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

Report of Foreign Issuer

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

For the Month of August, 2012

Commission File Number 1-32001

Lorus Therapeutics Inc.

(Translation of registrant's name into English)

2 Meridian Road, Toronto, Ontario M9W 4Z7

(Address of principal executive offices)

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

Form 20-F ☒ Form 40-F ☐

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

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

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

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

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

Yes ☐ No ☒

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

SIGNATURE

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

Lorus Therapeutics Inc.

Date: August 10, 2012

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

EXHIBIT INDEX

99.1	Audited Consolidated Financial Statements for the year ended May 31, 2012
99.2	Management's Discussion and Analysis for the year ended May 31, 2012
99.3	Annual Information Form
99.4	CEO and CFO Certifications

Consolidated Financial Statements of

LORUS THERAPEUTICS INC.

Years ended May 31, 2012 and 2011

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Lorus Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Lorus Therapeutics Inc., which comprise the consolidated statements of financial position as at May 31, 2012, May 31, 2011 and June 1, 2010, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended May 31, 2012 and May 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lorus Therapeutics Inc. as at May 31, 2012, May 31, 2011 and June 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended May 31, 2012 and May 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(b) in the consolidated financial statements, which indicates that Lorus Therapeutics Inc. is in the development stage, no substantial revenue has been generated from its operating activities and, consequently, it is incurring losses and negative cash flows from its activities and has a deficit of $194,394,000. Accordingly, Lorus Therapeutics Inc. depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in note 2(b), indicate the existence of a material uncertainty that casts substantial doubt about Lorus Therapeutics Inc.'s ability to continue as a going concern.

Chartered Accountants, Licensed Public Accountants

August 3, 2012
Toronto, Canada

LORUS THERAPEUTICS INC.

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	May 31, 2012	May 31, 2011 (note 16)	June 1, 2010 (note 16)
Assets			
Current assets:			
Cash and cash equivalents (note 4)	$ 320	$ 911	$ 667
Short-term investments (note 4)	–	–	247
Prepaid expenses and other assets	293	388	636
Total current assets	613	1,299	1,550
Non-current assets:			
Equipment (note 5)	55	99	147
Total non-current assets	55	99	147
Total assets	$ 668	$ 1,398	$ 1,697
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities:			
Accounts payable	$ 322	$ 215	$ 387
Accrued liabilities (notes 9(g) and 14)	1,474	944	1,458
Promissory notes payable (note 7)	900	–	1,000
Total current liabilities	2,696	1,159	2,845
Shareholders' equity (deficiency):			
Share capital (note 9):			
Common shares	170,036	168,787	163,920
Stock options (note 10)	535	1,212	3,803
Contributed surplus	21,186	18,988	14,875
Warrants	609	1,032	1,039
Deficit	(194,394)	(189,780)	(184,785)
Total shareholders' equity (deficiency)	(2,028)	239	(1,148)
Going concern (note 2(b))			
Total liabilities and shareholders' equity (deficiency)	$ 668	$ 1,398	$ 1,697

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

LORUS THERAPEUTICS INC.

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

Years ended May 31, 2012 and 2011

	2012	2011 (note 16)
Revenue	$ –	$ –
Expenses:		
Research and development (notes 6 and 12)	2,170	2,518
General and administrative (note 12)	2,430	2,420
Operating expenses	4,600	4,938
Finance expense (note 11)	20	71
Finance income	(6)	(14)
Net finance expense	14	57
Net loss and total comprehensive loss for the year	$ (4,614)	$ (4,995)
Basic and diluted loss per common share	$ (0.23)	$ (0.38)
Weighted average number of common shares outstanding used in the calculation of (in thousands):		
Basic and diluted loss per common share	20,260	13,157

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Years ended May 31, 2012 and 2011

	Common shares	Stock options	Warrants	Contributed surplus	Deficit	Total
Balance, June 1, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ (189,780)	$ 239
Issuance of units (note 9(b))	1,214	–	609	–	–	1,823
Repricing of warrants (note 9(c)(i))	–	–	239	(239)	–	–
Exercise of warrants (note 9(c)(ii)(a))	35	–	(18)	–	–	17
Expiry of warrants (note 9(c)(ii)(a))	–	–	(1,253)	1,253	–	–
Stock-based compensation (note 10)	–	507	–	–	–	507
Cancellation and forfeiture of stock options	–	(1,184)	–	1,184	–	–
Net loss for the year	–	–	–	–	(4,614)	(4,614)
Balance, May 31, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ (194,394)	$ (2,028)
Balance, June 1, 2010	$ 163,920	$ 3,803	$ 1,039	$ 14,875	$ (184,785)	$ (1,148)
Issuance of units (note 9(b)(ii)(iii))	4,867	–	1,032	–	–	5,899
Expiry of warrants (note 9(c)(ii)(b)(c))	–	–	(1,039)	1,039	–	–
Stock-based compensation (note 10)	–	483	–	–	–	483
Forfeiture of stock options	–	(3,074)	–	3,074	–	–
Net loss for the year	–	–	–	–	(4,995)	(4,995)
Balance, May 31, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ (189,780)	$ 239

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, 2012 and 2011

	2012	2011 (note 16)
Cash flows from operating activities:		
Net loss for the year	$ (4,614)	$ (4,995)
Items not involving cash:		
Stock-based compensation	507	483
Depreciation of equipment	44	56
Finance expense	20	71
Other	–	–
Change in non-cash operating working capital (note 11)	1,632	(1,438)
Cash used in operating activities	(2,411)	(5,823)
Cash flows from financing activities:		
Issuance of common shares and warrants, net of issuance costs (note 9)	1,823	5,899
Exercise of warrants (note 9)	17	–
Interest on promissory notes	(20)	(71)
Cash provided by financing activities	1,820	5,828
Cash flows from investing activities:		
Maturity of marketable securities and other investments	–	247
Additions to equipment	–	(8)
Cash provided by investing activities	–	239
Increase (decrease) in cash and cash equivalents	(591)	244
Cash and cash equivalents, beginning of year	911	667
Cash and cash equivalents, end of year	$ 320	$ 911

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Lorus Therapeutics Inc. ("Lorus" or the "Company") 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 anticancer product pipeline, with products in various stages of development ranging from discovery and pre-clinical to clinical stage development. The Company is a publicly listed company incorporated under the laws of Canada. The Company's shares are listed on the Toronto Stock Exchange. The head office, principal address and records of the Company are located at 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the Company and its subsidiary as at May 31, 2012 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the Company has elected June 1, 2010 as the date of transition to IFRS (the "transition date"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, *First-time Adoption of IFRS* ("IFRS 1").

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. See note 16 for reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, loss and the statements of financial position, loss and comprehensive loss, and cash flows.

The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on August 3, 2012.

2. Basis of presentation (continued):

(b) Going concern:

These consolidated financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis, except for held-for-trading financial assets which are measured at fair value.

Management has forecasted that the Company's current level of cash and cash equivalents, including the proceeds from private placement completed subsequent to year end (note 17(a)), will not be sufficient to execute its current planned expenditures for more than the next 10 to 12 months without further financing being obtained. The Company is currently in discussion with several potential investors and partners 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. 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 substantial 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.

These consolidated financial statements do not reflect the adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and settle its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such amounts could be material.

(c) Functional and presentation currency:

The functional and presentation currency of the Company and its Canadian subsidiary, NuChem Pharmaceuticals Inc. ("NuChem"), is the Canadian dollar.

2. Basis of presentation (continued):

(d) Significant accounting judgments, estimates and assumptions:

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from those estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty as of the date of the statement of financial position that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year include:

(i) Determination of impairment of goodwill and equipment:

Under IAS 36, *Impairment of Assets* ("IAS 36"), the Company is required to make a formal estimate of the recoverable amount and the carrying amount of a cash-generating unit ("CGU") that is subject to impairment testing. The recoverable amount under IAS 36 is the higher of fair value less costs to sell or value in use. The carrying amounts of the Company's non-financial assets including equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In estimating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing carrying values and impairment of non-financial assets, including goodwill and equipment, management makes judgments in determining recoverable amounts. Due to the development stage of the Company there is a significant amount of subjectivity when estimating future cash flows and applying a discount to any cash flow model. Changes in these estimates could have a significant impact on the valuation of these non-financial assets.

2. Basis of presentation (continued):

(ii) Valuation of contingent liabilities:

The Company utilizes considerable judgment in the measurement and recognition of provisions and the Company's exposure to contingent liabilities. Judgment is required to assess and determine the likelihood that any potential or pending litigation or any and all potential claims against the Company may be successful. The Company must estimate if an obligation is probable as well as quantify the possible economic cost of any claim or contingent liability. Such judgments and assumptions are inherently uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of the liability and the associated expense.

(iii) Valuation of tax accounts:

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, the Company is accumulating tax loss carryforward balances creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. To date, the Company has determined that none of its deferred tax assets should be recognized. The Company's deferred tax assets are mainly comprised of its net operating losses from prior years, prior year research and development expenses, and investment tax credits. These tax pools relate to entities that have a history of losses, have varying expiry dates, and may not be used to offset taxable income. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. 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 the Company's results of operations through the recovery of future income taxes.

2. Basis of presentation (continued):

(iv) Valuation of share-based compensation and share purchase warrants:

Management measures the costs for share-based payments and share purchase warrants using market-based option valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of share-based payments and share purchase warrants issued and the associated expense.

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Business combinations:

As part of its transition to IFRS, the Company elected not to restate any business combinations that occurred prior to June 1, 2010.

(ii) Subsidiary:

The consolidated financial statements include the accounts of the Company and its 80% owned subsidiary, NuChem. A subsidiary is an entity over which the Company has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. Accounting policies of the subsidiary are consistent with the Company's accounting policies. All intra-group transactions, balances, revenue and expenses are eliminated on consolidation.

3. Significant accounting policies (continued):

(b) Foreign currency translation:

Foreign currency transactions are translated into Canadian dollars at rates prevailing on the transaction dates. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect at that date. Gains or losses resulting from the translation to Canadian dollars are presented in the statement of loss and comprehensive loss for the year within general and administrative expenses.

(c) Derecognition of financial assets and liabilities:

A financial asset is derecognized when the right to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(d) Financial assets and liabilities:

Financial assets within the scope of IAS 39, *Financial Instruments - Recognition and Measurement* ("IAS 39"), are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. The Company's financial instruments are comprised of the following:

Financial assets	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments (held-for-trading)	Fair value through profit or loss	Fair value

3. Significant accounting policies (continued):

Financial liabilities	Classification	Measurement
Accounts payable, accrued liabilities and promissory notes payable	Other liabilities	Amortized cost

The Company considers unrestricted cash on hand and term deposits and guaranteed investment certificates held by Canadian Schedule A banks with original maturities of three months or less as cash and cash equivalents.

Short-term investments are liquid Canadian government or corporate instruments having original maturity dates greater than three months and less than one year. The short-term investments held by the Company on June 1, 2010 were classified as held-for-trading and measured at fair value with any gain or loss being recognized in the consolidated statements of loss and comprehensive loss. As at May 31, 2012 and 2011, the Company did not hold any short-term investments (held-to-maturity or held-for-trading). At June 1, 2010, the Company held $247 thousand in short-term investments that were classified as held-for-trading and measured at fair value.

Fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
- Level 3 - inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

3. Significant accounting policies (continued):

The Company's financial assets as at May 31, 2012, May 31, 2011 and June 1, 2010, which include cash and cash equivalents and short-term investments, are classified as a Level 1 measurement.

(e) Equipment:

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Company records depreciation 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	3 - 5 years

The assets' residual value, useful life and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

(f) Research and development:

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized would include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditures which do not meet the criteria for capitalization are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

Capitalized development costs are recognized at cost less accumulated amortization and accumulated impairment losses.

The Company has not capitalized any development costs to date.

(g) Investment tax credits:

Research and development investment tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense or cost of the asset acquired when there is reasonable assurance that they will be realized.

The Company's claim for scientific research and experimental development ("SR&ED") deductions and related investment tax credits for income tax purposes are based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). These amounts are subject to review and acceptance by the Canada Revenue Agency or the Ontario Ministry of Finance prior to collection.

(h) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid in short-term cash bonuses if the Company expects to pay these amounts as approved by the Board of Directors as a result of past services provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies (continued):

(ii) 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.

Details regarding the determination of the fair value of equity settled share-based transactions are set out in note 10.

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 using an estimate of the number of options that will eventually vest.

Stock options awarded to non-employees are accounted for at the fair value of the goods received or the services rendered. The fair value is measured at the date the Company obtains the goods or the date the counterparty renders the service. If the fair value of the goods or services cannot be reliably valued, the fair value of the options granted will be used.

3. Significant accounting policies (continued):

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. Officers may also receive compensation under the plan as determined by the Board of Directors. 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. As at May 31, 2012, there were 780,000 units issued under this plan (note 9(g)). The Company cannot issue treasury shares under the deferred share unit plan.

The Company has an alternate compensation plan that provides directors and senior management 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.

(i) Loss per share:

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the year. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and, therefore, they have been excluded from the calculation of diluted loss per share.

3. Significant accounting policies (continued):

(j) Income taxes:

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(k) Impairment:

Non-financial assets:

The carrying amounts of the Company's non-financial assets including equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In estimating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of the CGU.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

3. Significant accounting policies (continued):

Impairment losses recognized in respect of a CGU are allocated to reduce the carrying amount to the extent the carrying amount of the asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a CGU are allocated to reduce the carrying amount of the assets in a unit on a pro-rated basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

(l) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a financial cost.

Employee entitlements to annual leave are recognized as the employee earns them. A provision, stated at current cost, is made for the estimated liability at the end of each reporting period.

The Company has recorded a provision as related to an indemnification as described in note 14.

3. Significant accounting policies (continued):

(m) Finance income and finance costs:

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss using the effective interest method.

Finance costs comprise interest expense on borrowings and are recognized in profit or loss using the effective interest method.

(n) Recent accounting pronouncements:

(i) IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"):

In October 2010, the IASB issued IFRS 7. This amendment enhances the disclosure requirement for transfers of financial assets that result in derecognition. This amendment is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2012. The Company is assessing the impact of this new standard on its consolidated financial statements.

(ii) IAS 1, *Presentation of Financial Statements* ("IAS 1"):

In June 2011, the IASB issued IAS 1. This amendment retains the "one or two statement" approach to presenting the statements of income and comprehensive income at the option of the entity and only revises the way other comprehensive income is presented. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

(iii) IFRS 9, *Financial Instruments* ("IFRS 9"):

In October 2010, the IASB issued IFRS 9, which replaces IAS 39, *Financial Instruments - Recognition and Measurement* and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

3. Significant accounting policies (continued):

(iv) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"):

This amendment establishes a single control that applies to all entities. These changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate any impact on its consolidated financial statements related to the adoption of this new standard.

(v) IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"):

In May 2011, the IASB issued IFRS 12. IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interest in other entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

(vi) IFRS 13, *Fair Value Measurement* ("IFRS 13"):

In May 2011, the IASB issued IFRS 13. IFRS 13, replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. This standard establishes a framework for measuring fair value and requires the fair value hierarchy, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured or based on fair value in the statement of financial position as well as non-recurring fair value measurements such as assets held-for-sale. Furthermore, IFRS 13 expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

4. Capital disclosures:

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; and
- Ensure sufficient cash resources to fund its research and development activity, to pursue partnership and collaboration opportunities and to maintain ongoing operations.

The capital structure of the Company consists of cash and cash equivalents and equity comprised of share capital, share purchase 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 balances or by undertaking other activities as deemed appropriate under the specific circumstances.

Pursuant to the commitment letter (described in note 7) provided by Mr. Herbert Abramson ("Mr. Abramson"), a director of the Company and majority shareholder, the Company has issued a grid promissory note to Mr. Abramson that allows Lorus to borrow funds of up to $1.8 million. The funds may be borrowed at a rate of up to $300,000 per month, incur interest at a rate of 10% per year and are due and payable on November 28, 2012. As at May 31, 2012, the Company had borrowed $900 thousand under this promissory note.

This loan and all accrued interest was repaid by the Company subsequent to the year end in June 2012 (note 17).

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, 2011.

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

4. Capital disclosures (continued):

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash of $76 thousand (May 31, 2011 - $153 thousand; June 1, 2010 - $667 thousand) and funds deposited into high interest savings accounts totalling nil (May 31, 2011 - $758 thousand; June 1, 2010 - nil). The current interest rate earned on these deposits is nil (May 31, 2011 - 1.5%; June 1, 2010 - nil).

At May 31, 2012, the Company had received $244 thousand in deposits related to subscription agreements for the Private Placement (note 17(a)) completed subsequent to year end. The Company recorded a liability related to these funds at May 31, 2012 and on June 8, 2012, the Company reversed the liability with the credit to share capital.

