amount due to the Warrant Agent under this Indenture and unpaid for 30 days or more after request for payment will bear interest from the expiration of such period at a rate per annum equal to the then current rate charged by the Warrant Agent on similar overdue accounts, payable on demand.

4.4 Third Party Interests

The Company hereby represents to the Warrant Agent that any account to be opened by, or interest to be held by the Warrant Agent in connection with this Indenture, for or to the credit of the Company, either: (i) is not intended to be used by or on behalf of any third party; or (ii) is intended to be used by or on behalf of a third party, in which case such party hereto agrees to complete and execute forthwith a declaration in the Warrant Agent's prescribed form as to the particulars of such third party

4.5 Performance of Covenants by Warrant Agent

If the Company shall fail to perform any of its covenants contained in this Indenture, the Warrant Agent may notify the Warrantholders of the failure on the part of the Company or may itself perform any of the said covenants capable of being performed by it, but shall be under no obligation to do so or to notify the Warrantholders. All sums expended or advanced by the Warrant Agent in so doing shall be repayable as provided in Section 4.3. No performance, expenditure or advance by the Warrant Agent shall be deemed to relieve the Company of any default hereunder.

ARTICLE 5
ENFORCEMENT

5.1 Warrantholders May Not Sue

5.1.1 Subject to Section 5.2, no holder of any Warrant will have any right to institute any action or proceeding against the Corporation in relation to its rights under this Indenture, unless:

(a) such holder has previously given to the Warrant Agent written notice of the nature of such action or proceeding;

(b) the holders of at least 25% of the Warrants have made a written request to the Warrant Agent and have afforded to it reasonable opportunities either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its own name for such purpose;

(c) such Warrantholders have provided to the Warrant Agent, when so requested by the Warrant Agent, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(d) the Warrant Agent has failed to act within a reasonable time after such notification, request and provision of indemnity; and such notification, request and provision of indemnity are hereby declared in every case, at the option of the Warrant Agent, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of any Warrants

5.1.2 Notwithstanding Section 5.1.1, a holder is not required to comply with Section 5.1.1(c) and Section 5.1.1(d) will not be applicable, if the Warrant Agent, notwithstanding compliance by the Warrantholders with Section 5.1.1(a) and (b), has advised the Warrantholders in writing that it will not take any of the actions requested in Section 5.1.1(b) even if the Warrant Agent were to be provided with sufficient funds and security and indemnity satisfactory to it contemplated by Section 5.1.1(c).

5.2 Suits by Warrantholders

Subject to 5.1.1, any of the rights conferred upon a Warrantholder by the terms of the Warrants held by it and/or this Indenture may be enforced by such Warrantholder by appropriate legal proceedings but without prejudice to the right that is hereby conferred upon the Warrant Agent to proceed in its own name to enforce each and all of the provisions herein contained for the benefit of the holders of the Warrants from time to time outstanding.

5.3 Warrant Agent may Institute Proceedings

5.3.1 The Warrant Agent will also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised will be necessary or advisable to preserve an protect its interests and the interests of the Warrantholders.

5.3.2 Any such suit or proceeding instituted by the Warrant Agent may be brought in the name of the Warrant Agent as trustee of an express trust, and any recovery of judgment will be for the rateable benefit of the holders of the Warrants subject to the provisions of this Indenture. In any proceeding brought by the Warrant Agent (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Warrant Agent will be a party) the Warrant Agent will be held to represent all holders of the Warrants, and it will not be necessary to make any holders of the Warrants parties to any such proceeding.

5.4 Immunity of Shareholders, etc.

Subject to the rights available at law or in express provisions of any contract or other instrument, the Warrant Agent and, by acceptance of the Warrant Certificates and as part of the consideration for the issue of the Warrants, the Warrantholders hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any person in its capacity as an incorporator or any past, present or future shareholder or other securityholder, director, officer, employee or agent of the Corporation for the creation and issue of the Shares pursuant to any Warrant or on any covenant, agreement, representation or warrant by the Corporation herein or in the Warrant Certificates.

5.5 Limitation of Liability

The obligations hereunder are not personally binding upon, nor will resort hereunder be had to Directors or shareholders of the Corporation or any of the past, present or future Directors or shareholders of the Corporation or any of the past, present or future officers, employees or agents of the Corporation, but only the property of the Corporation or any successor corporation will be bound in respect hereof.

ARTICLE 6
MEETINGS OF WARRANTHOLDERS

6.1 Right to Convene Meeting

6.1.1 The Warrant Agent or the Company may at any time and from time to time, and the Warrant Agent shall on receipt of a requisition in writing signed by the holders of Warrants sufficient to purchase not less than 10% of the aggregate number of Shares which would be purchased under the Warrants then outstanding (as adjusted) and upon being indemnified and funded to its reasonable satisfaction by the Company or by the Warrantholders signing the requisition against the costs which may be incurred in connection with the calling and holding of the meeting, convene a meeting of the Warrantholders.

6.1.2 If the Warrant Agent fails to convene a meeting within seven business days after receipt of the requisition and indemnity referred to in subsection 6.1.1, the Company or the Warrantholders, as the case may be, may convene the meeting.

6.1.3 Every meeting of Warrantholders shall be held in the City of Toronto, Ontario or at such other place as the Warrant Agent shall determine.

6.2 Notice

6.2.1 At least 21 days' prior notice specifying the place, day and hour of meeting and the reason for the meeting and general nature of business to be transacted shall be given before any meeting of Warrantholders but it shall not be necessary to specify in the notice the terms of any resolution to be proposed.

6.2.2 Notice of a meeting of Warrantholders shall be given to the Warrantholders in the manner provided in Section 2.12. Notice shall be given to the Company unless the meeting is convened by the Company and to the Warrant Agent unless the meeting is convened by the Warrant Agent. Any accidental omission in the notice of a meeting shall not invalidate any resolution passed at the meeting.

6.3 Chairman

The natural person, who need not be a Warrantholder, nominated in writing by the Warrant Agent shall be entitled to act as the chairman at any meeting of Warrantholders, but if no such person is nominated or if the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the Warrantholders present in person or by proxy shall choose a natural person present to be chairman.

6.4 Quorum

6.4.1 At any meeting of the Warrantholders a quorum shall consist of two or more Warrantholders present in person or by proxy holding not less than 25% of the Warrants then outstanding.

6.4.2 If a quorum of the Warrantholders is not present within half an hour from the time fixed for holding any meeting, the meeting, if called by Warrantholders, shall be dissolved; but if otherwise convened, the meeting shall stand adjourned to a date not less than 10 calendar days and not more than 30 calendar days later, at the same time and place to the extent possible. The Warrant Agent shall promptly (and in any event within 7 business days from the date of adjournment) send a notice of the adjourned meeting to each Warrantholder in accordance with the terms hereof. The notice of the adjourned meeting must state the time and place of the adjourned meeting. At the adjourned meeting, the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened notwithstanding that they may not hold 25% of the Warrants then outstanding.

6.5 Power to Adjourn

The chairman of any meeting at which a quorum of Warrantholders is present may, with the consent of the meeting, adjourn any meeting.

6.6 Show of Hands

Every question submitted to a meeting other than a question to be resolved by an Extraordinary Resolution shall be decided in the first place by a majority of the votes given on a show of hands and unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of that fact.

6.7 Poll

On every Extraordinary Resolution to be passed at a meeting and on any other question submitted to a meeting when directed by the chairman or when demanded by one or more of the Warrantholders acting in person or by proxy, a poll shall be taken in the manner as the chairman shall direct. Questions other than those to be resolved by Extraordinary Resolution shall, if a poll be taken, be decided by the votes of the holders of a majority of the Warrants represented at the meeting and voted on the poll. If at any meeting a poll is so demanded as aforesaid on the election of a chairman or on a question of adjournment, it shall be taken forthwith. If at any meeting a poll is so demanded on any other question, or an Extraordinary Resolution is to be voted upon, a poll shall be taken in such manner and either at once or after an adjournment as the chairman directs. The result of a poll shall be deemed to be the decision of the meeting at which the poll was demanded and shall, in the absence of manifest error, be binding on all holders of Warrants. In the case of joint registered Warrantholders, any one of them present in person or represented by proxy may vote in the absence of the other or others but when more than one of them is present in person or by proxy, they may only vote together in respect of the Warrants of which they are joint registered holders.

6.8 Voting

On a show of hands, every person who is present and entitled to vote, whether as a Warrantholder or as proxy for one or more absent Warrantholders or both, shall have one vote. On a poll, each Warrantholder present in person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each Warrant held. A proxy need not be a Warrantholder. The chairman of any meeting shall be entitled both on a show of hands and on a poll to vote in respect of the Warrants, if any, held or represented by him but shall not be entitled to a casting vote in the case of an equality of votes.

6.9 Persons Entitled to be Present

The Company and the Warrant Agent by their respective officers and directors and the counsel of the Company, the Warrant Agent and the Warrantholders may attend any meeting of Warrantholders but shall have no vote as such, unless they are also Warrantholders or a proxy for a Warrantholder.

6.10 Regulations

The Warrant Agent, or the Company with the approval of the Warrant Agent, may from time to time make or vary such regulations as it shall think fit providing for and governing the following:

(a) the issue of voting certificates:

(i) by any bank, trust company or other depository approved by the Warrant Agent, certifying that specified Warrants have been deposited with it by a named holder and will remain on deposit until after the meeting; or

(ii) by any bank, trust company, insurance company, governmental department or agency approved by the Warrant Agent, certifying that it is the holder of specified Warrants and will continue to hold the same until after the meeting,

which voting certificates shall entitle the holders named therein to be present and vote at any meeting and at any adjournment thereof or to appoint a proxy or proxies to represent them and vote for them at any meeting and at any adjournment thereof, in the same manner and with the same effect as though the holders named in the voting certificates were the actual holders of the specified Warrants;

(b) the form of the instrument appointing a proxy (which shall be in writing), the manner in which the same shall be executed and the form of any authority under which a person executes a proxy on behalf of a Warrantholder;

(c) setting a record date for a Meeting for determining Warrantholders entitled to receive notice of and vote at a Meeting;

(d) the deposit certificates, instruments appointing proxies or authorities at such place or places as the Warrant Agent (or the Company or Warrantholders in case the meeting is convened by the Company or the Warrantholders, as the case may be) may in the notice convening the meeting direct and the time (if any) before the holding of the meeting or adjourned meeting at which the same shall be deposited;

(e) the deposit of voting certificates or instruments appointing proxies at some place or places other than the place at which the meeting is to be held and for particulars of the voting certificates or instruments appointing proxies to be cabled or telegraphed or notified by other means of communication before the meeting to the Company or to the Warrant Agent and for the voting of voting certificates and proxies so deposited as if the voting certificates or the instruments themselves were produced at the meeting or deposited at any other place required pursuant to subsection (c); and

(f) generally for the calling of meetings of Warrantholders and the conduct of business thereat.

Any regulations so made shall be binding and effective and votes given in accordance therewith shall be valid and shall be counted. The only persons who shall be recognized at any meeting as the holders of any Warrants, or as entitled to vote or to be present at the meeting in respect thereof, shall be registered Warrantholders and persons whom registered Warrantholders have by instrument in writing duly appointed as their proxies.

6.11 Certain Powers Exercisable by Extraordinary Resolution

In addition to all other powers conferred on them by the other provisions of this Indenture or by law but subject to obtaining the approval of the Exchange, if required, the Warrantholders shall have the following powers, exercisable from time to time by Extraordinary Resolution:

(a) power to agree to any amendment, modification, abrogation, alteration, compromise or arrangement of the rights of Warrantholders or the Warrant Agent in that capacity or on behalf of the Warrantholders against the Company whether the rights arise under this Indenture or otherwise;

(b) power to agree to any change in or omission from the provisions of the Warrant Certificate and this Indenture or any ancillary or supplemental instrument which may be agreed to by the Company and to authorize the Warrant Agent to concur in and execute any ancillary or supplemental indenture embodying any change or omission;

(c) power to require the Warrant Agent, subject to compliance with Section 8.3, to enforce any of the obligations of the Company under this Indenture or any supplemental instrument or to enforce any of the rights of the Warrantholders in any manner specified in an Extraordinary Resolution or to refrain from enforcing any such covenant or right, upon the Warrant Agent being furnished with such funding and indemnity as it may in its discretion reasonably require;

(d) power to remove the Warrant Agent or its successor or successors in office and to appoint a new Warrant Agent or Warrant Underwriters to take the place of the Warrant Agent or Warrant Underwriters so removed;

(e) power to waive and direct the Warrant Agent to waive any default on the part of the Company in complying with any provision of this Indenture either unconditionally or upon conditions specified in the Extraordinary Resolution;

(f) power to restrain any Warrantholder from taking or instituting or continuing any suit, action or proceeding against the Company for the enforcement of any of the obligations of the Company under this Indenture or to enforce any right of the Warrantholders;

(g) power to amend, alter or repeal any Extraordinary Resolution previously passed or consented to by Warrantholders;

(h) direct a Warrantholder who, as such, has brought a suit, action or proceeding to stay or discontinue or otherwise deal with the same upon payment of the costs, charges, and expenses reasonably and properly incurred by such Warrantholder in connection therewith; and

(i) assent to a compromise or arrangement with a creditor or creditors or a class or classes of creditors, whether secured or otherwise, and with holders of any shares or other securities of the Company.

