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

FORM 20-F

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934.

Or

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.For the fiscal year ended May 31, 2013.

Or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from _____ to _____ .

Or

☐ Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Date of event requiring this shell company report _____.

Commission file number 001-32001

LORUS THERAPEUTICS INC.

(Exact Name of Registrant as Specified in Its Charter)

Canada
(Jurisdiction of Incorporation or Organization)

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

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

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

Title of Each Class	**Name of Each Exchange On Which Registered**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **Common Shares**

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

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

Common Shares, without par value, at May 31, 2013: 42,251,081

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

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

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

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

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

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GENERAL

On July 10, 2007 (the "**Arrangement Date**"), Lorus Therapeutics Inc. completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc. (now Global Summit Real Estate Inc.), formerly Lorus Therapeutics Inc. ("**Old Lorus**"), 6707157 Canada Inc. and Pinnacle International Lands, Inc. (the "**Arrangement**"). As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one Lorus Common Share and the assets (excluding certain deferred tax assets) and liabilities of Old Lorus (including all of the shares of its subsidiaries) were transferred, directly or indirectly, to Lorus and/or our subsidiaries. We continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same directors as Old Lorus prior to the Arrangement Date. In this Annual Report on Form 20-F, all references to " **Lorus**", the "**Corporation**", the "**Company**", "**we**", "**our**", "**us**" and similar expressions, unless otherwise stated, are references to Old Lorus prior to the Arrangement Date and Lorus Therapeutics Inc. (and where the context requires, Lorus Therapeutics Inc. and its subsidiary) after the Arrangement Date. References to this "**Form 20-F**" and this "**Annual Report**" mean references to this Annual Report on Form 20-F for the fiscal year ended May 31, 2013.

We use the Canadian dollar as our reporting currency. All references in this Annual Report to "dollars" or "$" are expressed in Canadian dollars, unless otherwise indicated. See also "Item 3. Key Information" for more detailed currency and conversion information. Our Consolidated Financial Statements, which form part of this Annual Report, are presented in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"), which differ in certain respects from accounting principles generally accepted in the United States ("**U.S. GAAP**").

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of U.S. 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.*

Such 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 a reorganization of the Company that occurred in 2007;*
- *our ability to negotiate and enter into agreements with potential partners;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain and maintain 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 ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the United States Securities and Exchange Commission ("**SEC**"), and those which are discussed under the heading "Risk Factors".*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this Annual Report or, in the case of documents incorporated by reference herein, as of the date of such documents, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law. Such statements may not 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. New factors emerge from time to time, and it is not possible for management of the Corporation to predict all of these factors or to assess in advance the impact of each such factor on the Corporation's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. *Selected financial data.*

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

The selected consolidated financial information set forth below for each of the two years ended May 31, 2013 and 2012, has been derived from the Company's audited consolidated financial statements as at and for the financial years ended May 31, 2013 and 2012 filed as part of this Form 20-F under Item 18. These consolidated financial statements have been prepared in accordance with IFRS, which differ in certain respects from the principles the Company would have followed had its consolidated financial statements been prepared in accordance with U.S. GAAP. The selected consolidated financial information should be read in conjunction with the discussion in Item 5 of this Form 20-F and the consolidated financial statements and related notes thereto.

Selected IFRS financial data for the years ended May 31, 2010 and 2009 have not been included in this Annual Report on Form 20-F because IFRS financial statements for such periods have not previously been prepared and could not be prepared without unreasonable effort and expense. We changed our basis of accounting to IFRS beginning with the quarter ended August 31, 2011. Prior to the adoption of IFRS, we prepared financial statements in accordance with accounting principles generally accepted in the United States for purposes of our SEC reporting.

The following table presents a summary of our consolidated statement of operations derived from our audited Consolidated Financial Statements for the fiscal years ended May 31, 2013, 2012 and 2011.

Consolidated statements of operations data

(In thousands, except per share data)

		May 31, 2013		**May 31, 2012**		**May 31, 2011**
In accordance with IFRS						
Revenue	**$**	**—**	$	—	$	—
Research and development	**$**	**3,317**	$	2,170	$	2,518
General and administrative	**$**	**2,272**	$	2,430	$	2,420
Operating expenses	**$**	**5,589**	$	4,600	$	4,938
Finance expense	**$**	**6**	$	20	$	71
Finance income	**$**	**(30)**	$	(6)	$	(14)
Net loss	**$**	**(5,565)**	$	(4,614)	$	(4,995)
Basic and diluted loss per Common Share	**$**	**(0.13)**	$	(0.23)	$	(0.38)
Weighted average number of Common Shares outstanding		**42,251**		20,260		13,157

The following table presents a summary of our consolidated balance sheet as at May 31, 2013, 2012 and 2011. We publish our consolidated financial statements in Canadian ("**CDN**") dollars. In this Annual Report, except where otherwise indicated, all amounts are stated in CDN dollars.

Consolidated balance sheet data

(In thousands, except per share data)	As at May 31,		
	2013	**2012**	**2011**
In accordance with IFRS			
Cash and cash equivalents	**$ 653**	**$ 320**	**$ 911**
Total assets	**$ 1,035**	**$ 668**	**$ 1,398**
Total debt	**$ 1,816**	**$ 2,696**	**$ 1,159**
Total shareholders' equity (deficit)	**$ (781)**	**$ (2,028)**	**$ 239**
Number of Common Shares outstanding	**42,251**	**21,228**	**15,685**
Dividends paid on Common Shares	—	—	—

The following table sets out the exchange rates of CDN$ for US$1.00 for the following periods as taken from the Bank of Canada's website:

Period	**Average Close**
Month Ended April 30, 2014	1.0990
Fiscal Year Ended May 31, 2013	1.0042
Fiscal Year Ended May 31, 2012	1.0005
Fiscal Year Ended May 31, 2011	1.0066
Fiscal Year Ended May 31, 2010	1.0635
Fiscal Year Ended May 31, 2009	1.1567

The following table sets forth the high and low exchange rates for each month during the previous six months.

Period	**High**	**Low**
April 2014	$ 1.0857	$ 1.1054
March 2014	$ 1.0955	$ 1.1279
February 2014	$ 1.0939	$ 1.1195
January 2014	$ 1.0974	$ 1.0909
December 2013	$ 1.0669	$ 1.0616
November 2013	$ 1.0509	$ 1.0469

B. ***Capitalization and indebtedness.***

Not applicable.

C. ***Reasons for the offer and use of proceeds.***

Not applicable.

D. ***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 in this Annual Report. Additional risks not currently known by us or that we consider immaterial at the present time may also impair our business, financial condition, prospects or results of operations. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely be materially adversely affected. In that case, the trading price of our Common Shares could decline and you may lose all or part of the money you paid to buy our Common Shares. The risks set out below are not the only risks and uncertainties we currently face; other risks may arise in the future.

RISKS RELATED TO OUR BUSINESS

We are an early stage development company.

We are at an early stage of development. Since our incorporation, none of our potential products has obtained regulatory approval for commercial use and sale in any country, except for Virulizin, for which we have no control over commercialization efforts. We currently do not receive any revenue from sales of Virulizin. As such, no significant revenues have resulted from product sales. Significant additional investment will be necessary to complete the development of any of our product candidates. Preclinical and clinical trial work must be completed before our potential 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 at least the next several years and we may encounter unforeseen difficulties or delays in commercializing our product candidates. In addition, our potential products may not be effective or 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, has recently completed a Phase I clinical trial in patients with solid tumors, and we have reported initial results. Additional funding or a partnership will be necessary to complete, if required, a Phase II or Phase III clinical trial. Such funding may be very difficult, or impossible to raise in the public or private markets or through partnerships. If funding or partnerships are not attainable, the development of these product candidates may be significantly delayed or stopped altogether. The announcement of a delay or discontinuation of development would likely 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. Additional funding may not 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 IFRS, we reported net losses of $5.6 million and $4.6 million for the fiscal years ended May 31, 2013 and 2012, respectively, and as of May 31, 2013, we had an accumulated deficit of $200 million.

We have not generated any significant revenue to date and it is possible that we will never have sufficient product sales revenue to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. To become profitable, we, either alone or with our collaborators and licensees, must successfully develop, manufacture and market our current product candidate LOR-253 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 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 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, licensors, 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. These third parties may not perform their obligations as expected and our collaborators may not 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, and our current or future collaborative arrangements may not be successful.

If we cannot negotiate collaboration, licence or partnering agreements, we may never achieve profitability and we may not be able to continue to develop our product candidates. Phase II and Phase III clinical trials for LOR-253 would require significant amounts of funding and such funding may not be available to us.

Clinical trials are long, expensive and uncertain processes and Health Canada or the United States Food and Drug Administration ("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, other than Virulizin. 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 Phase I clinical trials may not be repeated in larger Phase II or Phase III clinical trials.

Our preclinical studies and clinical trials may not 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 candidate LOR-253 has completed the Phase I testing in patients with solid tumors, for which we previously reported initial data, 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 is required if we are to complete development of our products.

Later stage clinical trials of our products require that we identify and enroll a large number of patients with the illness under investigation. We may not be able to enroll 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. Delays in planned patient enrolment or lower than anticipated event rates in our current clinical trials or future clinical trials also 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 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 have agreed to indemnify our predecessor, Old Lorus, and its directors, officers and employees.

In connection with the reorganization that we undertook in fiscal year 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 obligation could result in significant liability to us. To date no amount has been claimed on this indemnification obligation. Should a claim arise under this indemnification obligation 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. Our clinical trials may not be completed, and we may not 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 may not be aware of 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. Our pending patent applications, even if issued, may not 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 or obtain adequate compensation for the damages caused by unauthorized disclosure or use of our trade secrets or know how. Our trade secrets or those of our collaborators also may be independently discovered by others.

Our products and product candidates may infringe the intellectual property rights of others, or others may 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 LOR-253, our lead product candidate. In addition, third parties may assert infringement or other intellectual property claims against us. 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 third-party technology, a license under such patents and patent applications may not 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. Any such claims can be time consuming and expensive to pursue.

If product liability, clinical trial liability or environmental liability claims are brought against us or we are unable to obtain or maintain product liability, clinical trial or environmental 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, clinical trial liability, environmental liability and other risks that are inherent in the testing, manufacturing and marketing of our products. These liabilities, if realized, could have a material adverse effect on the Corporation's business, results of operations and financial condition.

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.

As the Corporation's development activities progress towards the commercialization of product candidates, our liability coverage may not be adequate, and the Corporation may not be able to obtain adequate product liability insurance coverage at a reasonable cost, if at all. Even if the Corporation obtains product liability insurance, its financial position may be materially adversely affected by a product liability claim. A product liability claim could also significantly harm the Corporation's reputation and delay market acceptance of its product candidates. Additionally, product recalls may be issued at the direction of the FDA, other government agencies or other companies having regulatory control for pharmaceutical sales. If a product recall occurs in the future, such a recall could adversely affect our business, financial condition or reputation.

We have no manufacturing capabilities and face supply risks. 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 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 the supply of necessary components is interrupted, components from alternative suppliers may not be available in sufficient volumes or at acceptable quality levels within required timeframes, if at all, to meet the needs of the Corporation. An inability to contract for a sufficient supply of our product candidates on acceptable terms, or delays or difficulties in the manufacturing process or our relationships with our manufacturers, may lead to us not having sufficient product to conduct or complete our clinical trials or support preparations for the commercial launch of our product candidates, if approved. This may lead to substantial lost revenue opportunity and contract liability to third parties.

Reliance on Licensor(s) to Maintain Patent Rights

The Corporation's commercial success depends, in part, on maintaining and defending patent rights related to products that the Corporation may market in the future. Since the Corporation may not fully control the patent prosecution of any licensed patent applications it is possible that the licensors will not devote the same resources or attention to the prosecution of the licensed patent applications as the Corporation would if it controlled the prosecution of the applications. The licensors may also not pursue and successfully prosecute, enforce or defend any potential patent infringement or invalidity claim, may fail to maintain their issued patents or prosecute or maintain their patent applications, or may pursue any litigation less aggressively than the Corporation would. Consequently, the resulting patent protection, if any, may not be as strong or comprehensive, which could have a material adverse effect on the Corporation.

Extensive Government Regulation

Government regulation is a significant factor in the development, production and marketing of the Corporation's products. Research and development, testing, manufacture, marketing and sales of pharmaceutical products or related products are subject to extensive regulatory oversight, often in multiple jurisdictions, which may cause significant additional costs and/or delays in bringing products to market, and in turn, may cause significant losses to investors. The regulations applicable to the Corporation's product candidates may change. Even if granted, regulatory approvals may include significant limitations on the uses for which products can be marketed or may be conditioned on the conduct of post-marketing surveillance studies. Failure to comply with applicable regulatory requirements can, among other things, result in warning letters, the imposition of civil penalties or other monetary payments, delay in approving or refusal to approve a product candidate, suspension or withdrawal of regulatory approval, product recall or seizure, operating restrictions, interruptions of clinical trials or manufacturing, injunctions or criminal prosecution. In addition, regulatory agencies many not approve the labeling claims that are necessary or desirable for the successful commercialization of the Corporation's product candidates.

Requirements for regulatory approval vary widely from country to country. Whether or not approved in Canada or the United States, regulatory authorities in other countries must approve a product prior to the commencement of marketing the product in those countries. The time required to obtain any such approval may be longer or shorter than in Canada or the United States. Approved drugs, as well as their manufacturers, are subject to continuing and ongoing review, and discovery of problems with these products or the failure to adhere to manufacturing or quality control requirements may result in regulatory restrictions being imposed

RISKS RELATED TO OUR COMMON SHARES

Our share price has been and will 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 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 Common 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.

An active trading market in our Common Shares may not be sustained.

Our Common Shares are listed for trading on the Toronto Stock Exchange. However, an active trading market in our Common Shares on the stock exchange may not be sustained and we may not be able to maintain our listing.

There is a limited market for our Common Shares in the United States.

There currently is a limited market for our Common Shares in the United States. If shareholders in the United States are unable to sell their Common Shares in the United States, they may have to sell their Common Shares over the Toronto Stock Exchange (the "**TSX**"), which may expose the selling shareholders to currency exchange risk. In addition, because we are not listed on any United States stock exchange, resales of our Common Shares to United States residents under state securities or "blue sky" laws are likely to be limited to unsolicited transactions.

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

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

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

U.S. investors in our Common Shares should be aware that the Company believes it was classified as a passive foreign investment company ("**PFIC**") during the tax year ended May 31, 2013, and based on current business plans and financial expectations, the Company believes that it will be a PFIC for the current tax year. If the Company is a PFIC for any year during a U.S. shareholder's holding period, then such U.S. shareholder generally will be required to treat any gain realized upon a disposition of Common Shares, or any so-called "excess distribution" received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distributions, unless the shareholder makes a timely and effective "qualified electing fund" election ("**QEF Election**") or a "mark-to-market" election with respect to the Common Shares. A U.S. shareholder who makes a QEF Election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is a PFIC, whether or not the Company distributes any amounts to its shareholders. However, U.S. shareholders should be aware that we may not satisfy record keeping requirements that apply to a qualified electing fund, and we may not supply U.S. shareholders with information that such U.S. shareholders require to report under the QEF Election rules, in the event that we are a PFIC and a U.S. shareholder wishes to make a QEF Election. Thus, U.S. shareholders may not be able to make a QEF Election with respect to their Common Shares. A U.S. shareholder who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the taxpayer's basis therein. This paragraph is qualified in its entirety by the discussion below under the heading "Certain United States Federal Income Tax Considerations." Each U.S. shareholder should consult its own tax advisor regarding the U.S. federal, U.S. local, and foreign tax consequences of the PFIC rules and the acquisition, ownership, and disposition of our Common Shares.

Item 4. Information on the Company

A. *History and development of the company.*

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

On the Arrangement Date, Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6650309 Canada Inc. ("**New Lorus**"), 6707157 Canada Inc. and Pinnacle International Lands, Inc. As a result of the plan of arrangement and reorganization, each Common Share of Old Lorus was exchanged for one Common Share of New Lorus. New Lorus continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same board of directors as Old Lorus prior to the Arrangement Date.

The address of the Company's head and registered office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7 and our phone number is (416) 798-1200. Our corporate website is www.lorusthera.com. The contents of the website and items accessible through the website are specifically not incorporated in this Annual Report by reference.

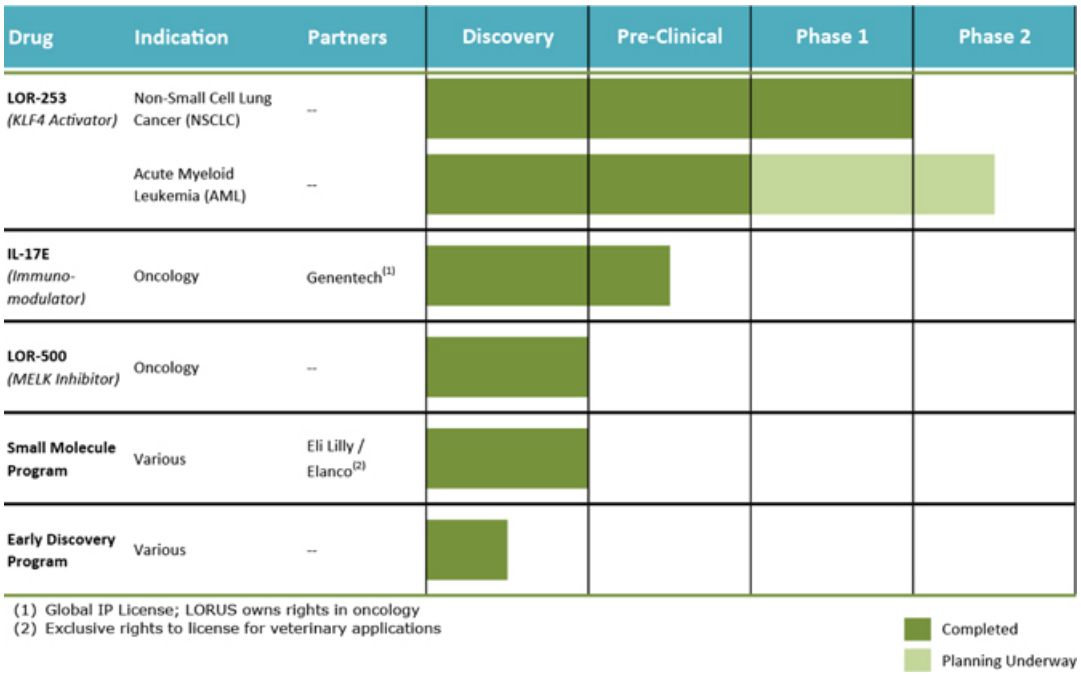
Lorus' subsidiary is NuChem Pharmaceuticals Inc. ("**NuChem**"), a corporation incorporated under the laws of Ontario, of which Lorus owns 80% of the issued and outstanding voting share capital and 100% of the issued and outstanding non-voting preference share capital.

Our Common Shares are listed on the TSX under the symbol "LOR".

Lorus is a clinical stage biotechnology company with a commitment to discovering and developing targeted therapies addressing unmet medical needs in oncology. We aim to develop therapeutics focused on novel cellular targets on the leading edge of cancer research coupled to companion diagnostics to identify the optimal patient population for our products. Our pipeline of cancer drug candidates includes small molecule products and immunotherapies providing additive or synergistic efficacy without leading to overlapping toxicities with existing anti-cancer regimens, facilitating the adoption of doublet or possibly triplet therapies.

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

We believe the future of cancer treatment and management lies in selecting for treatment patients having cancers that are predisposed to response based on a drug's unique mechanism of action. Our opinion is that many drugs currently approved for the treatment and management of cancer are not selective for the specific genetic alterations (targets) that cause the patient's tumor and hence lead to significant toxicities due to off-target effects. Lorus' strategy is to continue the development of our product pipeline across several therapeutic indications in oncology with therapeutics addressing novel targets that drive particular types of cancers. We also strive to optimize our therapeutics for synergy with currently available, commercialized therapeutics for a drug combination regimen with enhanced efficacy. We evaluate the merits of each drug candidate throughout the clinical trial process and will consider partnering a program when appropriate.



Capital Expenditures and Divestitures

Not applicable.

B. ***Business overview*.**

Lorus is a clinical stage biotechnology company with a commitment to discovering and developing targeted therapies addressing unmet medical needs in oncology. We aim to develop therapeutics focused on novel cellular targets on the leading edge of cancer research coupled to companion diagnostics to identify the optimal patient population for our products. Our pipeline of cancer drug candidates includes small molecule products and immunotherapies providing additive or synergistic efficacy without leading to overlapping toxicities with existing anti-cancer regimens, facilitating the adoption of doublet or possibly triplet therapies.