(b) Short-term investments:

An investment consisting of a principal protected deposit note totalling $247 thousand at June 1, 2010, was designated as held-for-trading and classified as short-term investments on the consolidated balance sheets. This investment was carried at fair value. There were no short-term investments held by the Company at May 31, 2012 or 2011.

5. Equipment:

May 31, 2012	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,914	$ 2,859	$ 55

May 31, 2011	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,914	$ 2,815	$ 99

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

5. Equipment (continued):

June 1, 2010	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,907	$ 2,760	$ 147

6. Research and development programs:

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

- small molecule therapies based on anti-proliferative and anti-metastatic properties that act at novel cancer specific targets;
- immunotherapy, based on stimulating anticancer properties of the immune system and by direct tumour cell killing; and
- RNA-targeted (antisense) therapies, based on synthetic segments of oligonucleotides designed to bind to the messenger RNA that is responsible for the production of proteins over-expressed in cancer cells.

(a) Small molecule program:

The Company is developing small molecule cancer therapies that target solid tumours with indications addressing large cancer markets. The Company's proprietary group of small molecule compounds includes lead drug LOR-253 which entered into a Phase I clinical trial in January 2011 and LOR-500 program, which is in the pre-clinical stage of development.

(b) Immunotherapy:

The Company's immunotherapy product candidate is Interleukin-17E ("IL-17E"). IL-17E is a protein-based therapeutic in the pre-clinical stage of development and the Company is seeking a partnership or collaboration for future development.

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

6. Research and development programs (continued):

(c) RNA-targeted therapies:

The Company's lead RNA-targeted drug candidate is LOR-2040. 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 patient population. Based on these data, the Company is seeking a partnership or collaboration for future development.

Product costs by product class are as follows:

	2012	2011
Small molecule program	$ 1,900	$ 1,672
Immunotherapy	–	–
RNA-targeted therapies	–	626
	$ 1,900	$ 2,298

See note 12 for all components of research and development expenditures.

7. Promissory notes payable:

Pursuant to the commitment letter (described in note 9(b)) provided by Mr. Abramson, the Company issued a grid promissory note to Mr. Abramson that allows Lorus to borrow funds up to $1.8 million. The funds may be borrowed at a rate of up to $300 thousand per month, incur interest at a rate of 10% per year and are due and payable in full on November 28, 2012. The promissory note is subject to certain covenants which, if breached, could result in the promissory note becoming payable on demand.

Lorus has not breached these covenants as of May 31, 2012 and has not received notice of any breach of these covenants by Mr. Abramson.

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

7. Promissory notes payable (continued):

As at May 31, 2012, the Company has drawn $900 thousand on this promissory note and subsequent to year end in June 2012, the note and all accrued interest was repaid.

In April 2010, the Company entered into a loan agreement with a company related to Mr. Abramson to borrow $1 million. The loan amount, which was received on April 14, 2010, was unsecured, evidenced by a promissory note and bore interest at the annual rate of 10%. The principal and interest amount were due in six months and later extended a further three months. The principal amount was repaid in November 2010.

8. Financial instruments:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	May 31, 2012	May 31, 2011	June 1, 2010
Financial assets:			
Cash and cash equivalents, consisting of guaranteed investment certificates, held-for-trading, measured at fair value through loss or profit	$ 320	$ 911	$ 667
Short-term investments, held-for-trading, recorded at fair value through profit or loss	–	–	247
Financial liabilities:			
Accounts payable, measured at amortized cost	322	215	387
Accrued liabilities, measured at amortized cost	1,474	944	1,458
Promissory notes payable, measured at amortized cost	900	–	1,000

8. Financial instruments (continued):

At May 31, 2012, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature.

Assets measured at fair value include cash and cash equivalents and short-term investments, which have been classified as Level 1 as at May 31, 2012, May 31, 2011 and June 1, 2010.

(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. The carrying amount of the financial assets represents the maximum credit exposure.

The Company manages credit risk for its cash and cash equivalents 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 management and the Board consider securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. All of the Company's financial liabilities are due within the current operating period. The outstanding promissory note was repaid subsequent to year end (note 17).

8. Financial instruments (continued):

(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.

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, 2012, U.S. dollar denominated accounts payable and accrued liabilities amounted to $148 thousand (May 31, 2011 - $254 thousand; June 1, 2010 - $270 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 $15 thousand (May 31, 2011 - $25 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.

(c) Capital management:

The Company's primary objective when managing capital is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

8. Financial instruments (continued):

The Company includes cash and cash equivalents and short-term deposits in the definition of capital.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the year ended May 31, 2012.

9. Share capital:

(a) Continuity of common shares and warrants:

	Common shares		Warrants	
	Number	Amount	Number	Amount
	(In thousands)		(In thousands)	
Balance, June 1, 2010	9,933	$ 163,920	1,326	$ 1,039
Expiry of warrants (c)(ii)(b)(c)	–	–	(1,326)	(1,039)
Issuance of units (b)(iii)	4,170	3,226	4,170	1,032
Issuance of shares (b)(ii)	1,582	1,641	–	–
Balance, May 31, 2011	15,685	168,787	4,170	1,032
Issuance of units (b)(i)	5,484	1,214	5,678	609
Warrant repricing (c)(i)	–	–	–	239
Exercise of warrants (c)(ii)(a)	59	35	(59)	(18)
Expiry of warrants (c)(ii)(a)	–	–	(4,111)	(1,253)
Balance, May 31, 2012	21,228	$ 170,036	5,678	$ 609

9. Share capital (continued):

(b) Equity issuances:

(i) August 2011 Unit Offering:

On July 22, 2011, the Company filed a final short-form prospectus in connection with a best efforts offering (the "Offering") of a minimum of 5,000,000 units of the Company at a price of $0.40 per unit for gross proceeds of $2,000,000 and a maximum of 10,000,000 units for gross proceeds of $4,000,000. Each unit consisted of one common share of Lorus and one common share purchase warrant of Lorus. Each warrant entitles the holder to purchase one common share for five years after the closing of the Offering at an exercise price of $0.45 per common share (the "Exercise Price"). If on any date (the "Accelerated Exercise Date") the 10-day VWAP of the common shares on the Toronto Stock Exchange equals or exceeds 200% of the Exercise Price, then upon the Company sending the holders of warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of warrants.

In connection with the Offering, Mr. Abramson, a director of the Company, entered into an irrevocable commitment letter on June 20, 2011, and amended July 11, 2011, to purchase, directly or indirectly, common shares and common share purchase warrants (or as may otherwise be agreed) in the capital of Lorus having an aggregate subscription price equal to the difference (the "Commitment Amount"), if any, between: (a) the sum of: (i) the gross proceeds realized by Lorus in the Offering; and (ii) the gross proceeds received by Lorus in respect of all financings completed by Lorus from the date of the final short-form prospectus to November 30, 2011; and (b) $4 million.

The Offering closed on August 15, 2011 for total gross proceeds of $2.2 million. In connection with the Offering, Lorus has issued 5.484 million common shares and 5.678 million warrants including the broker warrants.

Mr. Abramson purchased 2.4 million units as part of the Offering.

9. Share capital (continued):

The total costs associated with the transaction were approximately $395 thousand, which included the $25 thousand which represented the fair value of the brokers' services provided as part of the Offering. Each such broker warrant is exercisable for one unit at a price of $0.40 per unit for a period of 24 months following the closing of the Offering. The Company has allocated the net proceeds of the Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $1.2 million of the net proceeds were allocated to the common shares and $609 thousand to the common share purchase warrants.

(ii) December 2010 Private Placement:

On December 1, 2010, pursuant to a private placement, the Company issued 1.6 million common shares in exchange for gross cash consideration of $1.66 million. The total costs associated with the transaction were approximately $20 thousand. Mr. Abramson, a director of the Company, subscribed for 1,410,000 common shares, representing approximately 89% of the total number of common shares issued through the private placement. No commission was paid in connection with the private placement.

(iii) November 2010 Rights Offering:

On August 27, 2010 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, had 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.

9. Share capital (continued):

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 for net proceeds of $4.2 million. In connection with the Rights Offering, the Company secured a standby purchase arrangement of $4 million by Mr. Abramson, one of the Company's 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 standby purchase agreement, Mr. Abramson subscribed for 3.6 million of the 4.2 million units of the Rights Offering for $4 million.

The total costs associated with the transaction were approximately $370 thousand. The Company has allocated the net proceeds of the Rights Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $3.2 million of the net proceeds were allocated to the common shares and $1.0 million to the common share purchase warrants.

9. Share capital (continued):

(c) Warrants:

(i) Repricing:

On November 29, 2011, shareholders of the Company (excluding insiders who also held warrants) approved a resolution to amend the exercise price of certain outstanding warrants from $1.33 to the 5-day volume weighted average trading price on the Toronto Stock Exchange five days prior to approval plus a 10% premium. The revised warrant exercise price was $0.28. The Company calculated an increased value attributed to the warrants of $239 thousand related to the amendment. This increase was calculated by taking the Black-Scholes value of the warrants immediately before the amendment and immediately after the amendment. There were 4.2 million warrants which were amended and of those 3.6 million were held by Mr. Abramson, a director of the Company.

(ii) Exercises and expiry:

(a) The warrants issued in November 2010 and for which the price was amended in November 2011 ((i) repricing described above), expired May 8, 2012. A total of 59,384 warrants were exercised for cash proceeds of $17 thousand. The balance of the 4.2 million warrants expired unexercised, resulting in a transfer of the amount attributed to the expired warrants of $1.253 million to contributed surplus.

(b) The warrants issued on November 27, 2009 expired unexercised on May 27, 2011. This expiry resulted in a transfer of the amount attributed to the expired warrants of $622 thousand to contributed surplus.

(c) The warrants issued on August 7, 2008 expired unexercised on August 10, 2010. This expiry results in a transfer of the amount attributed to the expired warrants of $417 thousand to contributed surplus.

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

9. Share capital (continued):

(d) Continuity of contributed surplus:

Contributed surplus is comprised of the cumulative grant date fair value of expired share purchase warrants and expired stock options as well as the cumulative amount of previously expensed and unexercised equity settled share-based payment transactions.

	2012	2011
Balance, beginning of year	$ 18,988	$ 14,875
Expiry of warrants (c)	1,253	1,039
Warrant repricing (c)	(239)	–
Forfeiture and cancellation of stock options	1,184	3,074
Balance, end of year	$ 21,186	$ 18,988

(e) Continuity of stock options:

	2012	2011
Balance, beginning of year	$ 1,212	$ 3,803
Stock option expense	507	483
Cancellation and forfeiture of stock options	(1,184)	(3,074)
Balance, end of year	$ 535	$ 1,212

(f) Loss per share:

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ending May 31, 2012 of 20.260 million and 13.157 million as of May 31, 2011 calculated as follows:

	2012	2011
Issued common shares, beginning of year	15,684,697	9,933,454
Effect of rights offering (note 9(b))	–	2,432,264
Effect of unit offering (note 9(b))	4,570,000	–
Effect of private placement (note 9(b))	–	790,833
Effect of Warrant exercises (note 9(c))	4,945	–
Issued weighted average common shares, end of year	20,259,642	13,156,551

9. Share capital (continued):

The effect of any potential exercise of the Company's stock options and warrants outstanding during the year has been excluded from the calculation of diluted loss per common share as it would be anti-dilutive.

(g) Deferred share unit plan:

As at May 31, 2012, 780,000 deferred share units have been issued (May 31, 2011 - nil; June 1, 2010 - nil), with a cash value of $304 thousand representing the fair market value of the units as of May 31, 2012 (May 31, 2011 - nil; June 1, 2010 - nil) recorded in accrued liabilities.

(h) 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 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, 2012, 14,120 (May 31, 2011 - 6,652) common shares have been purchased under the ESPP, and the Company has recognized an expense of $1 thousand (May 31, 2011 - $1 thousand) related to this plan in these consolidated financial statements.

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

10. Stock-based compensation:

Stock option plan:

Under the Company's stock option plan, options, rights and other entitlements 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 2,352,000 options at May 31, 2012. 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 two years ended May 31, 2012 are summarized as follows:

	2012		2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,185,578	$ 1.58	672,901	$ 6.60
Granted	1,538,000	0.21	1,049,700	1.01
Forfeited	(29,341)	6.03	(537,023)	6.76
Cancelled	(1,082,402)	1.21	–	–
Outstanding, end of year	1,611,835	0.44	1,185,578	1.58

The following table summarizes information about stock options outstanding at May 31, 2012:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Options	Weighted average exercise price
$0.18 - $ 0.215	1,538,000	$ 9.6	$ 0.21	948,000	$ 0.21
$1.22 - $ 3.60	40,663	6.7	2.79	34,597	2.89
$3.61 - $18.00	33,172	4.0	8.40	33,172	8.40
	1,611,835	9.4	0.44	1,015,769	0.57

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

10. Stock-based compensation (continued):

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

	2012	2011
Exercise price	$0.18 - $0.215	$0.89 - $1.05
Grant date share price	$0.18 - $0.215	$0.86 - $1.03
Risk-free interest rate	1.5%	1.5% - 1.85%
Expected dividend yield	–	–
Expected volatility	123% - 125%	117% -119%
Expected life of options	5 years	5 years
Weighted average fair value of options granted or modified during the year	$ 0.17	$ 0.83

The Company uses historical data to estimate the expected dividend yield and expected volatility of its common shares in determining the fair value of stock options. The expected life of the options represents the estimated length of time the options are expected to remain outstanding.

Stock options granted by the Company during the year ended May 31, 2012 have various vesting schedules. Options granted to directors consisted of 221,000 options that vested 50% upon issuance and 50% one year later. Two directors received options that totalled 550,000 options which vested immediately. Options granted to the Chief Executive Officer ("CEO") of 275,000 vested 50% immediately and 25% on each of November 29, 2012 and 2013. Options granted to certain members of management totalled 300,000 and vested 50% upon certain performance criteria measured as of May 31, 2012 and 25% May 31, 2013 and 25% on May 31, 2014. An additional 192,000 options were granted to these members of management which vest 50% on March 9, 2013, 25% on March 9, 2014 and 25% on March 9, 2015.

Stock options granted by the Company during the year ended May 31, 2011 had three types of vesting schedules. Options granted to directors consisted of 30,000 options that vested 50% upon issuance and 50% one year later. Options granted to the CEO of 784,200 vested 50% at May 31, 2011 and 25% May 31, 2012 and 25% May 31, 2013. Options granted to certain members of management totalled 235,500 and vested 50% upon certain performance criteria measured as of May 31, 2011 and 25% May 31, 2012 and 25% on May 31, 2013. These options were cancelled during the year ended May 31, 2012.

Refer to note 12 for a breakdown of stock option expense by function.

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

11. Additional cash flow disclosures:

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

	2012	2011
Prepaid expenses and other assets	$ 95	$ 248
Accounts payable	107	(172)
Accrued liabilities	530	(514)
Promissory note payable	900	(1,000)
	$ 1,632	$ (1,438)

During the year ended May 31, 2012, the Company incurred $20 thousand in interest expense on a $900 thousand promissory note due to Mr. Abramson. The interest has been accrued at a rate of 10%. During the year ended May 31, 2011, the Company paid $71 thousand in cash interest on the promissory notes from Mr. Abramson and Mr. Abramson's related company on a promissory note that was repaid in November 2010.

12. Other expenses:

Components of research and development expenses:

	2012	2011
Program costs (note 6)	$ 1,900	$ 2,298
Deferred share unit costs	91	–
Stock-based compensation	146	181
Depreciation of equipment	33	39
	$ 2,170	$ 2,518

Components of general and administrative expenses:

	2012	2011
General and administrative excluding salaries	$ 1,240	$ 1,354
Salaries	605	747
Deferred share unit costs	213	–
Stock-based compensation	361	302
Depreciation of equipment	11	17
	$ 2,430	$ 2,420

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

13. Related party transactions:

See also notes 7 and 9 for related party transactions.

These transactions were in the normal course of business and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Company's activities as a whole. The Company has determined that key management personnel consists of the members of the Board of Directors along with certain officers of the Company.

Officer compensation:

	2012	2011
Salaries and short-term employee benefits	$ 567	$ 711
Deferred share units	304	–
Stock-based compensation	343	435
	$ 1,214	$ 1,146

Director compensation:

	2012	2011
Directors' fees	$ 186	$ 172
Stock-based compensation	131	32
	$ 317	$ 204

Included in accounts payable and accrued liabilities is $160 thousand (May 31, 2011 - $32 thousand; June 1, 2010 - $31 thousand) due to directors and officers of the Company relating to directors' fees, and reimbursements for employment expenses. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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

14. Commitments, contingencies 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 as described below:

	Less than 1 year	1 - 3 years	3 - 5 years	Total
Operating leases	$ 127	$ 13	$ 5	$ 145

The Company's current facility lease expires in March 2013.