6.12 Definition of "Extraordinary Resolution"

The expression "**Extraordinary Resolution**" when used in this Indenture means a resolution passed at a meeting (including an adjourned meeting) of Warrantholders duly convened and held in accordance with the provisions of this Indenture at which a quorum is present and carried by the affirmative vote of not less than 66 2/3% of the votes given on a poll or by the consent in writing, which may be in one or more instruments, of the holders of not less than 66 2/3% of the Warrants then outstanding.

6.13 Resolutions Binding on all Warrantholders

Every resolution and every Extraordinary Resolution duly passed at a meeting of the Warrantholders duly convened and held or any consent in writing having the effect of an Extraordinary Resolution shall be binding upon all the Warrantholders (including their successors and assigns) whether or not present or represented or voting at the meting or signatories to the consent, as the case may be, and each of the Warrantholders and the Warrant Agent, subject to the provisions for its indemnity contained in this Indenture, shall be bound to give effect thereto.

6.14 Holdings by Company Disregarded

In determining whether the requisite number of Warrantholders are present for the purpose of obtaining a quorum or have voted or consented to any resolution, Extraordinary Resolution, consent, waiver or other action under this Indenture, Warrants owned by the Company or any Subsidiary of the Company, or an Affiliate, shall be deemed to be not outstanding.

6.15 Minutes

Minutes of all resolutions and proceedings at every meeting of Warrantholders shall be made and duly entered in books to be provided for that purpose by the Warrant Agent at the expense of the Company and any minutes if purporting to be signed by the chairman of the meeting, or by the chairman of the next succeeding meeting of Warrantholders, shall be *prima facie* evidence of the matters therein stated and, until the contrary is proved, every meeting for which minutes have been made shall be deemed to have been duly convened and held and all resolutions passed or proceedings taken thereat to have been duly passed and taken.

6.16 Powers Cumulative

Any one or more of the powers or combination of the powers in this Indenture exercisable by the Warrantholders by Extraordinary Resolution or otherwise may be exercised from time to time and the exercise of any one or more of the powers or any combination of powers from time to time shall not be deemed to exhaust the rights of the Warrantholders to exercise the same or any other power or powers or combination of powers then or any power or powers or combinations of powers thereafter.

6.17 Instruments in Writing

All actions that may be taken and all powers that may be exercised by the Warrantholders at a meeting held as hereinbefore in this Article provided may also be taken and exercised by Warrantholders entitled to acquire 66 2/3% of the aggregate number of Shares that can be acquired pursuant to all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by Warrantholders in person or by attorney duly appointed in writing and the expression "resolution" or "Extraordinary Resolution" when used in this Indenture shall include an instrument so signed.

ARTICLE 7
SUPPLEMENTAL INDENTURES AND SUCCESSOR COMPANIES

7.1 Provision for Supplemental Indenture for Certain Purposes

From time to time the Company and the Warrant Agent may, subject to the provisions of this Indenture and the obtaining of the prior written consent of the Exchange, and shall, when so directed by this Indenture, execute and deliver by their proper officers or directors, as the case may be, indentures or instruments supplemental hereto, which thereafter shall form part hereof, for any one or more or all of the following purposes:

(a) adding hereto such additional covenants and enforcement provisions as in the opinion of counsel are necessary or advisable and are not in the opinion of the Warrant Agent, based on the advice of counsel to the Warrant Agent, prejudicial to the interest of the Warrantholders as a group;

(b) giving effect to any Extraordinary Resolution passed as provided in Article 6;

(c) adding to the covenants of the Company in this Indenture for the protection of the Warrantholders;

(d) making any modification in the form of Warrant Certificate which, in the opinion of the Warrant Agent, based on the advice of counsel to the Warrant Agent, does not affect the substance thereof;

(e) making any additions to, deletions from or alterations of the provisions of this Indenture which, in the opinion of the Warrant Agent based on the advice of counsel, do not materially and adversely affect the interests of the Warrantholders and are necessary or advisable in order to incorporate, reflect or comply with any Applicable Legislation;

(f) modifying any of the provisions of this Indenture or relieving the Company from any of the obligations, conditions or restrictions herein contained, provided that no such modification or relief shall be or become operative or effective if in the opinion of the Warrant Agent, based on the advice of counsel to the Warrant Agent, the modification or relief materially impairs any of the rights of the Warrantholders, as a group, or of the Warrant Agent, and provided that the Warrant Agent may in its sole discretion decline to enter into any supplemental indenture which in its opinion may not afford adequate protection to the Warrant Agent when the same shall become operative;

(g) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguities, defective provisions, errors or omissions herein, provided that in the opinion of the Warrant Agent, based on the advice of counsel to the Warrant Agent, the rights of the Warrant Agent or of the Warrantholders, as a group, are in no way prejudiced thereby;

(h) setting forth any adjustments resulting from the application of the provisions of Article 3 hereof;

(i) evidencing any succession (or successive successions) of other companies to the Company and the covenants of, and obligations assumed by, such successor (or successors) in accordance with the provisions of this Indenture; and

(j) giving effect to an Extraordinary Resolution.

7.2 Successor Companies

Subject to Section 3.10, nothing in this Indenture shall prevent any consolidation, reorganization, amalgamation, arrangement or merger of the Company with or into any other body corporate, bodies corporate, or person, or a conveyance or transfer of all or substantially all the property and assets of the Company as an entirety to any body corporate or person lawfully entitled to acquire and operate the same; provided, however, that the body corporate formed by such consolidation, amalgamation or arrangement or into which such merger shall have been made or the person which acquires by conveyance or transfer all or substantially all the property and assets of the Company as an entirety shall execute and deliver to the Warrant Agent before or contemporaneously with such consolidation, reorganization, amalgamation, arrangement, merger, conveyance or transfer and as a condition precedent thereto, an agreement supplemental hereto wherein the due and punctual performance and observance of all the covenants and conditions of this Indenture to be performed or observed by the Company shall be assumed by such successor body corporate or person. The Warrant Agent shall be entitled to receive and shall be fully protected in relying upon an opinion of counsel that any such consolidation, reorganization, amalgamation, arrangement, merger, conveyance or transfer and any supplemental agreement executed in connection therewith, complies with the provisions of this section.

7.3 Successor Body Corporate Substituted

In case the Company, pursuant to Section 7.2 hereof, shall be consolidated, amalgamated, reorganized, arranged or merged with or into any other body corporate or bodies corporate or person or shall convey or transfer all or substantially all of the property and assets of the Company as an entirety to another body corporate or person, the successor body corporate or person formed by such consolidation, reorganization, arrangement or amalgamation or into which the Company shall have been merged or which shall have received a conveyance or transfer as aforesaid shall succeed to and be substituted for the Company hereunder with the same effect as nearly as may be possible as if it had been named herein as the party of the first part. Such changes may be made in the Warrants as permitted by this Indenture and as may be appropriate in view of such consolidation, amalgamation, reorganization, arrangement, merger, conveyance or transfer.

ARTICLE 8
CONCERNING THE WARRANT AGENT

8.1 Rights and Duties of Warrant Agent

8.1.1 By way of supplement to the provisions of any statute for the time being relating to warrant agents, and notwithstanding any other provision of this Indenture, in the exercise of the rights, duties and obligations prescribed or conferred by the terms of this Indenture, the Warrant Agent will act honestly and in good faith with a view to the best interests of the Warrantholders and will exercise that degree of care, diligence and skill that a reasonably prudent Warrant Agent would exercise in comparable circumstances.

8.1.2 No provision of this Indenture will be construed to relieve the Warrant Agent from liability for its own negligent act, negligent failure to act, fraud, wilful misconduct or bad faith.

8.1.3 The obligation of the Warrant Agent to commence or continue any action, actions or proceeding for the purpose of enforcing any rights of the Warrant Agent or the Warrantholders hereunder shall be conditional upon the Warrantholders furnishing, when required by notice in writing by the Warrant Agent, sufficient funds to commence or continue such act, action or proceeding and an indemnity reasonably satisfactory to the Warrant Agent to protect and hold harmless the Warrant Agent against the costs, charges and expenses and liabilities to be incurred thereto and any loss and damage it may suffer by reason thereof.

8.1.4 No provision of this Indenture shall require the Warrant Agent to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

8.1.5 The Warrant Agent may, before commencing or at any time during the continuance of such act, action or proceeding require the Warrantholders at whose instance it is acting to deposit with the Warrant Agent the Warrant Certificates held by them, for which Warrant Certificates the Warrant Agent shall issue receipts.

8.2 Evidence, Experts and Advisors

8.2.1 In addition to the reports, certificates, opinions and other evidence required by this Indenture, the Company will furnish to the Warrant Agent such additional evidence of compliance with any provision hereof and in such form as is prescribed by Applicable Legislation or as the Warrant Agent reasonably requires by written notice to the Company.

8.2.2 In the exercise of any right or duty hereunder the Warrant Agent, if it is acting in good faith, may rely, as to the truth of any statement or the accuracy of any opinion expressed therein, on any statutory declaration, opinion, report, certificate or other evidence furnished to the Warrant Agent pursuant to a provision hereof or Applicable Legislation or pursuant to a request of the Warrant Agent.

8.2.3 Whenever Applicable Legislation requires that evidence referred to in Section 8.2.1 be in the form of a statutory declaration, the Warrant Agent may accept the statutory declaration in lieu of a certificate of the Company required by any provision hereof.

8.2.4 Any statutory declaration may be made by one or more authorized officers or Directors of the Company.

8.2.5 Proof of the execution of an instrument in writing by a Warrantholder may be made by the certificate of a notary public, or other officer with similar powers, that the person signing the instrument acknowledged to him the execution thereof, or by an affidavit of a witness to the execution, or in any other manner that the Warrant Agent considers adequate.

8.2.6 The Warrant Agent may employ or retain such counsel, accountants, appraisers or other experts or advisers as it reasonably requires for the purpose of discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them payable by the Company in accordance with Section 4.3, without taxation of costs of any counsel and will not be responsible for any misconduct or negligence on the part of any of them who has been selected in good faith by the Warrant Agent and in conformity with the standard of care in Section 8.1.1 hereof.

8.2.7 The Warrant Agent may as a condition precedent to any action to be taken by it under this Indenture require such opinions, statutory declarations, reports, certificates or other evidence as it, acting reasonably, considers necessary or advisable in the circumstances.

8.3 Documents, Moneys, etc. Held by Warrant Agent

8.3.1 Any security, document of title or other instrument that may be at any time held by the Warrant Agent subject to the terms hereof may be placed in the deposit vaults of the Warrant Agent or of any Schedule I Canadian chartered bank or deposited for safekeeping with such bank.

8.3.2 Unless herein otherwise expressly provided, any money held pending the application or withdrawal thereof under any provision of this Indenture may be deposited in the name of the Warrant Agent in any Schedule I Canadian chartered bank at the rate of interest (if any) then current on similar deposits or:

(a) deposited in the deposit department of the Warrant Agent or of any other loan or trust company authorized to accept deposits under the laws of Canada or a province thereof, or

(b) with the consent of the Company may be invested in securities issued or guaranteed by the Government of Canada or a province thereof or in obligations, maturing not more than one year from the date of investment, of any Schedule I Canadian chartered bank or loan or trust company.

8.3.3 Unless the Company is in default hereunder, all interest or other income received by the Warrant Agent in respect of deposits in investment will belong to the Company or the Warrantholders, as applicable.

8.4 Action by Warrant Agent to Protect Interests

The Warrant Agent shall have power to institute and to maintain such actions and proceedings as it may consider necessary or expedient to preserve or protect its interests and the interests of the Warrantholders.

8.5 Warrant Agent not Required to give Security

The Warrant Agent shall not be required to give any bond or security in respect of the execution of the terms and powers of this Indenture or otherwise in respect of the premises.