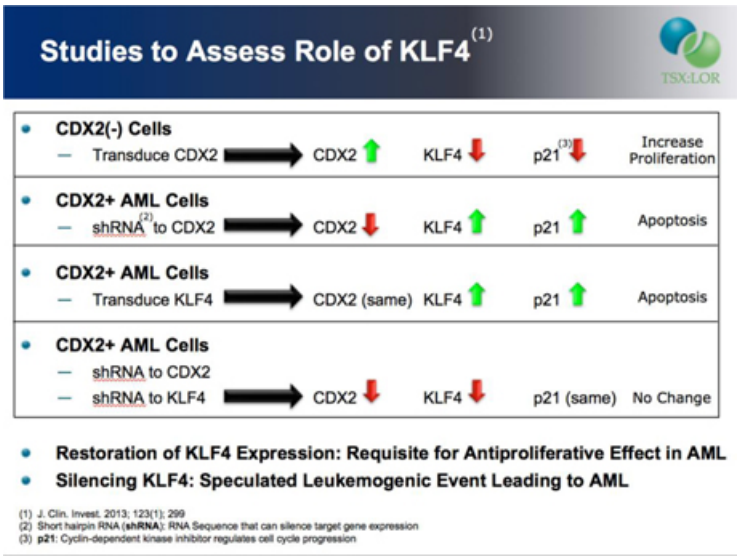
We believe the future of cancer treatment and management lies in the prospective selection and treatment of patients predisposed to response based on a drug's unique mechanism of action. We are of the view that many drugs currently approved for the treatment and management of cancer are not selective for the specific genetic alterations (targets) that cause the patient's tumor and hence lead to significant toxicities due to off-target effects. Lorus' strategy is to continue the development of our programs that address a common underlying pathway within a patient population, and we intend to apply this strategy across several therapeutic indications in oncology, including hematologic malignancies and solid tumor indications. Our lead program, LOR-253, is a first-in-class inducer of the Krüppel-like factor 4 gene (the "**Klf4 Gene**") for patients with advanced hematologic malignancies, including acute myeloid leukemia ("**AML**") and myelodysplastic syndromes ("**MDS**").

Krüppel-Like Factor 4 & CDX2

Krüppel-like factors constitute a diverse family of genes (the "**Klf Genes**") that act by modifying the expression levels of other genes that control essential cellular processes such as proliferation, migration, differentiation, cell death and metastasis. Approximately 17 Klf Genes are known, with an array of roles that include serving as innate tumor suppressors. The Klf Genes give rise to the production of proteins (the "**KLF Proteins**"). Structurally, KLF Proteins include DNA binding domains that allow for the identification and regulation of other genes. Of particular importance, the Krüppel-like factor 4 protein (the "**KLF4 Protein**") is also reported to be impacted by the embryonic gene, Cdx2 (the "**Cdx2 Gene**").

The Cdx2 Gene, while not activated in the bone marrow and blood cells of normal adults, was observed to be activated in the malignant cells in a majority of patients with AML. It has subsequently been noted that the gene product of the Cdx2 Gene, the protein CDX2 (the "**CDX2 Protein**"), had the most profound intracellular impact on KLF4 Protein levels by binding, and epigenetically silencing the Klf4 Gene (Faber et. al., J Clin Invest. 2013;123(1):299–314). In other words, while the sequence of the bases in the DNA in the gene remain intact, those bases are modified chemically to reduce the expression of the gene. In subsequent studies from Faber et. al., it was demonstrated that induction of the Cdx2 Gene, in cells lacking CDX2 Protein, subsequently decreased KLF4 Protein levels and promoted proliferation (Figure 1, First Bullet), while silencing the Cdx2 Gene in cells possessing CDX2 Protein alleviated the suppression of the Klf4 Gene and restored innate function (Figure 1, Second Bullet) to drive cellular apoptosis (programmed cell death) in AML cells. Further, in cells possessing an active Cdx2 Gene, Faber et. al. inserted an active Klf4 Gene to overcome innate KLF4 Protein suppression, and revealed that increased KLF4 Protein promoted apoptosis (Figure 1, Third Bullet).

Figure 1: Studies Assessing the Role of KLF4 in AML Cells



It has been suggested by Faber et. al. that a multitude of genetic abnormalities culminate in the aberrant expression of the Cdx2 Gene and ultimately converge on decreased Klf4 Gene transcription to yield diminished KLF4 Protein levels. This CDX2 Protein-KLF4 Protein signature was speculated by Faber et. al. to be a potential trigger for AML based on the aforementioned pro-proliferative outcomes of diminished KLF4 levels and the absence of this protein signature in healthy patient samples. Notably, it was observed by Scholl et. al. in 2007 (J. Clin. Invest. 117:1037–1048 (2007) that approximately 40% of patients with higher risk MDS possessed increased CDX2 Protein levels, and may represent the portion of the MDS population progressing to AML. Other opportunities in oncology in which the Klf4 Gene has been implicated to play a role include colorectal, gastric, cervical, prostate and lung cancers, among others.

LOR-253: Lead Clinical Program

Our lead program is LOR-253, a small molecule found to induce the transcription of the Klf4 Gene in vitro studies. LOR-253 was discovered and identified by Lorus scientists based upon the magnitude of its antiproliferative and anti-metastatic activity across a multitude of cell lines. In vitro studies conducted at Lorus have demonstrated significant potency (nanomolar IC50 concentrations) of LOR-253 in AML cell lines, and ten to 1000 times greater potency than in solid tumor cell lines. In vitro analyses with relevant AML cell lines, including THP1, HL-60 and Kasumi-1, have demonstrated that LOR-253 led to significant elevation of KLF4 Protein levels, with the anticipated increase in cyclin-dependent kinase inhibitor 1 (p21, a protein that halts the cell cycle and prevents cells from proliferating), caspase-3 (an enzyme activated during programmed cell death to chop up other proteins), and Annexin-V (a protein used as a marker for the initiation of programmed cell death), leading to G1 cell cycle arrest and apoptosis (programmed cell death). LOR-253 is administered as an intravenous infusion in patients. We have reported initial results from a Phase I clinical study of LOR-253 in patients with various solid tumors which indicated that LOR- 253 was safe and well tolerated with indications of anti-tumor activity as a single agent. Our plans are to advance LOR-253 to a Phase Ib clinical study in relapsed / refractory hematologic malignancies, including patients with AML, MDS and various lymphomas, based upon the common underlying, leukemia-causing profile of Klf4 Gene suppression. The development of LOR-253 currently represents the main focus of Lorus.

Lorus is currently pursuing the clinical development of LOR-253 in AML, based on in vitro data demonstrating significant sensitivity to AML cell lines and recent academic research implicating up-regulation of the CDX2 Protein, and suppression of the KLF4 Protein, as a possible leukemogenic trigger in AML. This CDX2 Protein-KLF4 Protein signature has been observed to be absent in the normal hematopoietic stem and progenitor cells of healthy individuals. The CDX2 Protein is reported by Faber et. al. to epigenetically silence the Klf4 Gene tumor suppressor as a critical oncogenic event (transforming normal cells to cancer cells) in AML, and LOR-253 has demonstrated the ability in preclinical investigations to up-regulate the Klf4 Gene and induce tumor-killing effect. We believe these findings warrant investigation of the potential clinical utility of LOR-253 in the treatment of patients with suppressed Klf4 Gene in AML, MDS, and, potentially, other hematologic malignancies.

Lorus is currently developing and validating a companion diagnostic for LOR-253. The diagnostic will assess the extent of genetic expression of Cdx2 and Klf4 in patients as a potential predictor of response to therapy with LOR-253, as well as assess post-treatment expression levels as biomarkers of efficacy.

Acute Myeloid Leukemia

AML is a rapidly progressing cancer of the blood and bone marrow characterized by the uncontrolled proliferation of dysfunctional myeloblasts that do not mature into healthy blood cells. It is the most common form of acute leukemia in adults. The American Cancer Society estimates there were approximately 14,590 new cases of AML and approximately 10,370 deaths from AML in the U.S. in 2013 and that there will be approximately 18,860 new cases of AML and approximately 10,460 deaths from AML in the U.S. in 2014**.** Standard induction therapy with chemotherapy is successful in many AML patients, but the majority of these patients will relapse with treatment refractory disease. Typical relapse rates in patients less than, and greater than, 60 years of age are approximately 48%and 71%respectively, as reported by Datamonitor Healthcare

Myelodysplastic Syndromes

MDS are a group of blood and bone marrow disorders. In MDS, stem cells do not mature normally, and the number of blasts (immature cells) and dysplastic (abnormally developed) cells increases. Also, the number of healthy mature cells decreases, meaning there are fewer normal red blood cells, white blood cells, and platelets. The numbers of blood cells are often called blood cell counts. Because of the decrease in healthy cells, people with MDS often have anemia (a lowered blood cell count), and may have neutropenia (a low white blood cell count) and thrombocytopenia (a low platelet count). Also, the chromosomes (long strands of genes) in the bone marrow cells may be abnormal. According to the American Cancer Society, there are approximately 13,000 new cases of MDS annually in the US. Additionally, Datamonitor Healthcare reports median survival in higher risk MDS patients may range between five months and two years. There are several subtypes of MDS, and some subtypes of MDS may eventually turn into AML.

Solid Tumors

Phase 1 data with LOR-253 in patients with solid tumors and extensive preclinical data in solid tumor cells, including non-small cell lung cancer (**"NSCLC**"), have identified an opportunity for LOR-253 in patients possessing cancers with reduced Klf4 Gene expression. Our prior Phase 1 study with LOR-253 also exhibited a favorable safety profile for LOR-253 without an identified maximally tolerated dose over a 28-day cycle. Various solid tumors have exhibited suppressed levels of Klf4 Gene in scientific publications, including colorectal, gastric, pancreatic and cervical cancers, as well as NSCLC. NSCLC is an indication that we consider to have a large market potential and important unmet need worldwide, in which the Klf4 Gene is a tumor suppressor that is present in case-matched normal cells but depressed in NSCLC tumor cells. Lorus may evaluate the clinical utility of LOR-253 in additional studies in a subset of NSCLC patients that may be predisposed to a response with a therapeutic activating the Klf4 Gene.

Undisclosed Program

In April 2013, Lorus entered into a research and license option agreement with Elanco, the animal health division of Eli Lilly and Company (**"Elanco**"), to investigate a new proprietary series of Lorus' compounds for veterinary medicine. Pursuant to the agreement, Elanco will fund the research program and was granted an exclusive option to license the worldwide rights for selected compounds for veterinary use; the terms of which will be negotiated if the option is exercised by Elanco. Lorus retains the rights to develop and commercialize these compounds for human use and intends to use the animal data from the collaboration as a basis for a partnership with a third party that will seek to develop the technology for the treatment of patients with cancer. Lead optimization is underway and the next goal is to identify a clinical drug candidate which can be developed for both human and animal use.

Subsequent Events

June 2013 Private Placement

In June 2013, Lorus completed a private placement of units consisting of (i) $ 1,000 principal amount of unsecured promissory notes; and (ii) 1,000 Common Share purchase warrants at a price of $ 1,000 per unit, for aggregate gross proceeds of $893,000.

Strategic Review Process

On September 12, 2013, the Corporation formed a special committee, the Special Committee, composed of independent directors to review strategic alternatives available to the Corporation, designed to secure the long-term financial and operational sustainability of the Corporation with a view to enhance shareholder value. On October 28, 2013, the Special Committee, after having considered and reviewed a number of options, concluded its review. The Special Committee recommended that the board of directors of Lorus (the "**Board**") approve the appointments of William G. Rice, Ph.D. as Chief Executive Officer and Chairman of the Board and of Daniel D. Von Hoff, M.D., to serve as a special advisor to fulfill the functions of the Corporation's Senior Vice President of Medical Affairs.

September 2013 Private Placement

On September 26, 2013, the Corporation completed a private placement of convertible promissory notes for aggregate gross proceeds of $600,000 to maintain the research and development activities of the Corporation while the Special Committee was continuing to review strategic alternatives available to the Corporation. An additional $150,000 was raised subsequently under unsecured non-convertible loans.

Changes in Management

On October 28, 2013, William G. Rice, Ph.D., was appointed as Chief Executive Officer of the Corporation and Chairman of the Board, while former Chief Executive Officer of the Corporation, Dr. Aiping Young, continued as President and Chief Operating Officer until she departed the Corporation on March 18, 2014. On October 28, 2013, Lorus also appointed Daniel D. Von Hoff, M.D., to serve as a special advisor to fulfill the functions of the Corporation's Senior Vice President of Medical Affairs. Dr. Von Hoff is an independent contractor and advisor, but is not an employee of Lorus. The Board, after receiving the recommendation of the Special Committee, unanimously approved the appointments. In doing so, the Board determined that such appointments were in the best interest of Lorus, as they were considered to enhance the management team and advisory team with the addition of two seasoned and experienced biotechnology executives bringing extensive clinical development and capital raising experience and improving the awareness and presence of the Corporation in the United States. William G. Rice, Ph.D., as the new Chief Executive Officer of the Corporation and Chairman of the Board, was authorized and mandated by the Board to explore all available options to maximize shareholder value. On April 10, 2014, Dr. Rice was additionally appointed as President of the Corporation.

On October 29, 2013, Brian Druker, M.D., was appointed as the Chair of the Corporation's Scientific Advisory Board. Like Dr. Von Hoff, Dr. Druker is an independent contractor and advisor, but not any employee of Lorus.

On December 2, 2013, Avanish Vellanki was appointed as Chief Business Officer of the Corporation to manage global business development, licensing and corporate strategy, and Gregory K. Chow was appointed as Chief Financial Officer of the Corporation and assumed global responsibility for corporate finance and accounting functions for the Corporation. On April 10, 2014, Mssrs. Vellanki and Chow were additionally appointed as Senior Vice Presidents of the Corporation.

December 2013 Public Offering and Over Allotment

On December 10, 2013, the Company completed a public offering of Common Shares. The Company issued a total of 12,730,000 Common Shares at a purchase price of $0.55 per Common Share, for aggregate gross proceeds of $7,001,500.

In January 2014, the underwriters exercised in full their over-allotment option to purchase an additional 1,909,500 Common Shares of the Company at a purchase price of $0.55 per Common Share, in connection with the December 10, 2013 public offering. As a result of the exercise of this over-allotment option, Lorus received additional gross proceeds of $1,050,225 and raised total gross proceeds of $8,051,725 from this public offering.

April 2014 Public Offering

In April 2014, the Company completed a public offering of Common Shares. The Company issued a total of 56,500,000 Common Shares at a purchase price of $0.50 per Common Share, including 6,500,000 Common Shares sold pursuant to the partial exercise of an over-allotment option, for aggregate gross proceeds of $28,250,000.

LOR-253 Development

On October 29, 2013, the Corporation announced that it will pursue the clinical development of LOR-253, its small molecule inducer of the tumor suppressor KLF4, in AML and other hematologic malignancies.

Agreements

Manufacturing Agreements

We currently rely upon subcontractors for the manufacture of our drug candidates. The subcontractors manufacture clinical material according to current Good Manufacturing Practices, or GMPs, 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.

License Agreements

Genentech Inc.

The Company holds a non-exclusive license from Genentech Inc. (“Genentech”) to certain patent rights to develop and sub-license a specified polypeptide. In consideration of the license, the Company paid an upfront amount and could be required to pay to Genentech additional milestones and royalties on sales. The initial amount paid upfront was a one-time non-creditable, non-refundable fee which was immaterial to the Company. The aggregate milestone amounts payable under the agreement total $2,325,000. Additionally, the Company is obligated to make royalty payments after the first commercial sale of the polypeptide within a range of 1% to 5% on a country by country basis on an aggregate worldwide scale of net sales. No milestone or royalty payments under this agreement have become due and the Company does not expect to make any milestone or royalty payments under this agreement during the fiscal year ending May 31, 2014. The Company cannot reasonably predict when such royalties will become payable, if at all. The agreement will terminate upon the expiration of the last patent, which is expected to be in 2020. The agreement may be terminated (i) by the Company for any reason upon 60 days prior written notice to Genentech or (ii) by Genentech for any material breach of the agreement by the Company, provided that the Company has the option to cure such breach within 30 days following written notice by Genentech.

Collaboration Agreements

Elanco

In April 2013, Lorus entered into a research and license option agreement with Elanco, the animal health division of Eli Lilly and Company, to investigate a new proprietary series of Lorus' compounds for veterinary medicine. Pursuant to the agreement, Elanco agreed to fund the research program and was granted an exclusive option to license from Lorus our worldwide rights for selected compounds for veterinary use; the terms of which will be negotiated if the option is exercised by Elanco. Lorus retains the rights to develop and commercialize these compounds for human use and intends to use the animal data from the collaboration as a basis for a partnership with a third party to develop the technology for the treatment of patients with cancer. Lead optimization is underway and the next goal is to identify a clinical drug candidate that can be developed for both human and animal use.

Cancer Research UK

In November 2012, Lorus entered into a clinical trial and option agreement with Cancer Research UK to develop IL-17E through to a Phase I clinical trial. IL-17E (also known as IL-25) is a cytokine that plays an important role in inflammation. Lorus scientists were the first to discover the anticancer properties of IL-17E against a range of solid tumors, including human melanoma, pancreatic, colon, lung, ovarian and breast tumor models, with very low toxicity. Cancer Research UK, through its Clinical Development Partnerships program, had agreed to fund and complete the preclinical studies, non-clinical toxicology studies and a Phase I clinical study in solid tumors. This agreement was terminated by Cancer Research UK in early 2014.

Other

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

Business Strategy

Our business strategy is based on the identification and development of novel therapies that are effective, with fewer side effects than currently available therapies. 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.

Financial Strategy

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

April 2014 Public Offering

Subsequent to the fiscal year ended May 31, 2013, in April 2014 the Company completed a public offering of Common Shares. The Company issued a total of 56,500,000 Common Shares at a purchase price of $0.50 per Common Share, including 6,500,000 Common Shares sold pursuant to the partial exercise of an over-allotment option, for aggregate gross proceeds of $28,500,000.

December 2013 Public Offering and Over Allotment

Subsequent to the fiscal year ended May 31, 2013, on December 10, 2013 the Company completed a public offering of Common Shares. The Company issued a total of 12,730,000 Common Shares at a price of $0.55 per Common Share, for aggregate gross proceeds of $7,001,500. A related party of the Company by virtue of exercising control or direction over more than 10% of the then outstanding Common Shares of the Company participated in the Offering and acquired an aggregate of 1,820,000 Common Shares.

In January 2014, the underwriters for our December 2013 public offering exercised in full their over-allotment option to purchase an additional 1,909,500 Common Shares, at a purchase price of $0.55 per Common Share. As a result of the exercise of this over-allotment option, Lorus received additional gross proceeds of $1,050,225 and raised total gross proceeds of $8,051,725 from the public offering.

September 2013 Private Placements

Subsequent to our fiscal year ended May 31, 2013, in September 2013 the Company completed a private placement of convertible promissory notes for aggregate gross proceeds of $600,000.

Each convertible promissory note consists of a $1,000 principal amount of unsecured promissory note convertible into Common Shares at a purchase price per share of $0.30. The promissory notes bear interest at a rate of 10% per annum, payable quarterly and are due September 26, 2015.

Also in September 2013, the Company received unsecured non-convertible loans in the aggregate principal amount of $150,000. The loans were unsecured, bore interest at a rate of 10% per annum payable quarterly and had a maturity date of September 30, 2015. The notes and all accrued and unpaid interest thereon were repaid on April 25, 2014.

June 2013 Private Placement

Subsequent to our fiscal year ended May 31, 2013, in June 2013, Lorus completed a private placement of units consisting of (i) a $1,000 principal amount of unsecured promissory notes; and (ii) 1,000 Common Share purchase warrants at a price of $1,000 per unit, for aggregate gross proceeds of $893,000. In July 2013, an additional $25,000 of unsecured promissory notes were issued in the private placement for total gross proceeds of $918,000.

The promissory notes bore interest at a rate of 10% per annum, payable monthly, and had a maturity date of June 19, 2014. Each warrant entitled the holder thereof to acquire one Common Share at a price per Common Share equal to $0.25, at any time through June 19, 2015. The maximum number of Common Shares issuable in connection with the private placement, assuming the exercise of all warrants, is 918,000 Common Shares.

The promissory notes and all accrued and unpaid interest thereon were repaid on April 22, 2014.

June 2012 Private Placement

On June 8, 2012, we completed a private placement of 20,625,000 units at a subscription price of $0.32 per unit. Each unit consisted of one Common Share and one Common Share purchase warrant for aggregate 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 per share. If after one year the closing price of the Common Shares on the TSX equals or exceeds $0.90 for twenty consecutive days, then we may send the warrant holders written notice and issue a news release announcing an accelerated exercise date and then the warrants shall only be exercisable for a period of 30 days following receipt of the notice, after which time they terminate if not exercised.

In connection with the 2012 financing, we paid a cash finder's fee of $396,000, based on 6% of the gross proceeds received by Lorus from the private placement, and issued 1,237,500 finder's warrants at an exercise price of $0.32 per unit. Each finder's warrant is exercisable for units consisting of 1,237,500 Common Shares and 1,237,500 Common Share warrants.

August 2011 Unit Offering

On August 15, 2011, we closed a public offering for gross proceeds of $2,200,000, whereby we issued 5,500,000 Common Shares and 5,700,000 warrants, including aggregate broker warrants. 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 share. However, if on any date the 10-day volume weighted average trading price of the Common Shares on the TSX equals or exceeds 200% of the $0.45 per share exercise price, then Lorus can send the holders of warrants a written notice and issue a news release announcing the acceleration of the exercise date, following which the warrants shall only be exercisable for a period of 30 days following the date of notice, after which time the warrants will terminate if not exercised.

In connection with the offering, Mr. Abramson, one of our directors at that time, entered into an irrevocable commitment letter on June 20, 2011, as amended July 11, 2011, to purchase, directly or indirectly, Common Shares and Common Share purchase warrants of Lorus having an aggregate subscription price equal to the difference if any, between (a) the sum of (i) the gross proceeds realized by us in the offering and (ii) the gross proceeds received by us in respect of all financings completed by us from the date of the final short-form prospectus to November 30, 2011, and (b) $4,000,000. Mr. Abramson purchased 2,400,000 units as part of the offering.

Promissory Notes Payable

Promissory notes were issued subsequent to our fiscal year ended May 31, 2013 as described above under 'June 2013 Private Placement'.