(b) Other contractual commitments:

The Company holds a non-exclusive license from Genetech Inc. to certain patent rights to develop and sub-license a certain polypeptide. The Company does not expect to make any milestone or royalty payments under this agreement in fiscal years ended May 31, 2013 or 2014, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

The Company has entered into various contracts with service providers with respect to the LOR-253 Phase I clinical trial. These contracts could result in future payment commitments of approximately $1.4 million. Of this amount, $439 thousand has been paid and $70 thousand has been accrued at May 31, 2012 (2011 - $165 thousand paid and $83 thousand accrued). The payments will be based on services performed and amounts may be higher or lower based on actual services performed.

(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.

14. Commitments, contingencies and guarantees (continued):

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

(d) Indemnification on arrangement:

On July 10, 2007, Lorus completed a plan of arrangement and corporate reorganization whereby the assets and liabilities of Lorus were transferred from one corporate entity ("Old Lorus") into a new corporate entity which continued to operate as Lorus Therapeutics Inc. Under the arrangement, the Company 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.

The Company recorded a liability of $100 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2012. There have been no claims on this indemnification to date.

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

15. Income taxes:

Provision for income taxes:

Major items causing the Company's income tax rate to differ from the statutory rate of approximately 27.4% (2011 - 29.5%) are as follows:

	2012	2011
Loss before income taxes	$ (4,614)	$ (4,995)
Statutory Canadian corporate tax rate	27.4%	29.5%
Anticipated tax recovery	$ (1,264)	$ (1,474)
Non-deductible stock-based compensation	141	164
Change in deferred tax benefits deemed not probable to be recovered	1,963	1,116
Change in substantively enacted tax rates	(627)	199
Other	(213)	(5)
	$ –	$ –

The Company has undeducted research and development expenditures, totalling $19.6 million that can be carried forward indefinitely. In addition, the Company has non-capital loss carryforwards of $14.4 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	3,753
2030	650
2031	2,908
2032	2,727
	$ 14,422

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

15. Income taxes (continued):

Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
Net operating losses carried forward	$ 3,822	$ 2,918
Research and development expenditures	5,207	4,596
Fixed assets book over tax depreciation	438	402
Intangible asset	3,097	2,922
Ontario harmonization tax credit	287	302
Ontario Research and Development Tax Credit	239	228
Cumulative eligible capital	357	344
Other	228	–
Unrecognized deferred tax asset	$ 13,675	$ 11,712

16. Explanation of transition to IFRS:

As stated in note 2(a), these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies disclosed in note 3 have been applied in preparing these consolidated financial statements for the year ended May 31, 2012, the comparative information for the year ended May 31, 2011 and in the preparation of an opening IFRS statement of financial position at June 1, 2010 (date of transition).

IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for the first-time IFRS adopters. Details of the Company's initial elections of IFRS 1 exemptions are described below.

In preparing the opening statement of financial position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

16. Explanation of transition to IFRS (continued):

Initial elections upon adoption of IFRS:

Under IFRS 1, the following applicable exemption applied to the Company's conversion from Canadian GAAP to IFRS:

(a) Share-based payments:

The Company elected not to apply IFRS 2, *Share-based Payments* ("IFRS 2") to equity instruments that vested before the date of transition to IFRS.

(b) Business combinations:

The Company applied the business combinations exemption to not apply IFRS 3, *Business Combinations*, retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date. In addition, and as a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to the transition date was tested for impairment as described in note 16(d)(i).

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

16. Explanation of transition to IFRS (continued):

Reconciliation of financial position and shareholders' equity:

	Notes	June 1, 2010 Canadian GAAP	June 1, 2010 Effect of transition to IFRS	June 1, 2010 IFRS	May 31, 2011 Canadian GAAP	May 31, 2011 Effect of transition to IFRS	May 31, 2011 IFRS
Assets							
Current assets:							
Cash and cash equivalents		$ 667	$ –	$ 667	$ 911	$ –	$ 911
Short-term investments		247	–	247	–	–	–
Prepaid expenses and other assets		636	–	636	388	–	388
Total current assets		1,550	–	1,550	1,299	–	1,299
Non-current assets:							
Equipment		147	–	147	99	–	99
Goodwill	(d)(i)	606	(606)	–	606	(606)	–
Total non-current assets		753	(606)	147	705	(606)	99
Total assets		$ 2,303	$ (606)	$ 1,697	$ 2,004	$ (606)	$ 1,398

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

16. Explanation of transition to IFRS (continued):

	Notes	June 1, 2010 Canadian GAAP	June 1, 2010 Effect of transition to IFRS	June 1, 2010 IFRS	May 31, 2011 Canadian GAAP	May 31, 2011 Effect of transition to IFRS	May 31, 2011 IFRS
Liabilities Shareholders' Equity (Deficiency)							
Current liabilities:							
Accounts payable		$ 387	$ –	$ 387	$ 215	$ –	$ 215
Accrued liabilities		1,458	–	1,458	944	–	944
Promissory notes payable		1,000	–	1,000	–	–	–
Total current liabilities		2,845	–	2,845	1,159	–	1,159
Shareholders' equity (deficiency):							
Share capital:							
Common shares		163,920	–	163,920	168,787	–	168,787
Stock options	(d)(ii)	3,704	99	3,803	1,156	56	1,212
Contributed surplus		14,875	–	14,875	18,988	–	18,988
Warrants		1,039	–	1,039	1,032	–	1,032
Deficit	(d)(i) and (ii)	(184,080)	(705)	(184,785)	(189,118)	(662)	(189,780)
Total shareholders' equity (deficiency)		(542)	(606)	(1,148)	845	(606)	239
Total liabilities and shareholders' equity (deficiency)		$ 2,303	$ (606)	$ 1,697	$ 2,004	$ (606)	$ 1,398

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

16. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of loss and comprehensive loss for the year ended May 31, 2011:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		$ –	$ –	$ –
Expenses:				
Research and development	(d)(ii)	2,298	220	2,518
General and administrative	(d)(ii)	2,101	319	2,420
Stock-based compensation	(d)(ii)	526	(526)	–
Depreciation of equipment	(d)(ii)	56	(56)	–
Operating expenses		4,981	(43)	4,938
Income (loss) from operations		(4,981)	43	(4,938)
Finance expense		71	–	71
Finance income		(14)	–	(14)
Net finance expense		57	–	57
Net loss and comprehensive loss for the year		$ (5,038)	$ 43	$ (4,995)
Basic and diluted loss per common share		$ (0.38)	$ –	$ (0.38)

Adjustments to the statement of cash flows for the year ended May 31, 2011:

Consistent with the Company's accounting policy under IAS 7, *Statement of Cash Flows*, interest paid and received have been moved to the body of the statement of cash flows, as an element of cash flows from investing activities or financing activities whereas it was previously disclosed as supplementary information. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

16. Explanation of transition to IFRS (continued):

(c) Mandatory exceptions upon adoption of IFRS:

Estimates:

In applying IFRS upon initial adoption, hindsight is not used to create or revise estimates. Estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS, except where necessary to reflect any difference in accounting policy.

(d) Impact on accounting policies upon adoption of IFRS:

The key areas where the Company has identified that accounting policies differ, or where accounting policy decisions were necessary that impacted the Company's consolidated financial statements, are discussed below.

(i) Goodwill:

Under Canadian GAAP, goodwill was reviewed for impairment annually and whenever events or circumstances indicated that the carrying amount of goodwill in a reporting unit exceeded its fair value. Goodwill impairment was calculated using a two-step process. The first step required an identification of impairment loss, if any, by comparing the carrying value of the reporting unit to the fair value, which in turn was determined based on the market capitalization of the Company. Under Canadian GAAP this test was performed at the reporting unit level which is defined as an operating segment or one level below. The Company only had one operating segment or component which is the development of anticancer product candidates. In the Company's case, the first test always showed a higher fair value than carrying value and as such it was not required to proceed to step two, as no indicator of impairment existed.

Under IAS 36, there is no longer a two-step process; rather, the Company is required to make a formal estimate of the recoverable amount and the carrying amount of a CGU that is subject to impairment testing. The recoverable amount under IAS 36 is the higher of fair value less costs to sell or value in use.

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

16. Explanation of transition to IFRS (continued):

Impairment testing under IAS 36 is performed at the CGU level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other CGUs or groups of assets. For the Company, this requirement results in testing at a lower level than under Canadian GAAP. Based on the Company's knowledge and historical transactions, it has identified three separate CGUs that represent each of its product platforms as they could have the ability to generate independent cash inflows. As the goodwill balance of $606 thousand related to the Company's acquisition of a private company in 1999, and the antisense product platform contained therein, the Company has tested goodwill impairment on that CGU specifically for which the entire balance of goodwill has been allocated. There are no other assets subject to IAS 36 impairment testing in this CGU.

Under IAS 36, the carrying value of a CGU subject to impairment testing is compared to the asset's recoverable amount, any future cash flows expected to be provided by the CGU are discounted. Recoverable amount is defined as the greater of value in use and fair value less cost to sell. The discounted cash flow model under IAS 36 indicates that only supportable evidence may be used in the calculations and should generally not use cash flows estimates beyond of a five-year period.

Transition impact: As a result of the application of IFRS, the Company recognized an impairment charge of the entire goodwill balance of $606 thousand as of the transition date related to goodwill as the carrying amount of that CGU exceeded its recoverable amount which the Company has determined to be nil. The impact of the change in applying IFRS at the date of transition and as at May 31, 2011 is summarized as follows:

Consolidated statements of financial position:

	June 1, 2010	May 31, 2011
Decrease in goodwill	$ (606)	$ (606)
Increase in deficit	$ 606	$ 606

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

16. Explanation of transition to IFRS (continued):

There was no impact to the consolidated statement of loss and comprehensive loss.

(ii) Stock-based payments:

IFRS 2 requires the fair value of each tranche of share options be amortized over its vesting period. Canadian GAAP allows for both the aforementioned method as well as the straight-line method of amortizing these costs. Under Canadian GAAP, forfeitures of share options can be accounted for at the time that they occur, whereas under IFRS, the number of share options that would ultimately vest is amortized over their respective vesting period.

Under Canadian GAAP, for share-based awards with graded vesting, the Company recognizes the fair value of the award (all tranches) on a straight-line basis over the underlying vesting period. In addition under Canadian GAAP the Company does not apply a forfeiture rate. The impact of applying the revised amortization method as well as applying an estimated forfeiture rate to the value of unvested options at the date of transition and as at May 31, 2011 is summarized as follows:

Consolidated statements of loss and comprehensive loss:

	Year ended May 31, 2011
Decrease in share-based compensation	$ (43)

Consolidated statements of financial position:

	June 1, 2010	May 31, 2011
Increase (decrease) in stock option equity account	$ 99	$ (43)
Increase (decrease) in deficit	$ 99	$ (43)

16. Explanation of transition to IFRS (continued):

The Company will apply the requirements of estimating a forfeiture rate on stock options as prescribed under IFRS 2 and continue to amortize the fair value of each tranche of stock options over the related vesting period.

(iii) Estimates:

In applying IFRS upon initial adoption, hindsight is not used to create or revise estimates. Estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

17. Subsequent events:

(a) On June 8, 2012, the Company completed a private placement whereby the Company issued 20,625,000 units consisting of one common share and one common share purchase warrant at a price of $0.32 for gross proceeds of $6.6 million. Each common share purchase warrant is exercisable for a period of 24 months from the date of issuance. If after one year the closing price of the common shares on the Toronto Stock Exchange equals or exceeds $0.90 for twenty consecutive days, then the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of the common share purchase warrants. In connection with the private placement the Company paid a cash finder's fee equal to 6% of the gross proceeds of the private placement and issued 1,237,500 finder's warrants (exercisable into units) at an exercise price of $0.32 each.

(b) On June 27, 2012, the Company repaid the $900 thousand principal and all accrued interest on the outstanding promissory note (note 7).

(c) In June 2012, 396,500 common share purchase warrants related to the August 2011 public offering (note 9(b)(i)) were exercised for gross proceeds of $178 thousand.

(d) On August 3, 2012, the Board of Directors issued 1.8 million stock options to directors, officers and employees at an exercise price of $0.48, which was the closing price of the Company's stock on the Toronto Stock Exchange on August 2, 2012. These options will be accounted for in the first quarter of fiscal 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

MAY 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 3, 2012

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

- *our business strategy;*
- *our ability to obtain the substantial capital we require to fund research and operations;*
- *our plans to secure strategic partnerships to assist in the further development of our product candidates;*
- *our plans to conduct clinical trials and pre-clinical programs;*
- *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.*

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

- *our ability to obtain the substantial capital we require 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 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 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 in respect of the arrangement described in "The Corporation – Corporate History";*
- *our ability to find and enter into agreements with potential partners;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain patent protection;*
- *our ability to protect our intellectual property rights and 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 or have access to greater financial resources than us;*
- *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 on-going quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the SEC, and those which are discussed under the heading "Risk Factors" in this document.*

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 managements discussion and analysis or, in the case of documents incorporated by reference herein, as of the date of such documents, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law. We cannot assure you that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Lorus Therapeutics Inc. (“Lorus”, the “Company”, “we”, “us” and similar expressions) has financed its operations and technology acquisitions primarily from equity and debt financing, proceeds from the exercise of warrants and stock options, and interest income on funds held for future investment. We plan to continue our development programs from internal resources as they are available.

We have not earned substantial revenues from our drug candidates and are therefore considered to be in the development stage. The continuation of our research and development activities and the commercialization of the targeted therapeutic products are dependent upon our ability to successfully finance and complete our research and development programs through a combination of equity financing and payments from strategic partners. We have no current sources of significant payments from strategic partners.

Management has forecasted that the Company’s current level of cash and cash equivalents including the funds available by way of the private placement described under Subsequent Events will be sufficient to execute its current planned expenditures for the next ten to twelve months without further investment. The Company is actively pursuing financing alternatives to provide additional funding. Management believes that it will complete one or more arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, we cannot assure you 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 substantial 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 financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

The following management’s discussion and analysis (“MD&A”) should be read in conjunction with the audited financial statements for the year ended May 31, 2012 and the accompanying notes (the "Financial Statements"). The Financial Statements, and all financial information discussed below, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All amounts are expressed in Canadian dollars unless otherwise noted.

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 a completed Phase II clinical trial. A growing intellectual property portfolio supports our diverse product pipeline.

We believe that the future of cancer treatment and improved patient quality of life lies in drugs that are not only effective with minimal side effects, but also approach the treatment of cancer in novel ways through drugs that offer a unique mechanism of action. Many drugs currently approved for the treatment and management of cancer are toxic with often limiting side effects, especially when used in combination. We therefore believe that a product development plan based on novel, effective drugs with minimal potential for toxicity alone or in combination will 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 small molecules, immunotherapeutics, and antisense.

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 partner or co-develop these drug 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 its drug candidates into a pivotal Phase III clinical trial and, upon positive results, successfully commercialize our products on a global or regional basis. Our objective is to receive upfront and milestone payments as well as sales royalties from such partnerships, which will support continued development of our other product candidates.

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.

Share Consolidation

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 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.

In this MD&A, 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.

RESULTS OF OPERATIONS

Our net loss and comprehensive loss for the year ended May 31, 2012 decreased to $4.6 million ($0.23 per share) compared to $5.0 million ($0.38 per share) for the year ended May 31, 2011. The decrease in net loss and other comprehensive loss for the year ended May 31, 2012 compared with the prior year is due primarily to lower research and development costs of $348 thousand resulting from no further spending on the LOR-2040 development plan in the current year.

We utilized cash of $2.4 million in our operating activities in the year ended May 31, 2012 compared with $5.8 million in the prior year. The decrease in the current year is the result of lower spending combined with higher accounts payable, accrued liabilities and promissory note payable balances in the current year.
At May 31, 2012, we had cash and cash equivalents of $320 thousand compared to $911 thousand at May 31, 2011 and $667 thousand at June 1, 2010. Subsequent to year end we completed a private placement raising $6.6 million in gross proceeds which will be available for use in Fiscal 2013. In connection with the private placement the Company paid a cash finders fee equal to 6% of the gross proceeds of the private placement and issued 1,237,500 finder's warrants (exercisable into units) at an exercise price of $0.32 each. Following the offering the Company repaid all outstanding promissory notes and no longer has any liabilities outside of accounts payable and accruals.