8.6 Protection of Warrant Agent

Subject to the provisions of any law for the time being relating to the Warrant Agent, it is expressly declared and agreed that:

(a) the Warrant Agent shall not be liable for or by reason of any representations, statements of fact or recitals in this Indenture made by the Company or required to verify the same;

(b) the Warrant Agent shall not be obligated to see or to require evidence of registration (a filing or renewal thereof) of this Indenture or any instrument ancillary or supplemental hereto;

(c) the Warrant Agent shall not be bound to give notice to any person or persons of the execution hereof;

(d) the Warrant Agent shall not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach on the part of the Company of any obligation herein contained or of any acts of the directors, officers, employees or agents of the Company;

(e) the Company shall indemnify and hold harmless the Warrant Agent and its employees, directors, officers and agents from and against any and all liabilities, losses, costs, claims, actions or demands whatsoever which may be brought against the Warrant Agent or which it may suffer or incur as a result of or arising out of the performance of its duties and obligations under this Indenture, save only in the event of the gross negligence or wilful misconduct of the Warrant Agent. It is understood and agreed that this indemnification shall survive the termination or discharge of this Indenture or the resignation of the Warrant Agent;

(f) the Warrant Agent shall not be bound to give any notice or to do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof nor shall the Warrant Agent be required to take notice of any default of the Company hereunder unless and until notified in writing of the default (which notice must specify the nature of the default) and, in the absence of that notice, the Warrant Agent may for all purposes hereunder conclusively assume that no default by the Company hereunder has occurred;

(g) the Warrant Agent is not at any time under any duty or responsibility to a Warrantholder to determine whether any facts exist which require any adjustment contemplated by Section 3.6, 3.7, 3.9 or 3.11 or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making the same;

(h) the Warrant Agent is not accountable with respect to the validity or value (or the kind or amount) of any Shares or other securities or property which may at any time be issued or delivered upon the exercise of the rights attaching to any Warrant; and

(i) the Warrant Agent is not responsible for any failure of the Company to make any cash payment or any failure of the Company to issue, transfer or deliver Shares or certificates for the same upon the exercise and surrender of any Warrants for the purpose of the exercise of such rights or to comply with any of the covenants contained in this Section 7.

8.7 Replacement of Warrant Agent

8.7.1 The Warrant Agent may resign its agency and be discharged from all further duties and liabilities hereunder by giving to the Company and the Warrantholders not less than 30 days' notice in writing or, if a new Warrant Agent has been appointed, such shorter notice as the Company accepts as sufficient.

8.7.2 The Warrantholders by Extraordinary Resolution may at any time remove the Warrant Agent and appoint a new Warrant Agent.

8.7.3 If the Warrant Agent so resigns or is so removed or is dissolved, becomes bankrupt, goes into liquidation or otherwise becomes incapable of acting hereunder, the Company will forthwith appoint a new Warrant Agent unless a new Warrant Agent has already been appointed by the Warrantholders.

8.7.4 Failing appointment by the Company, the retiring Warrant Agent or any Warrantholder may apply to the a court of competent jurisdiction in Ontario for the appointment of a new Warrant Agent.

8.7.5 Any new Warrant Agent so appointed by the Company or by the Court will be subject to removal by Extraordinary Resolution of the Warrantholders.

8.7.6 Any new Warrant Agent appointed under any provision of this section must be a corporation authorized to carry on the business of a trust company in the Qualifying Jurisdictions in Canada.

8.7.7 On any appointment, the new Warrant Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Warrant Agent without any further assurance, conveyance, act or deed, and upon payment to the retiring Warrant Agent all monies owed to it and remaining unpaid for services rendered pursuant to this Indenture, there will be immediately delivered to the succeeding Warrant Agent all records, registers and other documents concerning the Warrants issued hereunder and there will be immediately executed, at the expense of the Company, all such conveyances or other instruments as, in the opinion of counsel, are necessary or advisable for the purpose of assuring the powers, rights, duties and responsibilities to the new Warrant Agent.

8.7.8 On the appointment of a new Warrant Agent, the Company will promptly give notice thereof to the Warrantholders.

8.7.9 A corporation into or with which the Warrant Agent is merged or consolidated or amalgamated, or a corporation succeeding to all or substantially all of the corporate trust business of the Warrant Agent, will be the successor to the Warrant Agent hereunder without any further act on its part or on the part of any party hereto if the corporation would be eligible for appointment as a new Warrant Agent under Section 8.7.6.

8.7.10 A Warrant Certificate certified but not delivered by a predecessor Warrant Agent may be delivered by the new or successor Warrant Agent in the name of the predecessor Warrant Agent or successor Warrant Agent.

8.8 Conflict of Interest

8.8.1 The Warrant Agent represents to the Company that at the time of the execution and delivery hereof no material conflict of interest exists between its role as a fiduciary hereunder and its role in any other capacity and if a material conflict of interest arises hereafter it will, within 90 days after ascertaining that it has a material conflict of interest, either eliminate the conflict of interest or resign its agency hereunder.

8.8.2 Subject to Section 8.8.1, the Warrant Agent in its personal or any other capacity may buy, lend upon and deal in securities of the Company and generally may contract and enter into financial transactions with the Company or any subsidiary of the Company without being liable to account for any profit made thereby.

8.9 Acceptance of the Warrant Agent

The Warrant Agent hereby accepts its duties and responsibilities under this Indenture declared and provided for and agrees to perform them on the terms and conditions herein set forth and agrees to hold all rights, interests and benefits contained herein for and on behalf of those persons who become holders of Warrants from time to time issued pursuant to this Indenture. No trust is intended to be, or is or will be, created hereby and the Warrant Agent shall owe no duties hereunder as a trustee.

8.10 Warrant Agent's Authority to Carry on Business

The Warrant Agent represents to the Company that at the date hereof it is authorized to carry on business of a trust company in each of the provinces of Canada. If, notwithstanding the provisions of this Section 8.10, it ceases to be authorized to carry on such business in each of the provinces of Canada, the validity and enforceability of this Indenture and of the Warrants issued hereunder are not affected in any manner whatsoever by reason only of such event, provided that the Warrant Agent shall, within 30 days after ceasing to be authorized to carry on such business in each of the provinces of Canada, either become so authorized or resign in the manner and with the effects specified in this Section.

8.11 Accounts

8.11.1 The Company hereby represents to the Warrant Agent that any account to be opened by, or interest to held by, the Warrant Agent in connection with this Indenture, for or to the credit of the Company, either (i) is not intended to be used by or on behalf of any third party; or (ii) is intended to be used by or on behalf of a third party, in which case the Company agrees to complete and execute forthwith a declaration in the form prescribed by the Warrant Agent as to the particulars of such third party.

8.11.2 The Warrant Agent shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Warrant Agent, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Warrant Agent, in its sole judgment, determine at any time that its acting under this Indenture has resulted in its being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days prior written notice to the Company, provided (i) that the Warrant Agent's written notice shall describe the circumstances of such non-compliance; and (ii) that if such circumstances are rectified to the Warrant Agent's satisfaction within such 10 day period, then such resignation shall not be effective.

ARTICLE 9
GENERAL

9.1 Satisfaction and Discharge of Indenture

This Indenture shall expire and terminate on the earlier of:

(a) the date by which there has been delivered to the Warrant Agent for exercise or destruction all Warrant Certificates theretofore certified hereunder, and

(b) the 61st day following the Warrant Expiry Date of all Warrants,

and if all Shares required to be issued in compliance with the provisions hereof have been issued and delivered hereunder, this Indenture will cease to be of further effect and the Warrant Agent, on demand of and at the cost and expense of the Company and on delivery to the Warrant Agent of a certificate of the Company stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with and on payment to the Warrant Agent of the fees and other remuneration payable to the Warrant Agent, will execute proper instruments acknowledging satisfaction of and discharging this Indenture.

9.2 Force Majeure

Neither party shall be liable, or held in breach of this Indenture if prevented, hindered, or delayed in the performance or observance of any provision contained herein by reason of act of God, riots, terrorism, acts of war, epidemics, governmental action or judicial order, earthquakes, or any other similar causes (including, but not limited to, mechanical, electronic or communication interruptions, disruptions or failures). Performance times under this Agreement shall be extended for a period of time equivalent to the time lost because of any delay that is excusable under this Section 9.2.

9.3 Sole Benefit of Parties and Warrantholders

Nothing in this Indenture expressed or implied will give or be construed to give to any person other than the parties hereto and the Warrantholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture, or under any covenant or provision herein contained, all covenants and provisions being for the sole benefit of the parties hereto and the Warrantholders.

9.4 Discretion of Directors

Any matter provided herein to be determined by the Directors will be determined by the Directors in their sole discretion and a determination so made, absent manifest error, will be conclusive.

9.5 Privacy

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individuals' personal information (collectively, "**Privacy Laws**") applies to obligations and activities under this Indenture. Despite any other provision of this Indenture, neither party shall take or direct any action that would contravene, or cause the other party to contravene, applicable Privacy Laws. The Company shall, before transferring or causing to be transferred personal information to the Warrant Agent, obtain and retain required consents of the relevant individuals to the collection, use and disclosure of their personal information, or shall have determined that such consents either have previously been given upon which the parties can rely or are not required under the Privacy Laws. The Warrant Agent shall use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws. Specifically, the Warrant Agent agrees:

(a) to have a designated chief privacy officer;

(b) to maintain policies and procedures to protect personal information and to receive and respond to any privacy complaint or inquiry;

(c) to use personal information solely for the purposes of providing its services under or ancillary to this Indenture and not to use it for any other purpose except with the consent of or direction from the Company or the individual involved;

(d) not to sell or otherwise improperly disclose personal information to any third party; and

(e) to employ administrative, physical and technological safeguards to reasonably secure and protect personal information against loss, theft, or unauthorized access, use or modification.

9.6 Counterparts and Formal Date

This Indenture may be executed in several counterparts, each of which when so executed will be deemed to be an original, and the counterparts together will constitute one and the same instrument and notwithstanding the date of their execution will be deemed to bear the date set out at the top of the first page of this Indenture.

9.7 Language

The parties hereby consent that this Indenture and any related documents be drawn up and executed only in the English language. Les parties demandent par les présentes que la présente convention ainsi que tous les documents y afferents soient rédiges et executes en langue anglaise seulement.

9.8 Assignment

Subject to Section 8.7 hereof, neither this Indenture nor any right, interest or obligation hereunder may be assigned by either party without the prior written consent of the other party any purported assignment of this Indenture which does not comply with this Section 9.7 will be considered null and void.

9.9 Benefit of the Agreement

This Indenture will enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

IN WITNESS WHEREOF the parties hereto have executed this agreement as of the date first written above.

LORUS THERAPEUTICS INC.

By: *(signed) "Elizabeth Williams"*
Name: Elizabeth Williams
Authorized Signatory

COMPUTERSHARE TRUST COMPANY OF CANADA

By: *(signed) "Daniel Marz"*
Name: Daniel Marz
Authorized Signatory

By: *(signed) "Cheryl Davidson"*
Name: Cheryl Davidson
Authorized Signatory

SCHEDULE "A" TO INDENTURE

Form of Warrant Certificate to be issued to Warrantholders

This Certificate, and the Common Share Purchase Warrants evidenced hereby, will be void and of no value unless exercised on or before 5:00 p.m. (Toronto time) on May 8, 2012 (subject to acceleration).

LORUS THERAPEUTICS INC.

NO. _____ _____ WARRANTS

COMMON SHARE PURCHASE WARRANTS

THIS IS TO CERTIFY THAT for value received, the registered holder hereof is entitled for each Warrant represented hereby to purchase one fully paid and non-assessable common share ("**Common Share**") in the capital of Lorus Therapeutics Inc. (the "**Company**") at a price per share of Cdn. $1.33, subject to adjustment as hereinafter referred to.

Such right to purchase may be exercised by the registered holder hereof at any time on the date of issue hereof up to and including 5:00 p.m. (Toronto time) on May 8, 2012 (the "**Warrant Expiry Time**") by surrender of this Warrant Certificate to Computershare Trust Company of Canada (the "**Warrant Agent**") at the principal transfer offices of the Warrant Agent in Toronto, Ontario together with the subscription form attached hereto as Appendix A duly executed and completed for the number of Common Shares which the holder hereof is entitled to purchase and the purchase price of such Common Shares as herein provided.

This Warrant Certificate and such payment shall be deemed not to have been surrendered and made except upon personal delivery thereof or, if sent by post or other means of transmission, upon actual receipt thereof by the Warrant Agent at the office specified above.

The purchase price of Common Shares subscribed for hereunder shall be paid by certified cheque, money order or bank draft in lawful money of Canada payable to the order of the Company at par in the city where this Warrant Certificate is delivered.

Certificates for the Common Shares subscribed for will be mailed to the persons specified in the subscription form at their respective addresses specified therein or, if so specified in such subscription form, delivered to such persons at the office where the applicable Warrant Certificate was surrendered, when the transfer registers of the Company have been open for five business days after the due surrender of such Warrant Certificate and payment as aforesaid. In the event of a purchase of a number of Common Shares fewer than the number which can be purchased pursuant to this Warrant Certificate, the holder shall be entitled to receive without charge a new Warrant Certificate in respect of the balance of such Warrants.

This Warrant Certificate and other Warrant Certificates are issued under and pursuant to a certain warrant indenture (herein referred to as the "Indenture") dated October 4, 2010 between the Company and the Warrant Agent, to which Indenture and any instruments supplemental thereto reference is hereby made for a description of the terms and conditions upon which such Warrant Certificates are issued and are to be held all to the same effect as if the provisions of the Indenture and all instruments supplemental thereto were herein set forth, to all of which provisions the holder of this Warrant Certificate by acceptance hereof assents. The Company will furnish to the holder of this Warrant Certificate, upon request and without charge, a copy of the Indenture. Capitalized terms not otherwise defined herein have the meaning ascribed to them in the Indenture.