Pursuant to the commitment letter (described above under 'August 2011 Unit Offering') provided by Mr. Abramson, in November 2011, we issued a grid promissory note to Mr. Abramson that allowed us to borrow funds up to $1,800,000. The funds could be borrowed at a rate of up to $300,000 per month, incurred interest at a rate of 10% per year and were due and payable in full on November 28, 2012. At May 31, 2012, $900,000 had been drawn under the promissory note and on June 27, 2012, the note and all accrued interest there on were repaid.

Deferred Share Unit Plan

As of May 31, 2013, 780,000 deferred share units had been issued under the deferred share unit plan of the Corporation (the "**DSU Plan**"), 780,000 as of May 31, 2012, with a carrying amount of $172,000 representing the fair market value of the units as of May 31, 2013 (May 31, 2012 - $304,000) recorded in accrued liabilities.

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 Common Shares issuable pursuant to certain outstanding warrants, from $1.33 per share to the five-day volume weighted average trading price on the TSX for the five days prior to approval plus a 10% premium. The revised exercise price is $0.28 per share. The Company calculated an increased value attributed to the warrants of $239,000 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 4,200,000 warrants which were amended and of those 3,600,000 were held by Mr. Abramson, a director of the Company at that time.

Share Consolidation

At our annual and special meeting of shareholders held on November 30, 2009, our shareholders approved a special resolution permitting the Board, 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, the 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 Report, all references to number of Common Shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the May 2010 consolidation unless noted otherwise.

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

As of April 30, 2014, we had 18issued patents and 10 pending patents worldwide for our in-house small molecules. These patents cover composition of matter and method claims.

Immunotherapy

As of April 30, 2014 we had two issued patents and one pending patent for our IL-17E immunotherapy program.

Lorus has entered into a licence agreement with Genentech which provides Lorus the right to use the IL-17E composition patent for cancer use, as described above under License Agreements.

Other Therapies

As of April 30, 2014, we had 13 issued patents and one pending patent worldwide for our DNA-based therapeutics. These patents include composition of matter and method claims.

Risks Relating to Intellectual Property

Pending applications may not result in issued patents and issued patents may not be held valid and enforceable if challenged. Competitors may be able to circumvent any such issued patents by adoption of a competitive, though non-infringing product or process. Interpretation and evaluation of pharmaceutical or biotechnology patent claims present complex and often novel legal and factual questions. Our business could be adversely affected by increased competition in the event that any patent granted to it is held to be invalid or unenforceable or is inadequate in scope to protect our operations.

While we believe that our products and technology do not infringe proprietary rights of others, third parties may assert infringement claims in the future and such claims could be successful. Even if challenges are unsuccessful, we could incur substantial costs in defending ourselves against patent infringement claims brought by others or in prosecuting suits against others. In addition, others may obtain patents that we would need to license, which may not be available to us on reasonable terms. Whether we are able to obtain a necessary license would depend on the terms offered, the degree of risk of infringement and the need for the patent.

Until such time, if ever, that further patents are issued to us, we will rely upon the law of trade secrets to the extent possible given the publication requirements under international patent treaty laws and/or requirements under foreign patent laws to protect our technology and our products incorporating the technology. In this regard, we have adopted certain confidentiality procedures. These include: limiting access to confidential information to certain key personnel; requiring all directors, officers, employees and consultants and others who may have access to our intellectual property to enter into confidentiality agreements which prohibit the use of or disclosure of confidential information to third parties; and implementing physical security measures designed to restrict access to such confidential information and products. Our ability to maintain the confidentiality of our technology is crucial to our ultimate possible commercial success. The procedures adopted by us to protect the confidentiality of our technology may not be effective, third parties may gain access to our trade secrets or disclose our confidential technology. Further, by seeking patent protection in various countries, it is inevitable that a substantial portion of our technology will become available to our competitors, through publication of such patent applications.

Regulatory Strategy

Our overall regulatory strategy is to work with 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 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 may not be able to pursue these opportunities successfully.

Revenues

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

Employees

As of April 30, 2014, we employed 19 full-time persons and three part-time people in research and drug development and administration activities. Among our employees, five hold Ph.D.'s, five hold MSc degrees, one holds a DVM degree and numerous others hold degrees and designations such as BSc, CPA (CA), CPA (California) and MBA. To encourage a focus on achieving long-term performance, employees and members of the Board have the ability to acquire an ownership interest in the Company through Lorus' share option and alternate compensation plans. See Item 6.B – Compensation.

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

Office Facilities

Our head office, which occupies 20,500 square feet, is located at 2 Meridian Road, Toronto, Ontario. The leased premises include approximately 8,000 square feet of laboratory and research space. We believe that our existing facilities are adequate to meet our requirements for the near term. Our current lease expires on March 31, 2015.

Subsequent to the fiscal year end, we entered into a lease agreement for three offices in San Diego, California. This lease expires December 31, 2014.

Subsequent to the fiscal year end, in February 2014, we entered into a lease agreement on a month to month basis for 188 square feet of office space in Menlo Park, California, cancellable by either party upon 30 days prior notice.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. There are numerous companies in 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 Lorus. In addition, we face competition from other companies for opportunities to enter into partnerships with biotechnology and pharmaceutical companies and academic institutions.

Competition with our potential products may include chemotherapeutic agents, monoclonal antibodies, antisense therapies, small molecules, immunotherapies, vaccines and other biologics 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 will 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 potential drugs have specific targets for attacking the disease, targets which are not necessarily the same as ours. These competitive drugs, however, could potentially also be used together in combination therapies with our drugs to manage the disease. Other factors that could render our potential products less competitive may include the stage of development, where competitors' products may achieve earlier commercialization, as well as superior patent protection, better safety profiles, or a preferred cost-benefit profile.

Government Regulation

Overview

Regulation by government authorities in Canada, the United States, and the European Union is a significant factor in our current research and drug development activities. To clinically test, manufacture and market drug products for therapeutic use, we must satisfy the rigorous mandatory procedures and standards established by the regulatory agencies in the countries in which we currently operate or intend to operate.

The laws of most of these countries require the licensing of manufacturing facilities, carefully controlled research and the extensive testing of products. Biotechnology companies must establish the safety and efficacy of their new products in clinical trials; they must establish current GMP(s) and control over marketing activities before being allowed to market a product. The safety and efficacy of a new drug must be shown through human clinical trials of the drug carried out in accordance with the mandatory procedures and standards established by regulatory agencies.

The process of completing clinical trials and obtaining regulatory approval for a new drug takes a number of years and requires the expenditure of substantial resources. Once a new drug or product license application is submitted, regulatory agencies may not review the application in a timely manner and may not approve the product. Even after initial approval has been obtained, further studies, including post-marketing studies, may be required to provide additional data on efficacy and safety necessary to confirm the approved indication or to gain approval for the use of the new drug as a treatment for clinical indications other than those for which the new drug was initially tested. Also, regulatory agencies require post-marketing surveillance programs to monitor a new drug's side effects and safety. Results of post-marketing programs may limit or expand the further marketing of new drugs. A serious safety or effectiveness problem involving an approved new drug may result in a regulatory agency requiring withdrawal of the new drug from the market and possible civil action. It is possible that we could encounter such difficulties or excessive costs in our efforts to secure necessary approvals, which could delay or prevent us from manufacturing or marketing our products.

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

Regulation in Canada

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

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

In addition, all federally regulated trials must be approved and monitored by an independent committee of doctors, scientists, advocates and others to ensure safety and ethical standards. These committees are called Institutional Review Boards ("**IRBs**") or Ethics Review Boards ("**ERBs**"). The review boards study and approve all study-related documents before a clinical trial begins and also carefully monitor data to detect benefit or harm, and validity of results.

Provided Health Canada does not reject a clinical trial application submission and IRB or ERB approval has been obtained, clinical trials can begin. Clinical trials for product candidates in Canada, as in the U.S. generally are carried out in three phases. Phase I involves studies to evaluate toxicity and ideal dose levels in healthy humans. The new drug is administered to human patients who have met the clinical trial entry criteria to determine pharmacokinetics, human tolerance and prevalence of any adverse side effects. Phases II and III involve therapeutic studies. In Phase II, efficacy, dosage, side effects and safety are established in a small number of patients who have the disease or disorder that the new drug is intended to treat. In Phase III, there are controlled clinical trials in which the new drug is administered to a large number of patients who are likely to receive benefit from the new drug. In Phase III, the effectiveness of the new drug in patients is compared to that of standard accepted methods of treatment in order to provide sufficient data for the statistical proof of safety and efficacy for the new drug.

If clinical studies establish that a new drug has value, the manufacturer submits a new drug submission application to Health Canada for marketing approval. The new drug submission contains all information known about the new drug, including the results of pre-clinical testing and clinical trials. Information about a substance contained in new drug submission includes its proper name, its chemical name, and details on its method of manufacturing and purification, and its biological, pharmacological and toxicological properties. The new drug submission also provides information about the dosage form of the new drug, including a quantitative listing of all ingredients used in its formulation, its method of manufacture, manufacturing facility information, packaging and labelling, the results of stability tests, and its diagnostic or therapeutic claims and side effects, as well as details of the clinical trials to support the safety and efficacy of the new drug. Furthermore, for biological products, an on-site evaluation is completed to assess the production process and manufacturing facility. It is required prior to the issuance of a notice of compliance. All aspects of the new drug submission are critically reviewed by Health Canada. If a new drug submission is found satisfactory, a notice of compliance is issued permitting the new drug to be sold for the approved use. In Canada, an establishment license must be obtained prior to marketing the product.

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

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

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

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

The Canadian regulatory approval requirements for new drugs outlined above are similar to those of other major pharmaceutical markets. While the testing carried out in Canada is often acceptable for the purposes of regulatory submissions in other countries, individual regulatory authorities may request supplementary testing during their assessment of any submission. Therefore, the clinical testing conducted under Health Canada authorization or the approval of regulatory authorities of other countries may not be accepted by regulatory authorities outside Canada or other countries.

Regulation in the United States

In the United States, the FDA controls the manufacture and sale of new drugs. New drugs require FDA approval of a New Drug Application prior to commercial sale. In the case of certain biological products, a Biological License Application must be obtained prior to marketing and batch releasing. As in Canada, to obtain marketing approval, data from adequate and well-controlled human clinical trials, demonstrating to the FDA's satisfaction a new drug's safety and effectiveness for its intended use, are required. Data are generated in studies conducted pursuant to an IND submission, similar to that required for a clinical trial application in Canada. As in Canada, clinical studies are characterized as Phase I, Phase II and Phase III trials or a combination thereof. In a marketing application, the manufacturer must also demonstrate the identity, potency, quality and purity of the active ingredients of the new drug involved, and the stability of those ingredients. Further, the manufacturing facilities, equipment, processes and quality controls for the new drug must comply with the FDA's current Good Manufacturing Practice regulations for drugs or biological products both in a pre-licensing inspection before product licensing and in subsequent periodic inspections after licensing. An establishment license grants the sponsor permission to fabricate, package, label, distribute, import, wholesale or test of the newly approved drug.

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

C. ***Organizational structure.***

Old Lorus was incorporated under the *Business Corporations Act* (Ontario) on September 5, 1986 under the name RML Medical Laboratories Inc. On October 28, 1991, RML Medical Laboratories Inc. amalgamated with Mint Gold Resources Ltd., resulting in Old Lorus becoming a reporting issuer (as defined under Canadian securities law) in Ontario, on such date. On August 25, 1992, Old Lorus changed its name to IMUTEC Corporation. On November 27, 1996, Old Lorus changed its name to Imutec Pharma Inc., and on November 19, 1998, Old Lorus changed its name to Lorus Therapeutics Inc. On October 1, 2005, Old Lorus continued under the *Canada Business Corporations Act*. On July 10, 2007, the Old Lorus changed its name from Lorus Therapeutics Inc. to 4325231 Canada Inc. and on October 17, 2007 changed its name to Global Summit Real Estate Inc. As of the Arrangement Date, Old Lorus is not related to New Lorus.

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

On July 10, 2007 (the "**Arrangement Date**"), Old Lorus completed a plan of arrangement and corporate reorganization with, among others, 6650309 Canada Inc., subsequently renamed Lorus Therapeutics Inc. (New Lorus), 6707157 Canada Inc. and Pinnacle International Lands, Inc. As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one Common Share of New Lorus and the assets (excluding certain future tax attributes and related valuation allowance) and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it) were transferred, directly or indirectly, to the Company and/or its subsidiaries. New Lorus continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same directors as Old Lorus prior to the Arrangement Date. At the Arrangement Date, New Lorus' articles of incorporation were amended to change the name of the Company from 6650309 Canada Inc. to Lorus Therapeutics Inc.

Lorus currently has one subsidiary, NuChem, 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.

Lorus' Common Shares are listed on the TSX under the symbol "LOR".

The address of the Company's head and registered office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7, and our phone number is (416) 798-1200. Our corporate website is www.lorusthera.com. The contents of the website, and items accessible through the website, are specifically not incorporated in this Annual Report by reference.

D. ***Property, plants and equipment.***

Our head office, which occupies 20,500 square feet, is located at 2 Meridian Road, Toronto, Ontario. The leased premises include approximately 8,000 square feet of laboratory and research space. We believe that our existing facilities are adequate to meet our requirements for the near term. Our current lease expires on March 31, 2015.

Subsequent to the fiscal year end, in January 2014, we entered into a lease agreement for three offices in San Diego, California. This lease expires December 31, 2014.

Subsequent to the fiscal year end, in February 2014, we entered into a lease agreement on a month to month basis for 188 square feet of office space in Menlo Park, California.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

A. ***Operating results.***

Please see our Management Discussion and Analysis for the year ended May 31, 2013 in Exhibit 15.1, which is incorporated herein by reference.

B. ***Liquidity and capital resources.***

Please see our Management Discussion and Analysis for the year ended May 31, 2013 in Exhibit 15.1, which is incorporated herein by reference.

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

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

D. ***Trend information.***

We have a history of operating losses and have not been profitable since our inception in 1986. We expect to continue to incur losses for at least the next several years as we and our collaborators and licensees pursue clinical trials and research and development efforts. See "Risk Factors" above.

E. ***Off-balance sheet arrangements.***

As at May 31, 2013, we have not entered into any off-balance sheet arrangements.

F. ***Tabular disclosure of contractual obligations.***

(In thousands)	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 289	$ 152	$ 137	$ —	$ —

The Company's current facility lease expires in March 2015.

We hold a non-exclusive license from Genentech Inc. to certain patent rights to develop and sub-license a certain polypeptide. We do not expect to make any milestone or royalty payments under this agreement in the fiscal year ending May 31, 2014, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

We 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 by Lorus of approximately $1.5 million. Of this amount, $740,000 has been paid and $253,000 was accrued at May 31, 2013 (2012 $439,000 paid and $70,000 accrued). The payments will be based on services performed and amounts may be higher or lower based on actual services performed.

On November 27, 2012, we entered into a collaboration agreement with Cancer Research UK for the future development of our immunotherapy IL-17E. Under this collaboration agreement we were committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and, should those studies be successful, a Phase I clinical trial. This collaboration was terminated by Cancer Research UK in early 2014. The Company no longer has an obligation to provide IL-17E to Cancer Research UK.

On July 10, 2007, we completed a plan of arrangement and corporate reorganization with Old Lorus. As part of the arrangement, we 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 the arrangement. We recorded a liability of $75,000, which we believe to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2013. There have been no claims on this indemnification to date.

Item 6. Directors, Senior Management and Employees

A. ***Directors and senior management.***

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

Each director has been elected or appointed to serve until the next annual meeting or until a successor is elected or appointed. We have an Audit Committee, a Corporate Governance and Nominating Committee and a Compensation Committee, the members of each such committee are shown below. As April 30, 2014, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over approximately 3,091,220 of our Common Shares or approximately 2.5% of our outstanding Common Shares.

Name and Province/State and Country of Residence	Position	Director or Officer Since
Denis Burger, Ph.D. [1][2] Oregon, United States Age: 70	Director	September 2007
Bradley Thompson, Ph.D. [3] Alberta, Canada Age: 57	Director	June 2013
Brian Underdown, Ph.D.[1] Ontario, Canada Age: 73	Director	December 2013
Mark Vincent, MD[3] Ontario, Canada Age: 61	Director	September 2007
Warren Whitehead[1] Ontario, Canada Age: 62	Director	April 2011
Jim A. Wright, Ph.D.[2] Ontario, Canada Age: 71	Lead Director	October 1999
William G. Rice, Ph.D. California, United States Age: 55	Chairman, President and Chief Executive Officer	October 2013
Gregory Chow California, United States Age: 41	Senior Vice President and Chief Financial Officer	November 2013
Avanish Vellanki California, United States Age: 39	Senior Vice President and Chief Business Officer	November 2013

(1) Member of the 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:

Dr. Denis Burger: Dr. Burger currently is the Chairman of AMES Devices, a medical device company. Dr. Burger co-founded Trinity Biotech plc, based in Dublin, Ireland, in June 1992 and acted as Chairman from 1992 to 1995 and now serves on the Board of Directors of the Company. 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 Ph.D. in Microbiology and Immunology from the University of Arizona. Dr. Burger also serves on the Board of Biocurex Inc.

Dr. William Rice: Dr. Rice joined Lorus as Chairman and Chief Executive Officer in October 2013. Prior to joining Lorus, Dr. Rice served as the President, Chief Executive Officer and Chairman of the Board of Cylene Pharmaceuticals, Inc., a private biotechnology company ("Cylene"). Prior to Cylene, Dr. Rice was the founder, President, Chief Executive Officer and Director of Achillion Pharmaceuticals, Inc. He also served as Senior Scientist and Head of the Drug Mechanism Laboratory at the National Cancer Institute-Frederick Cancer Research and Development Center, and served as a faculty member in the division of Pediatric Hematology and Oncology at Emory University School of Medicine. Dr. Rice also serves on the Board of Cylene.

Dr. Brad Thompson: Dr. Thompson is an experienced biotechnology professional who has held the positions of Chairman of the Board and President and Chief Executive Officer of Oncolytics Biotech Inc. since April 1999. Prior to his role with Oncolytics Dr. Thompson was the Chief Executive Officer of Synsorb Biotech from 1994 to 1999. Dr. Thompson also currently is a board member of Immunovaccine Inc. He received his Ph.D. from the University of Western Ontario in the Department of Microbiology and Immunology.

Dr. Brian Underdown: Dr. Underdown is a Managing Director of Lumira Capital, Investment Management, one of Canada's leading venture capital firms with offices in Canada and the United States. Since joining Lumira and its preceding company, MDS Capital, in 1997, Dr. Underdown has focused on investments in North American therapeutics companies at all stages of development. With over 15 years of investment and operational experience in the biopharmaceutical sector, he has been a key player in the growth of over 10 life science companies in Canada and the U.S. Dr. Underdown also serves as a director of VistaGen Therapeutics Inc. and Argos Therapeutics Inc.

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, where he has been since 1990. 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., a position he has held since 2006. 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, which merged with Lorus in October 1999, and previously served as Lorus' President and Chief Executive Officer from October 1999 to September 2006. Dr. Wright was a Professor in the Faculties of Science and Medicine at the University of Manitoba, Senior Scientist and Associate Director of the Manitoba Institute of Cell Biology, and Terry Fox Senior Scientist of the National Cancer Institute prior to 1996.

Mr. Warren Whitehead: Mr. Whitehead is a Certified Management Accountant who has held senior financial management positions in several biotechnology and pharmaceutical companies. Currently he is the Chief Financial Officer of Amorfix Life Sciences Ltd. Prior to this, 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 ARIUS, 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.

Gregory Chow: Mr. Chow joined Lorus as Chief Financial Officer in December 2013. Previously, Mr. Chow served as Managing Director, Director of Private Placements at Wedbush Securities, where he led the private placement capital activities within the Life Sciences Investment Banking Group. Prior to joining Wedbush, he was a Director in the Private Placements / Equity Capital Markets Group at RBC Capital Markets, where he led life science private capital activities. Previously, he led the Private Capital Group at Wells Fargo Securities and was a Senior Auditor at BDO Seidman, LLP in their Century City, CA office. Mr. Chow is a Certified Public Accountant (inactive) in the State of California.

Avanish Vellanki: Mr. Vellanki became Lorus' Chief Business Officer in December 2013, having most recently served as Senior Vice President, Investment Banking at Wedbush Securities focusing on the biotechnology sector. Prior to Wedbush Securities, Mr. Vellanki held the position of Senior Director of Corporate Development at Proteolix, Inc. (acquired by Onyx Pharmaceuticals), a biotechnology company focused on the development of oncology therapeutics. Previously, Mr. Vellanki served as Vice President in the Global Healthcare Investment Banking team at Citigroup's Global Healthcare Investment Banking, where he focused on large cap global biopharma strategic and financial advisory. Mr. Vellanki began his career at Bear Stearns as an equity research analyst covering the small/mid-cap biotechnology sector, and held the title of Vice President as a publishing analyst.

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

B. ***Compensation*.**

Summary of Executive Compensation

The following table details the compensation information for the last three fiscal years of the Corporation, for the President and Chief Executive Officer, the Director of Finance and Acting Chief Financial Officer and the Vice President of Research ("**Named Executive Officers**"). The figures are in Canadian dollars.