Research and Development

Research and development expenses totaled $2.2 million in the year ended May 31, 2012 compared to $2.5 million during the prior year. Research and development expenses consist of the following:

		2012	2011
Program costs (see below)	**$**	**1,900**	2,298
Deferred share unit costs		**91**	**—**
Stock based compensation		**146**	181
Depreciation of equipment		**33**	39
	$	**2,170**	2,518

Program costs by program:

		2012	2011
Small molecule program	**$**	**1,900**	1,672
Immunotherapy		**—**	**—**
RNA-targeted therapies		**—**	626
	$	**1,900**	2,298

The decrease in research and development expenses is attributable to a reduction in program spending to $1.9 million compared with $2.3 million in the prior year. The decrease from the prior year is due to no further spending on our RNA-targeted therapies, compared with $626 thousand in the prior year. This reduction is offset by higher resources allocated to the development of our small molecule program, in particular the ongoing Phase I clinical trial for LOR-253 and the LOR-500 discovery program. The reduction in program expenditures is offset by higher deferred share unit costs which represent the fair value of units allocated to research and development expense issued in March 2012. No deferred share units were issued or outstanding in the year ended May 31, 2011.

General and Administrative

General and administrative expenses totaled $2.4 million for the year ended May 31, 2012 compared to $2.4 million in the prior year. General and administrative expenses consisted of the following:

		2012	2011
General and administrative excluding salaries	**$**	**1,240**	1,354
Salaries		**605**	747
Deferred share unit costs		**213**	**—**
Stock based compensation		**361**	302
Depreciation of equipment		**11**	17
	$	**2,430**	2,420

General and administrative expenses excluding salaries decreased during the year ended May 31, 2012 compared with the prior year. This decrease is mainly attributable to expenses related to a terminated financing incurred during the year ended May 31, 2011 offset by higher legal costs during the current year associated with corporate and licensing activities. Salary expenses decreased in the year ended May 31, 2012 compared with the prior year due to headcount reductions in the current year. Deferred share unit costs incurred in the current year relate to the fair value of units allocated to general and administrative expense issued in March 2012. No deferred share units were issued or outstanding in the year ended May 31, 2011.

Finance Expense

Finance expense totaled $20 thousand for the year ended May 31, 2012 compared with $71 thousand for the prior year. Finance expense incurred in the current year relates to amounts drawn on the $1.8 million related party promissory note at a rate of 10% described below. The balance at May 31, 2012 of $900 thousand was repaid subsequent to year end. Finance expense in the prior year relates to interest accrued at a rate of 10% on the related party promissory notes repaid in November 2010 (described under 'Promissory Notes' and 'Rights Offering').

Finance Income

Finance income totaled $6 thousand in the year ended May 31, 2012, compared to $14 thousand in the same period in the prior year. Finance income represents interest earned on our cash and cash equivalent balances and the decrease in finance income during the current year is the result of a lower average cash and cash equivalents balance throughout the year ended May 31, 2012 compared with the prior year.

Net loss and total comprehensive loss for the year

Our net loss and total comprehensive loss for the year ended May 31, 2012 was $4.6 million ($0.23 per share) compared to $5.0 million ($0.38 per share) in the year ended May 31, 2011. The decrease in net loss and total comprehensive loss of $381 thousand in the year ended May 31, 2012 compared with the prior year is due primarily to a reduction in research and development expenses of $348 thousand in the current year. The decrease in research and development costs is due to reduced program expenditures relating to no further spending on our RNA-Targeted Therapies. In the prior year we incurred costs related to the development of a Phase III clinical trial protocol. The spending on our RNA-Targeted Therapies was partially redirected by higher resources allocated to the development of our small molecule program, including the LOR-253 Phase 1 clinical trial currently underway as well as the LOR-500 discovery program.

SUBSEQUENT EVENTS

On June 8, 2012, the Company completed a private placement whereby we issued 20,625,000 units consisting of one common share and one common share purchase warrant at a price of $0.32 for gross proceeds of $6.6 million. Each common share purchase warrant is exercisable for a period of 24 months from the date of issuance. If after one year the closing price of the common shares on the Toronto Stock Exchange equals or exceeds $0.90 for twenty consecutive days, then the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of the common share purchase warrants. In connection with the private placement the Company paid a cash finder's fee equal to 6% of the gross proceeds of the private placement and issued 1,237,500 finder's warrants (exercisable into units) at an exercise price of $0.32 each.

On June 27, 2012 the Company repaid the $900 thousand principal and all accrued interest on the outstanding promissory note (discussed below).

In June 2012 396,500 common share purchase warrants related to the August 2011 public offering (discussed below) were exercised for gross proceeds of $178 thousand.

On August 3, 2012 the Board of Directors issued 1.8 million stock options to Directors, officers and employees at an exercise price of $0.48 which was the closing price of the Companys stock on the Toronto Stock Exchange on August 2, 2012. These options will be accounted for in the first quarter of fiscal 2013.

SELECTED ANNUAL FINANCIAL DATA

The following selected consolidated financial data have been derived from, and should be read in conjunction with, the accompanying audited consolidated financial statements for the year ended May 31, 2012 which are prepared in accordance with IFRS.

Consolidated Statements of Loss and Comprehensive Loss

Years ended May 31, *(amounts in Canadian 000's except for per common share data)*	**2012**	2011
REVENUE	**$ —**	$ —
EXPENSES		
Research and development	**2,170**	2,518
General and administrative	**2,430**	2,420
Operating expenses	**4,600**	4,938
Finance expense	**20**	71
Finance income	**(6)**	(14)
Net finance expense (income)	**14**	57
Net loss and total comprehensive loss for the year	**4,614**	4,995
Basic and diluted loss per common share	**$ 0.23**	$ 0.38
Weighted average number of common shares outstanding used in the calculation of:		
Basic and diluted loss per share	**20,260**	13,157
Total Assets	**$ 668**	$ 1,398
Total Long-term liabilities	**$ —**	$ —

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Research and development expenditures have been consistent over the past eight quarters with increased activity in the quarter ended February 28, 2011 resulting from the initiation of the Phase I clinical trial for LOR-253 and associated activities. Expenditures were lower in the quarter ended May 31, 2012 due to income tax credits earned.

The increased general and administrative costs in the quarter ended November 30, 2011 is due to one time stock option grants and cancellations during the quarter which resulted in higher than normal options expense. Increased expense in the quarter February 28, 2011 was due to one time stock option expense related to a large tranche of options with partially immediate vesting.

Cash used in operating activities fluctuates significantly due primarily to increases and decreases in the accounts payables, accrued liabilities and promissory notes payable balances. The positive amount of cash used in operating activities during the quarter ended May 31, 2012 was due to cash provided from short term promissory notes advanced during the quarter in excess of cash outflows during the quarter.

(Amounts in 000's except for per common share data)	Q4 May 31, 2012	Q3 Feb 29, 2012	Q2 Nov 30, 2011	Q1 Aug 31, 2011	Q4 May 31, 2011	Q3 Feb 28, 2011	Q2 Nov. 30, 2010	Q1 Aug. 31, 2010
Revenue	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Research and development expense	391	543	648	588	536	847	621	514
General and administrative expense	605	479	811	535	545	701	556	618
Net (loss)	(1,013)	(1,023)	(1,457)	(1,121)	(1,077)	(1,542)	(1,220)	(1,156)
Basic and diluted net (loss) per share	$ (0.05)	$ (0.05)	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.10)	$ (0.11)	$ (0.12)
Cash used in operating activities	$ 217	$ (740)	$ (811)	$ (1,077)	$ (926)	$ (1,676)	$ (2,560)	$ (661)

CAPITAL RISK MANAGEMENT

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; and
- Ensure sufficient cash resources to fund its research and development activity, to pursue partnership and collaboration opportunities and to maintain ongoing operations.

The capital structure of the Company consists of cash and cash equivalents and equity comprised of share capital, share purchase 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 balances or by undertaking other activities as deemed appropriate under the specific circumstances.

Pursuant to the commitment letter (described under Promissory Notes Payable) the Company has issued a grid promissory note to Mr. Herbert Abramson ("Mr. Abramson") a director of the Company that allows Lorus to borrow funds up to $1.8 million. The funds may be borrowed at a rate of up to $300 thousand per month, incur interest at a rate of 10% per year and are due and payable on November 28, 2012. As at May 31, 2012, the Company had borrowed $900 thousand under the promissory note.

The loan and all accrued interest was repaid by the Company on June 27, 2012.

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, 2011.

(a) Cash and cash equivalents:
Cash and cash equivalents consists of cash of $76 thousand (May 31, 2011 - $153 thousand; June 1, 2010 - $667 thousand) and funds deposited into high interest savings accounts totalling nil (May 31, 2011 - $758 thousand; June 1, 2010 - nil). The current interest rate earned on these deposits is nil (May 31, 2011 - 1.5%; June 1, 2010 -nil).

At May 31, 2012, the Company had received $244 thousand in deposits related to subscription agreements for the Private Placement (note 17(a)) completed subsequent to year end. The Company recorded a liability related to these funds at May 31, 2012 and on June 8, 2012 the Company reversed the liability with a credit to share capital.

(b) Short-term investments:
An investment consisting of a principal protected deposit note totalling $247 thousand at June 1, 2010, was designated as held-for-trading and classified as short-term investments on the consolidated balance sheets. This investment was carried at fair value. There were no short-term investments held by the Company at May 31, 2012 or 2011.

PROMISSORY NOTES PAYABLE

Pursuant to the commitment letter (described under 'Unit Financing') provided by Mr. Abramson, the Company has issued a grid promissory note to Mr. Abramson that allows Lorus to borrow funds up to $1.8 million. The funds may be borrowed at a rate of up to $300 thousand per month, incur interest at a rate of 10% per year and are due and payable in full on November 28, 2012. The promissory note is subject to certain covenants which, if breached, could result in the promissory note becoming payable on demand.

Lorus has not breached these covenants as of May 31, 2012 and has not received notice of any breach of these covenants by Mr. Abramson,

At May 31, 2012 $900 thousand has been drawn under the promissory note and on June 27, 2012, the note and all accrued interest was repaid.

In April 2010, the Company entered into a loan agreement with a company related to Mr. Abramson to borrow $1 million. The loan amount, which was received on April 14, 2010, was unsecured, evidenced by a promissory note and bore interest at the annual rate of 10%. The principal and interest amount were due in six months and later extended a further three months. The principal amount was repaid in November 2010.

UNIT FINANCING

August 2011
On July 22, 2011, Lorus filed a final short-form prospectus in connection with a best efforts offering (the "Offering") of a minimum of 5,000,000 units of the Company (the "Units") at a price of $0.40 per Unit for gross proceeds of $2,000,000 and a maximum of 10,000,000 Units for gross proceeds of $4,000,000. Each Unit consisted of one common share of Lorus (a "Common Share") and one common share purchase warrant of Lorus (a "Warrant"). Each Warrant entitles the holder to purchase one Common Share for five years after the closing of the Offering at an exercise price of $0.45 per Common Share (the "Exercise Price"). If on any date (the "Accelerated Exercise Date") the 10-day volume weighted average trading price of the Common Shares on the Toronto Stock Exchange equals or exceeds 200% of the Exercise Price, then upon the Company sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of Warrants.

In connection with the Offering, Mr. Abramson, a director of Lorus, entered into an irrevocable commitment letter on June 20, 2011, and amended July 11, 2011, to purchase, directly or indirectly, common shares and common share purchase warrants (or as may otherwise be agreed) in the capital of Lorus (collectively the "Securities") having an aggregate subscription price equal to the difference (the "Commitment Amount"), if any, between (a) the sum of (i) the gross proceeds realized by Lorus in the Offering and (ii) the gross proceeds received by Lorus in respect of all financings completed by Lorus from the date of the final short-form prospectus to November 30, 2011 and (b) $4.0 million.

The Offering closed on August 15, 2011 for total gross proceeds of $2.2 million. In connection with the Offering, Lorus has issued 5.5 million Common Shares and 5.5 million Warrants. Mr. Abramson purchased 2.4 million Units as part of the Offering.

The total costs associated with the transaction were approximately $395 thousand which included the $25 thousand which represented the fair value of the brokers' services provided as part of the Offering. Each broker warrant is exercisable for one Unit at a price of $0.40 per Unit for a period of 24 months following the closing of the Offering. The Company has allocated the net proceeds of the Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $1.2 million of the net proceeds were allocated to the common shares and $609 thousand to the common share purchase warrants.

PRIVATE PLACEMENT

December 2010
On December 1, 2010, pursuant to a private placement, the Company issued 1.6 million common shares in exchange for gross cash consideration of $1.66 million. The total costs associated with the transaction were approximately $20 thousand. Mr. Abramson, a director of the Corporation, subscribed for 1,410,000 common shares, representing approximately 89% of the total number of common shares issued through the private placement. No commission was paid in connection with the private placement.

RIGHTS OFFERING

November 2010
On August 27, 2010 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, had 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 for net proceeds of $4.2 million.

In connection with the rights offering, the Company secured a standby purchase arrangement of $4 million by Mr. 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 total costs associated with the transaction were approximately $370 thousand. The Company has allocated the net proceeds of the Rights Offering to the common shares and the common share purchase warrants based on their relative fair values. Based on relative fair values, $3.2 million of the net proceeds were allocated to the common shares and $1.0 million to the common share purchase warrants.

WARRANT REPRICING

On November 29, 2011 shareholders of the Company (excluding insiders who also held warrants) approved a resolution to amend the exercise price of certain outstanding warrants from $1.33 to the 5 day volume weighted average trading price on the Toronto Stock Exchange five days prior to approval plus a 10% premium. The revised warrant exercise price is $0.28. The Company calculated an increased value attributed to the warrants of $239 thousand related to the amendment. This increase was calculated by taking the Black Scholes value of the warrants immediately before the amendment and immediately after the amendment. There were 4.2 million warrants which were amended and of those 3.6 million are held by Mr. Abramson, a director of the Company.

WARRANT EXERCISES AND EXPIRY

The warrants issued in November 2010 and for which the price was amended in November 2011, expired May 8, 2012. A total of 59,384 warrants were exercised for cash proceeds of $17 thousand. The balance of the 4.2 million warrants expired unexercised, resulting in a transfer of the amount attributed to the expired warrants of $1.253 million to contributed surplus.

The warrants issued on November 27, 2009 expired unexercised on May 27, 2011. This expiry resulted in a transfer of the value attributed to the expired warrants of $622 thousand to contributed surplus.

The warrants issued on August 7, 2008 expired unexercised on August 10, 2010. This expiry results in a transfer of the value attributed to the expired warrants of $417 thousand to contributed surplus.

DEFERRED SHARE UNIT PLAN

As at May 31, 2012 780 thousand deferrred share units have been issued (May 31, 2011 – nil, June 1, 2010 - nil), with a cash value of $304 thousand representing the fair market value of the units as of May 31, 2012 (May 31, 2011 – nil, June 1, 2010 - nil) recorded in accrued liabilities.

RELATED PARTY TRANSACTIONS

See 'Promissory Notes Payable', 'Unit Financing', 'Rights Offering' and 'December 2010 Private Placement' for additional related party transactions and details.

These transactions were in the normal course of business and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of key management personnel:
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Company's activities as a whole. The Company has determined that key management personnel consist of the members of the Board of Directors along with certain officers of the Company.

Officer Compensation

		2012	2011
Salaries and short term employee benefits	$	**567**	711
Deferred share unit costs		**304**	–
Stock based compensation		**343**	435
	$	**1,214**	1,146

Director Compensation

		2012	2011
Directors fees		**186**	172
Stock based compensation		**131**	32
	$	**317**	204

Included in accounts payable and accrued liabilities is $160 thousand (May 31, 2011 - $32 thousand; June 1, 2010 - $31 thousand) due to directors and officers of the Company relating to directors' fees, and reimbursements for employment expenses. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Cash Position
At May 31, 2012, Lorus had cash and cash equivalents totaling $320 thousand compared to $911 thousand at May 31, 2011. Subsequent to the year end in June, 2012, the Company raised gross proceeds of $6.6 million in a private placement (described above under Subsequent Events) which is available for use in fiscal 2013. 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, and other current assets less current liabilities) at May 31, 2012 was a deficiency of $2.1 million as compared to $140 thousand at May 31, 2011.

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.

In addition to working 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, including the proceeds described under ‘Subsequent Events’ will be sufficient to execute its current planned expenditures for the next ten to twelve months without further investment.

Contractual Obligations and Off-Balance Sheet Financing
At May 31, 2012, we had contractual obligations requiring annual payments as follows:

(Amounts in 000’s)

	Less than 1 year	**1-3 years**	**3-5 years**	**Total**
Operating leases	127	13	5	145

The Company’s current facility lease expires in March 2013.

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, 2012 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, 2012 no amounts were owing and the amount of future fees payable to the consultants are not determinable.

The Company has entered into various contracts with service providers with respect to the LOR-253 phase I clinical trial. These contracts could result in future payment commitments of approximately $1.4 million. Of this amount $439 thousand has been paid and $70 thousand has been accrued as at May 31, 2012 (May 31, 2011 - $165 thousand paid and $83 thousand accrued). The payments will be based on services performed and amounts maybe higher or lower based on actual services performed.