Subject to the Company's right to purchase the Warrants under the Indenture and to any restriction under applicable law or policy of any applicable regulatory body, the Warrants and Warrants Certificates and the rights thereunder shall only be transferable by the registered holder hereof in compliance with the conditions prescribed in the Indenture and the due completion, execution and delivery of a Transfer Form (in the form attached hereto as Appendix B) in accordance with the terms of the Indenture. The transfer of the warrants evidenced hereby may be restricted by applicable securities laws. Holders are advised to consult their legal counsel in this regard.

THIS WARRANT AND THE SECURITIES DELIVERABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THIS WARRANT MAY NOT BE EXERCISED IN THE UNITED STATES OR BY OR ON BEHALF OF A PERSON IN THE UNITED STATES OR A U.S. PERSON UNLESS THE WARRANT AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

The holding of this Warrant Certificate shall not constitute the holder hereof a holder of Common Shares nor entitle him to any right of interest in respect thereof.

The Indenture contains provisions making binding upon all holders of Warrants outstanding thereunder resolutions passed at meetings of such holders held in accordance with such provisions by the warrantholders entitled to purchase a specified majority of the Common Shares which may be purchased pursuant to all then outstanding Warrants.

The foregoing is only a summary of the rights and conditions attaching to the Warrants. Warrantholders should refer to the Indenture for the complete text of the rights and conditions of the Warrants. In the event of a conflict between the terms of this Warrant Certificate and the terms of the Indenture, the terms of the Indenture shall prevail.

The holder of this Warrant Certificate may at any time up to and including the Warrant Expiry Time upon the surrender hereof to the Warrant Agent at its principal transfer offices in Toronto, Ontario and payment of any charges provided for in the Indenture, exchange this Warrant Certificate for other Warrant Certificates entitling the holder to subscribe in the aggregate for the same number of Common Shares as is expressed in this Warrant Certificate.

This Warrant Certificate shall not be valid for any purpose whatever unless and until it has been countersigned by the Warrant Agent for the time being under the Indenture.

Nothing contained herein or in the Indenture shall confer any right upon the holder hereof or any other person to subscribe for or purchase any Common Shares of the Company at any time subsequent to the Warrant Expiry Time. After the Warrant Expiry Time this Warrant Certificate and all rights thereunder shall be void and of no value.

Time is of the essence hereof.

IN WITNESS WHEREOF this Warrant Certificate has been executed on behalf of Lorus Therapeutics Inc. as of the _____ day of _____, 20 .

LORUS THERAPEUTICS INC.

By: _____

Countersigned

COMPUTERSHARE TRUST COMPANY OF CANADA

By: _____

Dated: _____

APPENDIX "A" TO WARRANT CERTIFICATE
EXERCISE FORM

By Mail:	By Registered Mail, by Hand or by Courier
TO: COMPUTERSHARE TRUST COMPANY OF CANADA 100 University Ave 9th Floor Toronto, Ontario M5J 2Y1	TO: COMPUTERSHARE TRUST COMPANY OF CANADA 100 University Ave 9th Floor Toronto, Ontario M5J 2Y1

The undersigned registered holder of the within Warrant Certificate, subject to that certain warrant indenture (the "Indenture") dated as of October 4, 2010 between Lorus Therapeutics Inc. and Computershare Trust Company of Canada, as Warrant Agent, hereby:

(a) subscribes for _____ common shares ("Common Shares") (or such number of Common Shares or other securities or property to which such subscription entitles the undersigned in lieu thereof or in addition thereto under the Indenture) of Lorus Therapeutics Inc. at the price per share of Cdn. $1.33 (or such adjusted price which may be in effect under the provisions of the Indenture) and in payment of the exercise price encloses a certified cheque, money order or bank draft, in any case in lawful money of Canada payable at par in the City of Toronto, Ontario to Lorus Therapeutics Inc.; and

(b) delivers herewith the above-mentioned Warrant Certificate entitling the undersigned to subscribe for the above-mentioned number of Common Shares.

The undersigned hereby directs that the said Common Shares be registered as follows:

Name(s) in full	Address(es) of (including Postal Code)	Number(s) of Common Shares

The undersigned represents that it (A) has had access to such current public information concerning Lorus Therapeutics Inc. as it considered necessary in connection with its investment decision, and (B) understands that the securities issuable upon exercise hereof have not and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**").

The undersigned represents, warrants and certifies that the undersigned holder at the time of exercise of this Warrant (i) is not in the United States as defined in Regulation S under the U.S. Securities Act ("**Regulation S**"); (ii) is not a U.S. Person as defined in Regulation S; (iii) is not exercising this Warrant on behalf of, or for the account or benefit of, a U.S. Person or a person in the United States; and (iv) did not acquire the Warrants in the United States or for the account or benefit of a U.S. Person or a person in the United States and did not otherwise receive an offer to exercise this Warrant or execute or deliver this Subscription Form in the United States, and has, in all other respects, complied with the terms of Regulation S or any successor rule or regulation.

Note: Certificates representing Common Shares will not be registered or delivered to an address in the United States.

DATED this day of _____, 20_____.

Signature of Warrantholder guaranteed by:

_____

_____

_____
(Signature of Warrantholder)

_____
(Print Name of Warrantholder)

_____

_____

_____
(Address of Warrantholder in full)

(*The name of the Warrantholder must correspond with the name upon the face of the certificate in every particular and the Company reserves the right to require reasonable assurance that such signature is genuine and effective.)

Instructions

1. The registered holder may exercise its right to receive Common Shares by completing this form and surrendering this form and the Warrant Certificate representing the Warrants being exercised along with a certified cheque, money order or bank draft in lawful money of Canada payable to the order of the Company at par in an amount equal to the exercise price applicable at the time of such surrender in respect of each Common Share which the Warrantholder desires to acquire (being not more than those which the Warrantholder is entitled to acquire pursuant to the Warrants represented by the Warrant Certificate so surrendered) to Computershare Trust Company of Canada, at its principal offices at:

By Mail	By Registered Mail, by Hand or by Courier
Computershare Trust Company of Canada	Computershare Trust Company of Canada
100 University Ave 9th Floor Toronto, Ontario M5J 2Y1	100 University Ave 9th Floor Toronto, Ontario M5J 2Y1

2. The certificates will be mailed by registered mail to the address appearing in this Exercise Form.

3. If Common Shares are issued to a person other than the registered Warrantholder, the signature of that person must be signature guaranteed by a Schedule 1 Canadian Chartered Bank or a major trust company or by a medallion signature guarantee from a member of a recognized signature medallion guarantee program and the Transfer Form must be completed.

4. If the Exercise Form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a Company or any person acting in a fiduciary or representative capacity, the Warrant Certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Company.

The Warrants will expire at 5:00 p.m. (Toronto time) on May**[5]**, 2012 and must be exercised before that time, otherwise the same shall expire and be void and of no value.

APPENDIX "B" TO THE WARRANT CERTIFICATE
TRANSFER FORM

FOR value received I/we (the "Transferor") hereby sell, assign, and transfer unto:

(Name of Transferee)

(Address of Transferee)

(Social Insurance Number)

(Quantity & Class) Warrants of

Lorus Therapeutics Inc (the "Company")

represented by:

(List Certificate Numbers)

and the undersigned hereby irrevocably constitutes and appoints:

(Leave Blank)

the attorney to transfer the said Warrants on the books of the Company with full power of substitution in the premises.

DATED this _____ day of _____, 20_____.

Signature Guaranteed By:

(Signature of Warrantholder)

(Name of Warrantholder, Please Print)

(Capacity of Authorized Representative)

Instructions:

1. The signature on this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or change whatever.

2. The signature must be guaranteed by a Canadian Schedule 1 chartered bank, a major Trust Company or by a member firm of an acceptable Medallion Signature Guarantee Program (STAMP, SEMP, MSP). The stamp must bear the words "Signature Medallion Guaranteed".

3. In the United States of America, signature guarantees must be done by members of a Medallion Signature Guarantee Program only. Signature guarantees are not accepted from Treasury Branches, Credit Unions or Caisses Populaires unless they are members of an acceptable Medallion Program.

(Signature of Transferee)

Print full name

Date:

The Warrants and the Common Shares issuable upon exercise of the Warrants shall only be transferable in accordance with applicable laws. The Warrants may only be exercised in the manner required by the Warrant Certificate and the Exercise Form attached thereto. Any securities acquired pursuant to this exercise of Warrants shall be subject to any applicable hold periods and any certificate representing such securities will bear restrictive legends, each in accordance with the Warrant Indenture between the Company and Computershare Trust Company of Canada that governs the Warrants and the Warrant Certificate.

FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE dated as of the 18th day of October, 2010.

BETWEEN:

LORUS THERAPEUTICS INC., a corporation incorporated under the laws of Canada (hereinafter referred to as the "**Company**")

OF THE FIRST PART,

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA, a trust company existing under the laws of Canada and authorized to carry on business in all provinces of Canada (hereinafter referred to as the "**Warrant Agent**")

OF THE SECOND PART.

WITNESSES THAT:

WHEREAS by a warrant indenture (hereinafter called the "**Warrant Indenture**") made as of the 4th day of October, 2010 between the Company and the Warrant Agent, provision was made for the issue by the Company of the Warrants (as defined in the Warrant Indenture);

AND WHEREAS the Company wishes to amend the Warrant Indenture to provide for the Warrants to be held in the Book-Based System (as defined below);

AND WHEREAS this supplemental indenture is being entered into by the parties hereto pursuant to section 7.1(g) of the Warrant Indenture;

AND WHEREAS all necessary proceedings of the directors of the Company have been duly passed and all other necessary proceedings have been taken to execute this supplemental indenture and to make the execution hereof legal, valid and binding and in accordance with all laws respectively relating to the Company and with all other laws and regulations in respect thereof;

AND WHEREAS the foregoing recitals are made as representations and statements of fact by the Corporation and not by the Warrant Agent;

NOW THEREFORE it is hereby covenanted, agreed and declared as follows:

ARTICLE 1
INTERPRETATION AND RELATED MATTERS

1.01 Interpretation of Supplemental Indenture

In this supplemental indenture "this supplemental indenture", "hereof", "herein", "hereby", "hereunder", and similar expressions refer to this supplemental indenture and not to any particular Article, Section or other portion hereof, and include any and every instrument supplemental or ancillary hereto or in implementation hereof.

1.02 Definitions

All terms contained in this supplemental indenture, including, without limitation, the recitals hereto, which are defined in the Warrant Indenture shall, for all purposes hereof, have the meanings given to such terms in the Warrant Indenture, as amended hereby, unless the context otherwise specifies or requires.

1.03 Headings. Etc.

The headings of all Articles and Sections hereof are inserted for convenience of reference only and shall not affect the construction or interpretation of this supplemental indenture.

ARTICLE 2
INDENTURE SUPPLEMENTAL TO WARRANT INDENTURE

2.01 Incorporation with Warrant Indenture

This supplemental indenture is a supplemental indenture within the meaning of the Warrant Indenture, and the Warrant Indenture shall henceforth be read in conjunction with this supplemental indenture and shall together have effect so far as practicable as if all the provisions of the Warrant Indenture and this supplemental indenture were contained in the one instrument.

2.02 Supplemental of Warrant Indenture

The Warrant Indenture is hereby supplemented and amended by the addition of the provisions hereof.

ARTICLE 3
SUPPLEMENTS TO WARRANT INDENTURE

3.01 Supplements

The Warrant Indenture is hereby supplemented and amended by:

(a) adding the following definitions to Section 1.1 of the Warrant Indenture:

"**Book-Based System**" means the book-entry registration system maintained by the Depository;

"**CDS**" means CDS Clearing and Depository Services Inc. or its successor;

"**CDS Participant**" means a person recognized by the Depository as a participant in the securities registration and transfer system administered by the Depository or an institution that participates, directly or indirectly, in the Depository's Book-Based System with respect to the Warrants;

"**Certificates**" means, collectively, any Global Warrant Certificates and any Warrant Certificates;

"**Depository**" means CDS, or any other depository offering a securities registration and transfer system similar to that administered by CDS which the Company, with the consent of the Warrant Agent, acting reasonably, may designate;

"**Global Warrant Certificate**" means a Warrant Certificate that is registered in the name of the Depository, or its nominee, for the purpose of being held by or on behalf of the Depository as custodian for Participants;

"**NCI Letter of Instruction**" means the Non-Certificated Inventory system letter of instruction provided by CDS to the Warrant Agent in connection with the exercise of the Warrants;

"**Participant**" means a person recognized by the Depository as a participant in the securities registration and transfer system administered by the Depository, and includes a CDS Participant, as applicable;

(b) replacing Section 2.2 of the Warrant Indenture with the following:

2.2.1 Warrant Certificates shall be substantially in the form set out in Schedule "A" hereto with such additions, variations or omissions as may be permitted by the provisions of this Indenture or may from time to time be agreed upon between the Company and the Warrant Agent and shall be numbered in the manner as the Company, with the approval of the Warrant Agent, may prescribe. All Warrants are, save as to denominations, of like tenor and effect. The Warrant Certificates may be engraved, printed, lithographed, or partly in one form and partly in another, as the Company may determine. No change in the form of the Warrant Certificates is required by reason of any adjustment made pursuant to this Indenture in: (i) the number of Warrant Shares which may be acquired pursuant to the exercise of the Warrants; (ii) the Exercise Price; or (iii) the Warrant Expiry Date. No Warrant Certificates representing fractional Warrants will be issued under this Indenture, and save and except as otherwise provided for herein, any fractional Warrants will be rounded down to the nearest whole Warrant.