Summary Compensation Table

Name and Principal Position	Fiscal Year ended May 31	Salary ($)	Share-based awards[1] ($)	Option-based awards[2] ($)	Non-equity incentive plan compensation: Annual incentive plans ($)	Non-equity incentive plan compensation: Long-term incentive plans ($)	Pension value ($)	All other compensation ($)	Total compensation ($)
Dr. Aiping Young[3]	2013	352,937	N/A	443,100	128,416	Nil	N/A	Nil	924,453
President and Chief	2012	349,334	304,200	49,500	Nil	Nil	N/A	Nil	703,034
Executive Officer	2011	342,819	N/A	644,711	127,845	Nil	N/A	Nil	1,115,375
Ms. Elizabeth Williams	2013	69,659	N/A	42,200	9,535	Nil	N/A	Nil	121,194
Director of Finance, Acting Chief	2012	68,923	N/A	27,238	Nil	Nil	N/A	Nil	96,161
Financial Officer[4]	2011	66,322	N/A	54,385	808	Nil	N/A	Nil	120,707
Dr. Yoon Lee	2013	139,546	N/A	63,300	26,484	Nil	N/A	Nil	229,330
Vice President Research	2012	138,071	N/A	27,983	Nil	Nil	N/A	Nil	166,054
	2011	135,405	N/A	61,183	25,599	Nil	N/A	Nil	222,187

(1) During the year ended May 31, 2012, 780,000 deferred share units were issued to Dr. Aiping Young. The deferred share units are measured at fair value and during the fiscal year ended May 31, 2013, the fair value had decreased from $304,200 at May 31, 2012 to $171,600, resulting in a reduction in value of $132,600. Dr. Aiping Young departed from the Corporation on March 18, 2014. For a description of our Deferred Common Share Units Plan, see below. In April 2014, the Deferred Share Units held by Dr. Young were settled through the issuance of an equivalent number of Common Shares.

(2) In determining the fair value of these option-based awards for the purchase of our Common Shares, the Black-Scholes valuation methodology was used with the following assumptions: (i) expected life of five years; (ii) volatility of 135%; (iii) risk free interest rate of 3%; and (iv) no dividend yield**.** The Corporation uses the Black-Scholes valuation methodology because it is equivalent to the option value reported in the Corporation's consolidated financial statements. All options were granted at an exercise price equal to fair market value on the date of grant at exercise prices ranging from $0.18 to $1.05 per share. In accordance with the terms of the Share Option Plan (described below), all options typically expire on the earlier of ten years from the date of grant or within three months of termination.

(3) Dr. Aiping Young was named Chief Operating Officer on October 28, 2013. On this date, she was replaced as Chief Executive Officer by William G. Rice, Ph.D. Dr. Young left the Company on March 18, 2014.

(4) Gregory Chow was appointed as our Chief Financial Officer on December 2, 2013.

Name and Principal Position	Fiscal Year	Salary ($)	Cash Bonus[1] ($)	Other Annual Compensation ($)	Securities Under Options/SARs Granted (#)[2]	All Other Compensation ($)
Dr. Aiping Young[3]	2013	352,937	128,416	Nil	1,060,000	Nil
President and Chief	2012	349,334	Nil	Nil	275,000	304,200
Executive Officer	2011	342,819	127,845	Nil	784,400	Nil
Ms. Elizabeth Williams	2013	69,659	9,535	Nil	100,000	Nil
Director of Finance, Acting	2012	68,923	Nil	Nil	162,000	Nil
Chief Financial Officer[4]	2011	66,322	808	Nil	62,015	Nil
Dr. Yoon Lee	2013	139,546	26,484	Nil	150,000	Nil
Vice President Research	2012	138,071	Nil	Nil	167,000	Nil
	2011	135,405	25,599	Nil	66,725	Nil

(1) Cash bonuses are assessed by the Compensation Committee and approved by the Board based on corporate objectives. Bonuses for the year ended May 31, 2013 were paid in the year ended May 31, 2014.

(2) Number of stock options granted during fiscal 2013. These options were granted on August 2, 2013 at a price of $0.475 and have a ten-year life.

(3) Dr. Aiping Young was named Chief Operating Officer on October 28, 2013. On this date, she was replaced as Chief Executive Officer by William G. Rice, Ph.D. Dr. Young left the Company on March 18, 2014.

(4) Gregory Chow was appointed as our Chief Financial Officer on December 2, 2013.

Directors' Compensation

The following table details the compensation received by each director for the fiscal year ended May 31, 2013:

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)[1]	Non-equity incentive plan compensation ($)	Pension value ($)	All other Compensation ($)	Total ($)
Mr. Herbert Abramson [2]	34,500	Nil	6,330	Nil	N/A	Nil	40,830
Dr. Denis Burger	34,500	Nil	6,330	Nil	N/A	Nil	40,830
Dr. Mark Vincent	25,500	Nil	6,330	Nil	N/A	Nil	31,830
Mr. Warren Whitehead	31,500	Nil	6,330	Nil	N/A	Nil	37,830
Dr. Jim Wright	55,500	Nil	42,200	Nil	N/A	Nil	97,700

(1) In determining the fair value of these option awards, the Black-Scholes valuation methodology was used with the following assumptions: (i) expected life of five years; (ii) volatility of 135%; (iii) risk free interest rate of 3%; and (iv) no dividend yield. The Corporation has decided to use the Black-Scholes valuation methodology because it is equivalent to the option value reported in the Corporation's consolidated financial statements**.**

(2) Mr. Abramson resigned from the Board effective December 10, 2013.

During the fiscal year ended May 31, 2013, each director who was not an officer of the Corporation was entitled to receive 15,000 share options (the Chair received 100,000) and, at his election, Common Shares, deferred share units and/or cash compensation for attendance at the Board committee meetings. Compensation consisted of an annual fee of $15,000 (the Chair received $35,000) and $1,500 per Board meeting attended ($4,500 to the Chair of a Board meeting). Members of the Audit Committee received an annual fee of $8,000 (the Chair received $10,000). Each member of the Compensation Committee and Corporate Governance and Nominating Committee received an annual fee of $5,000 per committee. Board members (including the Chair) receive $500 for meetings held via conference call. There have not been any changes to the fees from the prior year. Non-executive directors are reimbursed for any out-of pocket travel expenses incurred in order to attend meetings. Executive directors are not entitled to directors' compensation or reimbursement of travel expenses**.**

Directors are entitled to participate in the DSU Plan. None of our directors except for Dr. Aiping Young participated in this plan in the fiscal years ended May 31, 2013 or 2012.

Management Contracts

Under the employment agreement with President and Chief Executive Officer of the Corporation, Dr. Aiping Young, dated September 21, 2006, as amended on May 29, 2012, Dr. Young's salary for fiscal 2013 was $340,937 and she was entitled to an annual car allowance of $12,000. This agreement provided for a notice period equal to 18 months plus one additional month for each year of employment under the agreement in the event of termination without cause or a resignation. It also provided that, if within 36 months of a change of control of Lorus, Dr. Young's employment was terminated without cause or if she terminated the agreement with good reason as defined in the agreement, then she was entitled to receive the equivalent of two years of her basic salary plus one month's salary for each year under the agreement, plus an annual bonus prorated over the severance period (based on the bonus paid in respect of the last completed fiscal year). Dr. Young is also entitled to benefits coverage for the severance period or a cash payment in lieu thereof. In March 2014, Dr. Young's contract was terminated, and the Company paid her 26 months of salary and bonus, as well as payment in lieu of benefits, in accordance with the terms of the agreement. The total compensation paid to Dr. Young following her departure from the Company was approximately $1.1 million.

Under the employment agreement with our Director of Finance of the Corporation, Ms. Elizabeth Williams, dated May 31, 2004, Ms. Williams' salary for fiscal 2013 was $70,000. Ms. Williams currently provides services on a part-time basis. This agreement provides for a notice period equal to the greater of one month and the applicable notice entitlement under employment legislation in the event of termination. Ms. Williams reports to the Chief Executive Officer. The bonus and options allocation for the Director of Finance is recommended to the Board by the Chief Executive Officer. Ms. Williams is entitled to four weeks of paid vacation, prorated to reflect a period of employment less than a full calendar year.

Under the employment agreement with our Vice President of Research of the Corporation, Dr. Yoon Lee, dated May 5, 2008, Dr. Lee's salary for fiscal 2013 was $139,530. This agreement provides for a notice period equal to four months plus one additional month for each year of employment, to a maximum of 12 months. Dr. Lee reports to the Chief Business Officer**.** The bonus and options allocation of the Vice President of Research is recommended to the Board by the Chief Executive Officer. Dr. Lee is entitled to five weeks of paid vacation, prorated to reflect a period of employment less than a full calendar year.

Salary and bonus amounts for each of the Named Executive Officers paid during the fiscal year 2013 were as set out in the Summary Compensation Table above.

Equity Compensation Plans

The following table sets forth certain details as at the end of the fiscal year ended May 31, 2013 with respect to compensation plans pursuant to which equity securities of the Company are authorized for issuance.

	Number of Shares to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of Shares remaining available for future issuance under the equity compensation plans (Excluding Shares reflected in Column (a)) (c)		Total options, warrants and rights outstanding and available for grant (a) + (c)	
Plan Category	**Number**	**% of Shares outstanding**		**Number**	**% of Shares outstanding**	**Number**	**% of Shares outstanding**
Equity compensation plans approved by shareholders	4,138,116	10%	$ 0.46	2,199,546	5%	6,337,662	15%

Share Option Plan

The share option plan of the Corporation (the '**Share Option Plan**") was established to advance the interests of Lorus by:

- providing Eligible Persons (as defined below) with additional incentives;
- encouraging stock ownership by Eligible Persons;
- increasing the interest of Eligible Persons in the success of Lorus;
- encouraging Eligible Persons to remain loyal to Lorus; and
- attracting new Eligible Persons to Lorus.

The Compensation Committee, as authorized by the Board administers the Share Option Plan and makes recommendations to the Board for grants under the plan. The maximum total number of Common Shares available for issuance from treasury under the Share Option Plan, together with the DSU Plan, the alternate compensation plan of the Corporation (the "**ACP**" and collectively with the Share Option Plan and the DSU Plan, the "**Plans**") and any other security based compensation arrangement is 15% of the Corporation's issued and outstanding Common Shares at any given time. Any exercise of options pursuant to the Share Option Plan will make new option grants available under the Share Option Plan, provided that the maximum number of Common Shares reserved for issuance collectively under the Plans may not exceed 15% of the Corporation's issued and outstanding Common Shares at any given time.

The exercise price of options granted under the Share Option Plan is established by the Board and will be equal to the closing market price of the Common Shares on the TSX on the last trading day preceding the date of grant. If there is no trading on that date, the exercise price will be the average of the bid and ask on the TSX on the last trading date preceding the date of grant. If not otherwise determined by the Board, an option granted under the Share Option Plan will vest as to 50% on the first anniversary of the date of grant of the option and an additional 25% on the second and third anniversaries after the date of grant. The Board fixes the term of each option when granted, but such term may not be greater than 10 years from the date of grant. If the date on which an option expires pursuant to an option agreement occurs during, or within 10 days after the last day of, a black out period or other restriction period imposed on the trading of Common Shares by the Corporation, the expiry date for the option will be the last day of the 10-day period. Options are personal to the participant and a participant may not transfer an option except in accordance with the Share Option Plan.

The Board may, its sole discretion, amend, suspend or terminate the Share Option Plan or any portion of it at any time in accordance with applicable legislation, without obtaining the approval of shareholders. Any amendment to any provision of the Share Option Plan is subject to any required regulatory or Shareholder approval. The Corporation is, however, required to obtain the approval of the shareholders for any amendment related to (i) the maximum number of Common Shares reserved for issuance under the Share Option Plan, and under any other security based compensation arrangements of the Corporation; (ii) a reduction in the exercise price for options held by insiders of the Corporation; and (iii) an extension to the term of options held by insiders or the Corporation. In addition, the Corporation is required to obtain the approval of the approval of the shareholders for any amendment related to the increase in the limits on the grants of options to insiders of the Corporation and any shareholder approval required in respect of an amendment to increase such limits shall exclude shall exclude the votes attaching to Common Shares, if any, held by eligible persons who are insiders of the Corporation.

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

During the period from June 1, 2012 to May 31, 2013, options to purchase 1,780,000 Common Shares were granted under the Share Option Plan at an exercise price of $0.475 per Common Share. During the year ended May 31, 2013, we granted options to employees, other than executive officers of the Corporation, to purchase 320,000 Common Shares, being 18% of the total incentive stock options granted during the year to employees, executive officers and directors. Since May 31, 2013, there have been 6,878,004 options to purchase Common Shares granted under the Share Option Plan at exercise prices ranging from $0.29 to $0.78 During this period we granted options to employees and consultants other than executive officers of the Corporation to purchase 933,004 Common Shares, being 14% of the total stock options granted during the period to employees, executive officers, consultants and directors.

Alternate Compensation Plan

The Corporation has an ACP Plan which enables Lorus to meet its obligations to pay directors' fees, salary and performance bonuses to certain employees in the form of Common Shares. The ACP Plan permits the Corporation to, in circumstances considered appropriate by the Board, encourage the ownership of equity of the Corporation by its directors and senior employees ("**ACP Participants**"), enhance the Corporation's ability to retain key personnel and reward significant performance achievements while preserving the cash resources of the Corporation.

Under the ACP Plan, ACP Participants have the option of receiving director's fees, salary, bonuses or other remuneration, as applicable ("**Remuneration**") by the allotment and issuance from treasury of such number of Common Shares as will be equivalent to the cash value of the Remuneration determined by dividing the Remuneration by the weighted average closing share price for the five (5) trading days prior to payment date (the "5-day VWAP"). The issue price of Common Shares issued under the ACP is the 5-day VWAP. Upon ceasing to be an ACP Participant, such ACP Participant will no longer be eligible to receive Common Shares under the ACP Plan and any amounts owing to such ACP Participant shall be paid without reference to the ACP Participant.

The maximum number of Common Shares reserved for issuance under the ACP Plan, when combined with the Share Option Planand the DSU Plan must not exceed 15% of the Corporation's issued and outstanding Common Shares at any given time.

There were no Common Shares issued under the ACP Plan during the fiscal year ended May 31, 2013.Since May 31, 2013, there have been no Common Shares issued under the ACP Plan.

The Board may, at any time and from time to time, amend, suspend or terminate the ACP Plan without Shareholder approval, provided that no such amendment, suspension or termination may be made without obtaining any required approval of any regulatory authority or stock exchange. Notwithstanding the foregoing, the Board may not, without the approval of the shareholders, make amendments to the ACP Plan to increase the maximum number of Common Shares issuable under the ACP Plan, or to amend the provisions regarding Shareholder approval.

Deferred Common Share Units Plan

The Corporation adopted the DSU Plan on April 17, 2000, pursuant to which participating directors and senior officers ("**DSU Participants**") may elect to receive either a portion or all of their remuneration from the Corporation in deferred share units. Such remuneration includes all amounts payable in cash or Common Shares (subject to election otherwise under the DSU Plan) to a DSU Participant by the Corporation or a subsidiary of the Corporation in respect of the services provided to the Corporation or subsidiary by the DSU Participant in any calendar year by such DSU participant, including (a): in the case of a director, (i) annual Board or committee of the Board or advisory retainer fees, (ii) fees for attending meetings of the Board or a committee of the Board, and (iii) fees for serving as chairman or chairwoman of any committee of the Board, but, for greater certainty, excluding amounts payable to a DSU Participant as a reimbursement for expenses incurred in attending meetings; and (b): in the case of a senior officer, those services for which a salary or cash bonus would normally be paid, provided that the relevant performance criteria which serve as a basis for the granting of such bonuses have been met.

Under the DSU Plan, the deferred share units that DSU Participants elect to receive for remuneration earned are credited to each DSU Participant's account in an amount of units equal to the gross amount of remuneration to be deferred divided by the fair market value of the Common Shares, being the closing price of the Common Shares on the TSX on the day immediately preceding the recommendation by the Compensation Committee or such other amount as determined by the Board and permitted by the applicable regulatory authorities. Rights respecting deferred share units are not transferable or assignable other than by will or by the laws of descent and distribution.

A DSU Participant who has retired, resigned or been terminated without cause from all positions with the Corporation and any subsidiary of the Corporation may redeem the deferred share units credited to the DSU Participant's account. Subject to the approval of the Compensation Committee, the DSU Participant may indicate what portion of the payment is to be paid in cash and what portion is to be paid in Common Shares. A DSU Participant who has been terminated with cause may not redeem the deferred share units held by that DSU Participant and those deferred share units so held will be deemed cancelled as of the date of termination of the DSU Participant.

The maximum number of Common Shares reserved for issuance under the DSU Plan, when combined with the Share Option Planand the ACP Plan must not exceed 15% of the Corporation's issued and outstanding Common Shares at any given time.

During the period from June 1, 2012 to May 31, 2013, no deferred share units were issued to DSU Participants under the DSU Plan. Since May 31, 2013, there have been no deferred share units issued under the DSU Plan.

The Board may amend the DSU Plan as it deems necessary or appropriate without Shareholder approval, subject to applicable corporate, securities and tax law requirements, but no amendment will, without the consent of the DSU Participant or unless required by law, adversely affect the rights of a DSU Participant with respect to deferred share units that have been credited to the account of the DSU Participant at the time of such amendment to the DSU Plan. Notwithstanding the foregoing, the Board must obtain Shareholder approval to increase to the maximum number of securities reserved for issuance under the DSU Plan or any other security based compensation arrangement, or to amend the provisions regarding Shareholder approval.

Employee Share Purchase Plan

We have an Employee Share Purchase Plan ("**ESPP**") to assist the Corporation to retain the services of its employees, to secure and retain the services of new employees and to provide incentives for such persons to exert maximum efforts for the success of the Corporation. The ESPP provides a means by which employees of the Corporation and its affiliates may purchase Common Shares at a 15% discount through accumulated payroll deductions. Eligible participants in the ESPP include all employees, including executive officers, who work at least 20 hours per week and are customarily employed by the Corporation or an affiliate of the Corporation for at least six months per calendar year. Generally, each offering is of three months' duration with purchases occurring every quarter. Participants may authorize payroll deductions of up to 15% of their base compensation for the purchase of Common Shares under the ESPP.

During the year ended May 31, 2013, under the ESPP, Named Executive Officers, as a group, and employees did not purchase any Common Shares pursuant to the ESPP. Since May 31, 2013, there have been no Common Shares purchased pursuant to the ESPP.

Option Grants During Fiscal Year 2013

The following tables set forth the options granted to and exercised by each of the Named Executive Officers during the fiscal year ended May 31, 2013:

Option/SAR Grants During the Most Recently Completed Financial Year

Name and Principal Position	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year (%)	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
Dr. Aiping Young President and Chief Executive Officer[2]	1,050,000	59%	$ 0.475	$ 0.475	August 1, 2022
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer[3]	100,000[1]	6%	$ 0.475	$ 0.475	August 1, 2022
Dr. Yoon Lee Vice President, Research	150,000[1]	8%	$ 0.475	$ 0.475	August 1, 2022

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

(2) Dr. Aiping Young was named Chief Operating Officer of the Corporation on October 28, 2013. On this date, she was replaced as Chief Executive Officer of the Corporation by William G. Rice, Ph.D. Dr. Aiping Young departed the Corporation on March 18, 2014.

(3) Gregory Chow was appointed as our Chief Financial Officer on December 2, 2013.

Incentive Compensation Plans

Outstanding Share-Based Awards and Option-Based Awards

The following table shows all awards outstanding to each Named Executive Officer as at May 31, 2013:

	Option-based Awards			
Name and Principal Position	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($) (1)**
Dr. Aiping Young	275,000	0.215	Nov 28, 2021	1,375
President and Chief Executive Officer	1,050,000	0.475	Aug 1, 2022	Nil
Ms. Elizabeth Williams	85,000	0.215	Nov 28, 2021	425
Director of Finance, Acting	62,000	0.18	March 8, 2022	2,480
Chief Financial Officer(2)	100,000	0.475	Aug 1, 2022	Nil
Dr. Yoon Lee	100,000	0.215	Nov 28, 2021	500
Vice President, Research	67,000	0.18	March 8, 2022	2,680
	150,000	0.475	Aug 1, 2022	Nil

(1) These amounts are calculated based on the difference between the market value of the securities underlying the options at the end of the fiscal year ($0.22), and the exercise price of the options.

(2) Gregory Chow was appointed as our Chief Financial Officer on December 2, 2013.

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

Name	**Securities Acquired on Exercise (#)**	**Aggregate Value Realized ($)**	**Unexercised Options/SARs at May 31, 2013 (#) Exercisable/Unexercisable**	**Value of Unexercised in-the-Money Options/SARs at May 31, 2013 ($) Exercisable/Unexercisable**
Dr. Aiping Young President and Chief Executive Officer Former Chief Operating Officer	Nil	Nil	275,000/1,050,000	1,375/nil
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer	Nil	Nil	144,750/102,250	1,559/1,346
Dr. Yoon Lee Vice President, Research	Nil	Nil	177,875/131,625	1,687/1,456

C. ***Board practices.***

Lorus is authorized to have a board of at least one director and no more than ten. Lorus currently has six directors. Directors are elected for a term of approximately one year, from annual meeting to annual meeting, or until an earlier resignation, death or removal. For the dates our current directors assumed their directorships, see Item 6.A. – “Directors and Senior Management” above.

Each officer serves at the discretion of the Board or until an earlier resignation or death. There are no family relationships among any of our directors or officers.

Our non-management directors have no service contracts with us or our subsidiaries that provide for benefits upon termination of employment. See "Management Contracts" above for a summary of Dr. Young's employment agreement.

Committees of the Board of Directors

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

The members of these committees during the 2013 fiscal year were as follows:

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

The current members of these committees are as follows:

Audit Committee	Denis Burger, Brian Underdown, Warren Whitehead
Nominating and Corporate Governance Committee:	Mark Vincent, Bradley Thompson
Compensation Committee:	Denis Burger, Jim Wright, Brian Underdown

Compensation Committee

Composition of the Compensation Committee

The Board, upon the advice of the Compensation Committee, determines executive compensation. From June 1, 2010 to present, the Compensation Committee has been comprised of independent Board members Dr. Burger and Dr. Wright. Dr. Burger is chair of the Compensation Committee. The Compensation Committee met four times during the period lasting from June 1, 2012 until May 31, 2013. For more information on the Compensation Committee, please see the section entitled "Compensation" of the Corporation's Corporate Governance Practices attached hereto as Appendix A.