As at May 31, 2012, we have not entered into any off- balance sheet arrangements.

Indemnification

On July 10, 2007, Lorus completed a plan of arrangement and corporate reorganization whereby the assets and liabilities of Lorus were transferred from one corporate entity ("Old Lorus") into a new corporate entity which continued to operate as Lorus Therapeutics Inc. Under the arrangement, the Company 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.

The Company recorded a liability of $100 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2012. There have been no claims on this indemnification to date.

FINANCIAL INSTRUMENTS

(a) Financial instruments

The Company has classified its financial instruments as follows:

	As at May 31, 2012	As at May 31, 2011	As at June 1, 2010
Financial assets			
Cash and cash equivalents, consisting of guaranteed investment certificates, held for trading, measured at fair value through loss or profit	**$ 320**	$ 911	$ 667
Short-term investments, held-for-trading, recorded at fair value through loss or profit	—	—	247
Financial liabilities			
Accounts payable, measured at amortized cost	**322**	215	387
Accrued liabilities, measured at amortized cost	**1,474**	944	1,458
Promissory note payable, measured at amortized cost	**900**	—	1,000

At May 31, 2012, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature.

(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. The carrying amount of the financial assets represents the maximum credit exposure.

The Company manages credit risk for its cash and cash equivalents 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. All of the Company's financial liabilities are due within the current operating period. The outstanding promissory note was repaid subsequent to the year end.

(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.

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, 2012, U.S. dollar denominated accounts payable and accrued liabilities amounted to $148 thousand (May 31, 2011 - $254 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 $15 thousand (May 31, 2011 - $25 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.

(c) Capital management

The Company's primary objective when managing capital is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company includes cash and cash equivalents and short-term deposits in the definition of capital.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the year ended May 31, 2012.

OUTLOOK

Until one of our drug candidates receives regulatory approval and is successfully commercialized, Lorus will continue to incur operating losses. The magnitude of these operating losses will be largely affected by the timing and scope of future research and development, clinical trials and the Company's ability to raise additional and ongoing working capital and/or establish effective partnerships to share the costs of development and clinical trials.

As a result of the Company's current cash position, as well as the proceeds received subsequent to the year end (as described under 'Subsequent Events') management is pursuing investment and other opportunities aimed at funding its research and development programs. 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.

RISK FACTORS

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

We are an early stage development company.

We are at an early stage of development. Since our incorporation, none of our products has obtained regulatory approval for commercial use and sale in any country, except for Virulizin in very limited circumstances in Mexico. As such, significant revenues have not resulted from product sales. Significant additional investment will be necessary to complete the development of any of our product candidates. Pre-clinical and clinical trial work must be completed before our products could be ready for use within the markets that we have identified. We may fail to develop any products, obtain regulatory approvals, enter clinical trials or 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. We also do not know whether sales, license fees or related royalties will allow us to recoup any investment we make in the commercialization of our products.

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. For example, our lead product candidate LOR-253 is currently in a Phase I clinical trial. Should this trial be successful significant additional funding or a partnership would be necessary to complete the necessary Phase II and Phase III clinical trials. Such funding will be very difficult, or impossible to raise in the public markets or through partnerships. If such funding or 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 need to raise additional capital.

We have an ongoing need to raise additional capital. To obtain the necessary capital, we must rely on some or all of the following: additional share issues, debt issuances (including promissory notes), collaboration agreements or corporate partnerships and grants and tax credits 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.

Our need for capital may require us to:

- engage in equity financings that could 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 International Financial Reporting Standards, we reported net losses of $4.6 million, and $5.0 million and for the years ended May 31, 2012 and 2011, respectively, and as of May 31, 2012, we had an accumulated deficit of $194 million.

We have not generated any significant revenue from product sales to date and it is possible that we will never have sufficient product sales revenue to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. To become profitable, we, either alone or with our collaborators and licensees, must successfully develop, manufacture and market our current product candidates LOR-253 and IL17E 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 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 assure you 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. Approval in one country does not assure approval in another country. 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. We cannot assure you that our preclinical studies and clinical trials will generate positive results that will allow us to move towards the commercial use and sale of our product candidates. Furthermore, negative preclinical or clinical trial results may cause our business, financial condition, or results of operations to be materially adversely affected.

For example, as our lead product candidates LOR-253 is in the Phase I stage of development and our product candidate IL-17E is in the pre-clinical stage of development and there is still a long development path ahead which will take many years to complete and like all of our potential drug candidates is 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 and indications where this is significant competition for patients. 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.

We have indemnified our predecessor, Old Lorus, and its directors, officers and employees.

In connection with the reorganization that we undertook in fiscal 2008, we have agreed to indemnify our predecessor, 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:

- prior to, at or after the effective time of the arrangement transaction, and directly or indirectly relating to any of the assets of Old Lorus transferred to us pursuant to the arrangement transaction (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;
- 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 us under the arrangement; and

- prior to or at the effective time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the arrangement.

This indemnification could result in significant liability to us. To date no amount has been claimed on this indemnification. Should a claim arise under this indemnification it could result in significant liability to the Company which could have a negative impact on our liquidity, financial position, and ability to obtain future funding among other things.

We may not achieve our projected development goals in the time frames we announce and expect.

We set goals for, and make public statements regarding the expected timing of the accomplishment of objectives material to our success, such as the commencement and completion of clinical trials, the partnership of our product candidates and our ability to secure the financing necessary to continue the development of our product candidates. The actual timing of these events can vary dramatically due to factors within and beyond our control such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process, market conditions and interest by partners in our product candidates among other things. We cannot assure you that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned, or that we will secure partnerships for any of our product candidates. Any failure to achieve one or more of these milestones as planned would have a material adverse effect on our business, financial condition and results of operations.

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 be more effective than our existing and future products insofar as they 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, insurers, the medical community and other stakeholders. 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 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 United States, 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.

Publication of discoveries in scientific or patent literature often lags behind actual discoveries. Patent applications filed in the United States 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.

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, or others many infringe on our intellectual property rights 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-253 and IL17E. 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. We may also need to bring claims against others who we believe are infringing our rights in order to become or remain competitive and successful.

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. 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. In general, insurance will not protect us against some of our own actions such as negligence.

We are subject to privacy laws. Violations of these laws may result in significant liability and the incurring of substantial costs to achieve compliance.

Our business is focused on the development of biopharmaceutical products. As a result, we are subject to some privacy laws in Canada and several other jurisdictions which control the use, disclosure, transmission and retention of confidential personal information. Our insurance coverage and/or diligence may not protect us from all liability and regulatory action arising from non-compliance with these laws, particularly if our non-compliance is the result of our own negligent actions or misconduct. If we have to respond to regulatory action, pay damages, or incur expenses defending any claims, we may be materially and 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-253, IL17E 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 business depends on licensing agreements, which may require us to meet obligations that are not favourable for our business.

Our business depends on arrangements with third parties such as licensors and licensees. Our license agreements may require us to diligently bring our products to market, make milestone payments and royalties that may be significant, and incur expenses associated with filing and prosecuting patent applications. We cannot assure you that we will be able to establish and maintain license agreements that are favourable for our business, if at all.

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.

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. This leads to a heightened risk of securities litigation pertaining to such volatility. 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 clinical trials:
- our ability to obtain partners and collaborators to assist with the future development of our products;
- general market conditions;
- announcements of technological innovations or new product candidates by us, our collaborators or our competitors;
- published reports by securities analysts;
- developments in patent or other intellectual property rights;
- 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; and
- shareholder interest in our Common Shares.

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 and have an undesirable impact on our ability to raise capital.

We are susceptible to stress in the global economy and therefore, our business may be affected by the current and future global financial condition.

If the increased level of volatility and market turmoil that have marked recent years continue, our operations, business, financial condition and the trading price of our Common Shares could be materially adversely affected. Furthermore, general economic conditions may have a great impact on us, including our ability to raise capital, our commercialization opportunities and our ability to establish and maintain arrangements with others for research, manufacturing, product development and sales.

There is no assurance that an active trading market in our common shares will be sustained.

Our common shares are listed for trading on the Toronto Stock Exchange. However, there can be no assurance that an active trading market in our common shares on the stock exchange will be sustained or that we will be able to maintain our listing.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies and Estimates

The Company periodically reviews its financial reporting and disclosure practices and accounting policies to ensure that they provide accurate and transparent information relative to the current economic and business environment. As part of this process, the Company has reviewed its selection, application and communication of critical accounting policies and financial disclosures. Management has discussed the development and selection of the critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure relating to critical accounting policies in this MD&A. Other important accounting polices are described in note 3 of the Financial Statements.

(a) Determination of impairment of goodwill and equipment:

Under IAS 36, Impairment of Assets ("IAS 36"), the Company is required to make a formal estimate of the recoverable amount and the carrying amount of a cash-generating unit ("CGU") that is subject to impairment testing. The recoverable amount under IAS 36 is the higher of fair value less costs to sell or value in use. The carrying amounts of the Company's non-financial assets including equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In estimating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing carrying values and impairment of non-financial assets, including goodwill and equipment, management makes judgments in determining recoverable amounts. Due to the development stage of the Company there is a significant amount of subjectivity when estimating future cash flows and applying a discount to any cash flow model. Changes in these estimates could have a significant impact on the valuation of these non-financial assets.

(b) Valuation of contingent liabilities:

The Company utilizes considerable judgment in the measurement and recognition of provisions and the Company's exposure to contingent liabilities. Judgment is required to assess and determine the likelihood that any potential or pending litigation or any and all potential claims against the Company may be successful. The Company must estimate if an obligation is probable as well as quantify the possible economic cost of any claim or contingent liability. Such judgments and assumptions are inherently uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of the liability and the associated expense.

(c) Valuation of tax accounts:

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, the Company is accumulating tax loss carryforward balances creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. To date, the Company has determined that none of its deferred tax assets should be recognized. The Company's deferred tax assets are mainly comprised of its net operating losses from prior years, prior year research and development expenses, and investment tax credits. These tax pools relate to entities that have a history of losses, have varying expiry dates, and may not be used to offset taxable income. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. 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 the Company's results of operations through the recovery of future income taxes.

(d) Valuation of share-based compensation and share purchase warrants:

Management measures the costs for share-based payments and share purchase warrants using market-based option valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of share-based payments and share purchase warrants issued and the associated expense.

RECENT ACCOUNTING RECOMMENDATIONS NOT YET ADOPTED

(i) IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"):

In October 2010, the IASB issued IFRS 7. This amendment enhances the disclosure requirement for transfers of financial assets that result in derecognition. This amendment is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2012. The Company is assessing the impact of this new standard on its consolidated financial statements.

(ii) IAS 1, *Presentation of Financial Statements ("IAS 1")*:
In June 2011, the IASB issued IAS 1. This amendment retains the "one or two statement" approach to presenting the statements of income and comprehensive income at the option of the entity and only revises the way other comprehensive income is presented. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

(iii) IFRS 9, Financial Instruments ("IFRS 9"):
In October 2010, the IASB issued IFRS 9, which replaces IAS 39, *Financial Instruments - Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

(iv) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"):
This amendment establishes a single control model that applies to all entities. These changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate any impact on its consolidated financial statements related to the adoption of this new standard.

(v) IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"):
In May 2011, the IASB issued IFRS 12. IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interest in other entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements

(vi) IFRS 13, *Fair Value Measurement* ("IFRS 13"):
In May 2011, the IASB issued IFRS 13. IFRS 13, replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. This standard establishes a framework for measuring fair value and requires the fair value hierarchy, to be applied to all fair value measurements, including nonfinancial assets and liabilities that are measured or based on fair value in the statement of financial position as well as non-recurring fair value measurements such as assets held-for-sale. Furthermore, IFRS 13 expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

TRANSITION TO IFRS

As stated in Note 2(a) to the May 31, 2012 Audited Consolidated Financial Statements, these are the Company's first audited consolidated financial statements prepared in accordance with IFRS.

The accounting policies disclosed in Note 3 to the May 31, 2012 Audited Consolidated Financial Statements have been applied in preparing our consolidated financial statements as at and for the year ended May 31, 2012, the comparative information presented as at and for the year ended May 31, 2011 and in the preparation of our opening IFRS balance sheet at June 1, 2010 (our date of transition) and the statement of financial position as at May 31, 2011.

IFRS 1 requires first time adopters to retrospectively apply all effective IFRS as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for the first time IFRS adopters. Details of the Company's initial elections of IFRS 1 exemptions are described below.

In preparing our opening balance sheet, we have adjusted amounts reported previously in our consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected our financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Initial elections upon adoption of IFRS
Under IFRS 1 the following applicable exemption applied to the Company's conversion from Canadian GAAP to IFRS.

- ***(i)*** **Share Based Payments:** The Company elected not to apply IFRS 2 to equity instruments that vested before the date of transition to IFRS.
- ***(ii)*** **Business combinations:** The Company applied the business combinations exemption to not apply IFRS 3, *Business Combinations,* retrospectively to past business combinations. Accordingly, we have not restated business combinations that took place prior to the Transition Date. In addition, and as a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to the Transition Date was tested for impairment as described in note 16 (d)(i) to the consolidated financial statements.

Reconciliation of financial position and shareholders' equity

	Notes	June 1, 2010 Canadian GAAP	June 1, 2010 Effect of transition to IFRS	June 1, 2010 IFRS	Notes	May 31, 2011 Canadian GAAP	May 31, 2011 Effect of transition to IFRS	May 31, 2011 IFRS
Current								
Cash and cash equivalents		$ 667	$ -	$ 667		911	-	911
Short-term investments		247	-	247		-	-	-
Prepaid expenses and other assets		636	-	636		388	-	388
Total Current Assets		**1,550**	**-**	**1,550**		**1,299**	**-**	**1,299**
Non-Current								
Equipment		147	-	147		99	-	99
Goodwill	**(d) (i)**	606	(606)	-	**(d) (i)**	606	(606)	-
Total Non-Current Assets		753	(606)	147		705	(606)	99
Total Assets		**2,303**	**(606)**	**1,697**		**2,004**	**(606)**	**1,398**
LIABILITIES								
Current								
Accounts payable		387	-	387		215	-	215
Accrued liabilities		1,458	-	1,458		944	-	944
Promissory note payable		1,000		1,000		-	-	-
Total Current Liabilities		**2,845**	**-**	**2,845**		**1,159**	**-**	**1,159**
SHAREHOLDERS' EQUITY								
Share capital								
Common shares		163,920	-	163,920		168,787	-	168,787
Stock options	**(d) (ii)**	3,704	99	3,803	**(d) (ii)**	1,156	56	1,212
Contributed surplus		14,875	-	14,875		18,988	-	18,988
Warrants		1,039	-	1,039		1,032	-	1,032
Deficit	**(d) (i) (ii)**	(184,080)	(705)	(184,785)	**(d) (i) (ii)**	(189,118)	(662)	(189,780)
Total Equity		(542)	(606)	(1,148)		845	(606)	239
Total Equity and Liabilities		**2,303**	**(606)**	**1,697**		**2,004**	**(606)**	**1,398**

Reconciliation of consolidated statement of loss and comprehensive loss for the year ended May 31, 2011

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE		$ -	$ -	$ -
EXPENSES				
Research and development	**d (ii)**	2,298	220	2,518
General and administrative	**d (ii)**	2,101	319	2,420
Stock-based compensation	**d (ii)**	526	(526)	-
Depreciation of equipment	**d (ii)**	56	(56)	-
Operating expenses		4,981	(43)	4,938
(Loss) from operations		(4,981)	43	(4,938)
Interest expense		71	-	71
Interest income		(14)	-	(14)
Net financing expense (income)		57	-	57
Net Loss and other comprehensive loss for the period		**5,038**	**(43)**	**4,995**
Basic and diluted loss per share		**$ 0.38**	**$ 0.00**	**0.38**

Adjustments to the Statement of Cash Flows for the year ended May 31, 2011

Consistent with the Company's accounting policy under IAS 7, *Statement of Cash Flows*, interest paid and received have been moved to the body of the *Statement of Cash Flows*, as an element of cash flows from investing activities or financing activities whereas it was previously disclosed as supplementary information. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

(c) Mandatory exceptions upon adoption of IFRS

Estimates
In applying IFRS upon initial adoption, hindsight is not used to create or revise estimates. Estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policy.

(d) Impact on accounting policies upon adoption of IFRS

The key areas where the Company has identified that accounting policies differ, or where accounting policy decisions were necessary that impacted the Company's consolidated interim financial statements, are discussed below.