2.2.2 Except in respect of Warrants issued to registered holders of Shares under the Rights Offering or as described below, registration of interests in, and transfers of, Warrants shall be made through the Book- Based System operated by the Depository. Such Warrants will be evidenced by Global Warrant Certificate(s) for an amount representing the aggregate number of such Warrants outstanding from time to time.

2.2.3 Subject to Section 2.2.2 above, on completion of the Rights Offering, a Global Warrant Certificate evidencing the aggregate number of Warrants issued pursuant to the Rights Offering shall be delivered to the Depository.

2.2.4 The rights of beneficial owners of Warrants represented by the Book-Based System shall be limited to those established by applicable law and the agreements between the Depository and the CDS Participants and the agreements between the CDS Participants and the beneficial owners. Any rights of such beneficial owners shall be exercised solely through a CDS Participant in accordance with Article 3 and the rules and procedures established by the Depository from time to time.

2.2.5 Notwithstanding anything herein to the contrary, neither the Company nor the Warrant Agent nor any agent thereof shall have any responsibility or liability for:

(a) the electronic records maintained by the Depository relating to any ownership interests or any other interests in the Warrants or the Book-Based System, or payments made on account of any interest of any person in Warrants represented by an electronic position in the Book-Based System (other than in respect of the Depository or its nominee);

(b) maintaining, supervising or reviewing any records of the Depository or any CDS Participant relating to any interest referred to in Section 2.2.5(a); or

(c) any advice or representation made or given by the Depository or those contained herein that relate to the rules and regulations of the Depository or any action to be taken by the Depository on its own direction or at the direction of any CDS Participant.

2.2.6 The Company may, in its sole discretion, terminate the application of Sections 2.2.2 to 2.2.5 following which the Warrants shall be evidenced by one or more Warrant Certificates.

2.2.7 It is understood and agreed by the parties hereto that in every instance where a Warrantholder whose Warrants are held in an electronic position through a depository wishes to exercise all or a portion of his warrants, such Warrants being exercised shall be certificated prior to the submission of such Warrants for exercise.

(c) replacing Sections 3.1 of the Warrant Indenture with the following:

3.1.1 A Warrantholder may, at any time before the Warrant Expiry Time, exercise all or any number of the Warrants which remain outstanding and are then held by the Warrantholder.

3.1.2 Subject to Section 3.1.4 and upon compliance with the provisions of this Article, the holder of any Warrant Certificate may exercise the right of purchase therein provided for by surrendering the Warrant Certificate, or, in the case of an exercise by the Depository, the NCI Letter of Instruction or such other form as the Depository may require from time to time evidencing such Warrants, to the Warrant Agent at its principal transfer office in the City of Toronto, Ontario, or at such additional place or places as may be designated by the Company from time to time with the approval of the Warrant Agent during normal business hours on a business day at that place before the Warrant Expiry Time, together with the Warrant Exercise Form duly completed and executed by the holder for the number of Shares which the holder desires to purchase and payment of the aggregate Exercise Price applicable at the time of the surrender calculated in accordance with the provisions of this Indenture. The aggregate Exercise Price for Shares subscribed for under the Warrants shall be paid by certified cheque, bank draft or money order payable to or to the order of the Company at par at the city where the Warrant Certificate is surrendered.

3.1.3 Surrender of a Warrant Certificate or, in the case of an exercise by the Depository, the NCI Letter of Instruction or such other form as the Depository may require from time to time, with the Warrant Exercise Form duly completed and payment of the aggregate Exercise Price will be deemed to have been effected, and Warrants shall be deemed to have been exercised, only on personal delivery thereof to, or if sent by mail or other means of transmission on actual receipt thereof by, the Warrant Agent at one of the offices specified in this section. The exercise form attached to the Warrant Certificates shall not be deemed to be duly completed if the name and mailing address of the holder do not appear legibly on such exercise form and such exercise form is not signed by the holder, his executors, administrators, other legal representatives or such holder's attorney duly appointed.

3.1.4 Subject to 3.1.7, a beneficial owner who desires to exercise his or her Warrants must do so by causing a Participant to withdraw the Warrants from the Depository (at its office in the City of Toronto). Upon receipt of instructions of the Depository, the Warrant Agent shall issue a Warrant Certificate in the name of such beneficial owner or such beneficial owner's CDS Participant, as applicable. A beneficial owner who desires to exercise Warrants should ensure that the Participant is provided with the Exercise Form or duly completed power of attorney (if the Warrant Certificate is issued in the name of the beneficial owner) and payment in advance of the Warrant Expiry Date so as to permit the Participant to deliver notice to the Warrant Agent by the required time. Any expense associated with the preparation and delivery of Exercise Forms will be for the account of the beneficial owner exercising the Warrants.

3.1.5 Any Exercise Form which the Warrant Agent determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the exercise to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a Participant to exercise or to give effect to the settlement of an Exercise Form in accordance with the beneficial owner's instructions will not give rise to any obligations or liability on the part of the Company or the Warrant Agent to the Participant or the beneficial owner.

3.1.6 Notwithstanding the foregoing in this Section 3.1, Warrants may only be exercised pursuant to this Section 3.1 by or on behalf of a Warrantholder who makes the representations set forth on the Exercise Form, as applicable.

3.1.7 If no Global Warrant Certificates are issued and Warrants are issued pursuant to a non-certificated system, a beneficial owner who desires to exercise Warrants pursuant to the Book-Based System shall do so in accordance with the procedures established by the Depository and the Company, from time to time.

3.1.8 By causing a Participant to deliver the notice of intention to exercise Warrants to the Depository, a beneficial owner shall be deemed to have appointed such Participant to act as such beneficial owner's exclusive settlement agent with respect to the exercise and the receipt of Shares in connection with the obligations arising from such exercise.

3.1.9 Any notice of intention to exercise Warrants that the Depository determines to be incomplete, not in proper form, not duly executed or which is not accompanied by payment in full of the Exercise Price of the Shares being purchased shall for all purposes be void and of no effect and the exercise to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a Participant to exercise or to give effect to the settlement thereof in accordance with the beneficial owner's instructions will not give rise to any obligations or liability on the part of the Company to the Participant or the beneficial owner. For greater certainty, any exercise of Warrants pursuant to this Section 3.1 must be accompanied by payment in full of the Exercise Price for the Shares being purchased and must be received by the Warrant Agent prior to the Warrant Expiry Date.

3.1.10 Every Warrant Exercise Form shall be signed by the holder of the Warrant Certificate who desires to exercise in whole or in part the right of purchase therein provided for; (as adjusted from time to time in accordance with the provisions of this Indenture) shall specify the number of Shares that the subscriber wishes to purchase (being not more than he is entitled to purchase under the Warrant Certificate (as adjusted from time to time in accordance with the provisions of this Indenture)), the person or persons in whose name or names the Shares which the subscriber desires to purchase are to be issued and his or their address or addresses and the number of Shares to be issued to each such person, and if more than one is so specified, the form shall have one of the boxes in the Warrant Exercise Form checked; and shall be substantially in the form set out in the Warrant Certificate.

3.1.11 If any Shares subscribed for are to be issued to a person or persons other than the Warrantholder, the Warrantholder must pay to the Company or to the Warrant Agent on his behalf an amount equal to all applicable transfer taxes or other applicable government charges, and the Company will not be required to issue or deliver any certificate evidencing any Shares unless or until that amount has been so paid or the Warrantholder has established to the satisfaction of the Company that the taxes and charges have been paid or that no taxes or charges are owing.

3.1.12 The Warrants and the Shares issuable upon exercise thereof have not been registered under the 1933 Act or the securities law of any state of the United States, and the Warrants may not be exercised within the United States or by or on behalf of any U.S. Person unless the Warrants and the Shares are registered under the 1933 Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available. No exercise of any Warrants shall be effective, and no certificate representing Shares shall be issued or registered pursuant to the exercise of Warrants, unless the Warrant Exercise Form is executed specifying that the holder did not acquire the Warrants in the United States or for the account or benefit of a U.S. Person or a person in the United States, is not in the United States or a U.S. Person, is not exercising the Warrants on behalf of a U.S. Person or a person in the United States, and did not execute or deliver the Warrant Exercise Form in the United States.

ARTICLE 4
ACCEPTANCE OF TRUSTS BY WARRANT AGENT

4.01 Acceptance of Trusts

The Warrant Agent hereby accepts the trusts in this supplemental indenture declared and provided and agrees to perform the same upon the terms and conditions set forth herein and in the Warrant Indenture.

ARTICLE 5
GENERAL

5.01 No Further Amendment

The Warrant Indenture is amended as provided herein, and any changes necessary to implement the amendments intended hereby are hereby made to any other provisions of the Warrant Indenture where necessary, *mutatis mutantis*. Save as amended hereby, the Warrant Indenture is unamended and in full force and effect, in accordance with its terms.

5.02 Enurement

Subject to the express terms of the Warrant Indenture, this supplemental indenture shall be binding upon the parties hereto and their respective successors and assigns and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

5.03 Law of Indenture

This supplemental indenture is governed by and subject to the laws of the Province of Ontario and the federal laws of Canada applicable therein, and the parties hereto hereby irrevocably attorn to the jurisdiction of the Courts of Ontario

ARTICLE 6
EXECUTION

6.01 General

This supplemental indenture may be executed in several counterparts (by original or facsimile signatures), each of which so executed shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument.

[The remainder of this page intentional left blank]

IN WITNESS WHEREOF the parties hereto have executed this supplemental indenture under the hands of their respective proper signing officers duly authorized in that behalf.

LORUS THERAPEUTICS INC.

Per: *(signed) "Elizabeth Williams"*
Name: Elizabeth Williams
Title: Director of Finance

COMPUTERSHARE TRUST COMPANY OF CANADA

Per: *(signed) "Daniel Marz"*
Name: Daniel Marz
Title: Corporate Trust Officer

Per: *(signed) "Morag Abraham"*
Name: Morag Abraham
Title: Corporate Trust Officer

STANDBY PURCHASE AGREEMENT

THIS AGREEMENT is made as of September 16, 2010,

BETWEEN

LORUS THERAPEUTICS INC. ("**Lorus**")

- and -

HERBERT ABRAMSON (the "**Standby Purchaser**")

WHEREAS Lorus proposes to effect an offering of Rights to the holders of record of its Shares pursuant to a short form prospectus, such Rights being exercisable for one Unit;

AND WHEREAS the Standby Purchaser and a related party of the Standby Purchaser are the holder(s) of 1,427,552 Shares (the "**Current Shares**") and the Standby Purchaser proposes to purchase up to $4 million of the Units offered under the Rights Offering by exercising his Basic Subscription Privilege and by purchasing Units that are not otherwise purchased under the Rights Offering, on the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

ARTICLE 1
INTERPRETATION

1.1 Definitions. In this Agreement, unless something in the subject matter is inconsistent therewith:

"**Additional Subscription Privilege**" means the entitlement of a holder of Rights, who has exercised in full the Basic Subscription Privilege attaching to its Rights, to subscribe pursuant to the Rights Offering for additional Units (if such are available), as such entitlement is further detailed in the Prospectus.

"**Affiliate**" has the meaning ascribed thereto under the *Canada Business Corporations Act*, as amended, and in the case of the Standby Purchaser or Substituted Standby Purchaser includes all investment funds and other Persons that the Standby Purchaser or Substituted Standby Purchaser, as the case may be, or an Affiliate manages or exercises control over or in respect of which it has discretionary trading authority over such investment fund's or Person's investments.

"**Agreement**" means this standby purchase agreement, as such agreement may be amended, supplemented or superseded from time to time.

"Available Shares" has the meaning set forth in Section 2.2

"**Basic Subscription Privilege**" means the entitlement of a holder of Rights to subscribe for Units pursuant to the Rights Offering, at a price equal to the Subscription Price, as such entitlement is further detailed in the Prospectus.

"**Business Day**" means any day, other than a Saturday or a Sunday, upon which banks are open for business in the City of Toronto.

"**Closing Date**" means two Business Days following the Expiry Date, or such other date as may be agreed by Lorus and the Standby Purchaser, which in no event will be later than November 15, 2010.

"**Current Shares**" has the meaning set forth in the recitals to this Agreement.

"**Closing Time**" has the meaning set forth in Section 6.1.

"**Exercise Price**" means 120% of the Subscription Price.