Members of the Compensation Committee each have direct experience relevant to compensation matters resulting from their respective current and past activities. The members of the Compensation Committee have experience dealing with compensation matters in comparable organizations, including public companies, as well as companies with a strong emphasis on governance in their current and former roles as principal executives.

Compensation Objectives and Philosophy

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

Lorus' executive compensation program is designed to:

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

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

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

The Compensation Committee reviews each of these items on a stand-alone basis and also reviews compensation as a total package. Adjustments to compensation are made as appropriate following a review of the compensation package as a whole. The Compensation Committee then makes a recommendation to the Board for approval.

Base Salary — Initial Share Options

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

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

Short-Term Compensation Incentives

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

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

For each executive officer, during the fiscal year ended May 31, 2013, the annual cash bonuses ranged from 15% to 40% of base salary when all corporate and individual executive officer objectives were achieved.

Cash bonuses are determined as soon as practicable after the end of the fiscal year and, for the Named Executive Officers (as defined hereinafter), are included in the Summary Compensation Table in the year in respect of which they are earned.

Long-Term Incentive Plan

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

The number of options granted for certain executives of Lorus for the fiscal year ended May 31, 2013 was based on achievement of both corporate and executive officer objectives. The Compensation Committee approves the allocation of options and options are priced using the closing market price of the Common Shares on the TSX on the last trading day prior to the date of grant. Options to purchase Common Shares expire ten years from the date of grant and vest over a term determined by the Compensation Committee. The Compensation Committee takes into account previous grants of options when considering new grant of options.

The option grants for Named Executive Officers are included in the Summary Compensation Table in the year that they are granted.

Performance Metrics

The performance of the Named Executive Officers for the 2013 financial year was measured in the following areas:

1. Maximizing the value of LOR-253;
2. Maximizing the value of IL-17E;
3. Maximizing the value of LOR-500;
4. Establishing at least one corporate partnership; and
5. Equity financing to establish at least one year of cash.

Each of the above is weighted at 20%, 25%, 5%, 30% and 20%, respectively, in relation to assessment of satisfaction of overall corporate objective and determination of any general corporate bonuses. Based on these criteria the Board assigned an achievement of 87%. Incentive compensation related to the attainment of these objectives was paid in fiscal 2014. Similar performance metrics were established for the year ending May 31, 2014 based on the approved business plan for the current year.

Hedge or Offset Instruments

Named Executive Officers or directors are not permitted to purchase financial instruments that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by Named Executive Officers or directors, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds.

Risk Assessment of Compensation

The implications of the risks associated with the Corporation's compensation practices were not considered by the Board or a committee of the Board.

Audit Committee

The members of the Audit Committee during the fiscal year ended May 31, 2013 were Herb Abramson, Denis Burger and Warren Whitehead. The current members of the Audit Committee are Brian Underdown, Denis Burger and Warren Whitehead. Mr. Warren Whitehead is the Chairman of the Audit Committee and has been appointed as the Financial Expert. Pursuant to Canadian securities laws, our board of directors has determined that Messrs. Underdown, 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. Burger, in his previous position as Chairman and Chief Executive Officer of AVI Biopharma, is educated and experienced in reading and analyzing financial statements. Mr. Burger has also served on the audit committee of three other publicly listed biotechnology companies. Mr. Underdown, in his position of Managing Director at Lumira Capital Investment Management, is educated and experienced in reading and analysing financial statements. Mr. Underdown also sits on the board of directors of several other publicly listed entities. Mr. Whitehead is a Certified Management Accountant and has served as the Chief Financial Officer of Arius Research Inc. and Labopharm Inc. Additionally, we believe that Mr. Whitehead and Mr. Burger qualify as "independent" as that term is defined in the relevant securities laws relating to the composition of the audit committee.

Audit Committee Mandate

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

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

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

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

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

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

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

D. ***Employees*****.**

As at May 31, 2013, we employed 15 full-time persons and four part-time people in research and drug development and administration activities. Among our employees, five hold Ph.D.s, two hold M.D.s, five hold MSc degrees, one holds a DVM degree and numerous others hold degrees and designations such as BSc, CPA(CA), CPA(California) and MBA. 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.

E. ***Share ownership*****.**

The following table sets forth information regarding beneficial ownership of our Common Shares as of May 31, 2013, by our executive officers and directors individually and as a group.

					Options to Purchase Shares		
	Number of Shares	Warrants[1]	Total Number of Shares Beneficially Owned	Percentage of Shares Outstanding(+)	Number of Underlying Shares (#)	Exercise Price (Range) ($)	Expiry Date (Range-Year)
Dr. Aiping H. Young[4]	221,584	125,000	346,584	0.8%	1,325,000	$0.215-$0.475	2021-2022
Ms. Elizabeth Williams	427	Nil	427	0.00%	247,000	$0.18-0.475	2021-2022
Dr. Yoon Lee	Nil	Nil	Nil	Nil	309,500	$0.18-0.475	2021-2022
Dr. Jim A. Wright[3]	214,300	Nil	214,300	0.5%	655,000	$0.18-0.475	2021-2022
Mr. Herbert Abramson[2]	8,938,041	2,444,500	11,382,541	26.9%	55,000	$0.18-0.475	2021-2022
Dr. Denis Burger	51,987	Nil	51,987	0.1%	130,000	$0.18-0.475	2021-2022
Dr. Bradley Thompson	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dr. Mark Vincent	Nil	Nil	Nil	Nil	55,000	$0.18-0.475	2021-2022
Mr. Warren Whitehead	Nil	Nil	Nil	Nil	36,000	$0.18-0.475	2021-2022
All directors and executive officers as a group	9,426,439	2,569,500	11,995,939	28.4%	2,812,500	$0.18-0.475	2021-2022

(+) calculated on a partially diluted basis excluding stock options.

(1) Warrants to purchase Common Shares were acquired pursuant to a unit offering completed in August 2011. Each warrant represents the right to acquire a Common Share at an exercise price of $0.45. These warrants will expire in August 2016.

(2) In addition to Common Shares held personally, Mr. Abramson is deemed to control the Common Shares held by Technifund Inc. in his capacity as sole owner of Technifund. Mr. Abramson resigned from the Board on December 10, 2013.

(3) Of the Common Shares owned by Dr. Wright 56,141 are registered in the name of Calliope Investments Limited.

(4) Dr. Young has been issued 780,000 deferred share units in addition to the options disclosed. The deferred share units may be settled in Common Shares or cash at the approval of the Board . Dr. Young departed the Corporation on March 18, 2104.

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

Item 7. Major Shareholders and Related Party Transactions

A. *Major shareholders.*

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

Approximately 99% of our ordinary Common Shares are held in Canada, and there are 78 record holders of our Common Shares in Canada. All of our shareholders have equal voting rights.

The following table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the SEC, as well as Early Warning Reports and System for Electronic Disclosure by Insiders ("SEDI") filings with the Ontario Securities Commission.

Name of Beneficial Owner(s)	Amount and Nature of Beneficial Ownership	Percent of Class [(1)]
Cormorant Global Healthcare Master Fund LP	13,000,000[(4)]	10.6%
Herbert Abramson	8.993,041[(2)]	7.3%
Mr. Sheldon Inwentash and Pinetree Capital	14,670,000[(3)]	11.5%

(1) Based on 122,858,327 Common Shares outstanding as of May 9, 2014 and assuming exercise of owner's warrants only.

(2) Subsequent to Lorus' fiscal year ended May 31, 2013 on November 14, 2013 a Schedule 13D was filed jointly by Herbert Abramson and Technifund Inc. On November 7, 2013, Abramson acquired directly 2,444,500 Common Shares through the exercise of warrants at a price of $0.45 per share and sold 2,444,500 shares at CDN$0.90 per share on the public market. On February 20, 2014 Mr. Abramson exercised 55,000 Common Share purchase options. Following this transaction Mr. Abramson and Technifund are deemed to control 8,993,041 Common Shares.

(3) As reported on filings with SEDI. Mr. Sheldon Inwentash holds 3,920,000 Common Shares and 3,500,000 Common Share purchase warrants and Pinetree Capital holds 5,750,000 Common Shares, 1,000,000 Common Share purchase warrants and $150,000 in convertible promissory notes convertible into 500,000 Common Shares. Mr. Inwentash became a greater than 5% holder following the June 2012 private placement. Please see 'Related Party Transactions' below for recent acquisitions by Mr. Inwentash.

(4) On April 3, 2014, Cormorant Global Healthcare Master Fund LP ("Cormorant") filed a 13G indicating that it had acquired 13,000,000 of our Common Shares under the April 10, 2014 public offering as described above. Upon completion of the offering, Cormorant held 11.5% of the issued and outstanding Common Shares of the Company.

B. ***Related party transactions.***

Certain related parties participated in the June 2013 private placement described above. Directors and officers, including Dr. Aiping Young, Dr. Jim Wright and Dr. Mark Vincent, acquired an aggregate of $68,000 of the promissory notes. A company related to a Mr. Abramson, a former director of the Company, acquired $250,000 of the promissory notes and Mr. Inwentash and his joint actors ("Mr. Inwentash"), a related party of the Company by virtue of exercising control or direction over more than 10% of the issued and outstanding Common Shares of the Company, acquired $100,000 of the promissory notes. These promissory notes were repaid by the Company in April 2014.

In the September 2013 convertible promissory note private placement described above, a company related to Mr. Abramson, a former director of Lorus, acquired $100,000 of the promissory notes; Mr. Inwentash acquired $150,000 of the promissory notes; and Sprott Asset Management, which then held more than 10% of the Common Shares of Lorus and the ability to acquire control of more than 20% of the Common Shares of Lorus, acquired $112,000 of the promissory notes.

Mr. Inwentash participated in the December 2013 Common Share public offering described above and acquired an aggregate of 1,820,000 Common Shares in that offering and an aggregate of 1,300,000 Common Shares in the April 2014 public offering described above.

Executive Contracts

On October 25, 2013, the Company entered into an executive employment agreement with William G. Rice, Ph.D., in connection with his appointment as Chief Executive Officer and Chairman of the Board of the Company.

On November 29, 2013, the Company entered into an executive employment agreement with each of Gregory K. Chow and Avanish Vellanki in connection with their appointments as Chief Financial Officer and Chief Business Officer, respectively, of the Company.

The employment agreements for each of Dr. Rice, Mr. Chow and Mr. Vellanki provide that if they are terminated by the Company other than for cause, each of Dr. Rice, Mr. Chow and Mr. Vellanki would be entitled under their respective agreements to a payment equivalent to 12 months of their respective annual base salaries at the time of termination. Dr. Rice's current annual base salary represents U.S. $480,000, Mr. Chow's current annual base salary represents U.S. $315,000 and Mr. Vellanki's current annual base salary represents U.S. $315,000. They are each additionally entitled to an amount equal to the average bonus remuneration received from the Company during the last three years of employment completed prior to the termination date, prorated based on the number of days the executive worked during the year of the termination. In addition, the employment agreements for each of Dr. Rice, Mr. Chow and Mr. Vellanki provide that certain payments related to health benefits continue to be made for a period of 12 months following termination of their employment.

The employment agreements of each of Dr. Rice, Mr. Chow and Mr. Vellanki also provide for the grant of options to purchase Common Shares of the Company, at an exercise price equal to the fair market value of the shares on the dates of grant. In connection with the execution of his executive employment agreement, Dr. Rice received an initial grant of a fully vested option to purchase 425,000 Common Shares at an exercise price equal to the fair market value of the Common Shares on the date of grant. Pursuant to the terms of his executive employment agreement, upon satisfaction of the conditions in his agreement, Dr. Rice received additional grants of options to purchase 63,367, 781,633 and 1,680,000 Common Shares on December 10, 2013, January 29, 2014 and April 10, 2014, respectively, at exercise prices equal to the fair market value of the Common Shares on the dates of grant. The options vest in accordance with the Company's standard three year vesting term, at a rate of 50% of the shares subject to the option vest on the one-year anniversary of the date of grant and 25% vest on each one-year anniversary thereafter.

In addition to the option grants to Mr. Chow and Mr. Vellanki described below, Mr. Chow and Mr. Vellanki each received two additional grants of options to purchase 425,000 Common Shares pursuant to the terms of their respective executive employment agreements, on December 10, 2013 and April 10, 2014. Of the 425,000 options granted on December 10, 2013 to Mr. Chow and Mr. Vellanki, 200,000 vested immediately and the remaining 225,000 options vest 50% after one year, 25% after two years and 25% after three years from the date of grant. The options granted in April 10, 2014 vest in equal monthly installments over 36 months from the date of grant.

The employment agreements of Mr. Chow and Mr. Vellanki also provide that, in the event of a change of control (as defined in the agreements), each of Mr. Chow and Mr. Vellanki would be eligible to receive a payment equivalent to 18 months of their respective annual base salaries at the time of termination, plus an amount equal to 150% of the average bonus remuneration received from the Company during the last three years of employment completed prior to the termination date, prorated based on the number of days the executive worked during the year of the termination, as well as continuation of the payments related to health benefits for a period of 12 months following the termination following a change of control. The employment agreement of Dr. Rice does not include change of control provisions.

Prior to the Company entering into the executive employment agreements with Mr. Chow and Mr. Vellanki, Lorus entered into a consulting agreement with each of Mr. Chow and Mr. Vellanki, on November 4, 2013. Pursuant to the consulting agreements, Mr. Chow provided services to the Company as acting Chief Financial Officer prior to the date of his executive employment agreement and Mr. Vellanki provided services as acting Chief Business Officer prior to the date of his executive employment agreement. Mr. Chow and Mr. Vellanki each were compensated at the monthly rate of $20,833 for their services and each were granted a fully vested option to purchase 425,000 Common Shares at an exercise price equal to the fair market value of the shares on the date of grant.

C. ***Interests of experts and counsel.***

Not applicable.

Item 8. Financial Information

A. ***Consolidated statements and other financial information.***

See Item 18 for our Consolidated Financial Statements and other financial information.

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.

B. ***Significant changes.***

Subsequent to the quarter ended February 28, 2014, in April 2014, the Company completed a public offering of our Common Shares. The Company issued a total of 56,500,000 Common Shares at a purchase price of $0.50 per Common Share, including 6,500,000 Common Shares sold pursuant to the partial exercise of an over-allotment option on April 22, 2014, for aggregate gross proceeds of $28,250,000.

Subsequent to the quarter ended February 28, 2014, then outstanding warrants exercisable for the purchase of 2,930,000 Common Shares were exercised on April 1, 2014, providing the Company with $1,318,500 in additional proceeds.

In April 2014, the Company repaid the $918,000 in then outstanding promissory notes due in June 2014, and the $150,000 then outstanding loan agreements due in September 2015, and all accrued and unpaid interest on the notes.

In April 2014, pursuant to the terms of her executive employment agreement, the Company paid cash compensation to Dr. Aiping Young of approximately $1.1 million following her departure from the Company. The Company also issued to Dr. Young 780,000 Common Shares in satisfaction of the deferred share unit grant previously made to Dr. Young on April 12, 2012.

Item 9. The Offer and Listing

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

A. ***Offer and listing details.***

Price Range of Common Stock and Trading Markets

Our Common Shares, without par value, are currently listed on the 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 below.

	TSX (CDN$)	
Five most recent full fiscal years:	High	Low
Year ended May 31, 2013	0.64	0.19
Year ended May 31, 2012	0.72	0.16
Year ended May 31, 2011	2.55	0.68
Year ended May 31, 2010	3.90	1.80
Year ended May 31, 2009	0.16	0.03
Year ended May 31, 2013	0.64	0.19
Quarter ended May 31, 2013	0.30	0.19
Quarter ended February 29, 2013	0.45	0.22
Quarter ended November 30, 2012	0.48	0.20
Quarter ended August 31, 2012	0.64	0.32
Year ended May 31, 2012	0.72	0.16
Quarter ended May 31, 2012	0.59	0.17
Quarter ended February 29, 2012	0.25	0.16
Quarter ended November 30, 2011	0.37	0.20
Quarter ended August 31, 2011	0.72	0.25
Most recent six months:		
April 2014	0.59	0.48
March 2014	0.77	0.48
February 2014	0.88	0.59
January 2014	0.70	0.49
December 2013	0.65	0.52
November 2013	1.04	0.50

B. ***Plan of distribution.***

Not applicable.

C. ***Markets.***

See Item 9.A.

D. ***Selling shareholders.***

Not applicable.

E. ***Dilution.***

Not applicable.

F. ***Expense of the issue.***

Not applicable.

Item 10. Additional Information

A. ***Share capital.***

Not applicable.

B. ***Memorandum and articles of association.***

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

We are authorized to issue an unlimited number of Common Shares. Our shareholders have no rights to share in our profits, are subject to no redemption or sinking fund provisions, have no liability for further capital calls and are not subject to any discrimination due to number of Common Shares owned. By not more than 50 days nor less than seven days in advance of a dividend, the Board may establish a record date for the determination of the persons entitled to such dividend.

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

All holders of our Common Shares are entitled to vote at annual or special meetings of shareholders, provided that they were shareholders as of the record date. The record date for shareholder meetings may precede the meeting date by no more than 50 days and not less than 21 days, provided that notice by way of advertisement is given to shareholders at least seven days before such record date. Notice of the time and place of meetings of shareholders may not be less than 21 nor greater than 50 days prior to the date of the meeting. There are no:

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

Common Shares

Each holder of record of Common Shares, without par value, is entitled to one vote for each share held on all matters properly submitted to the shareholders for their vote, except matters which are required to be voted on as a particular class or series of stock. Cumulative voting for directors is not permitted.

Holders of outstanding Common Shares are entitled to those dividends declared by the board of directors out of legally available funds. In the event of liquidation, dissolution or winding up our affairs, holders of Common Shares are entitled to receive, pro rata, our net assets available after provision has been made for the preferential rights of the holders of preferred stock, including any surplus available after such event of liquidation, dissolution or winding up of the affairs of the Corporation. Holders of outstanding Common Shares have no pre-emptive, conversion or redemption rights. All of the issued and outstanding Common Shares are, and all unissued Common Shares, when offered and sold will be, duly authorized, validly issued, fully paid and non-assessable. To the extent that additional Common Shares may be issued in the future, the relative interests of the then existing shareholders may be diluted. There were 42,251,081 Common Shares issued and outstanding at May 31, 2013.

Common Shares Eligible for Future Sale

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

At May 31, 2013, there were 3,400,000 options outstanding under our stock option plans to purchase an equal number of Common Shares. The outstanding options are exercisable at a weighted average price per share of $0.46. In addition, there were 780,000 deferred share units which may be redeemed for Common Shares of the Company

As at May 31, 2013, there were 27,000,000 Common Shares issuable upon the exercise of outstanding Common Share purchase warrants. Of these warrants, 5,300,000 are exercisable at a purchase price of $0.45 per share and expire in August 2016 and 22,000,000 are exercisable at a purchase price of $0.45 per share and expire in June 2014. On June 19, 2013, subsequent to our fiscal year end, we issued an additional 918,000 warrants for Common Shares which are exercisable at a purchase price of $0.25 per share and expire in June 2015. In September 2013, we issued $600,000 in convertible promissory notes which can be converted at a price of $0.30 per share into 2,000,000 Common Shares. In connection with the December 2013 public offering and January 2014 closing of the over-allotment option we issued 878,370 Common Share warrants at an exercise price of $0.55 per share that expire after 24 months.

Indemnification of Executive Officers and Directors

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

C. ***Material contracts.***

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

1. Non-Exclusive License Agreement between the Company and Genentech Inc., dated May 1, 2012, for the non-exclusive right to certain patent rights.
2. Lease of premises between the Company and 565991 Ontario Limited, dated July 27, 2001, as amended through March 31, 2015.
3. Executive Employment Agreement between the Company and Dr. William G. Rice, dated October 25, 2013.
4. Executive Employment Agreement between the Company and Gregory K. Chow, dated November 29, 2013.
5. Executive Employment Agreement between the Company and Avanish Vellanki, dated November 29, 2013.
6. Executive Employment Agreement between the Company and Dr. Aiping Young, dated September 21, 2006, as amended on May 29, 2012.
7. Form of Warrant issued in connection with the June 2012 private placement.
8. Form of Promissory Note and Warrant Agreement issued June 19, 2013
9. Form of Promissory Note issued September 26, 2013
10. Underwriting Agreement dated November 22, 2013 in connection with the December 2013 public offering.
11. Underwriting Agreement dated March 27, 2014 in connection with the April 2014 public offering.

Please refer to Item 4 – "Business Overview" for further details on certain agreements referred to in number 1 and to "Financial Strategy" for further details on items 7 to 11 above and to "Management Contracts" for further details on items 3 through 6 above.

D. ***Exchange controls.***

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

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

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

E. ***Taxation.***

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

We are likely to be a passive foreign investment company for U.S. federal income tax purposes, which may adversely affect U.S. investors.

Our earnings for the current tax year are expected to consist mostly of interest and similar income. For the purposes of U.S. federal income taxation, we believe we are currently a passive foreign investment company ("**PFIC**") and will continue to be a PFIC, at least until we begin to earn substantial amounts of gross income from our operations. However, our status as a PFIC for any particular taxation year cannot be determined with certainty until the close of our taxable year. Subject to certain limited exceptions, if a U.S. person owns our Common Shares during a year when we are a PFIC, gain realized by the U.S. person from the sale of those Common Shares would be taxed as ordinary income, rather than capital gain, and an interest charge would be added to the tax. The PFIC rules are extremely complex, and U.S. persons should consult with their own U.S. tax advisors regarding the application of the PFIC rules to an investment in our Common Shares.