(i) Goodwill:

Under Canadian GAAP, goodwill was reviewed for impairment annually and whenever events or circumstances indicated that the carrying amount of goodwill in a reporting unit exceeded its fair value. Goodwill impairment was calculated using a two-step process. The first step required an identification of impairment loss, if any, by comparing the carrying value of the reporting unit to the fair value, which in turn was determined based on the market capitalization of the Company. Under Canadian GAAP this test was performed at the reporting unit level which is defined as an operating segment or one level below. The Company only had one operating segment or component which is the development of anticancer product candidates. In the Company's case the first test always showed a higher fair value than carrying value and as such we were not required to proceed to step two, as no indicator of impairment existed.

Under IFRS, *IAS 36 Impairment of Assets* ("IAS 36"), there is no longer a two-step process; rather, the Company is required to make a formal estimate of the recoverable amount and the carrying amount of a cash generating unit ("CGU") that is subject to impairment testing. The recoverable amount under IAS 36 is the higher of fair value less costs to sell or value in use.

Impairment testing under IAS 36 is performed at the CGU level which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other CGUs or groups of assets. For the Company, this requirement results in testing at a lower level than under Canadian GAAP. Based on our knowledge and historical transactions, the Company has identified three separate CGUs that represent each of our product platforms as they could have the ability to generate independent cash inflows. As the goodwill balance of $606 thousand related to our acquisition of a private company in 1999, and the Antisense product platform contained therein, we have tested goodwill impairment on that CGU specifically for which the entire balance of goodwill has been allocated. There are no other assets subject to IAS 36 impairment testing in this CGU.

Under IAS 36, the carrying value of a CGU subject to impairment testing is compared to the asset's recoverable amount, any future cash flows expected to be provided by the CGU are discounted. Recoverable amount is defined as the greater of value in use and fair value less cost to sell. The discounted cash flow model under IAS 36 indicates that only supportable evidence may be used in the calculations and should generally not use cash flows estimates beyond of a five-year period.

Transition impact: As a result of the application of IFRS, the Company recognized an impairment charge of the entire goodwill balance of $606 thousand as of the Transition Date related to goodwill as the carrying amount of that CGU exceeded its recoverable amount which the Company has determined to be nil. The impact of the change in applying IFRS at the date of transition and as at May 31, 2011 is summarized as follows:

Consolidated statement of financial position:

	June 1, 2010	May 31, 2011
	$	$
Decrease in goodwill	(606)	(606)
Increase in deficit	606	606

There was no impact to the consolidated statement of loss and comprehensive loss.

(ii) Stock based payments:

IFRS 2, *Share-based Payments*, requires the fair value of each tranche of share options be amortized over its vesting period. Canadian GAAP allows for both the aforementioned method as well as the straight-line method of amortizing these costs. Under Canadian GAAP, forfeitures of share options can be accounted for at the time that they occur, whereas under IFRS, the number of share options that would ultimately vest is amortized over their respective vesting period.

Under Canadian GAAP, for share-based awards with graded vesting, the Company recognizes the fair value of the award (all tranches) on a straight-line basis over the underlying vesting period. In addition under Canadian GAAP the Company does not apply a forfeiture rate. The impact of applying the revised amortization method as well as applying an estimated forfeiture rate to the value of unvested options at the date of transition and as at May 31, 2011 is summarized as follows:

Consolidated interim statement of loss and comprehensive loss:

	Year ended May 31, 2011
	$
Decrease in share-based compensation	(43)

Consolidated statement of financial position:

	June 1, 2010	May 31, 2011
	$	$
Increase (Reduction) of Stock Option Equity Account	99	(43)
Increase (Decrease) in deficit	99	(43)

The Company will apply the requirements of estimating a forfeiture rate on stock options as prescribed under IFRS 2 and continue to amortize the fair value of each tranche of stock options over the related vesting period.

(iii) Estimates

In applying IFRS upon initial adoption, hindsight is not used to create or revise estimates. Estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure.

Internal controls over financial reporting means a process designed by or under the supervision of the Chief Executive Officer and the acting Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2012 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

As at May 31, 2012, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures and operation of its internal controls over financial reporting using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on their evaluation, the Chief Executive Officer and the acting Chief Financial Officer have concluded that these controls and procedures are effective to provide reasonable assurance that material information is made known to them by others in the Company. Management has identified the following two areas of concern, 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 are sufficient compensating controls to limit our risk of material misstatement.

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 concerns has resulted in a material misstatement to the financial statements as we rely on certain compensating controls, including substantive periodic review of the financial statements by the Chief Executive Officer and Audit Committee. This weakness is considered to be a common area of deficiency for many smaller listed companies in Canada. We continue to evaluate whether additional accounting staff should be hired to deal with this weakness.

Complex and Non-Routine Transactions

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

To address this risk, we consult with our third-party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. At a future date, we may consider expanding the technical expertise within our accounting function. In the meantime, we will continue to work closely with our third party advisors.

UPDATED SHARE INFORMATION

As at August 3, 2012, the Company had 42.3 million common shares issued and outstanding. In addition, as of August 3, 2012, there were 3.4 million common shares issuable upon the exercise of outstanding stock options and 27 million common shares issuable upon the exercise of common share purchase warrants priced at $0.45 and expiring June 2014 and August 2016.

ADDITIONAL INFORMATION

Additional information relating to Lorus, including Lorus' 2012 annual information form and other disclosure documents, is available on SEDAR at www.sedar.com.

ANNUAL INFORMATION FORM

Fiscal year ended May 31, 2012

August 3, 2012

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

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

- *our business strategy;*
- *our ability to obtain the substantial capital we require to fund research and operations;*
- *our plans to secure strategic partnerships to assist in the further development of our product candidates;*
- *our plans to conduct clinical trials and pre-clinical programs;*
- *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;*
- *sales potential of our clinical stage drugs; and*
- *other statements including words such as "anticipate", "contemplate", "continue", "believe", "plan", "estimate", "expect", "intend", "will", "should", "may", and other similar expressions.*

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

- *our ability to obtain the substantial capital we require 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 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 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 in respect of the arrangement described in "The Corporation – Corporate History";*
- *our ability to find and enter into agreements with potential partners;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain patent protection;*
- *our ability to protect our intellectual property rights and 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 or have access to greater financial resources than us;*
- *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 on-going quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the SEC, and those which are discussed under the heading "Risk Factors" in our annual information form for the fiscal year ended May 31, 2012*

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

Unless otherwise indicated, or the context requires otherwise, the information appearing in this annual information form is stated as at May 31, 2012 and references in this annual information form to "$" or "dollars" are to Canadian dollars.

In this Annual Information Form, the terms “Company” and “Lorus” refer to Lorus Therapeutics Inc.

For ease of reference, a glossary of terms used in this annual information form can be found beginning on page 26.

THE COMPANY

Lorus Therapeutics Inc. (“Old Lorus”) was incorporated under the *Business Corporations Act* (Ontario) on September 5, 1986 under the name RML Medical Laboratories Inc. On October 28, 1991, RML Medical Laboratories Inc. amalgamated with Mint Gold Resources Ltd., resulting in Old Lorus becoming a reporting issuer (as defined under applicable securities law) in Ontario, on such date. On August 25, 1992, Old Lorus changed its name to IMUTEC Corporation. On November 27, 1996, Old Lorus changed its name to Imutec Pharma Inc., and on November 19, 1998, Old Lorus changed its name to Lorus Therapeutics Inc. On October 1, 2005, Old Lorus continued under the *Canada Business Corporations Act*.

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

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. 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 information form, 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.

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

Lorus’ subsidiary is NuChem Pharmaceuticals Inc. (“NuChem”), a corporation incorporated under the laws of Ontario, of which Lorus owns 80% of the issued and outstanding voting share capital and 100% of the issued and outstanding non-voting preference share capital. On May 31, 2009, GeneSense Technologies Inc. (“GeneSense”), 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. (“Pharma Immune”), a corporation incorporated under the laws of Delaware, at which time it disposed of these shares (See “Financial Strategy – Secured Convertible Debentures”).

Our common shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “LOR”.

GENERAL DEVELOPMENT OF THE BUSINESS

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 a product available to start a Phase III clinical trial. A growing intellectual property portfolio supports our diverse product pipeline.

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 product candidates in clinical trials, securing strategic partnerships and obtaining the necessary regulatory approvals to market our products.

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 “Regulatory Approval Process” and “Risk Factors”.

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 drug 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 its drug candidates into a pivotal Phase III clinical trial and, upon successful results, commercialization. Our objective is to receive upfront and milestone payments as well as royalties from such partnerships, which will support continued development of our other product candidates.

Small Molecules

We have small molecule drug discovery capability and preclinical scientific expertise, which we are using to create a drug candidate pipeline. Our proprietary group of small molecule compounds include the lead compound LOR-253. LOR-253 is currently in a Phase I clinical trial and has unique structures and modes of action that represents a promising targeted anticancer agent with, we believe, a high safety profile. LOR-264 represents a second generation structural derivative of LOR-253 that has been optimized for oral absorption. Structural diversification and lead optimization of LOR-264 is currently underway.

Another small molecule program in active development is LOR-500, currently in the lead optimization stage of development. See “— “Business of the Company — Small Molecule Therapies”.

Immunotherapy

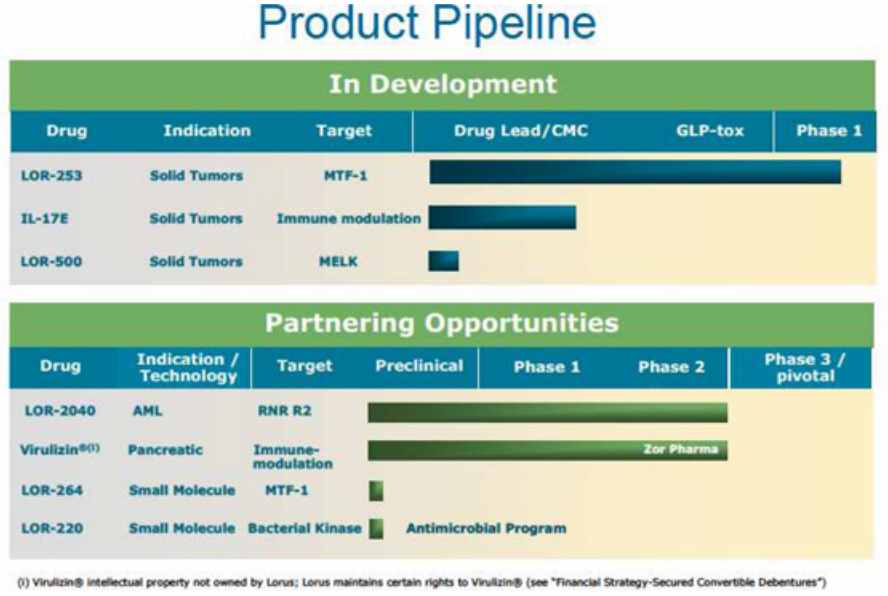
IL-17E is a novel immunotherapy based on stimulating anticancer properties of the immune system and by direct tumor cell killing. It has an excellent therapeutic index and is currently in preclinical development. Lorus owns the patents for the anti-cancer use of IL-17E. See “Business of the Company – Immunotherapy.”

Other Technologies

In addition to its active pipeline programs (LOR-253, LOR-500, IL-17E), Lorus has rights to two late-stage compounds, LOR-2040 and Virulizin. The intellectual property rights to Virulizin were sold in 2009 (see “Financial Strategy – Secured Convertible Debentures”) however Lorus retains certain rights to Virulizin which is partnered with Zor Pharma. Lorus is seeking potential partners for LOR-2040. In addition Lorus has discovered LOR-220, a novel small molecule with antimicrobial properties in the preclinical stage. We are not currently developing these product candidates in house and are seeking partnership for further development. See “Business of the Company —Other Technologies”.

Clinical Development

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



BUSINESS STRATEGY

Our business strategy is based on the identification and development of novel therapies that are effective but with fewer side effects. In order to minimize single technology-related risks, we have adopted the following technology approaches:

- Development of small molecules that recognize specific targets in cancer cells;
- Immunotherapy using safe and efficacious products to stimulate the natural anticancer properties of the immune system.

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 pre-clinical and clinical development process and consider commercialization opportunities when appropriate.

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 drug 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 its drug candidates into a pivotal Phase III clinical trial and, upon successful results, commercialization. Our objective is to receive upfront and milestone payments as well as royalties from such partnerships, which will support continued development of our other product candidates.

In the next fiscal year, we intend to pursue partnerships and collaborations for our compounds and further the development of our promising pipeline. More specifically, our main objectives are (i) to complete the Phase I clinical trial of our lead small molecule drug, LOR-253, and prepare for initiation of a Phase II clinical trial; (ii) to advance our pre-clinical product candidates IL-17E and LOR-500 derivative; and (iii) to secure partnership and financing alternatives in order to successfully continue our operations.

FINANCIAL STRATEGY

To meet our 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. See “Risk Factors”.

June 2012 Private Placement

Subsequent to our fiscal year end of May 31, 2012, in June 2012, Lorus completed a private placement (the “ **Private Placement**”) of 20,625,000 units at a subscription price of $0.32 per unit, each unit (in this section a “**Unit**”) consisting of one common share and one common share purchase warrant for gross proceeds to Lorus of $6,600,000.

Each warrant is exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45 (in this section, the “ **Warrants**”). If after one year (in this section the **“Accelerated Exercise Date**”) the closing price of the common shares on the Toronto Stock Exchange equals or exceeds $0.90 for twenty consecutive days, then upon the Company sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of Warrants.

PowerOne Capital Markets Limited acted as a finder in the financing and were paid a cash finder’s fee equal to 6% of the gross proceeds of the Private Placement and were issued 1,237,500 finder’s warrants at an exercise price of $0.32 each. Each finder’s warrant is exercisable into Units consisting of 1,237,500 common shares and 1,237,500 Warrants.

August 2011 Unit Offering
On July 22, 2011, the Company filed a final short-form prospectus in connection with a best efforts offering (the "Offering") of a minimum of 5,000,000 units of the Company (in this section the "**Units**") at a price of $0.40 per Unit for gross proceeds of $2,000,000 and a maximum of 10,000,000 Units for gross proceeds of $4,000,000. Each Unit consisted of one common share of Lorus (a "Common Share") and one common share purchase warrant of Lorus (in this section a "**Warrant**"). Each Warrant entitles the holder to purchase one Common Share for five years after the closing of the Offering at an exercise price of $0.45 per Common Share (in this section the "**Exercise Price**"). If on any date (in this section the "**Accelerated Exercise Date**") the 10-day volume weighted average trading price of the Common Shares on the Toronto Stock Exchange equals or exceeds 200% of the Exercise Price, then upon the Company sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of Warrants.

In connection with the Offering, Herbert Abramson, a director of the Company, entered into an irrevocable commitment letter on June 20, 2011, and amended July 11, 2011, to purchase, directly or indirectly, common shares and common share purchase warrants (or as may otherwise be agreed) in the capital of Lorus (collectively the "Securities") having an aggregate subscription price equal to the difference (the "Commitment Amount"), if any, between (a) the sum of (i) the gross proceeds realized by Lorus in the Offering and (ii) the gross proceeds received by Lorus in respect of all financings completed by Lorus from the date of the final short-form prospectus to November 30, 2011 and (b) $4.0 million.

The Offering closed on August 15, 2011 for total gross proceeds of $2.2 million. In connection with the Offering, Lorus has issued 5.484 million Common Shares and 5.678 million Warrants including the broker warrants. Mr. Abramson purchased 2.4 million Units as part of the Offering.

The total costs associated with the transaction were approximately $395 thousand which included the $25 thousand which represented the fair value of the brokers' services provided as part of the Offering. Each such broker warrant is exercisable for one Unit at a price of $0.40 per Unit for a period of 24 months following the closing of the Offering. The Company has allocated the net proceeds of the Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $1.2 million of the net proceeds were allocated to the common shares and $609 thousand to the common share purchase warrants.

December 2010 Private Placement
On December 1, 2010, pursuant to a private placement, the Company issued 1.6 million common shares in exchange for cash consideration of $1.66 million. The total costs associated with the transaction were approximately $20 thousand. The Company has allocated the net proceeds of the private placement to common shares. Mr. Herbert Abramson, a director of the Corporation, subscribed for 1,410,000 common shares, representing approximately 89% of the total number of common shares issued through the private placement. No commission was paid in connection with the private placement.

November 2010 Rights Offering
On August 27, 2010 the Company announced a proposed rights offering as described below including a $4 million standby purchase agreement from a director of the Company Mr. Herbert 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, had 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 connection with a distribution to its shareholders of rights exercisable for units of the Company (the "Rights Offering"). Under the Rights Offering, holders of common shares 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.