"**Expiry Date**" means the date on which the Rights will expire and become null and void as set out in the Final Prospectus, such date expected to be on or about the twenty-first day following the date on which the Final Prospectus is mailed to holders of Shares as of the Record Date and which is expected to be on or about November 5, 2010.

"**Expiry Time**" means 5:00 p.m. (Toronto time) on the Expiry Date.

"**Final Prospectus**" means the final short form prospectus to be filed by Lorus with the Securities Commissions in connection with the offer and sale of the Securities, as amended by any Prospectus Amendment to the Final Prospectus.

"**Governmental Entity**" means any: (i) multinational, federal, provincial, territorial, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the foregoing; or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"**Indemnified Party**" has the meaning set forth in Section 8.3.

"**Indemnifying Party**" has the meaning set forth in Section 8.3.

"**Laws**" means any and all applicable laws including all statutes, codes, ordinances, decrees, rules, regulations, municipal by-laws, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, orders, decisions, rulings or awards, instruments, policies, guidelines, and general principles of common law and equity, binding on or affecting the Person referred to in the context in which the word is used.

"**Market Price**" has the meaning given in National Instrument 45-101 -*Rights Offerings* of the Canadian Securities Administrators.

"**Material Adverse Change**" means any change, development, event or occurrence with respect to the business, condition (financial or otherwise), properties, assets, liabilities (contingent or otherwise), capital, cash flow, operations, or results of operations or prospects of Lorus and its subsidiaries, on a consolidated basis, that is, or would reasonably be expected to be, material and adverse to Lorus and its subsidiaries, on a consolidated basis.

"**Misrepresentation**" means: (a) a "misrepresentation" as defined in Section 1(1) of the Securities Act; or (b) as to any document, any untrue statement of a material fact or omission to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

"**Person**" means an individual, corporation, partnership, limited partnership, limited liability partnership, limited liability company, association, trust, estate, custodian, trustee, executor, administrator, nominee or other entity or organization, including (without limitation) a Governmental Entity or political subdivision or an agency or instrumentality thereof.

"**Preliminary Prospectus**" means the preliminary short form prospectus expected to be filed on the date hereof with the Securities Commissions in each of the provinces and territories of Canada in connection with the Rights Offering, a draft copy of which has been provided to the Standby Purchaser.

"**Prospectus**" means, collectively, the Preliminary Prospectus, the Final Prospectus, and any Prospectus Amendment.

"**Prospectus Amendment**" means any amendment to the Preliminary Prospectus or the Final Prospectus.

"**Qualifying Jurisdictions**" means all of the provinces of Canada.

"**Record Date**" means the record date for the purpose of the Rights Offering that will be established by Lorus in the Final Prospectus, which is expected to be on or about October 7, 2010.

"**Rights**" means the transferable rights to subscribe for Units offered by Lorus pursuant to the Rights Offering pursuant to the Basic Subscription Privilege and the Additional Subscription Privilege at the Subscription Price.

"**Rights Offering**" means the offering by Lorus of Rights to the holders of Shares on the Record Date, to purchase Units at the Subscription Price, as described in the Prospectus and in accordance with Article 2.

"**Securities**" means the Rights and the Units issuable upon exercise of the Rights.

"**Securities Act**" means the *Securities Act* (Ontario), as amended.

"**Securities Commissions**" means, collectively, the securities commissions or similar securities regulatory authorities of the Qualifying Jurisdictions.

"**Securities Laws**" means all applicable securities Laws of each of the Qualifying Jurisdictions and the applicable rules of the TSX.

"**Shares**" means common shares in the capital of Lorus;

"**Standby Commitment**" has the meaning set forth in Section 2.2.

"**Standby Purchaser**" has the meaning given on the cover page of this Agreement.

"**Standby Units**" has the meaning set forth in Section 2.2.

"**Subscription Price**" means the exercise price per Share applicable under the Rights Offering, which price per Share will be determined by Lorus in accordance with Section 2.3.

"**Substituted Purchaser Conditions**" means, in respect of an Affiliate of the Standby Purchaser that the Standby Purchaser proposes to be a Substituted Standby Purchaser (the "**Proposed Person**") as contemplated in Section 2.2, a Person that satisfies the following conditions:

(a) the Proposed Person makes each of the representations and warranties of the Standby Purchaser set forth in Sections 2.7 and 5.1 and, to the extent applicable, in (b)(i) and (ii) below, subject in each case to Section 5.2, *mutatis mutandis*, pursuant to a letter of representations in form satisfactory to Lorus, acting reasonably, executed and delivered by the Proposed Person and the Standby Purchaser to Lorus; and

(b) if the Proposed Person is resident in or otherwise subject to the laws of a jurisdiction other than any of the provinces or territories of Canada,

(i) the purchase of the relevant Standby Units by the Proposed Person would comply with the laws of such jurisdiction;

(ii) Lorus would not, as a result of such purchase, be obliged to register the relevant Standby Units or any other Shares or Warrants or file a prospectus or other disclosure document, or be obliged to make any filings or become subject to any reporting or disclosure obligations that it is not already obligated to make or by virtue of this transaction will be obligated to make, in each case pursuant to the laws of any jurisdiction; and

(iii) the Proposed Person has delivered to Lorus an opinion of counsel qualified in such jurisdiction, satisfactory to Lorus, acting reasonably, to the effect referred to in (b)(i) and (ii).

"**Substituted Standby Purchaser**" means one or more Affiliates of the Standby Purchaser (a) as the Standby Purchaser designates in a notice to Lorus and (b) that satisf(y/ies) the Substituted Purchaser Conditions, in each case not less than two Business Days prior to the Closing Date.

"**TSX**" means the Toronto Stock Exchange.

"**Underlying Shares**" means the Shares issuable upon due exercise of the Warrants.

"**Units**" means the Shares and the Warrants issuable upon exercise of the Rights.

"**Warrants**" means the common share purchase warrants entitling a holder to purchase one Common Share for the Exercise Price for 18 months following the closing of the Rights Offering, provided that if at any time after 6 months following the closing of the Rights Offering the price of Common Shares on the TSX equals or exceeds 175% of the Exercise Price for 5 consecutive trading days, Lorus may, within 5 business days after such fifth consecutive trading day, call the Warrants for cancellation.

1.2 **Headings, etc.** The division of this Agreement into articles, sections, paragraphs and clauses and the provision of headings are for the convenience of reference only and will not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement as a whole and not to any particular article, section, paragraph, clause or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to articles, sections, paragraphs or clauses are to articles, sections, paragraphs or clauses of this Agreement.

1.3 **Plurality and Gender.** Words importing the singular number only will include the plural and *vice versa*, words importing any gender will include all genders and the words importing Persons will include individuals, partnerships, trusts, corporations, governments and governmental authorities.

1.4 **Currency.** Unless otherwise specifically stated, all references to dollars and cents in this Agreement are to the lawful currency of Canada.

1.5 **Governing Law.** This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Each party hereby unconditionally and irrevocably submits to the non-exclusive jurisdiction of the courts of the Province of Ontario in respect of all matters arising out of this Agreement.

1.6 **Severability.** If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability will attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof will continue in full force and effect. The parties hereto agree to negotiate in good faith a substitute provision which will be as close as possible to the intention of any invalid or unenforceable provision as may be valid or enforceable. The invalidity or unenforceability of any provision in any particular jurisdiction will not affect its validity or enforceability in any other jurisdiction where it is valid or enforceable.

1.7 **Statutes.** Any reference to a statute, act or law will include and will be deemed to be a reference to such statute, act or law and to the regulations, instruments and policies made pursuant thereto, with all amendments made thereto and in force from time to time, and to any statute, act or law that may be passed which has the effect of supplementing or superseding such statute, act or law so referred to.

ARTICLE 2
STANDBY COMMITMENT

2.1 **Conduct of Rights Offering.** Subject to and in accordance with the terms hereof, Lorus agrees to offer, in accordance with Securities Laws and pursuant to the Prospectus, the Rights and the Units issuable upon the exercise of the Rights to Persons that are the holders of record of Shares on the Record Date: (i) with an address in the Qualifying Jurisdictions; or (ii) with an address in any other jurisdiction that Lorus has satisfied itself is entitled to receive the Securities under the Rights Offering in accordance with the laws of such jurisdiction and without obliging Lorus to register the Securities or file a prospectus or other disclosure document or to make any other filings or become subject to any reporting or disclosure obligations that Lorus is not already obligated to make.

2.2 **Standby Commitment.**

(a) Subject to and in accordance with the terms hereof, the Standby Purchaser will purchase, or will cause a Substituted Standby Purchaser to purchase, from Lorus, and Lorus hereby agrees to sell to the Standby Purchaser or any Substituted Standby Purchaser, as the case may be, at the Subscription Price and on the Closing Date that number of Units as have an aggregate Subscription Price not to exceed $4 million, less the amounts paid by the Standby Purchaser and any Substituted Standby Purchaser on exercising their respective Basic Subscription Privileges (the "**Standby Units**").

(b) The Standby Purchaser will exercise its Basic Subscription Right in accordance with Section 5.1(f).

(c) The number of Units to be purchased by the Standby Purchaser or the Substituted Standby Purchaser (the**"Available Shares"**) pursuant to this Section 2.2 will be calculated as:

(i) the number of Units authorized to be issued on the Record Date pursuant to the exercise of the Rights; minus

(ii) the number of Units subscribed for and taken up under the Rights Offering by holders of Rights (including, for greater certainty and without limitation, pursuant to the Additional Subscription Privilege and any Units subscribed for and taken up under the Rights Offering by the Standby Purchaser and any Substituted Standby Purchaser);

provided that the gross proceeds from the Rights Offering will not exceed approximately $5.6 million and provided further that the aggregate Subscription Price to be paid by the Standby Purchaser and any Substituted Standby Purchaser will not exceed $4 million including all amounts paid by the Standby Purchaser and any Substituted Standby Purchaser on exercising their respective Basic Subscription Privileges.

(d) The commitments by and agreements of, the Standby Purchaser referred to in this Section 2.2 are referred to as the "**Standby Commitment**".

2.3 **Price Determination.** The Subscription Price will be equal to a 10% discount to the Market Price calculated as at the date of the Final Prospectus.

2.4 **No Fractional Shares.** No fractional Shares or Warrants will be issued upon exercise of Rights. Where the exercise of Rights would appear to entitle the Standby Purchaser or the Substituted Standby Purchaser, as applicable, to fractional Shares or Warrants, such entitlement will be reduced to the next lowest whole number of Shares or Warrants, without payment for any Right that therefore cannot be exercised for a Share or Warrants.

2.5 **Payment for Standby Units.** Subject to and in accordance with the terms hereof, on the Closing Date, the Standby Purchaser will, subject to Section 2.9 hereof, pay or will cause its Substituted Standby Purchaser to pay, as the case may be, in immediately available funds by wire transfer to an account designated by Lorus, or by certified cheque payable to Lorus, the aggregate Subscription Price that is payable for the Standby Units to be purchased by it hereunder and Lorus will issue the Standby Units to the Standby Purchaser or Substituted Standby Purchaser, as the case may be.

2.6 **Restrictions on Sale Outside the Qualifying Jurisdictions.** Except as contemplated by this Agreement, the Standby Purchaser agrees, and agrees to cause its Substituted Standby Purchaser if any, not to sell or distribute, directly or indirectly, its Standby Units in such a manner as to: (i) require registration by Lorus of the Standby Units or the filing by Lorus of a prospectus or any similar document in any jurisdiction other than the Qualifying Jurisdictions; or (ii) result in Lorus becoming subject to reporting or disclosure obligations to which it is not subject as at the date of this Agreement, or by virtue of this transaction will be obligated to make, under the laws of any jurisdiction outside the provinces of Canada, in each case that is material to Lorus, and to sell the Standby Units in accordance with all applicable Securities Laws.

2.7 **Representations and Warranties of the Standby Purchaser as to Investment Intent.** The Standby Purchaser represents and warrants to and with Lorus, on its own behalf and also in respect of and on behalf of its Substituted Standby Purchaser, that it and each of its Substituted Standby Purchasers, as applicable, is acquiring the Standby Units as principal and for investment and not with a view to, and has not offered or sold any Standby Units in connection with, the sale or distribution thereof.

2.8 **No Fee to Standby Purchaser**. The Standby Purchaser will not be entitled to receive any fee from Lorus in connection with the Standby Commitment.

2.9 **Rights of Set-Off.** In satisfaction of all or any portion of the Subscription Price payable by the Standby Purchaser and any Substituted Standby Purchaser for the Standby Units, the Standby Purchaser shall have the right to set-off amounts owed by Lorus to the Standby Purchaser on the Closing Date.

ARTICLE 3

COVENANTS OF LORUS

3.1 Subject to and in accordance with the terms hereof, Lorus undertakes and agrees with and in favour of the Standby Purchaser that:

(a) **Preliminary Prospectus.** It will prepare and, on or about the date hereof, it will file with the Securities Commissions, the Preliminary Prospectus (in the English and French languages, as appropriate), relating to the proposed distribution of the Securities.