U.S. Federal Income Tax Considerations

The following discussion is limited to certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Common Shares by U.S. Holders (as defined below). This discussion applies to U.S. Holders that purchase Common Shares pursuant to the offering and hold such Common Shares as capital assets. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as certain financial institutions, insurance companies, broker-dealers and traders in securities or other persons that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, persons who hold Common Shares as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or integrated investment, persons that have a "functional currency" other than the U.S. dollar, persons that own (or are deemed to own) 10% or more (by voting power or value) of our Common Shares, corporations that accumulate earnings to avoid U.S. federal income tax, partnerships and other pass-through entities, and investors in such pass-through entities). This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of the Common Shares that is, for U.S. federal income tax purposes, (1) an individual who is a citizen or resident of the United States, (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source or (4) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions or (y) that has elected under applicable U.S. Treasury regulations to be treated as a domestic trust for U.S. federal income tax purposes.

If an entity treated as a partnership for U.S. federal income tax purposes holds the Common Shares, the U.S. federal income tax considerations relating to an investment in the Common Shares will depend in part upon the status and activities of such entity and the particular partner. Any such entity should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners of the purchase, ownership and disposition of the Common Shares.

Persons holding Common Shares should consult their own tax advisors as to the particular tax considerations applicable to them relating to the purchase, ownership and disposition of Common Shares, including the applicability of U.S. federal, state and local tax laws and non-U.S. tax laws.

Distributions

Subject to the discussion below under "Passive Foreign Investment Company Considerations," a U.S. Holder that receives a distribution with respect to the Common Shares generally will be required to include the gross amount of such distribution (before reduction for any Canadian withholding taxes) in gross income as a dividend when actually or constructively received to the extent of the U.S. Holder's pro rata share of our current and/or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent a distribution received by a U.S. Holder is not a dividend because it exceeds the U.S. Holder's pro rata share of our current and accumulated earnings and profits, it will be treated first as a tax-free return of capital and reduce (but not below zero) the adjusted tax basis of the U.S. Holder's Common Shares. To the extent the distribution exceeds the adjusted tax basis of the U.S. Holder's Common Shares, the remainder will be taxed as capital gain. Because we may not calculate our earnings and profits under U.S. federal income tax principles, U.S. Holders should expect all distributions to be reported to them as dividends.

The U.S. dollar value of any distribution on the Common Shares made in Canadian dollars generally should be calculated by reference to the exchange rate between the U.S. dollar and the Canadian dollar in effect on the date of receipt (or deemed receipt) of such distribution by the U.S. Holder regardless of whether the Canadian dollars so received are in fact converted into U.S. dollars at that time. If the Canadian dollars received are converted into U.S. dollars on the date of receipt (or deemed receipt), a U.S. Holder generally should not recognize currency gain or loss on such conversion. If the Canadian dollars received are not converted into U.S. dollars on the date of receipt (or deemed receipt), a U.S. Holder generally will have a basis in such Canadian dollars equal to the U.S. dollar value of such Canadian dollars on the date of receipt (or deemed receipt). Any gain or loss on a subsequent conversion or other disposition of such Canadian dollars by such U.S. Holder generally will be treated as ordinary income or loss and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

Distributions on the Common Shares that are treated as dividends generally will constitute income from sources outside the United States for foreign tax credit purposes and generally will constitute passive category income. Such dividends will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations. Dividends paid by a "qualified foreign corporation" are eligible for taxation at a reduced capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that a holding period requirement (more than 60 days of ownership, without protection from the risk of loss, during the 121-day period beginning 60 days before the ex-dividend date) and certain other requirements are met. However, if we are a PFIC for the taxable year in which the dividend is paid or the preceding taxable year (see discussion below under "—Passive Foreign Investment Company Considerations"), we will not be treated as a qualified foreign corporation, and therefore the reduced capital gains tax rate described above will not apply. Each U.S. Holder is advised to consult its tax advisors regarding the availability of the reduced tax rate on dividends.

If a U.S. Holder is subject to Canadian withholding tax on dividends paid on the holder's Common Shares, the U.S. Holder may be eligible, subject to a number of complex limitations, to claim a credit against its U.S. federal income tax for the Canadian withholding tax imposed on the dividends. A U.S. Holder may claim a deduction for the Canadian withholding tax in lieu of a credit, but only for a year in which the U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. Each U.S. Holder is advised to consult its tax advisor regarding the availability of the foreign tax credit under its particular circumstances.

Sale, Exchange or Other Disposition of Common Shares

Subject to the discussion below under "Passive Foreign Investment Company Considerations," a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes upon the sale, exchange or other disposition of Common Shares. The amount of gain recognized will equal the excess of the amount realized (i.e., the amount of cash plus the fair market value of any property received) over the U.S. Holder's adjusted tax basis in the Common Shares sold or exchanged. The amount of loss recognized will equal the excess of the U.S. Holder's adjusted tax basis in the Common Shares sold or exchanged over the amount realized. Such capital gain or loss generally will be long-term capital gain or loss if, on the date of sale, exchange or other disposition, the Common Shares were held by the U.S. Holder for more than one year. Net long-term capital gain derived by a non-corporate U.S. Holder currently is subject to tax at reduced rates. The deductibility of a capital loss is subject to limitations. Any gain or loss recognized from the sale, exchange or other disposition of Common Shares will generally be gain or loss from sources within the United States for U.S. foreign tax credit purposes.

Passive Foreign Investment Company Considerations

In general, a corporation organized outside the United States will be treated as a PFIC in any taxable year in which either (1) at least 75% of its gross income is "passive income" or (2) on average at least 50% of the average quarterly value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents, and gains from commodities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a foreign corporation is a PFIC, a proportionate share of the items of gross income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) are taken into account.

We believe we were a PFIC for our taxable year ended May 31, 2013. Based on the nature of our business, the projected composition of our gross income and the projected composition and estimated fair market values of our assets, we expect to be a PFIC for our taxable year ending May 31, 2014. However, the determination of our PFIC status is made annually after the close of each taxable year and it is difficult to predict before such determination whether we will be a PFIC for any given taxable year. Even if we determine that we are not a PFIC after the close of a taxable year, there can be no assurance that the Internal Revenue Service (the "**IRS**") will agree with our conclusion. No assurance can be provided regarded our PFIC status, and neither we nor our United States counsel expresses any opinion with respect to our PFIC status for the taxable year ended May 31, 2013 or for any other taxable year.

If we are a PFIC at any time when a U.S. Holder owns Common Shares, such U.S. Holder will generally be subject to federal tax under the excess distribution regime on (1) distributions paid during a taxable year that are greater than 125% of the average annual distributions paid in the three preceding taxable years, or, if shorter, the U.S. Holder's holding period for the Common Shares, and (2) any gain recognized on a sale, exchange or other disposition (which would include a pledge) of Common Shares. Under the excess distribution regime, the U.S. Holder's tax liability will be determined by allocating such distribution or gain ratably to each day in the U.S. Holder's holding period for the Common Shares. The amount allocated to the current taxable year (i.e., the year in which the distribution occurs or the gain is recognized) and any year prior to the first taxable year in which we were a PFIC in the holding period will be taxed as ordinary income earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rate in effect (for individuals or corporations as applicable) for ordinary income in each such taxable year, and an interest charge, generally that applicable to the underpayment of tax, will be added to the tax. Once we are a PFIC with respect to a particular U.S. Holder, we generally will remain a PFIC with respect to the U.S. Holder, unless we cease to meet the gross income and asset tests described above and the U.S. Holder makes a "deemed sale" election with respect to all of the U.S. Holder's Common Shares. If such election is made, the U.S. Holder will be deemed to have sold the Common Shares held at their fair market value on the last day of the last taxable year in which we qualified as a PFIC, and any gain from such deemed sale would be taxed under the excess distribution regime described above. After the deemed sale election, the U.S. Holder's Common Shares would not be treated as Common Shares of a PFIC unless we subsequently became a PFIC.

If we are a PFIC for any taxable year during which a U.S. Holder holds the Common Shares and one of our non-United States subsidiaries is also a PFIC (i.e., a lower-tier PFIC), the U.S. Holder will be treated as owning a proportionate amount (by value) of the Common Shares of the lower-tier PFIC and will be subject to the rules described above on certain distributions by the lower-tier PFIC and a disposition (or deemed disposition) of Common Shares of the lower-tier PFIC, even though the U.S. Holder would not receive the distributions or the proceeds from the disposition of the Common Shares of the lower-tier PFIC. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

The tax considerations that would apply if we were a PFIC would be different from those described above if a U.S. Holder were able to make a valid "qualified electing fund," or "QEF election." We do not intend to provide U.S. Holders with the information required to permit them to make a QEF election and, accordingly, prospective investors should assume that a QEF election will not be available.

A U.S. Holder may avoid taxation under the excess distribution regime if the holder makes a valid "mark-to-market" election. An electing U.S. Holder generally would take into account as ordinary income each year, the excess of the fair market value of the Common Shares held at the end of the taxable year over the adjusted tax basis of such Common Shares. The U.S. Holder would also take into account, as an ordinary loss each year, the excess of the adjusted tax basis of such Common Shares over their fair market value at the end of the taxable year, but only to the extent of the excess of amounts previously included in income over ordinary losses deducted as a result of the mark-to-market election. The U.S. Holder's tax basis in the Common Shares would be adjusted to reflect any income or loss recognized as a result of the mark-to-market election. Any gain from a sale, exchange or other disposition of the Common Shares in any taxable year in which we are a PFIC, (i.e., when we meet the gross income test or asset test described above) would be treated as ordinary income and any loss from a sale, exchange or other disposition would be treated first as an ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as a capital loss. If we cease to be a PFIC, any gain or loss recognized by a U.S. Holder on the sale or exchange of the Common Shares would be classified as a capital gain or loss.

A mark-to-market election is available to a U.S. Holder only for "marketable stock." Generally, stock will be considered marketable stock if it is "regularly traded" on a "qualified exchange" within the meaning of applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. The Common Shares should be marketable stock as long as they are listed on the TSX and are regularly traded. A mark-to-market election will not apply to the Common Shares for any taxable year during which we are not a PFIC, but will remain in effect with respect to any subsequent taxable year in which we again become a PFIC. Such election will not apply to any subsidiary that we own. Accordingly, a U.S. Holder may continue to be subject to the PFIC rules with respect to any lower-tier PFICs notwithstanding the U.S. Holder's mark-to-market election.

Each U.S. person who is a shareholder of a PFIC generally must file an annual report with the IRS containing certain information, and the failure to file such report could result in the imposition of penalties on such U.S. person and in the extension of the statute of limitations with respect to federal income tax returns filed by such U.S. person.

The U.S. federal income tax rules relating to PFICs are very complex. U.S. Holders are urged to consult their own tax advisers with respect to the purchase, ownership and disposition of Common Shares, the consequences to them of an investment in a PFIC, any elections available with respect to the Common Shares and the IRS information reporting obligations with respect to the purchase, ownership and disposition of Common Shares in the event we are considered a PFIC.

Medicare Tax

In general, a U.S. person that is an individual or estate, or a trust that does not fall into a special class of trusts, is subject to a 3.8% tax on the lesser of (1) the U.S. person's "net investment income" (or "undistributed net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of the U.S. person's "modified adjusted gross income" (or adjusted gross income in the case of estates and trusts) for the taxable year over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income will include dividends and gains from the disposition of Common Shares, unless such dividends or gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. person that is an individual, estate or trust, you are encouraged to consult your tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of your investment in Common Shares.

Information Reporting with Respect to Foreign Financial Assets

U.S. individuals that own "specified foreign financial assets" with an aggregate fair market value exceeding either US$50,000 on the last day of the taxable year or US$75,000 at any time during the taxable year generally are required to file an information report on IRS Form 8938 with respect to such assets with their tax returns. Significant penalties may apply to persons who fail to comply with these rules. Specified foreign financial assets include not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person. Upon the issuance of future U.S. Treasury regulations, these information reporting requirements may apply to certain U.S. entities that own specified foreign financial assets. The failure to report information required under the current regulations could result in substantial penalties and in the extension of the statute of limitations with respect to federal income tax returns filed by a U.S. Holder. U.S. Holders should consult their own tax advisors regarding the possible implications of these U.S. Treasury regulations for an investment in our Common Shares.

Special Reporting Requirements for Transfers to Foreign Corporations

A U.S. Holder that acquires Common Shares generally will be required to file Form 926 with the IRS if (1) immediately after the acquisition such U.S. Holder, directly or indirectly, owns at least 10% of the Common Shares, or (2) the amount of cash transferred in exchange for Common Shares during the 12-month period ending on the date of the acquisition exceeds US$100,000. Significant penalties may apply for failing to satisfy these filing requirements. U.S. Holders are urged to contact their tax advisors regarding these filing requirements.

Information Reporting and Backup Withholding

Dividends on and proceeds from the sale or other disposition of Common Shares may be reported to the IRS unless the U.S. Holder establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if (1) the holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption, or (2) is described in certain other categories of persons.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A US HOLDER. EACH US HOLDER IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN COMMON SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

Dividends

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

Disposition of Common Shares

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

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

Holders whose Common Shares may be "taxable Canadian property" should consult their own tax advisers.

F. ***Dividends and paying agents.***

Not applicable.

G. ***Statement by experts.***

Not applicable.

H. ***Documents on display.***

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

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

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

Director of Finance
Lorus Therapeutics Inc.
2 Meridian Road
Toronto, Ontario M9W 4Z7
Canada
Phone (416) 798-1200
Fax (416) 798-2200

I. ***Subsidiary information.***

Lorus currently has one subsidiary, NuChem Pharmaceuticals Inc., a corporation incorporated under the laws of Ontario, of which Lorus owns 80% of the issued and outstanding voting share capital and 100% of the issued and outstanding non-voting preference share capital.

Item 11. Qualitative and Quantitative Disclosures About Market Risk

Refer to notes 4 and 8 to the Consolidated Financial Statements contained in Item 18.

We are not exposed to significant market risks. We do not currently have significant interest, credit or foreign currency risk.

We do not utilize derivative financial instruments to hedge our interest rate or foreign currency rate risks.

Interest Rate Risk

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

Credit Risk

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

Exchange Rate Sensitivity

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

Limitations

The above discussion includes only those exposures that exist as of May 31, 2013, and as a result, does not consider exposures or positions that could arise after that date. The Company's ultimate realized gain or loss with respect to interest rate and exchange rate fluctuations would depend on the exposures that arise during the period.

Risk Factors

See Item 3.D.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividends Arrearages and Delinquencies

Not applicable.

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

Not applicable.

Item 15. Controls and Procedures

(a) Disclosure controls and procedures.

As of the end of our fiscal year ended May 31, 2013, an evaluation of the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), was carried out by our management under the supervision of and with the participation of the principal executive officer and principal financial officer. Based upon on that evaluation, our principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

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

(b) Management's annual report on internal control over financial reporting

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

Management has assessed the effectiveness of our internal control over financial reporting as at May 31, 2013. In management's opinion, our internal control over financial reporting is effective as at May 31, 2013. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control – Integrated Framework of 1992 to evaluate the effectiveness of our internal control over financial reporting.

Changes in Internal Control over Financial Reporting.

There was no change in the Corporation's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(c) Attestation report of the independent registered public accounting firm

Because we are a non-accelerated filer under the rules of the SEC, this Annual Report is not required to include, and does not include, an attestation report of our independent registered public accounting firm with respect to our internal control over financial reporting.

(d) Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting during the fiscal year ended May 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Warren Whitehead, a director of the Company and the chairman of the Audit Committee, possesses the attributes required of an "audit committee financial expert," and is "independent," under applicable NYSE Amex rules.

Item 16B. Code of Ethics

We have adopted a code of ethics, as such term is defined in Form 20-F, which applies to all of our officers, directors, employees and consultants. A copy of the code of ethics is available, without charge, upon written request from our Director of Finance at our offices located at 2 Meridian Road, Toronto, Ontario M9W 4Z7, Canada. There were no amendments to, or waivers granted under, our code of ethics during our fiscal year ended May 31, 2013.

Item 16C. Principal Accountant Fees and Services

KPMG LLP has served as our principal independent external auditor since October 1994. The total fees billed to us for professional services provided by KPMG LLP for the fiscal years ended May 31, 2013 and 2012 are as follows:

	2013	2012
Audit Fees	$ 175,300	$ 211,500
Audit-Related Fees	$nil	$nil
Tax Fees	$nil	$nil
All Other Fees	$ 17,530	$ 21,150
Total	**$ 192,830**	**$ 232,650**

Audit fees consist of the fees paid with respect to the audit of our consolidated annual financial statements, quarterly reviews and 20-F filing with the SEC. Tax fees relate to assistance provided with review of tax returns and assistance with specific tax issues. Other fees consist of 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 auditor, currently KPMG LLP. Our charter requires Audit Committee pre-approval of all permitted audit, audit-related and tax services.

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

No services were provided by KPMG LLP under a *de minimus* exemption for our fiscal year ended May 31, 2013.

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

Not applicable.

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

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Not applicable.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

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

Item 19. Exhibits

See the Exhibit Index hereto.

SIGNATURES

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

LORUS THERAPEUTICS INC.

By: /s/ William G. Rice
Name: William G. Rice, PhD
Title: Chairman and Chief Executive Officer

Date: May 15th, 2014

By: /s/ Gregory Chow
Name: Gregory Chow
Title: Chief Financial Officer

Date: May 15th, 2014

EXHIBIT INDEX

Number	Exhibit
1.1 *	Articles of Incorporation.
1.2*	Articles of Arrangement.
1.3 *	By-law #2 of the Registrant.
2.11+	Indemnification Agreement dated July 10, 2007 between Old Lorus and the Company.
2.24#	Share Purchase Warrant related to the June 2012 Private Placement.
2.25	Form of Promissory Note issued June 19, 2013.
2.26	Form of Promissory Note issued September 26, 2013.
2.27	Underwriting Agreement dated November 22, 2013 in Connection with the December 2013 public offering.
2.28	Underwriting Agreement dated March 27, 2014 in Connection with the April 2014 public offering.
4.1+++	Security Based Compensation Plans.
4.2+++	Form of Officer and Director Indemnity Agreement.
4.3 ++	Amalgamation Agreement dated August 23, 1991, among the Company, Mint Gold Resources Ltd., Harry J. Hodge and Wayne Beach.
4.4###^^	Non-Exclusive License Agreement dated May 1, 2012 between the Company and Genentech, Inc.
4.5+	Indemnification Agreement dated July 10, 2007 between Old Lorus and the Company.
4.8**	Lease of Premises between the Company and 565991 Ontario Limited, dated July 27, 2001.
4.8.1	Lease Amending Agreement dated April 15, 2005 between the Company and 565991 Ontario Limited.
4.8.2	Lease Amending Agreement dated February 25, 2008 between the Company and 565991 Ontario Limited.
4.8.3	Lease Amending Agreement dated December 15, 2010 between the Company and 565991 Ontario Limited.
4.8.4	Lease Amending Agreement dated February 1, 2013 between the Company and 565991 Ontario Limited.
4.9	Executive Employment Agreement between the Company and Dr. William G. Rice, dated October 25, 2013.
4.9.1	Executive Employment Agreement between the Company and Gregory K. Chow, dated November 29, 2013.
4.9.2	Executive Employment Agreement between the Company and Avanish Vellanki, dated November 29, 2013.
4.12	Executive Employment Agreement between the Company and Dr. Aiping Young, dated September 21, 2006, as amended on May 29, 2012.
8.1##	List of subsidiaries.
11.1##	Code of Business Conduct and Ethics.
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
13.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
13.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
15.1	Management Discussion and Analysis for the year ended May 31, 2013.
*	Incorporated by reference to File 0-32001, Form 6-K, dated November 19, 2007.
**	Incorporated by reference to File 000-19763, Form 20-F, dated December 16, 2002.
+	Incorporated by reference to File 1-32001, Form 6-K, dated September 4, 2007.
++	Incorporated by reference to File 0-19763, Registration Statement on Form 20-FR, dated March 4, 1992.
+++	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, dated November 29, 2007.
^^	Confidential treatment has been requested for portions of this document, which have been omitted and filed separately with the SEC.
#	Incorporated by reference to File 1-32001, Form 20-F, Annual Report dated September 27, 2012.
##	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, dated November 30, 2009.
###	Incorporated by reference to File 1-32001, Form 20-F/A, Annual Report, dated January 11, 2013.

Consolidated Financial Statements of

LORUS THERAPEUTICS INC.

Years ended May 31, 2013 and 2012

Management's Responsibility for Financial Reporting

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

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

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

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

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

/s/ William G. Rice

William G. Rice
Chairman, President and
Chief Executive Officer

/s/ Gregory Chow

Gregory Chow
Senior Vice President and
Chief Financial Officer

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
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Canada

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Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of 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, 2013 and 2012, the consolidated statements of loss and comprehensive income, changes in equity and cash flows for the years then ended, 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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 and, as such, 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 $199,959,000 and negative working capital. 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

July 11, 2013

Toronto, Canada

LORUS THERAPEUTICS INC.