The total costs associated with the transaction were approximately $370 thousand. The Company has allocated the net proceeds of the rights offering to the common shares and the common share purchase warrants based on their relative fair values. Based on relative fair values, $3.2 million of the net proceeds were allocated to the common shares and $1.0 million to the common share purchase warrants.

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 post-consolidation basis on May 31, 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 information form, 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
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, was unsecured, evidenced by a promissory note and bore interest at the annual rate of 10%. The principal and interest amount are due in on October 14, 2010. The funds were used for general working capital purposes. This loan was repaid in November 2010.

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 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.

November 2009 Private Placement
On November 27, 2009, pursuant to a private placement, the Company issued 41.0 million (pre-consolidation) 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 ("TEMIC") to issue an aggregate of $15.0 million of secured convertible debentures (the "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 TEMIC with respect to the purchase and settlement of the $15.0 million Debentures.

Under the settlement agreement, Lorus purchased all of the Debentures from TEMIC for a cash payment of $3.3 million, the assignment of the rights under the license agreement with ZOR Pharmaceuticals, LLC ("ZOR"), the sale of intellectual property associated with Virulizin and the sale to TEMIC of Lorus' shares in its wholly owned subsidiary Pharma Immune Inc. which holds an equity interest in ZOR (the "Consideration"). Under the settlement 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. TEMIC is fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR license agreement. Lorus assists TEMIC with certain agreed upon services.

For receipt of the Consideration TEMIC released all security interest in the assets of Lorus.

REGULATORY APPROVAL PROCESS

The research, development, manufacture and marketing of pharmaceutical products are governed by various governmental authorities throughout the world to ensure efficacy and safety. In Canada, these activities are governed by the provisions of the *Food and Drugs Act* (Canada) and its regulations, the enforcement of which is ensured by the Therapeutic Products Directorate of the Health Products and Food Branch of Health Canada. In the United States, it is the Food and Drug Administration ("FDA") that has jurisdiction. Similar processes are conducted in other countries by similar regulatory bodies. Regulations in each jurisdiction require that licenses be obtained from regulatory agencies for drug manufacturing facilities and also mandate strict research and product testing standards in order to ensure quality in respect of the manufacturing of therapeutic products. Companies must establish that the production of their products comply with Good Manufacturing Practices (GMPs) and the clinical development be conducted in accordance with Good Clinical Practices in order to demonstrate the safety and effectiveness of the therapeutic drug candidate. While Lorus will pursue the approval of any product that it develops, success in acquiring regulatory approval for any such product is not assured. See "Risk Factors".

In order to market its pharmaceutical products in Canada and the United States, the product candidate must successfully satisfy the requirements of each of the following stages of the regulatory approval process and drug development:

Pre–Clinical Studies: Pre–clinical studies involve extensive testing in laboratory animals to determine if a potential therapeutic product has utility in an in vivo disease model and has any adverse toxicological effects in animals. The conduct and results of these studies are reported to regulatory agencies in an Investigational New Drug ("IND") application in the United States and a Clinical Trial Application ("CTA") in Canada, to gain approval to commence clinical trials of the product in human subjects or patients, depending on the indication for use.

Phase I Clinical Trials: Phase I clinical trials are designed to determine the pharmacokinetics, metabolism and pharmacologic actions of the drug in humans, the side effects associated with increasing doses and the maximum tolerated dose. These drug candidate studies, often short in duration, enroll only a small number of patients at each dose level.

Phase II Clinical Trials: Phase II studies are conducted to evaluate the safety of the drug in the intended patient population with the disease or condition under study and to determine the common short-term side effects and risks associated with the drug. Phase II studies are typically well controlled, closely monitored and conducted in a relatively small number of patients. These studies are usually designed to gain early evidence of the effectiveness of the drug candidate, along with its safety.

Phase III Clinical Trials: Phase III studies are expanded studies performed after preliminary evidence suggesting effectiveness of the drug is obtained. Phase III studies gather additional information about effectiveness and safety that is required to evaluate the overall benefit-risk profile of the drug candidate and to provide adequate basis for physician labeling. Phase III trials usually involve several hundred to several thousand patients.

Once these trials are completed, a company files a registration file named New Drug Submission in Canada and a New Drug Application ("NDA") in the United States. If such a registration file shows that the product was developed in accordance with the regulatory authorities' rules, regulations and guidelines and demonstrates a favourable risk/benefit analysis, then the regulatory authorities issue a notice of compliance (Canada) or an approval letter (US), which allows a company to market the product.

If and when marketing approval is granted by Health Canada or the FDA, the product is then approved for commercial sale in the respective jurisdiction. In addition to the approval of the drug itself, Health Canada and the FDA each require that the manufacturer of a therapeutic drug be in full compliance with the current GMPs in effect in Canada or the United States, respectively. A similar process for therapeutic drug approval is followed in most other countries with sophisticated regulatory bodies that have appropriate regulations and oversight.

BUSINESS OF THE COMPANY

Lorus is a discovery, research and clinical development stage company with a focus on novel cancer drugs. We have a diversified active portfolio including small molecules (LOR-253/LOR-500) and an immunotherapy (IL-17E), all of which represent first in class compounds with unique validated targets and distinct mechanisms of action. Our mandate is to discover and develop drugs up to and including the Phase II clinical stage, and then out-license to pharmaceutical partners to fund the large and expensive registration clinical trials and if the clinical trials are successful, subsequent commercialization.

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: is a proprietary, first-in-class, small molecule that stimulates Krüppel-like factor 4 (KLF4) to suppress tumor growth. This compound, which is unique to Lorus, exhibits potent anti-proliferative and anti-metastatic properties and is currently in a Phase I trial for solid tumors. The Phase I dose-escalation study is in patients with advanced or metastatic solid tumors who are unresponsive to conventional therapy or for which no effective therapy is available. The study, which is currently enrolling patients, is being conducted at Memorial Sloan-Kettering Cancer Center in New York and MD Anderson Cancer Center in Houston. Objectives of the study include determination or characterization of the safety profile, maximum tolerated dose, and antitumor activity of LOR-253, as well as pharmacokinetics and recommended Phase II dose for subsequent clinical trials.

In September, 2011, Lorus announced the allowance of an Australian patent for LOR-253, which covers LOR-253 composition of matter and methods of treating cancer with LOR-253.

In November, 2011, Lorus announced the presentation of positive nonclinical toxicity data for LOR-253 at the Annual Meeting of the American College of Toxicology (ACT). The presentation details the results of nonclinical toxicity and toxicokinetics studies conducted with LOR-253. The studies were part of the formal safety evaluation of LOR-253 to support first-in-man clinical trials in cancer, and to determine the starting dose of LOR-253 in patients. The studies, which took place over one year, examined a wide range of toxicity parameters in rat and dog species, as well as safety pharmacology and blood toxicity. Overall, LOR-253 had a favorable nonclinical toxicology profile in both animal species and was well tolerated at doses higher than efficacious dose levels established in animal models of human cancers. Of significance, the data show that the effective dose could be increased by a factor of eight to fifteen before seeing levels of toxicity in the animal studies. Additional data in the poster include the results of preclinical anticancer studies on LOR-253 in mouse models of human non-small cell lung cancer (NSCLC). The data show that LOR-253 has significant anticancer activity against NSCLC, particularly in tumors with low expression levels of the tumor suppressor KLF4. Lorus is currently examining the role of KLF4 as a potential biomarker for LOR-253 anticancer activity.

In March, 2012, Lorus announced that the Canadian Patent Office has issued a patent for LOR-253. The patent provides Lorus with exclusive rights to LOR-253 in Canada until it expires in 2026. The Canadian patent covers LOR-253 composition of matter and its use in the treatment of a wide range of cancers.

In April, 2012, Lorus announced the presentation of new preclinical data for LOR-253, at the AACR annual meeting. The data supports the treatment of lung and colon cancers with LOR-253 in combination with a variety of chemotherapy agents. The studies examined the anticancer activities of LOR-253, given in combination with approved anticancer agents, at different doses and schedules. The preclinical data showed that initial treatment of non-small cell lung cancer (NSCLC) cells with chemotherapy drugs docetaxel, paclitaxel, or cisplatin, followed by treatment with LOR-253, had significant and synergistic anticancer activity compared to either drug given alone. In animal studies, LOR-253 plus docetaxel showed significant efficacy against human NSCLC tumors when both drugs were administered at efficacious doses sequentially, compared to treatment with either agent alone at the same dose levels. Similar anticancer synergy was also seen in colon cancer cells when LOR-253 was combined with the chemotherapeutics oxaliplatin, CPT-11, or fluorouracil. Each of these drugs are currently used for the treatment of colon cancer. In animal studies, LOR-253 plus oxaliplatin showed significant efficacy against human colon tumors when both drugs were administered sequentially, compared to either agent alone at the same dose levels.

In April, 2012, Lorus announced that the United States Patent and Trademark Office has allowed Lorus' patent for LOR-253. The patent, which was originally set to expire in May 2026, was granted a patent term adjustment that extends the patent expiry date to February 2028.

In June, 2012 Lorus announced the addition of MD Anderson Cancer Center as a second site in the ongoing LOR 253 Phase I clinical trial, under the direction of Dr. Jennifer Wheler as the principal investigator. In addition, Lorus announced that the study had successfully completed the accelerated drug dose escalation stage (Stage 1), with further escalation under way in the non-accelerated dose escalation stage (Stage 2) for the purpose of determining the maximal tolerated dose level and recommended Phase II dose. The addition of a second site expands patient availability for enrollment as the study is now in Stage 2. Upon completion of the final dose of this stage, the study will be further expanded to include biopsy-suitable patients for evaluating direct drug effects in the tumors.

LOR-500 program: potent and first-in-class small molecule anticancer agents with a novel target, MELK. Lorus' research suggests that the MELK target is highly expressed in multiple cancers.

Immunotherapy

Immunotherapy is a form of treatment that stimulates the body's immune system to fight diseases including cancer. Lorus' research suggests that 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.

IL-17E: a novel immunotherapy based on stimulating anticancer properties of the immune system and by direct tumor cell killing. It has an excellent therapeutic index and is currently in preclinical development. Lorus owns the patents for the anti-cancer use of IL-17E.

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 peer-reviewed 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.

In May, 2012, Lorus announced that it had entered into a global license with Genentech, a member of the Roche Group, in respect of the in-licensing of certain patents owned by Genentech for IL-17E. Lorus believes that the Genentech license will enable Lorus to develop this program as a novel and exciting treatment for a large number of cancers. See “License Agreement – Genentech”.

Other Technologies

In addition to its active pipeline programs, Lorus has two late-stage compounds, LOR-2040 and Virulizin. The intellectual property rights to Virulizin were sold in 2009 (see “Financial Strategy – Secured Convertible Debentures”) however Lorus retains certain rights to Virulizin which is partnered with Zor Pharma. Lorus is seeking a potential partner for the further development of LOR-2040.

Lorus also has LOR-220, a novel small molecule with antimicrobial properties in the preclinical stage. LOR-220 has demonstrated antimicrobial activity with growth inhibition of Gram-positive bacteria including strains of methicillin-resistant S. aureus (MRSA), vancomycin-resistant E. faecalis (VRE), and Streptococcus pneumoniae, with minimal inhibitory concentration (MIC) values comparable to the newly introduced oxazolidinone & Linezolid, and potent in vitro and in vivo bactericidal activity.

Lorus does not plan to develop any of these other technologies using its own resources and as such these programs will only advance in the event Lorus is able to secure a partnership.

Agreements

Manufacturing Agreements
We currently rely upon subcontractors for the manufacture of our drug candidates. The subcontractors manufacture clinical material according to current GMP at contract manufacturing organizations that have been approved by our quality assurance department staff, after having conducted audits to ensure such manufacturers meet the requirements of the relative regulatory authorities.

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

Licence Agreements

Genentech

The Company holds a non-exclusive license from Genentech to certain patent rights to develop and sub-license a certain polypeptide. In consideration of the license the Company paid an upfront amount and could be required to pay additional milestones and royalties on sales. The Company does not expect to make any milestone or royalty payments under this agreement in fiscal years ended May 31, 2013 or 2014, and cannot reasonably predict when such royalties will become payable, if at all.

University of Manitoba

The Company holds an exclusive worldwide license to certain patent rights relates specifically to antisense and related technologies described in patent applications that were pending at the time of the agreement with The University of Manitoba. Subsequent patent amendments or advancements to these patents remain as the property of Lorus, without license rights accruing back to the University of Manitoba. In consideration for the exclusive license the University of Manitoba is entitled to an aggregate of 1.67% of the net sales received by Lorus from the sale of products or processes derived from the patent rights and 1.67% of all monies received by Lorus from sub-licenses of the patent rights. We do not expect to make any royalty payments under this agreement in fiscal years ended May 31, 2013 or 2014 if at all.

Collaboration Agreements

Zoticon Bioventures Inc.

In April 2008,Lorus signed an exclusive multinational license agreement with ZOR, a subsidiary of Zoticon Bioventures Inc. (“Zoticon”), a research-driven biopharmaceutical group, to further develop and commercialize Virulizin® for human therapeutic applications. In June 2009, Lorus assigned these rights to TEMIC in settlement of an outstanding convertible debenture. Lorus retained rights to 50% of royalties received by TEMIC as well as a right to 50% of consideration received in territories not covered by the Zor license agreement.

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.

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.

Small Molecule
We have been issued 10 patents and have 14 pending patents worldwide for our in-house small molecules. These patents cover composition of matter and method claims.

Immunotherapy
We have one issued patent and two pending patents for our IL-17E immunotherapy program.

Other Therapies
We have 19 issued patents and three pending patents worldwide for our DNA-based therapeutics. These patents include composition of matter and method claims.

See “Risk Factors”

Regulatory Strategy

Our overall regulatory strategy is to work with the appropriate government departments which regulate the use and sale of therapeutic drug products. This includes Health Canada in Canada, the Food and Drug Administration in the United States, the European Medicines Agency in Europe, and any other local regulatory agencies with oversight of preclinical studies, clinical trials and marketing of therapeutic products. Where possible, we intend to take advantage of opportunities for accelerated development 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. See “Regulatory Approval Process” and “Risk Factors”.

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, vaccines and other biologics, and immunotherapies with novel mechanisms of action. These drugs may kill cancer cells indiscriminately, or through a targeted approach, and some have the 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, including 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. Other factors that could render our products less competitive may include the stage of development, where competitors’ products may achieve earlier commercialization, as well as superior patent protection, better safety profile, or a preferred cost-benefit profile.

Human Resources

As at May 31, 2012, we employed 12 full-time persons and four part-time people in research and drug development and administration activities. Of our employees, four 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.

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.

See “Risk Factors”

Properties

Our head office, which occupies 20,500 square feet, is located at 2 Meridian Road, Toronto, Ontario. The leased premises include approximately 8,000 square feet of laboratory and research space. We believe that our existing facilities are adequate to meet our requirements for the near term. Our current lease expires on March 31, 2013.

RISK FACTORS

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

We are an early stage development company.

We are at an early stage of development. Since our incorporation, none of our products has obtained regulatory approval for commercial use and sale in any country, except for Virulizin in very limited circumstances in Mexico. As such, significant revenues have not resulted from product sales. Significant additional investment will be necessary to complete the development of any of our product candidates. Pre-clinical and clinical trial work must be completed before our products could be ready for use within the markets that we have identified. We may fail to develop any products, obtain regulatory approvals, enter clinical trials or 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. We also do not know whether sales, license fees or related royalties will allow us to recoup any investment we make in the commercialization of our products.

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. For example, our lead product candidate LOR-253 is currently in a Phase I clinical trial. Should this trial be successful significant additional funding or a partnership would be necessary to complete the necessary Phase II and Phase III clinical trials. Such funding will be very difficult, or impossible to raise in the public markets or through partnerships. If such funding or 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 need to raise additional capital.

We have an ongoing need to raise additional capital. To obtain the necessary capital, we must rely on some or all of the following: additional share issues, debt issuances (including promissory notes), collaboration agreements or corporate partnerships and grants and tax credits 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.

Our need for capital may require us to:

- engage in equity financings that could 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 International Financial Reporting Standards, we reported net losses of $4.6 million, and $5.0 million and for the years ended May 31, 2012 and 2011, respectively, and as of May 31, 2012, we had an accumulated deficit of $194 million.

We have not generated any significant revenue from product sales to date and it is possible that we will never have sufficient product sales revenue to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. To become profitable, we, either alone or with our collaborators and licensees, must successfully develop, manufacture and market our current product candidates LOR-253 and IL17E 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 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 assure you 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. Approval in one country does not assure approval in another country. 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. We cannot assure you that our preclinical studies and clinical trials will generate positive results that will allow us to move towards the commercial use and sale of our product candidates. Furthermore, negative preclinical or clinical trial results may cause our business, financial condition, or results of operations to be materially adversely affected.