(b) **Final Prospectus and Qualification.** Lorus will file with the Securities Commissions, the Final Prospectus (in the English and French languages, as appropriate) relating to the proposed distribution of the Securities, and take all other steps and proceedings that may be necessary in order to qualify the distribution of the Securities in each of the Qualifying Jurisdictions in which the Final Prospectus has been filed.

(c) **Supplementary Material.** If required by Securities Laws, it will prepare any amendments to the Prospectus or any documentation supplemental thereto or any amending or supplemental documentation or any similar document required to be filed by it under the Securities Laws. It will also promptly, and in any event within any applicable time limitation, comply with all applicable filing and other requirements under the Securities Laws as a result of any Material Adverse Change.

(d) **Consents and Approvals.** It will use its commercially reasonable efforts to obtain all necessary consents, approvals or exemptions for the creation, offering and issuance of the Securities in all Qualifying Jurisdictions as contemplated herein and in the Prospectus and the entering into and performance by it of this Agreement (including, for greater certainty and without limitation, the issuance of the Rights and the Shares issuable upon the exercise of such Rights, including the Standby Units).

(e) **Cease Trade Order or Other Investigation.** From the date hereof through the earlier of: (i) the Closing Date; and (ii) the termination of this Agreement, it will immediately notify the Standby Purchaser in writing of any written demand, request or inquiry (formal or informal) by any Securities Commission, the TSX or other Governmental Entity that concerns any matter relating to the affairs of Lorus that may affect the Rights Offering, the transactions contemplated herein, or any other matter contemplated by this Agreement, or that relates to the issuance, or threatened issuance, by any such authority of any cease trading or similar order or ruling relating to any securities of Lorus. Any notice delivered to the Standby Purchaser as aforesaid will contain reasonable details of the demand, request, inquiry, order or ruling in question.

(f) **TSX Listing.** It will take all action as may be required and appropriate so that the Rights, and the Shares issuable upon exercise of the Rights and the Underlying Shares issuable upon exercise of the Warrants, on or before the Closing Date have been conditionally approved for listing on the TSX, subject to receipt of customary final documentation.

(g) **Securities Laws.** It will take all action as may be necessary and appropriate so that the Rights Offering and the transactions contemplated in this Agreement will be effected in accordance with Securities Laws. It will consult with the Standby Purchaser and its advisors upon their reasonable request regarding the manner in which the Rights Offering and the other transactions contemplated herein will comply with applicable Securities Laws, and it will provide to the Standby Purchaser and its advisors copies of any documents that are to be submitted by it to any Securities Commission or other regulatory authority for such purpose prior to being so submitted and it will give the Standby Purchaser and its advisors an opportunity to comment on same.

(h) **Obtaining of Report.** It will cause Computershare Investor Services Inc. to deliver to the Standby Purchaser, as soon as is practicable following the Expiry Time, details concerning the total number of Units duly subscribed and paid for by holders of Rights under the Rights Offering, including (without limitation) those Units subscribed and paid for pursuant to the Additional Subscription Privilege.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF LORUS

4.1 Lorus represents and warrants to the Standby Purchaser that:

(a) Lorus and each of its subsidiaries has been duly organized and is validly existing and has all requisite power to conduct its business as currently conducted and is duly qualified to transact business and is in good standing in each jurisdiction in which the material conduct of its business or its ownership or leasing of material property requires such qualification.

(b) The authorized capital of Lorus consists of an unlimited number of Shares, of which there were, as of the Business Day immediately prior to the date hereof, 9,933,683 Shares issued and outstanding. Except as described in this subsection (b) and other than the Standby Purchaser and its designates as contemplated by this Agreement, no Person has any agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option for the purchase from Lorus, of any Shares or other securities of Lorus other than stock options granted pursuant to Lorus' stock option plan and any warrants issued by Lorus prior to the date of this Agreement.

(c) When issued and delivered to the respective purchaser and paid for by the respective purchaser in accordance with the terms and conditions of the Rights Offering and/or the terms and conditions of this Agreement, the Securities will be validly issued, fully paid and non-assessable and will be free and clear of all liens, pledges, claims, encumbrances, security interests and other restrictions, except for any restrictions on resale or transfer imposed by applicable Securities Laws. The issuance of the Securities will not be subject to any pre-emptive or similar rights (it being acknowledged by the Standby Purchaser that the number of Standby Units that it may be entitled to receive pursuant to this Agreement will depend on the number of Units issued to those Persons who have exercised Rights prior to the Expiry Time).

(d) Lorus will reserve and set aside sufficient Shares and Underlying Shares in its treasury to issue the Standby Units and upon issuance thereof and receipt by Lorus of payment therefor, the Shares and the Underlying Shares will, at the time of issuance be duly and validly issued as fully paid and non-assessable.

(e) This Agreement has been duly executed and delivered by Lorus and constitutes a legal, valid and binding obligation of Lorus, enforceable against it in accordance with its terms, subject only to:

(i) any limitation under applicable Laws relating to bankruptcy, insolvency, arrangements or other laws of general application affecting the enforcement of creditors' rights; and

(ii) the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.

(f) No order ceasing or suspending the trading of Lorus' securities has been issued to or is outstanding against Lorus or any of its directors, officers or promoters.

(g) No consent, approval, order or authorization of, or declaration with any Governmental Entity or any third party is required by or with respect to Lorus or any of its Affiliates in connection with the execution and delivery of this Agreement or the consummation of the transactions by Lorus contemplated hereby, other than the consents, approvals, or authorizations that may be required by the Securities Laws of any Qualifying Jurisdictions.

(h) Lorus is not in violation in any material respect of any of the rules and policies of the TSX, including (without limitation) the applicable listing requirements of the TSX, and its Shares are currently listed thereon.

(i) At the time of filing of the Final Prospectus and at the Closing Time on the Closing Date, the Final Prospectus did and will comply with Securities Laws and shall not contain any Misrepresentations, provided that the foregoing will not apply to any information contained in the Final Prospectus relating to the Standby Purchaser that the Standby Purchaser has provided for inclusion in such Final Prospectus.

4.2 **Survival.** All representations and warranties of Lorus contained herein or contained in any document delivered pursuant to this Agreement or in connection with the Rights Offering herein contemplated, will survive the completion of the purchase of Standby Units by the Standby Purchaser and will continue in full force and effect for a period of 18 months notwithstanding any investigation, inquiry or other steps which may be taken by or on behalf of the Standby Purchaser.

ARTICLE 5
REPRESENTATIONS, WARRANTIES AND COVENANTS
OF STANDBY PURCHASER

5.1 Representations. The Standby Purchaser represents and warrants to Lorus that:

(a) the Standby Purchaser is legally competent to execute this Agreement and to take all actions pursuant hereto.

(b) The execution, delivery and performance by the Standby Purchaser of this Agreement:

(i) has been duly authorized by all necessary action on its part;

(ii) does not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of, or conflict with, any of the terms or provisions of any material agreement or instrument to which the Standby Purchaser is a party; and

(iii) will not result in the violation of any applicable Law.

(c) This Agreement has been duly executed and delivered by the Standby Purchaser and constitutes a legal, valid and binding obligation of the Standby Purchaser, enforceable against it in accordance with its terms, subject only to:

(i) any limitation under applicable Laws relating to bankruptcy, insolvency, arrangement or other laws of general application affecting the enforcement of creditors' rights; and

(ii) the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.

(d) No consent, approval, order or authorization of, or declaration with, any Governmental Entity is required by or with respect to the Standby Purchaser in connection with the execution and delivery of this Agreement or the consummation of the transactions by the Standby Purchaser contemplated hereby, other than consents, approvals, or authorizations that may be required by any Securities Commissions.

(e) The Standby Purchaser will provide to Lorus at least three Business Days prior to the filing of the Final Prospectus with the Securities Commissions evidence in the form of a letter addressed to the applicable Securities Commissions or such other documentation as may be reasonably required by them, that the Standby Purchaser has the financial ability to carry out the "standby commitment" (as defined under National Instrument 45-101 - *Rights Offerings* of the Canadian Securities Administrators ("**NI 45-101**")) constituted by this Agreement, as required by Part 6 of NI 45-101.

(f) The Standby Purchaser will exercise its Basic Subscription Privilege in full.

(g) Subject to the provisions of this Agreement, the Standby Purchaser has had access to such information concerning Lorus as the Standby Purchaser has considered necessary to enter into this Agreement and to undertake its obligations hereunder.

(h) The Standby Purchaser has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Shares that the Standby Purchaser is obligated to purchase pursuant to Section 2.2 (subject to the provisions hereof) and is able to bear the economic risks of such investment.

(i) If required under applicable Laws or Securities Laws or under the rules and policies of the TSX, the Standby Purchaser will execute, deliver and file and otherwise assist Lorus in filing such required reports and such other required documents with respect to the issue of the Rights, Units and Standby Units, provided that Lorus acknowledges and agrees that it has not engaged the Standby Purchaser to act as underwriter (as defined under applicable Securities Laws) and the Standby Purchaser will not be required to sign a certificate in the Prospectus in that capacity or any other capacity.

5.2 **Survival.** All representations and warranties of the Standby Purchaser contained herein or contained in any document delivered pursuant to this Agreement or in connection with the Rights Offering herein contemplated, will survive the completion of the purchase of Securities by the Standby Purchaser and will continue in full force and effect for a period of 18 months notwithstanding any investigation, inquiry or other steps which may be taken by or on behalf of Lorus.

ARTICLE 6
CLOSING AND CONDITIONS

6.1 The closing of the purchase by the Standby Purchaser and sale by Lorus of the Standby Units to be purchased by the Standby Purchaser hereunder will be completed at the Toronto offices of McCarthy Tétrault LLP at 8:00 a.m. (Toronto time) (the "**Closing Time**") on the Closing Date or at such other time and/or on such other date and/or at such other place as Lorus and the Standby Purchaser may agree upon in writing. On such date, and upon payment being made by the Standby Purchaser in accordance with Section 2.5 and Section 2.9, definitive certificates representing the number of Shares and Warrants that is equal to the number of Standby Units to be purchased by the Standby Purchaser hereunder will be delivered to the Standby Purchaser by Lorus, such certificate to be registered in the name of the Standby Purchaser or one or more designees of the Standby Purchaser, as applicable.

6.2 The obligation of the Standby Purchaser to complete the closing of the transactions set out in this Agreement is subject to the following conditions being satisfied in full:

(a) There will not be any claims, litigation, investigations or proceedings, including (without limitation) appeals and applications for review, in progress, or to the knowledge of Lorus, pending, commenced or threatened, by any Person that have a reasonable likelihood of success in the judgment of the Standby Purchaser or by any Governmental Entity, in respect of the Rights Offering that are material to Lorus on a consolidated basis;

(b) Lorus will have made and/or obtained all necessary filings, approvals, orders, rulings and consents of all relevant securities regulatory authorities and other Governmental Entities required in connection with the Rights Offering and the purchase of Standby Units by the Standby Purchaser as contemplated by this Agreement;

(c) The TSX shall have approved the listing of the Rights and the Shares issuable upon exercise of the Rights and Underlying Shares issuable upon exercise of the Warrants, subject to the filing of customary documents with the TSX;

(d) The Rights Offering will have been conducted in accordance with applicable Laws, including Securities Laws; and

(e) The Standby Purchaser and any Substituted Standby Purchaser will have received at the Closing Time a certificate dated the Closing Date, addressed to the Standby Purchaser and any Substituted Purchaser and signed by the Chief Executive Officer and the Acting Chief Financial Officer of Lorus, certifying for and on behalf of Lorus that:

(i) Lorus has complied with all covenants and satisfied all terms and conditions of this Agreement on its part to be complied with and satisfied at or prior to the Closing Time;

(ii) the representations and warranties of Lorus contained herein are true and correct as of the Closing Time;

(iii) except as may have been disclosed in the Final Prospectus or a Prospectus Amendment filed with the relevant Securities Commissions, there has been no Material Adverse Change (actual, anticipated, proposed or prospective) in the business, affairs, operations, assets, financial condition, liabilities (contingent or otherwise) or capital of Lorus and its subsidiaries taken as a whole from the date hereof to and including the Closing Date; and

(iv) no order, ruling or determination having the effect of ceasing or suspending trading in any securities of Lorus has been issued and no proceedings for such purpose are pending or, to the knowledge of such officers, contemplated or threatened.

6.3 Lorus agrees that the conditions contained in Section 6.2 will be complied with so far as the same relate to acts to be performed or to be caused to be performed by Lorus and that it will use its commercially reasonable efforts to cause such conditions to be complied with.