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

	May 31, 2013	May 31, 2012
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 653	$ 320
Prepaid expenses and other assets	365	293
Total current assets	1,018	613
Non-current assets:		
Equipment (note 5)	17	55
Total non-current assets	17	55
Total assets	$ 1,035	$ 668
Liabilities and Shareholders' (Deficiency) Equity		
Current liabilities:		
Accounts payable	$ 713	$ 322
Accrued liabilities (notes 9(g) and 14)	1,103	1,474
Promissory notes payable (note 7)	–	900
Total current liabilities	1,816	2,696
Shareholders' (deficiency) equity:		
Share capital (note 9):		
Common shares	174,522	170,036
Stock options (note 10)	1,018	535
Contributed surplus	21,217	21,186
Warrants	2,421	609
Deficit	(199,959)	(194,394)
Total shareholders' (deficiency) equity	(781)	(2,028)
Going concern (note 2(b))		
Total liabilities and shareholders' (deficiency) equity	$ 1,035	$ 668

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Warren Whitehead" Director

"Jim Wright" 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, 2013 and 2012

	2013	2012
Revenue	$ –	$ –
Expenses:		
Research and development (notes 6 and 12)	3,317	2,170
General and administrative (note 12)	2,272	2,430
Operating expenses	5,589	4,600
Finance expense (note 11)	6	20
Finance income	(30)	(6)
Net finance (income) expense	(24)	14
Net loss and total comprehensive loss for the year	$ (5,565)	$ (4,614)
Basic and diluted loss per common share	$ (0.13)	$ (0.23)
Weighted average number of common shares outstanding used in the calculation of (in thousands):		
Basic and diluted loss per common share	42,251	20,260

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 2012

	Common shares	Stock options	Warrants	Contributed surplus	Deficit	Total
Balance, June 1, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ (194,394)	$ (2,028)
Issuance of units (note 9(b)(i))	4,263	–	1,855	–	–	6,118
Exercise of warrants (note 9(c)(ii)(a))	223	–	(43)	–	–	180
Stock-based compensation (note 10)	–	514	–	–	–	514
Forfeiture of stock options	–	(31)	–	31	–	–
Net loss for the year	–	–	–	–	(5,565)	(5,565)
Balance, May 31, 2013	$ 174,522	$ 1,018	$ 2,421	$ 21,217	$ (199,959)	$ (781)
Balance, June 1, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ (189,780)	$ 239
Issuance of units (note 9(b)(ii))	1,214	–	609	–	–	1,823
Repricing of warrants (note 9(c)(i))	–	–	239	(239)	–	–
Exercise of warrants (note 9(c)(ii)(b))	35	–	(18)	–	–	17
Expiry of warrants (note 9(c)(ii)(b))	–	–	(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)

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net loss for the year	$ (5,565)	$ (4,614)
Items not involving cash:		
Stock-based compensation	514	507
Depreciation of equipment	38	44
Finance income	(30)	–
Finance expense	6	20
Change in non-cash operating working capital (note 11)	(52)	732
Cash used in operating activities	(5,089)	(3,311)
Cash flows from financing activities:		
Issuance of common shares and warrants, net of issuance costs (note 9)	6,118	1,823
Exercise of warrants (note 9)	180	17
Issuance of promissory notes (note 7)	–	900
Repayment of promissory notes (note 7)	(900)	–
Interest on promissory notes	(6)	(20)
Cash provided by financing activities	5,392	2,720
Cash flows from investing activities:		
Interest income	30	–
Cash provided by investing activities	30	–
Increase (decrease) in cash and cash equivalents	333	(591)
Cash and cash equivalents, beginning of year	320	911
Cash and cash equivalents, end of year	$ 653	$ 320

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 anticancer therapies. 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, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on July 11, 2013.

(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.

Management has forecasted that the Company's current level of cash and cash equivalents, including the proceeds from the private placement completed subsequent to year end (note 16), will not be sufficient to execute its current planned expenditures for the next 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.

2. Basis of presentation (continued):

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.

(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) 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

2. Basis of presentation (continued):

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.

(ii) 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.

(iii) 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:

The consolidated financial statements include the accounts of the Company and its 80% owned subsidiary, NuChem. NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. 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.

(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.

3. Significant accounting policies (continued):

The Company's financial instruments are comprised of the following:

Financial assets	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
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.

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.

The Company's financial assets as at May 31, 2013 and 2012 which include cash and cash equivalents are classified as a Level 1 measurement.

3. Significant accounting policies (continued):

(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.

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

The Company has not capitalized any development costs to date.

3. Significant accounting policies (continued):

(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 measured, the fair value of the options granted will be used.

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.

3. Significant accounting policies (continued):

The Company has a deferred share unit ("DSU") 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. On November 29, 2012, shareholders of Lorus voted in favour of certain amendments to the DSU plan of Lorus which included providing Lorus with the ability to issue shares of Lorus from treasury in order to satisfy current and future liabilities under the DSU plan. The plan gives the holder of the DSU's the option between settlement in cash or shares of Lorus and the Board of Directors of Lorus has the final determination as to the method of settlement. It is currently the intention of the Board of Directors to comply with the wishes of the holder in terms of settlement method. It is also anticipated that the settlement method of the currently outstanding DSU's will be in the form of cash and as such the DSU plan has been treated as a cash settled liability.

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, 2013, 780,000 deferred share units have been issued and are outstanding (May 31, 2012 – 780,000).

(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) 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):

(l) 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.

(m) Recent accounting pronouncements:

(i) 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.

(ii) 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):

(iii) 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 does not expect that this new standard will have any effect 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 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 issued a grid promissory note to Mr. Abramson that allowed Lorus to borrow funds of up to $1.8 million. The funds could be borrowed at a rate of up to $300 thousand per month, incurred interest at a rate of 10% per year and were due and payable on November 28, 2012. As at May 31, 2012 the Company had borrowed $900 thousand under this promissory note.

As at May 31, 2013 there were no promissory notes outstanding. Subsequent to the year end (described in note 17) the Company issued additional promissory notes.

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, 2012.

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash of $144 thousand (May 31, 2012 - $76 thousand) and funds deposited into high interest savings accounts totalling $509 thousand (May 31, 2012 - $nil). The current interest rate earned on these deposits is 1.25% (May 31, 2012 - nil).

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

4. Capital disclosures (cont'd):

At May 31, 2012, the Company had received $244 thousand in deposits related to subscription agreements for the Private Placement (note 9(b)(i)). 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 when the shares were issued.

5. Equipment:

May 31, 2013	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,914	$ 2,897	$ 17

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

6. Research and development programs:

The Company has product candidates in two 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

(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 for which Phase I clinical trial results were announced in July 2013 and LOR-500 program, which is in the pre-clinical stage of development.

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

6. Research and development programs (continued):

(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. On November 27, 2012 the Company announced it had entered into a collaboration agreement with Cancer Research UK for the future development of immunotherapy IL-17E. Under this collaboration agreement Lorus has committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in non-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. The non-clinical toxicology studies will only be carried out upon the successful completion of a preclinical program as determined by Cancer Research UK.

Program costs by product class are as follows:

	2013	2012
Small molecule program	$ 2,701	$ 1,900
Immunotherapy	425	–
	$ 3,126	$ 1,900

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)(ii)) provided by Mr. Abramson, the Company issued a grid promissory note to Mr. Abramson that allowed Lorus to borrow funds up to $1.8 million. The funds could be borrowed at a rate of up to $300 thousand per month, incurred interest at a rate of 10% per year were due and payable in full no later than November 28, 2012.

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

Subsequent to the year ended May 31, 2013, on June 19, 2013 the Company issued additional promissory notes for cash proceeds of $893 thousand which are due in June 2014 (see note 17).

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

8. Financial instruments:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	May 31, 2013	May 31, 2012
Financial assets:		
Cash and cash equivalents, consisting of high interest savings account, measured at amortized cost	$ 653	$ 320
Financial liabilities:		
Accounts payable, measured at amortized cost	713	322
Accrued liabilities, measured at amortized cost	1,103	1,474
Promissory notes payable, measured at amortized cost	–	900

At May 31, 2013, 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.

8. Financial instruments (continued):

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 which 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. Refer to note 2(b) for further discussion on the Company's ability to continue as a going concern.

(iii) Market risk:

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

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

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, 2013, U.S. dollar denominated accounts payable and accrued liabilities amounted to $448 thousand (May 31, 2012 - $148 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 $45 thousand (May 31, 2012 - $15 thousand). The Company does not have any forward exchange contracts to hedge this risk.

8. Financial instruments (continued):

The Company has issued deferred share units. The Company has determined that these units represent a cash liability as it is expected that they will be settled in cash. The value of these units is tied to the share price of the Company and as such is subject to significant variation as the Company's stock price is highly volatile. As at May 31, 2013 the Company had issued 780,000 (May 31, 2012 – 780,000) deferred share units and at May 31, 2013 that represents a cash liability of $172 thousand (May 31, 2012 - $304 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Company's share price would result in an increase or decrease in loss for the year and comprehensive loss of $17 thousand (May 31, 2012 - $30 thousand).

9. Share capital:

(a) Continuity of common shares and warrants:

	Common shares		Warrants	
	Number	Amount	Number	Amount
	(In thousands)		(In thousands)	
Balance, May 31, 2011	15,685	168,787	4,170	1,032
Issuance of units (b)(ii)	5,484	1,214	5,678	609
Warrant repricing (c)(i)	–	–	–	239
Exercise of warrants (c)(ii)(b)	59	35	(59)	(18)
Expiry of warrants (c)(ii)(b)	–	–	(4,111)	(1,253)
Balance, May 31, 2012	21,228	$ 170,036	5,678	$ 609
Issuance of units (b)(i)	20,625	4,263	20,625	1,720
Issuance of finders warrants (b)(i)	–	–	1,238	135
Exercise of warrants (c)(ii)(a)	398	223	(398)	(43)
Balance, May 31, 2013	**42,251**	**$ 174,522**	**27,143**	**$ 2,421**

9. Share capital (continued):

(b) Equity issuances:

(i) June 2012 Private Placement

On June 8, 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 (“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 (the “Warrants”). If after one year (the “Accelerated Exercise Date”) the closing price of the common shares on the Toronto Stock Exchange (“TSX”) 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.

Lorus paid a cash finder’s fee of $396 thousand based on 6% of the gross proceeds of the Private Placement and issued 1,237,500 finder’s warrants with 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.

The total costs associated with the transaction were approximately $617 thousand which includes the $135 thousand which represented the estimated fair value of the finders warrants issued as part of the Private Placement. Each such finder warrant is exercisable for one Unit at a price of $0.32 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, $4.3 million of the net proceeds were allocated to the common shares and $1.7 million to the common share purchase warrants.

(ii) 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 units of the Company at a price of $0.40 per unit.

9. Share capital (continued):

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 TSX 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 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.

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. The increased value was accounted for by an increase in the warrant equity value and a corresponding reduction in contributed surplus. 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) During the year ended May 31, 2013, 398 thousand warrants related to the August 2011 unit offering were exercised for proceeds of $180 thousand. The fair value related to these warrants was $43 thousand and transferred from warrants to share capital.

(b) 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.

(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.

	2013	2012
Balance, beginning of year	$ 21,186	$ 18,988
Expiry of warrants (c)	–	1,253
Warrant repricing (c)	–	(239)
Forfeiture and cancellation of stock options	31	1,184
Balance, end of year	$ 21,217	$ 21,186

(e) Continuity of stock options:

	2013	2012
Balance, beginning of year	$ 535	$ 1,212
Stock option expense	514	507
Cancellation and forfeiture of stock options	(31)	(1,184)
Balance, end of year	$ 1,018	$ 535

(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, 2013 of 42.251 million and 20.260 million as of May 31, 2012 calculated as follows:

	2013	2012
Issued common shares, beginning of year	21,228	15,685
Effect of private placement (note 9(b)(i))	20,625	–
Effect of unit offering (note 9(b)(ii))	–	4,570
Effect of Warrant exercises (note 9(c)(ii)(a))	398	5
Issued weighted average common shares, end of year	42,251	20,260

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, 2013, 780,000 deferred share units have been issued (May 31, 2012 – 780,000), with a carrying amount of $172 thousand representing the fair market value of the units as of May 31, 2013 (May 31, 2012 - $304 thousand) 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, 2013, nil (May 31, 2012 – 14,120) common shares have been purchased under the ESPP, and the Company has recognized an expense of $nil (May 31, 2012 - $1 thousand) related to this plan in these consolidated financial statements. The ESPP is not active as of May 31, 2013.

(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, estimated at 6,338,000 options, rights and other entitlements as at May 31, 2013. 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, 2013 are summarized as follows:

Option numbers are in (000's)

	2013		2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,612	$ 0.44	1,186	$ 1.58
Granted	1,780	0.48	1,538	0.21
Forfeited	(33)	0.54	(29)	6.03
Cancelled	–	–	(1,083)	1.21
Outstanding, end of year	3,359	0.46	1,612	0.44

The following table summarizes information about stock options outstanding at May 31, 2013:

Option numbers are in (000's)

	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 - $ 0.22	1,507	8.6	$ 0.21	1,343	$ 0.21
$0.23 - $ 0.48	1,780	9.2	0.48	243	0.48
$0.49 - $ 9.90	72	4.6	5.25	72	5.25
	3,359	8.8	0.46	1,658	0.47

(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:

	2013	2012
Exercise price	$ 0.475	$0.18 - $0.215
Grant date share price	$ 0.475	$0.18 - $0.215
Risk-free interest rate	3.0%	1.5%
Expected dividend yield	–	–
Expected volatility	135%	123% - 125%
Expected life of options	5 years	5 years
Weighted average fair value of options granted or modified during the year	$ 0.42	$ 0.17

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, 2013 have various vesting schedules. Options granted to directors consisted of 160,000 options that vested 50% upon issuance and 50% one year later. Options granted to the CEO of 1,050,000 vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015. Options granted to certain members of management totaled 325,000 and vest 50% upon certain performance criteria measured as of May 31, 2013 and 25% May 31, 2014 and 25% on May 31, 2015. Options granted to employees totaled 245,000 and vest 50% after one year and 25% on each of August 2, 2015 and August 2, 2016.

Stock options granted by the Company during the year ended May 31, 2012 also 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.

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:

	2013	2012
Prepaid expenses and other assets	$ (72)	$ 95
Accounts payable	391	107
Accrued liabilities	(371)	530
	$ (52)	$ 732

During the year ended May 31, 2013, the Company incurred $6 thousand (2012 - $20 thousand) in interest expense on a $900 thousand promissory note due to Mr. Abramson. The interest was paid at a rate of 10%.

12. Other expenses:

Components of research and development expenses:

	2013	2012
Program costs (note 6)	$ 3,126	$ 1,900
Deferred share unit costs	(40)	91
Stock-based compensation	198	146
Depreciation of equipment	33	33
	$ 3,317	$ 2,170

Components of general and administrative expenses:

	2013	2012
General and administrative excluding salaries	$ 1,368	$ 1,240
Salaries	675	605
Deferred share unit costs	(92)	213
Stock-based compensation	316	361
Depreciation of equipment	5	11
	$ 2,272	$ 2,430

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

13. Related party transactions:

See also notes 7, 9 and 17 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 the officers of the Company.

Officer compensation:

	2013	2012
Salaries and short-term employee benefits	$ 727	$ 567
Deferred share units	(132)	304
Stock-based compensation	358	343
	$ 953	$ 1,214

Director compensation:

	2013	2012
Directors' fees	$ 180	$ 186
Stock-based compensation	73	131
	$ 253	$ 317

Included in accounts payable and accrued liabilities is $26 thousand (May 31, 2012 - $160 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	$ 152	$ 137	$ nil	$ 289

The Company's current facility lease expires in March 2015.

(b) Other contractual commitments:

The Company holds a non-exclusive license from Genentech 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, 2014 or 2015, 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 $1.5 million. Of this amount, $740 thousand has been paid and $253 thousand has been accrued at May 31, 2013 (2012 - $439 thousand paid and $70 thousand accrued). The payments will be based on services performed and amounts may be higher or lower based on actual services performed.

On November 27, 2012 the Company announced it had entered into a collaboration agreement with Cancer Research UK for the future development of immunotherapy IL-17E. Under this collaboration agreement Lorus has committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. It is expected that this will result in costs of approximately $4 million over a two year period. The Company has not yet entered into any contracts related to the drug manufacturing.

14. Commitments, contingencies and guarantees (continued):

(c) Guarantees:

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

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

(d) Indemnification on plan of 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 into a new corporate entity which continued to operate as Lorus Therapeutics Inc. Under the arrangement, the Company agreed to indemnify the old entity and its directors, officers and employees from and against all damages, losses, expenses, 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 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 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 the old entity or the arrangement.

The Company recorded a liability of $75 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2013. 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 26.5% (2012 - 27.4%) are as follows:

	2013	2012
Loss before income taxes	$ (5,565)	$ (4,614)
Statutory Canadian corporate tax rate	26.5%	27.4%
Anticipated tax recovery	$ (1,475)	$ (1,264)
Non-deductible stock-based compensation	138	141
Change in deferred tax benefits deemed not probable to be recovered	1,553	1,963
Change in substantively enacted tax rates	–	(627)
Other	(216)	(213)
	$ –	$ –

The Company has undeducted research and development expenditures, totalling $21.6 million that can be carried forward indefinitely. In addition, the Company has non-capital loss carryforwards of $17.7 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	2,571
2033	3,473
	$ 17,739

(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:

	2013	2012
Net operating losses carried forward	$ 4,701	$ 3,822
Research and development expenditures	5,731	5,207
Fixed assets book over tax depreciation	448	438
Intangible asset	3,097	3,097
Ontario harmonization tax credit	287	287
Ontario Research and Development Tax Credit	327	239
Cumulative eligible capital	358	357
Other	279	228
Unrecognized deferred tax asset	$ 15,228	$ 13,675

16. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

17. Subsequent event:

On June 19, 2013 the Company completed a private placement of units at a price of $1,000 per unit, for aggregate gross proceeds of $893,000. Each Unit consisted of (i) a $1,000 principal amount of unsecured promissory notes; and (ii) 1,000 common share purchase warrants. The Promissory Notes bear interest at a rate of 10% per annum, payable monthly and are due June 19, 2014. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price per common share equal to $0.25 at any time until June 19, 2015. Certain related parties participated in the transaction including Dr. Aiping Young our President and CEO and two Directors, Dr. Wright and Dr. Vincent for combined proceeds of $68 thousand. Trapeze Capital Corporation (“Trapeze”) also participated in the transaction for proceeds of $250 thousand. Mr. Abramson, a director of the Company, is a co-founder, Chairman and portfolio manager at Trapeze.

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statements of Financial Position
(unaudited)

(amounts in 000's of Canadian Dollars)	**February 28, 2014**	May 31, 2013
ASSETS		
Current		
Cash and cash equivalents (note 4 (a))	**$ 7,230**	$ 653
Prepaid expenses and other assets	**502**	365
Total Current Assets	**7,732**	1,018
Non-current		
Equipment	**12**	17
Total Non-Current Assets	**12**	17
Total Assets	**$ 7,744**	$ 1,035
LIABILITIES		
Current		
Accounts payable	**$ 297**	$ 713
Accrued liabilities	**1,848**	1,103
Promissory note payable (note 6(b))	**887**	-
Total Current Liabilities	**3,032**	1,816
Long-term		
Loans payable (note 8 (b))	**150**	-
Convertible promissory notes (note 8 (a))	**515**	-
Total Long Term Liabilities	**665**	-
SHAREHOLDERS' EQUITY		
Share capital (note 6)		
Common shares	**184,387**	174,522
Equity portion of convertible promissory notes (note 8)	**88**	-
Stock options (note 7)	**2,285**	1,018
Contributed surplus	**21,307**	21,217
Warrants	**2,272**	2,421
Deficit	**(206,292)**	(199,959)
Total Equity	**4,047**	(781)
Total Liabilities and Equity	**$ 7,744**	$ 1,035

See accompanying notes to the condensed consolidated interim financial statements (unaudited)
Commitments, contingencies and guarantees (Note 12)
Subsequent events (Note 14)

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(unaudited)

(amounts in 000's of Canadian Dollars except for per common share data)	**Three months ended Feb. 28, 2014**	Three months ended Feb. 28, 2013	**Nine months ended Feb. 28, 2014**	Nine months ended Feb. 28, 2013
REVENUE	**$ -**	$ -	**$ -**	$ -
EXPENSES				
Research and development (notes 10 and 11)	**597**	889	**2,003**	2,457
General and administrative (note 10)	**1,771**	491	**4,160**	1,812
Operating expenses	**2,368**	1,380	**6,163**	4,269
Finance expense	**78**	-	**184**	6
Finance income	**(13)**	(9)	**(15)**	(26)
Net financing expense (income)	**65**	(9)	**169**	(20)
Net loss and total comprehensive loss for the period	**2,433**	1,371	**6,332**	4,249
Basic and diluted loss per common share	**$ 0.04**	$ 0.03	**$ 0.13**	$ 0.10
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per common share (000's) (note 6(f))	**61,271**	42,251	**49,085**	42,251

See accompanying notes to the condensed consolidated interim financial statements (unaudited)

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statement of Changes in Equity
(unaudited)

(amounts in 000's of Canadian Dollars)	Share Capital	Stock Options	Warrants	Contributed Surplus	Equity Portion of Convertible Debt	Deficit	Total
Balance, June 1, 2013	$ 174,522	$ 1,018	$ 2,421	$ 21,217	$ -	$ (199,959)	$ (781)
Public equity offering (note 6(a))	6,927		350				7,277
Issuance of warrants(note 6(b))	-	-	75	-	-	-	75
Warrant and option exercises (notes 6(c) and 6(e))	2,938	(20)	(549)	-	-	-	2,369
Stock-based compensation (note 7)	-	1,352	-	-	-	-	1,352
Issuance of convertible notes (note 8(a))	-	-	-	-	88	-	88
Expiry of stock options	-	(65)	-	65	-	-	-
Expiry of broker warrants			(25)	25	-		-
Net loss	-	-	-	-	-	(6,332)	(6,332)
Balance, February 28, 2014	**$ 184,387**	**$ 2,285**	**$ 2,272**	**$ 21,307**	**$ 88**	**$ (206,292)**	**$ 4,048**
Balance, June 1, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ -	$ (194,394)	$ (2,028)
Issuance of units	4,263	-	1,855	-	-	-	6,118
Warrant exercises	223	-	(43)	-	-	-	180
Stock-based compensation (note 7)	-	380	-	-	-	-	380
Expiry of stock options	-	(31)	-	31	-	-	-
Net loss	-	-	-	-	$ -	(4,249)	(4,249)
Balance, February 28, 2013	**$ 174,522**	**$ 884**	**$ 2,421**	**$ 21,217**	**$ -**	**$ (198,643)**	**$ 401**

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statements of Cash Flows
(unaudited)

(amounts in 000's of Canadian Dollars)	**Three months ended Feb. 28, 2014**	Three months ended Feb. 28, 2013	**Nine months ended Feb. 28, 2014**	Nine months ended Feb. 28, 2013
Cash flows from operating activities:				
Net loss for the period	**$ (2,433)**	$ (1,371)	**$ (6,332)**	$ (4,249)
Items not involving cash and other adjustments:				
Stock-based compensation	**349**	140	**1,352**	380
Depreciation of equipment	**5**	9	**13**	28
Finance income	**(13)**	(9)	**(15)**	(26)
Accretion expense	**36**	-	**87**	-
Finance expense	**42**	-	**97**	6
Other	**(2)**	-	**(1)**	-
Change in non-cash operating working capital (note 9)	**(175)**	(42)	**192**	(325)
Cash used in operating activities	**(2,191)**	(1,273)	**(4,607)**	(4,186)
Cash flows from financing activities:				
Issuance of common shares and warrants, net of issuance costs	**7,277**	-	**7,277**	6,118
Exercise of warrants and options	**440**	-	**2,369**	180
Issuance of loans, promissory notes and warrants	**-**	-	**1,068**	-
Repayment of promissory notes	**-**	-	**-**	(900)
Issuance of convertible notes	**-**	-	**600**	-
Issuance costs	**-**	-	**(40)**	-
Interest on promissory notes	**(42)**	-	**(97)**	(6)
Cash provided by financing activities	**7,675**	-	**11,177**	5,392
Cash flows from investing activities:				
Purchase of fixed assets	**(5)**	-	**(8)**	-
Interest income	**13**	9	**15**	26
Cash (used in) provided by investing activities	**8**	9	**7**	26
Increase (decrease) in cash and cash equivalents during the period	**5,492**	(1,264)	**6,577**	1,232
Cash and cash equivalents, beginning of period	**1,738**	2,816	**653**	320
Cash and cash equivalents, end of period	**$ 7,230**	$ 1,552	**$ 7,230**	$ 1,552

See accompanying notes to the condensed consolidated interim financial statements (unaudited)

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'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 unaudited condensed consolidated interim financial statements of the Company and its subsidiary as at February 28, 2014 were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and does not include all of the information required for full annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes.