For example, as our lead product candidates LOR-253 is in the Phase I stage of development and our product candidate IL-17E is in the pre-clinical stage of development and there is still a long development path ahead which will take many years to complete and like all of our potential drug candidates is 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 and indications where this is significant competition for patients. 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.

We have indemnified our predecessor, Old Lorus, and its directors, officers and employees.

In connection with the reorganization that we undertook in fiscal 2008, we have agreed to indemnify our predecessor, 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:

- prior to, at or after the effective time of the arrangement transaction, and directly or indirectly relating to any of the assets of Old Lorus transferred to us pursuant to the arrangement transaction (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;
- 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 us under the arrangement; and
- prior to or at the effective time and directly or indirectly relating to, with certain exceptions, any of the activities of Old Lorus or the arrangement.

This indemnification could result in significant liability to us. To date no amount has been claimed on this indemnification. Should a claim arise under this indemnification it could result in significant liability to the Company which could have a negative impact on our liquidity, financial position, and ability to obtain future funding among other things.

We may not achieve our projected development goals in the time frames we announce and expect.

We set goals for, and make public statements regarding the expected timing of the accomplishment of objectives material to our success, such as the commencement and completion of clinical trials, the partnership of our product candidates and our ability to secure the financing necessary to continue the development of our product candidates. The actual timing of these events can vary dramatically due to factors within and beyond our control such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process, market conditions and interest by partners in our product candidates among other things. We cannot assure you that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned, or that we will secure partnerships for any of our product candidates. Any failure to achieve one or more of these milestones as planned would have a material adverse effect on our business, financial condition and results of operations.

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 be more effective than our existing and future products insofar as they 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, insurers, the medical community and other stakeholders. 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 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 United States, 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.

Publication of discoveries in scientific or patent literature often lags behind actual discoveries. Patent applications filed in the United States 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.

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, or others many infringe on our intellectual property rights 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-253 and IL17E. 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. We may also need to bring claims against others who we believe are infringing our rights in order to become or remain competitive and successful.

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. 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. In general, insurance will not protect us against some of our own actions such as negligence.

We are subject to privacy laws. Violations of these laws may result in significant liability and the incurring of substantial costs to achieve compliance.

Our business is focused on the development of biopharmaceutical products. As a result, we are subject to some privacy laws in Canada and several other jurisdictions which control the use, disclosure, transmission and retention of confidential personal information. Our insurance coverage and/or diligence may not protect us from all liability and regulatory action arising from non-compliance with these laws, particularly if our non-compliance is the result of our own negligent actions or misconduct. If we have to respond to regulatory action, pay damages, or incur expenses defending any claims, we may be materially and 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-253, IL17E 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 business depends on licensing agreements, which may require us to meet obligations that are not favourable for our business.

Our business depends on arrangements with third parties such as licensors and licensees. Our license agreements may require us to diligently bring our products to market, make milestone payments and royalties that may be significant, and incur expenses associated with filing and prosecuting patent applications. We cannot assure you that we will be able to establish and maintain license agreements that are favourable for our business, if at all.

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.

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. This leads to a heightened risk of securities litigation pertaining to such volatility. 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 clinical trials:
- our ability to obtain partners and collaborators to assist with the future development of our products;

- general market conditions;
- announcements of technological innovations or new product candidates by us, our collaborators or our competitors;
- published reports by securities analysts;
- developments in patent or other intellectual property rights;
- 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; and
- shareholder interest in our Common Shares.

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 and have an undesirable impact on our ability to raise capital.

We are susceptible to stress in the global economy and therefore, our business may be affected by the current and future global financial condition.

If the increased level of volatility and market turmoil that have marked recent years continue, our operations, business, financial condition and the trading price of our Common Shares could be materially adversely affected. Furthermore, general economic conditions may have a great impact on us, including our ability to raise capital, our commercialization opportunities and our ability to establish and maintain arrangements with others for research, manufacturing, product development and sales.

There is no assurance that an active trading market in our common shares will be sustained.

Our common shares are listed for trading on the Toronto Stock Exchange. However, there can be no assurance that an active trading market in our common shares on the stock exchange will be sustained or that we will be able to maintain our listing.

DIVIDENDS

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

SHARE CAPITAL AND MARKET FOR SECURITIES

Share Capital

We are authorized to issue an unlimited number of common shares. As of August 3, 2012, there were 42.3 million common shares issued and outstanding. In addition, as of August 3, 2012, there were 3.4 million common shares issuable upon the exercise of outstanding stock options and 27 million common shares issuable upon the exercise of common share purchase warrants priced at $0.45 and expiring in June 2014 and August, 2016. The holders of common shares are entitled to one vote per share at meetings of shareholders, to receive such dividends as declared by us and to receive our remaining property and assets upon our dissolution or winding up. Our common shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares.

Market for Securities

Our common shares are currently listed on TSX under the symbol “LOR”.

The following table sets out the price ranges and trading volumes of our common shares on the TSX for the periods indicated.

	High ($)	Low ($)	Volume (#)
2012			
May	0.59	0.27	606,200
April	0.35	0.20	272,000
March	0.28	0.17	708,100
February	0.22	0.17	245,400
January	0.22	0.17	270,700
2011			
December	0.25	0.16	948,000
November	0.28	0.20	88,600
October	0.24	0.31	97,300
September	0.37	0.26	124,700
August	0.41	0.25	389,700
July	0.50	0.41	299,600
June	0.72	0.45	160,500

Principal Shareholders

To our knowledge, based on publicly available information, the only persons or entities that own more than 10% of our issued and outstanding common shares are Mr. Herbert Abramson and his related parties, which currently own approximately 21.2% of our issued and outstanding common shares and Mr. Sheldon Inwentash and Pintree Capital Ltd. which as a group hold approximately 12% of our issued and outstanding common shares. See Business of the Company — Financial Strategy”.

DIRECTORS AND OFFICERS

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

Each director has been elected or appointed to serve until the next annual meeting or until a successor is elected or appointed. We have an Audit Committee, Corporate Governance and Nominating Committee and a Compensation Committee the members of each such committee are shown below. As at May 31, 2012, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over approximately 9.4 million common shares or approximately 22% 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	Director	September 2007
Dr. Mark Vincent[3] Ontario, Canada	Director	September 2007
Warren Whitehead[1] Ontario, Canada	Director	April, 2011
Dr. Jim Wright[2] Ontario, Canada	Chairman, Director, former President and Chief Executive Officer,	October 1999
Officers:		
Dr. Aiping Young Ontario, Canada	President and Chief Executive Officer, Director,	October 1999
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:

Mr. Herbert Abramson: Mr. Abramson has been in the investment industry for 29 years managing portfolios for high net worth individuals. He is a co-founder, Chairman and Portfolio Manager of Trapeze Capital Corp., an investment dealer and portfolio management company and is also Chairman and Portfolio Manager of Trapeze Asset Management Inc., an affiliated investment counseling company. Mr. Abramson is a member of the Law Society of Upper Canada and practiced corporate/securities law for 12 years before going into the investment business. He is also currently a Director of St Andrew Goldfields Ltd.

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

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

Dr. Jim Wright: Dr. Wright is presently Chief Executive Officer of NuQuest Bio Inc. since 2006 and until 2005 was Professor in the Faculties of Science and Medicine at the University of Manitoba. As of July 1, 2010, Dr. Wright accepted a position as an 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. In September 2006, he stepped down as the President and Chief Executive Officer of Lorus.

Mr. Warren Whitehead: Mr. Whitehead is a Certified Management Accountant who has held senior financial management positions in several biotechnology and pharmaceutical companies. Most recently he served as Chief Financial Officer of ARIUS Research Inc., providing financial guidance and leadership during the acquisition of ARIUS by Roche in 2008. Prior to that Mr. Whitehead was Chief Financial Officer at Labopharm Inc., where he completed a series of public equity financings and a listing on NASDAQ. He is currently a member of the Board of Directors of PlantForm Corporation, a life sciences company that develops biosimilar antibody drugs for treatment of cancer and other critical illnesses.

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 Technology Officer at Lorus.

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

Elizabeth Williams: Prior to joining Lorus in July 2004, Ms. Williams was an Audit Manager with Ernst and Young LLP. Ms. Williams is a chartered accountant and has received a bachelor's degree in business administration.

AUDIT COMMITTEE INFORMATION

Audit Committee

The charter of our audit committee is attached as Schedule A. The current members of the audit committee are Herb Abramson, Denis Burger and Warren Whitehead. Mr. Warren Whitehead is the Chairman of the Audit Committee. Pursuant to Canadian securities laws, our board of directors has determined that Messrs. Abramson, Burger and Whitehead 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 and portfolio manager 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, was 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. Mr. Whitehead is a Certified Management Accountant and has served as the Chief Financial Officer of Arius Research Inc. and Labopharm Inc. The board of directors believes 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.

Independent Auditors

Auditor's Fees

The total fees billed for professional services by KPMG LLP (our independent auditors) for the years ended May 31, 2012 and 2011 are as follows:

		2012		**2011**
Audit Fees	$	211,500	$	312,856
Tax Fees	$	-	$	8,800
All Other Fees	$	25,230	$	26,885
Total	$	236,730	$	348,541

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, including assistance with our conversion to IFRS. 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 non-audit services must be submitted to the audit committee for review and approval.

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

No services were provided by KPMG LLP under a *de minimus* exemption for our fiscal years ended May 31, 2012 and 2011.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than the items described under 'Transactions with Related Parties' none of our directors, executive officers or to our knowledge, principal shareholders, or any associate or affiliate of the forgoing, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to the date of this annual information form that has materially affected or will materially affect us.

TRANSACTIONS WITH RELATED PARTIES

Mr. Abramson, a director and majority shareholder of Lorus has participated in various financing activities as described above under 'Financial Strategy' in the sub-sections entitled 'August 2011 Unit Offering, December 2010 Private Placement, November 2010 Rights Offering, Promissory Notes and November 2009 Private Placement'

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

Other than the agreements described below, we have not, during our financial year ending May 31, 2012, entered into any material agreements other than contracts in the ordinary course of business. Agreements are filed on SEDAR under Lorus Therapeutics.

1. Share Purchase Warrant Indenture dated August 15, 2011 between the Company and Computershare Trust Company of Canada regarding the provision for issuance of common share purchase warrants.

2. Agency Agreement dated July 20, 2011 in connection with an offering of units between the Company and Euro Pacific Canada Inc.

3. Commitment Letter for minimum $4million equity investment dated June 20, 2011 and subsequently amended July 11, 2011 from Mr. Abramson.

4. License Agreement with Genentech Inc. entered into May 1, 2012 for the non-exclusive right to certain patent rights.

5. Form of Warrant issued in connection with June 2012 private placement

INTERESTS OF EXPERTS

KPMG LLP, the Company's external auditor, has reported on the consolidated financial statements of the Company for each of the years in the three-year period ended May 31, 2012. KPMG LLP is independent of Lorus in accordance with the applicable Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to Lorus may be found on SEDAR at www.sedar.com. Certain additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, and securities authorized for issuance under our stock option plan, will be contained in the Company's management information circular which will be filed on SEDAR at www.sedar.com in respect of the Company's annual meeting of shareholders for the fiscal year ended May 31, 2012. Additional financial information is provided in our financial statements and management's discussion and analysis for the financial year ended May 31, 2012 (the "2011 Financial Statements"). Copies of:

- the 2012 Financial Statements and our most recent unaudited financial statements that have been filed, if any, for any period subsequent to the year ended May 31, 2012;
- this annual information form and any document or the pertinent pages of any document incorporated by reference in this annual information form; and
- any other documents that are incorporated by reference into a short form prospectus or preliminary short form prospectus otherwise not referred to therein when our securities are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus,

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

GLOSSARY

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

antimicrobial:	a substance that kills or inhibits the growth of microorganisms.
anti-proliferative:	preventing cell division
B cells:	a type of white blood cell.
cytokine:	a generic term for a non-antibody protein released by a cell population (e.g., activated macrophages) of the immune system on contact with chemical or biological stimuli
cytotoxic:	pertaining to the destruction of cells
efficacy:	the ability of a drug to produce a desired result
eosinophils:	a type of white blood cell.
GMP or Good Manufacturing Practice:	practices and the systems required to be adapted in pharmaceutical manufacturing, quality control, quality system covering the manufacture and testing of pharmaceuticals or drugs including active pharmaceutical ingredients, diagnostics, foods, pharmaceutical products, and medical devices.
immune system:	the totality of organs and cells involved in the body's immunologic response to foreign antigens and malignant tissue
in vitro:	in the test tube; referring to chemical reactions, fermentation, etc., occurring therein e.g., in cell-free extracts
in vivo:	in the living body; referring to chemical processes occurring within cells, etc., as distinguished from those occurring in cell-free extracts (*in vitro*)
malignant/ malignancy:	describes a tumor that is cancerous. Two important qualities of malignancies are the tendency to invade surrounding tissues and to break off and spread elsewhere (metastasis)
metabolism:	the overall biochemical reactions that take place in a living organism including the building up of complex molecules or breakdown of molecules to provide energy
metastasis:	the process by which tumor cells are spread to other parts of the body
oglionucleotide:	a compound consisting of a purine or pyrimidine base, a pentose sugar and a phosphoric acid; they are the building blocks from which nucleic acids (DNA or RNA) are constructed
pharmacokinetics:	the action of drugs in the body over a period of time, including the process of absorption, distribution, localization in tissues, biotransformation and excretion
proinflammatory:	capable of promoting inflammation.
proteins:	large molecules composed of long chains of sub-units of amino acids
receptors:	a molecule most often found on the surface of a cell, which receives chemical signals originating externally from the cell.
toxicity:	a condition that results from exposure to a substance at levels causing deleterious side effects which may be harmful to an organism
tumor:	an abnormal swelling or lump in the body caused by the growth of new tissues which differ in structure from the part of the body in which they are growing. A tumor may be benign or malignant

SCHEDULE A

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

OF LORUS THERAPEUTICS INC. (the "Company")

I. PURPOSE

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

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

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

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

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

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

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

II. COMPOSITION AND MEETINGS

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

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

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

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

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

III RESPONSIBILITIES AND DUTIES

A. Review Procedures

The Audit Committee shall:

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

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

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

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

5) Oversee the work of the independent auditors including the review of any disagreements among management and the independent auditors in connection with financial statements, and overseeing the resolution of any such disagreements.

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

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

B. Independent Auditors

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

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

    2) The compensation of such external auditor; and

    3) To approve any discharge of the external auditor when circumstances warrant.

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

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

4) The Audit Committee shall review the external auditors' audit plan – discuss scope, staffing, locations, reliance upon management and general audit approach.

5) The Audit Committee shall consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

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

7) The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former independent auditors of the Company.

8) The Audit Committee shall review and discuss quarterly reports from the external auditors on:

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

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

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

C. Ethical and Legal Compliance

The Audit Committee shall:

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

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

D. Whistle Blowing

The Audit Committee shall put in place procedures for:

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

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

E. Other Audit Committee Responsibilities

The Audit Committee shall:

1) Create an agenda for the ensuing year.

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

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

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

FORM 52-109F1
CERTIFICATION OF ANNUAL FILINGS– FULL CERTIFICATE

I, Aiping Young, President and Chief Executive Officer of Lorus Therapeutics Inc. certify the following:

1. ***Review:*** I have reviewed the AIF, annual financial statements and annual MD&A including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Lorus Therapeutics Inc. (the "issuer") for the financial year ended May 31, 2012.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

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

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 ***ICFR — material weakness relating to design:*** N/A

5.3 ***Limitation on scope of design:*** N/A

6. ***Evaluation***: The issuer's other certifying officer(s) and I have

   A. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

   B. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A

      I. our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

      II. N/A

7. ***Reporting changes in ICFR***: The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on March 1, 2012 and ended on May 31, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board of directors or audit committee:***The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: August 8, 2012

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

FORM 52-109F1
CERTIFICATION OF ANNUAL FILINGS– FULL CERTIFICATE

I, Elizabeth Williams, Director of Finance and Acting Chief Financial Officer of Lorus Therapeutics Inc. certify the following:

1. ***Review:*** I have reviewed the AIF, annual financial statements and annual MD&A including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Lorus Therapeutics Inc. (the "issuer") for the financial year ended May 31, 2012.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

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

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 ***ICFR — material weakness relating to design:*** N/A

5.3 ***Limitation on scope of design:*** N/A

6. ***Evaluation***: The issuer's other certifying officer(s) and I have

   A. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

   B. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A

      I. our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

      II. N/A

7. ***Reporting changes in ICFR***: The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on March 1, 2012 and ended on May 31, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. ***Reporting to the issuer's auditors and board of directors or audit committee:***The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: August 8, 2012

/s/ Elizabeth Williams
Elizabeth Williams
Director of Finance and Acting CFO