6.4 The obligation of Lorus to complete the closing of the transactions set out in this Agreement is subject to the following conditions being satisfied in full:

(a) The Standby Purchaser will have made and/or obtained all necessary filings, approvals, orders, rulings and consents of all relevant securities regulatory authorities and other Governmental Entities required in connection with the purchase of the Standby Units as contemplated by this Agreement;

(b) There will be no inquiry, investigation (whether formal or informal) or other proceeding commenced by a Governmental Entity pursuant to applicable Laws in relation to Lorus or any of its subsidiaries or in relation to any of the directors and officers of Lorus, any of which suspends or ceases trading (which suspension or cessation of trading is continuing) in the Rights or Shares or operates to prevent or restrict the lawful distribution of the Securities (which prevention or restriction is continuing); and

(c) There will be no order issued by a Governmental Entity pursuant to applicable Laws and no change of Law, either of which suspends or ceases trading in the Rights or Shares (which suspension or cessation of trading is continuing) or operates to prevent or restrict the lawful distribution of the Rights or Shares issuable upon the exercise of the Rights or Shares issuable upon exercise of the Rights (which prevention or restriction is continuing).

6.5 The Standby Purchaser agrees that the conditions contained in Section 6.4 will be complied with so far as the same relate to acts to be performed or to be caused to be performed by the Standby Purchaser and that it will use its commercially reasonable efforts to cause such conditions to be complied with.

ARTICLE 7
TERMINATION

7.1 **Termination by Lorus.** Lorus will be entitled, at any time and in its sole discretion, to elect to terminate this Agreement by giving written notice of such election to the Standby Purchaser, if:

(a) the conditions to closing in favour of Lorus referred to in Section 6.4 above have not been satisfied on or before November 15, 2010;

(b) the Final Prospectus has not been filed in each of the Qualifying Jurisdictions on or before September27, 2010; or

(c) the Rights Offering is otherwise terminated or cancelled or the closing (as contemplated in Article 6) has not occurred on or before November 15, 2010,

provided however that Lorus will be entitled to make such election to terminate only if Lorus has used reasonable commercial efforts to comply with its obligations under this Agreement which directly or indirectly relate to the relevant termination right which are required to have been performed prior to the time of giving such notice to the Standby Purchaser.

7.2 **Termination by the Standby Purchaser.** The Standby Purchaser will be entitled by giving written notice to Lorus at any time prior to the Expiry Time, to terminate and cancel, without any liability on its part, its obligations under this Agreement, if,

(a) any inquiry, investigation (whether formal or informal) or other proceeding is commenced by a Governmental Entity pursuant to applicable Laws in relation to Lorus or any of its subsidiaries, any of which suspends or ceases trading in the Rights or other Securities or operates to prevent or restrict the lawful distribution of the Securities;

(b) if any order is issued by a Governmental Entity pursuant to applicable Laws, or if there is any change of Law, either of which suspends or ceases trading in any of the Rights or other Securities or operates to prevent or restrict the lawful distribution of any of the Rights or other Securities issuable upon exercise of the Rights;

(c) the Shares or the Rights are de-listed or suspended or halted for trading for a period greater than one Business Day for any reason by the TSX at any time prior to the closing of the Rights Offering;

(d) the conditions to closing in favour of the Standby Purchaser referred to in Section 6.2 above have not been satisfied on or before November 15, 2010;

(e) the Final Prospectus has not been filed in each of the Qualifying Jurisdictions on or before September 27, 2010; or

(f) the Rights Offering is otherwise terminated or cancelled or the closing (as contemplated in Article 6) has not occurred on or before November 15, 2010.

Notwithstanding any other provision hereof, should Lorus or the Standby Purchaser validly terminate this Agreement pursuant to, and in accordance with, this Article 7, the obligations of both Lorus and the Standby Purchaser under this Agreement will terminate and there will be no further liability on the part of the Standby Purchaser to Lorus or on the part of Lorus to the Standby Purchaser hereunder (except for any liability of any party that exists at such time or that may arise thereafter pursuant to Article 8 or Section 10.1, which shall survive any such termination).

ARTICLE 8
INDEMNIFICATION

8.1 Lorus covenants and agrees to protect, indemnify and hold harmless each of the Standby Purchaser and any Substituted Standby Purchaser for and on behalf of itself and for and on behalf of and in trust for each of its directors, officers, employees, agents and shareholders from and against any and all losses, claims, damages, liabilities, costs or expenses caused or incurred:

(a) by reason of or in any way arising, directly or indirectly, out of any Misrepresentation or alleged Misrepresentation in the Prospectus; and

(b) by reason of, or in any way arising, directly or indirectly, out of any breach or default of or under any representation, warranty, covenant or agreement of Lorus contained herein.

8.2 The Standby Purchaser covenants and agrees to protect, indemnify and hold harmless Lorus for and on behalf of itself and for and on behalf of and in trust for each of Lorus' directors, officers, employees and agents from and against any and all losses, claims, damages, liabilities, costs or expenses caused or incurred by reason of, or in any way arising, directly or indirectly, out of any breach or default of or under any representation, warranty, covenant or agreement of the Standby Purchaser contained herein or any misrepresentation in the information in the Prospectus provided by the Standby Purchaser.

8.3 In the event that any claim, action, suit or proceeding, including, without limitation, any inquiry or investigation (whether formal or informal), is brought or instituted against any of the Persons in respect of which indemnification is or might reasonably be considered to be provided for herein, such Person (an "**Indemnified Party**") will promptly notify the Person from whom indemnification is being sought (being either Lorus under Section 8.1 or the applicable Standby Purchaser under Section 8.2, as the case may be (the "**Indemnifying Party**")) and the Indemnifying Party will promptly retain counsel who will be reasonably satisfactory to the Indemnified Party to represent the Indemnified Party in such claim, action, suit or proceeding, and the Indemnifying Party will pay all of the reasonable fees and disbursements of such counsel relating to such claim, action, suit or proceeding.

8.4 In any such claim, action, suit or proceeding, the Indemnified Party will have the right to retain other counsel to act on his or its behalf, provided that the fees and disbursements of such other counsel will be paid by the Indemnified Party unless:

(a) the Indemnifying Party and the Indemnified Party will have mutually agreed to the retention of such other counsel; or

(b) the named parties to any such claim, action, suit or proceeding (including, without limitation, any added, third or impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them (such as the availability of different defenses).

8.5 Subject to Section 8.4, it is understood and agreed that the Indemnifying Party will not, in connection with any claim, action, suit or proceeding referred to in Section 8.4 commenced in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate legal firm for all Persons in respect of which indemnification is or might reasonably be considered to be provided for herein and such firm will be designated in writing by the Indemnified Party (on behalf of itself and its directors, trustees, officers, employees and agents).

8.6 Notwithstanding anything herein contained, no Indemnified Party will agree to any settlement of any claim, action, suit, proceeding, inquiry or investigation in respect of which indemnification is or might reasonably be considered to be provided for herein, unless the Indemnifying Party has consented in writing thereto, and the Indemnifying Party will not be liable for any settlement of any such claim, action, suit, proceeding, inquiry or investigation unless it has consented in writing thereto.

ARTICLE 9
NOTICE

9.1 **Notice.** Any notice or other communication required or permitted to be given hereunder will be in writing and will be personally delivered or sent by electronic or facsimile transmission as set forth below, or to such other address, facsimile number or Person as may be designated by notice.

(a) In the case of Lorus:

Lorus Therapeutics Inc.
2 Meridian Road
Toronto, ON M9W 4Z7

Attention: Chief Executive Officer
Fax.: (416) 798-2200

With a copy to:

McCarthy Tétrault LLP
Suite 5300
Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, ON M5K 1E6

Attention: Vanessa Grant
Fax: (416) 868-0673

(b) In the case of the Standby Purchaser:

Herbert Abramson
22 St. Clair Avenue East, 18th Floor
Toronto, ON M4T 2S3
Fax : (416) 867-9771

With a copy to:

Lang Michener LLP
Suite 2500, Brookfield Place
181 Bay Street
Toronto, ON M5J 2T7

Attention: Paul Collins
Fax: (416) 365-1719

9.2 **Receipt of Notice.** Notice will be deemed to be given on the day of actual delivery or the day of electronic or facsimile transmission, as the case may be, or if not a Business Day, on the next Business Day.

ARTICLE 10
GENERAL

10.1 **Expenses.** Lorus will be responsible for all expenses related to the Rights Offering, whether or not it is completed, including, without limitation, all fees and disbursements of its legal counsel, fees and disbursements of its accountants and auditors, printing costs, translation fees, filing fees and all reasonable fees and disbursements of legal counsel to the Standby Purchaser and reasonable out-of-pocket expenses incurred by the Standby Purchaser.

10.2 **Further Assurances.** The parties hereto agree to do all such things and take all such actions as may be necessary or desirable to give full force and effect to the matters contemplated by this Agreement.

10.3 **Assignment.** This Agreement may not be assigned by any party hereto, by operation of law or otherwise, without the prior written consent of the other parties hereto.

10.4 **Enurement.** This Agreement will enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

10.5 **Waiver.** Failure by any party hereto to insist in any one or more instances upon the strict performance of any one of the covenants or rights contained herein will not be construed as a waiver or relinquishment of such covenant or right. No waiver by either party hereto of any such covenant or right will be deemed to have been made unless expressed in writing and signed by the waiving party.

10.6 **Amendments.** No term or provision hereof may be amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of the amendment, discharge or termination is sought.

10.7 **Counterparts and Facsimile.** This Agreement may be executed in several counterparts and by facsimile or other electronic transmission, each of which when so executed will be deemed to be an original and such counterparts and facsimiles or other electronic transmissions together will constitute one and the same instrument and notwithstanding their date of execution they will be deemed to be dated as of the date hereof. This Agreement will be deemed to have been entered into and to have become effective at the location at which the Standby Purchaser will have signed an original, counterpart or facsimile version thereof, without regard to the place at which Lorus will have signed same.

10.8 **Time.** Time will be of the essence of this Agreement.

10.9 **Entire Agreement.** This Agreement and any other agreements and other documents referred to herein and delivered in connection herewith, constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties with respect to the subject matter hereof.

10.10 **Language.** The parties hereby confirm their express wish that this document and all documents and agreements directly or indirectly related thereto be drawn up in English. Les parties reconnaissent qu'à leur demande le présent document ainsi que tous les documents et conventions qui s'y rattachent directement ou indirectement sont rédigés en langue anglaise.

[The rest of this page has been intentionally left blank]

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed and delivered by their authorized officers as of the date first written above.

LORUS THERAPEUTICS INC.

By: *(signed) "Aiping Young"*
Name: Aiping Young
Title: President and Chief Executive Officer

(signed) "Herbert Abramson"
Name: Herbert Abramson

AMENDING AGREEMENT

THIS AMENDING AGREEMENT is made as of September 27, 2010

BETWEEN:

LORUS THERAPEUTICS INC. ("**Lorus**")

- and -

HERBERT ABRAMSON (the "**Standby Purchaser**")

WHEREAS Lorus and the Standby Purchaser (the "**Parties**") have entered into a standby purchase agreement dated September 16, 2010 (the "**Agreement**");

AND WHEREAS the Parties wish to revise certain terms of the Agreement as set out herein;

NOW THEREFORE in consideration of the premises hereto and the covenants and agreements hereinafter set forth and contained, the Parties hereto covenant and agree as follows:

1. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Agreement.

2. The definition of "Market Price" in Section 1.1 of the Agreement is deleted and replaced with the following:

   "Market Price" means the volume weighted average trading price of the Shares on the TSX for the five trading days immediately preceding the date of the Final Prospectus.

3. The definition of "Record Date" in Section 1.1 of the Agreement is deleted and replaced with the following:

   "Record Date" means the record for the purpose of the Rights Offering that will be established by Lorus in the Final Prospectus, which is expected to be on or about October 12, 2010.

4. Section 7.1(b) of the Agreement is deleted and replaced with the following:

   (b) the Final Prospectus has not been filed in each of the Qualifying Jurisdictions on or before September 29, 2010; or

5. Section 7.2(e) of the Agreement is deleted and replaced with the following:

   (e) the Final Prospectus has not been filed in each of the Qualifying Jurisdictions on or before September 29, 2010; or

6. The Agreement and this Amending Agreement shall hereafter be read together and construed as one document.

7. Except and only subject to the amendment herein contained, the Agreement remains in all respects the same, continues in full force and effect, and is hereby ratified and confirmed.

8. This Amending Agreement may be executed in separate counterparts, and the executed counterparts shall together constitute one instrument and have the same force and effect as if both of the parties had executed the same instrument.

IN WITNESS WHEREOF the parties have executed and delivered this Amending Agreement effective as of the date first written above.

LORUS THERAPEUTICS INC.

Per:	*(signed) "Aiping Young"*	*(signed) "Herbert Abramson"*
Name:	Aiping Young	Herbert Abramson
Title:	Chief Executive Officer	

Exhibit 12.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Aiping H. Young, certify that:

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

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

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

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting 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 generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 29, 2010

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

Exhibit 12.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Elizabeth Williams, certify that:

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

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

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

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting 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 generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 29, 2010

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

Exhibit 13.1

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

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aiping H. Young, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 29, 2010

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

Exhibit 13.2

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

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elizabeth Williams, Director of Finance and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 29, 2010

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