The unaudited condensed consolidated interim financial statements of the Company were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 10, 2014.

(b) Basis of measurement
These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis except for deferred share units which are measured at fair value.

(c) Functional and presentation currency
The functional and presentation currency of the Company and its Canadian subsidiary Nuchem Pharmaceuticals Inc. is the Canadian dollar ("$").

(d) Significant accounting judgments, estimates and assumptions
The preparation of these unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed consolidated interim 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 arise in connection with the valuation of contingent liabilities. Significant estimates also take place in connection with the valuation of compound instruments, valuation of share-based compensation, share purchase warrants and finders' warrants.

3. Significant accounting policies

The accompanying unaudited condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ending May 31, 2013. They do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed consolidated interim financial statements. Operating results for the three and nine month periods ended February 28, 2014 are not necessarily indicative of the results that may be expected for the full year ended May 31, 2014. For further information, see the Company's audited consolidated financial statements including notes thereto for the year ended May 31, 2013.

(Tabular amounts are in 000s)

Standards and Interpretations Adopted in Fiscal 2014

On June 1, 2013, we adopted the following standards and amendments to existing standards:
IFRS 10, Consolidated Financial Statements, ("IFRS 10") replaces consolidation requirements in IAS 27, consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities, and establishes principles for identifying when an entity controls other entities. The adoption of this standard did not have any impact on the Company's financial statements.

IFRS 12, Disclosure of Interests in Other Entities, ("IFRS 12") establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles. The adoption of this standard did not have any impact on the Company's financial statements.

IFRS 13, Fair Value Measurement, provides a single source of fair value measurement and disclosure requirements in IFRS. The adoption of this standard did not have a material impact on the Company's financial statements.

Amendments to IAS 1, Presentation of Financial Statements, to require entities to group items within other comprehensive income that may be reclassified to net income. The adoption of this standard did not have a material impact on the Company's financial statements.

4. Capital disclosures

The Company's objectives when managing capital are to:

- Maintain its ability to continue as a going concern;
- 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.

The Company is not subject to externally imposed capital requirements.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2013.

(a) Cash and cash equivalents

As at February 28, 2014 cash and cash equivalents consists of cash of $960 thousand (May 31, 2013 - $144 thousand) and funds deposited into High Interest Savings Accounts totaling $6.270 million (May 31, 2013 –$509 thousand). The current interest rate earned on these deposits is 1.25% (May 31, 2013 – 1.25%)

5. Financial instruments

(a) Financial instruments

The Company has classified its financial instruments as follows:

	As at February 28, 2014	As at May 31, 2013
Financial assets		
Cash and cash equivalents (consisting of deposits in high interest savings accounts), measured at amortized cost	**$ 7,230**	$ 653
Financial liabilities		
Accounts payable, measured at amortized cost	**297**	713
Accrued liabilities, measured at amortized cost	**1,848**	1,103
Promissory note payable, measured at amortized cost	**887**	**–**
Long term loans payable, measured at amortized cost	**150**	**–**
Convertible promissory notes, measured at amortized cost	**515**	**–**

At February 28, 2014, there are no significant differences between the carrying values of these amounts and their estimated market values.

(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.

(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. 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 February 28, 2014, U.S. dollar denominated accounts payable and accrued liabilities amounted to $202 thousand (May 31, 2013 - $448 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 $20 thousand (May 31, 2013 - $45 thousand). The Company does not have any forward exchange contracts to hedge this risk.

The Company has issued deferred share units. These units represent a cash liability to the Company which fluctuates with the share price of the Company and as such is subject to significant variation as the Company’s stock price is highly volatile. As at February 28, 2014 the Company had issued 780,000 (May 31, 2013 – 780,000) deferred share units and at February 28, 2014 that represents a cash liability of $608 thousand (May 31, 2013 - $172 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Company’s share price would result in an increase or decrease in loss for the year and comprehensive loss of $61 thousand (May 31, 2013 - $17 thousand).

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

(Tabular amounts are in 000s)

6. Share capital

The Company is authorized to issue an unlimited number of common shares.

Continuity of common shares and warrants

(amounts in 000's)	Common Shares Number	Common Shares Amount	Warrants Number	Warrants Amount
Balance at May 31, 2013	**42,251**	**$ 174,522**	**27,143**	**$ 2,421**
Expiry of broker warrants (c)	—	—	(194)	(25)
Issuance of warrants (b)	—	—	918	75
Balance at August 31, 2013	**42,251**	**$ 174,522**	**27,867**	**$ 2,471**
Warrant exercises (c)	4,445	2,401	(4,445)	(471)
Balance at November 30, 2013	**46,696**	**$ 176,923**	**23,422**	**$ 2,000**
Public equity offering (a)	12,730	6,002	764	304
Exercise of overallotment option (a)	1,910	925	114	46
Warrant exercises (c)	932	498	(932)	(78)
Option exercises	68	39	—	—
Balance at February 28, 2014	**62,336**	**$ 184,387**	**23,368**	**$ 2,272**

(a) Public Equity Offering and Overallotment

On December 10, 2013, we completed a public offering of common shares. Lorus issued a total of 12,730,000 common shares at a price of $0.55 per common share, for aggregate gross proceeds of $7,001,500 as part of such offering.

The total costs associated with the transaction were approximately $999 thousand which include a cash commission of $420 thousand based on 6% of the gross proceeds received as part of the offering, and the issuance of 763,800 broker warrants with an estimated fair value of $304 thousand. The fair value of these warrants was determined using the Black Scholes model with a 24 month time to maturity, an assumed volatility of 130% and a risk free interest rate of 1.5%. Each broker warrant is exercisable into one common share of the Company at a price of $0.55 for a period of twenty four months following closing of the offering.

Mr. Sheldon Inwentash and his joint actors (“Mr. Inwentash”) a related party of the Company by virtue of exercising control or direction over more than 10% of the common shares of the Company participated in the Offering and acquired an aggregate of 1,820,000 common shares.

On January 8, 2014, the underwriters conducting the offering exercised in full their over-allotment option to purchase an additional 1,909,500 common shares of the Company at a price of $0.55 per common share for additional gross proceeds of $1,050,225. The total costs associated with the exercise of the over-allotment option were approximately $125 thousand based on 6% of the gross proceeds received as part of the exercise of the over-allotment option, and the issuance of 114,570 broker warrants with an estimated fair value of $46 thousand using the Black Scholes model with the same assumptions as disclosed above. Each broker warrant is exercisable into one common share of the Company at a price of $0.55 for a period of twenty four months following closing of over-allotment option exercise.

(b) Promissory Notes and Warrants

In June 2013 the Company completed a private placement of units (“Units”) at a price of $1,000 per unit, for aggregate gross proceeds of $918 thousand.

Each Unit consists of (i) a $1,000 principal amount of unsecured promissory note and (ii) 1,000 common share purchase warrants. The promissory notes bear interest at a rate of 10% per annum, payable monthly and are due June 19, 2014. Each warrant entitles the holder thereof to acquire one common share of the Company at a price per common share equal to $0.25 at any time until June 19, 2015.

Certain related parties participated in the transaction. Directors and officers (including Dr. Aiping Young, Dr. Jim Wright and Dr. Mark Vincent) acquired an aggregate of $68 thousand of the promissory notes. A company related to a Mr. Abramson, a former director of the Company acquired $250 thousand of the promissory notes and Mr. Inwentash acquired $100 thousand of the promissory notes.

The promissory notes contain a liability component and an equity component represented by the warrants to purchase common shares. The fair value of the liability component was estimated by discounting the future cash flows associated with the debt at a discounted rate of approximately 19% which represents the estimated borrowing cost to the Company for similar promissory notes with no warrants. The residual value was allocated to the warrants. Subsequent to initial recognition, the notes are recorded at amortized cost using the effective interest rate method.

(Tabular amounts are in 000s)

The Company incurred costs associated with the financing of $23 thousand. These costs are being amortized using the effective interest rate method over the 12 month life of the notes.

	Nine months ended February 28, 2014	Nine months ended February 28. 2013
Promissory Notes	**$ 918**	$ —
Less: Equity warrant component of notes	**(75)**	—
Less: Issue costs	**(23)**	—
	820	—
Accretion in carrying value of notes	**67**	—
Balance, end of period	**$ 887**	$ —

(c) Exercise of Warrants

During the nine month period ended February 28, 2014 5.377 million warrants (February 28, 2013 – 398 thousand) were exercised for proceeds of $2.35 million (February 28, 2013 – $180 thousand). The carrying amount related to these warrants was $549 thousand (February 28, 2013 - $43 thousand) and was transferred from warrants to share capital.

Expiry of Warrants

Broker warrants with a carrying amount of $25 thousand expired unexercised in August 2013. The impact of the expiry was a reclassification of the amount from warrants to contributed surplus.

(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.

	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Balance, beginning of year	**$ 21,217**	$ 21,186
Expiry of broker warrants	**25**	–
Expiry of vested stock options	**65**	31
Balance, end of period	**$ 21,307**	$ 21,217

(e) Continuity of stock options

	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Balance, beginning of year	**$ 1,018**	$ 535
Stock based compensation	**1,352**	380
Exercise of stock options	**(20)**	–
Expiry of vested stock options	**(65)**	(31)
Balance, end of period	**$ 2,285**	$ 884

(Tabular amounts are in 000s)

(f) Loss per share

Loss per common share is calculated using the weighted average number of common shares outstanding for the three and nine month periods ending February 28, 2014 calculated as follows:

	Three months ended February 28		Nine months ended February 28	
	2014	2013	**2014**	2013
Issued common shares, beginning of period	**42,251**	42,251	**42,251**	21,228
Effect of private placement	**—**	—	**—**	20,625
Effect of public offering	**12,730**	—	**4,243**	—
Effect of overallotment	**1,273**	—	**424**	—
Effect of warrant and option exercises	**5,017**	—	**2,167**	398
	61,271	42,251	**49,085**	42,251

The effect of any potential exercise of our 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.

7. Stock options

(a) Stock options transactions for the period:

	Nine months ended February 28, 2014		Nine months ended February 28, 2013	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Outstanding, Beginning of year	**3,358**	**$ 0.46**	1,611	$ 0.44
Granted	**3,358**	**0.61**	1,780	0.48
Exercised	**(68)**	**0.31**	—	—
Expired	**(35)**	**1.85**	(33)	0.54
Outstanding, end of period	**6,613**	**$ 0.53**	3,358	0.46

(b) Stock options outstanding at February 28, 2014:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of Options	Weighted average exercise price
$ 0.18 - $ 0.22	1,466	8.0	$ 0.21	1,303	$ 0.21
$ 0.23 - $ 0.48	2,324	8.8	0.43	1,532	0.40
$ 0.49 - $ 9.90	2,823	9.6	0.78	1,529	0.92
	6,613	9.0	$ 0.53	4,364	$ 0.53

(Tabular amounts are in 000s)

(c) Fair value assumptions

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

	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Exercise price	**$ 0.29-0.78**	$ 0.475
Grant date share price	**$ 0.29-0.78**	$ 0.475
Risk free interest rate	**1.5%**	3.0%
Expected dividend yield	**—**	—
Expected volatility	**135%**	135%
Expected life of options	**5 years**	5 years
Weighted average fair value of options granted in the period	**$ 0.53**	$ 0.42

Stock options granted by the Company during the nine months ended February 28, 2014 consisted of 1,663,000 options which vested immediately, 850,000 options that vested 50% upon issuance and 25% on each of the next two anniversaries and 845,000 options which vest 50%, 25% and 25% on each of the next three anniversaries.

Stock options granted by the Company during the nine months ended February 28, 2013 have various vesting schedules. Options granted to directors consisted of 160,000 options that vested 50% upon issuance and 50% one year later. Options granted to the former Chief Operating Officer consisting of 1,050,000 options that vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015. Options granted to certain employees totaled 325,000 and vested 50% upon certain performance criteria measured as of May 31, 2013 and 25% on May 31, 2014 and 25% on May 31, 2015. Options granted to employees totaled 245,000 and vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015.

Refer to note 10 for a breakdown of stock option expense by function.

The Company has reserved up to 9,300,000 common shares for issuance relating to outstanding options, rights and other entitlements under the stock based compensation plans of the Company as of February 28, 2014.

(d) Deferred share units

The Lorus Deferred Share Unit (DSU) plan gives the holder of the DSU's the option between settlement in cash or shares of Lorus and the Board of Directors of Lorus has the final determination as to the method of settlement. It is currently the intention of the Board of Directors to comply with the wishes of the holder in terms of settlement method. It is also anticipated that the settlement method of the currently outstanding DSU's will be in the form of cash and as such the liability has been treated as a cash settled liability.

As at February 28, 2014, 780,000 deferred share units have been issued (May 31, 2013 – 780,000), with a carrying amount of $608 thousand representing the fair market value of the units as of February 28, 2014 (May 31, 2013 - $172 thousand) recorded in accrued liabilities.

8. Convertible promissory notes and loans payable

a) Convertible promissory notes

In September 2013 the Company completed a private placement of convertible promissory notes for aggregate gross proceeds of $600 thousand.

Each convertible promissory note consists of a $1,000 principal amount of unsecured promissory note convertible into common shares of the Company at a price per share of $0.30. The promissory notes bear interest at a rate of 10% per annum, payable quarterly and are due September 26, 2015.

Certain related parties participated in the transaction. A company related to Mr. Abramson, a former director of Lorus acquired $100 thousand of the promissory notes, Mr. Inwentash acquired $150 thousand of the promissory notes and Sprott Asset Management which held more than 10% of the common shares of Lorus and the ability to acquire control of more than 20% of Lorus acquired $112 thousand of the promissory notes.

The promissory notes are a compound instrument containing a liability component and an equity component represented by the conversion feature. The fair value of the liability component was estimated by discounting the future cash flows associated with the debt at a discounted rate of approximately 19% which represents the estimated borrowing cost to the Company for similar promissory notes with no warrants. The residual value was allocated to the conversion feature. Subsequent to initial recognition, the notes will be recorded at amortized cost using the effective interest rate method.

(Tabular amounts are in 000s)

The Company incurred costs associated with the financing of $17 thousand. These costs will be amortized using the effective interest rate method over the 24 month life of the notes.

	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Promissory Notes	**$ 600**	**$ —**
Less: Equity component of notes	**(88)**	**—**
Less: Issue costs	**(17)**	**—**
	495	**—**
Accretion in carrying value of notes	**20**	
Balance, end of period	**$ 515**	**$ —**

b) Loans payable

In September 2013 the Company entered into loan agreements for proceeds of $150 thousand. The loan agreements are unsecured, bear interest at a rate of 10% per annum payable quarterly and are due September 30, 2015.

9. Additional cash flow disclosures

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

	Three months ended February 28		**Nine months ended February 28**	
	2014	2013	**2014**	2013
Prepaid expenses and other assets	**$ (7)**	$ 110	**$ (137)**	$ 38
Accounts payable	**107**	(119)	**(416)**	(111)
Accrued liabilities	**(275)**	(33)	**745**	(252)
	$ (175)	$ (42)	**$ 192**	$ (325)

During the nine months ended February 28, 2014 the Company accrued and paid $62 thousand in interest expense on the $918 thousand promissory notes as described in note 6(b). The interest accrues at a rate of 10% per annum. In addition the Company accrued interest during the nine months ended February 28, 2014 on the loan agreements and convertible promissory notes described in note 8 of $32 thousand. The interest accrues at a rate of 10% per annum and is paid quarterly. In addition the Company paid interest of $3 thousand at a rate of 10% per annum to the withheld pay of employees. All amounts withheld from employees had been repaid as of February 28, 2014.

During the nine months ended November 30, 2012 the Company accrued and paid $6 thousand in interest expense on the $900 thousand promissory note due to Mr. Abramson repaid on June 25, 2012. The interest accrued at a rate of 10% per annum.

10. Other expenses

Components of research and development expenses:

	Three months ended February 28		**Nine months ended February 28**	
	2014	2013	**2014**	2013
Program costs (note 11)	**$ 519**	$ 854	**$ 1,603**	$ 2,320
Stock based compensation	**15**	58	**256**	142
Deferred share unit costs	**59**	(31)	**132**	(29)
Depreciation of equipment	**4**	8	**12**	24
	$ 597	$ 889	**$ 2,003**	$ 2,457

(Tabular amounts are in 000s)

Components of general and administrative expenses:

	Three months ended February 28		Nine months ended February 28	
	2014	2013	**2014**	2013
Stock based compensation	**$ 334**	$ 82	**$ 1,096**	$ 238
General and administrative excluding salaries	**520**	309	**1,307**	1,139
Salaries	**780**	172	**1,451**	500
Deferred share unit costs	**136**	(73)	**305**	(68)
Depreciation of equipment	**1**	1	**1**	3
	$ 1,771	$ 491	**$ 4,160**	$ 1,812

11. Research and development programs:

Program costs by product class are as follows:

	Three months ended February 28		Nine months ended February 28	
	2014	2013	**2014**	2013
Small molecules	**$ 519**	$ 736	**$ 1,515**	$ 1,997
Immunotherapy	**—**	118	**88**	323
Total	**$ 519**	$ 854	**$ 1,603**	$ 2,320

12. Commitments, contingencies and guarantees.

The Company entered into various contracts with service providers with respect to the LOR-253 phase I solid tumor clinical trial clinical trial completed in 2013. These contracts could have resulted in future payment commitments of approximately $1.5 million. Of this amount, $1.1 million has been paid and $73 thousand has been accrued at February 28, 2014 (May 31, 2013 - $740 thousand paid and $253 thousand accrued). The Company does not anticipate any additional costs being incurred under these contracts and will enter into new contracts with respect to the planned Phase Ib clinical trial.

On November 27, 2012 the Company announced it had entered into a collaboration agreement with Cancer Research UK for the future development of immunotherapy IL-17E. Under this collaboration agreement Lorus had committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. It was expected that this would result in costs of approximately $4 million over a two year period. In January 2014, the collaboration agreement with Cancer Research UK was terminated and, as such the Company no longer has any obligation to manufacture IL-17E.

13. Related Party Transactions

See notes 6(a), 8 (a) and 14 for details of 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.

14. Subsequent Events

1) On March 18, 2014 the Company announced the departure of Dr. Aiping Young, former President and Chief Operating Officer. The Company is prepared to make severance payments of approximately $1.2 million to Dr. Young in accordance with the terms of Dr. Young's employment agreement.

2) Subsequent to the quarter end, on April 10, 2014 we announced the closing of a public offering of our common shares.
As part of such offering, we issued a total of 50,000,000 common shares at a price of $0.50 per share for aggregate gross proceeds of $25,000,000. The common shares were sold to a syndicate of underwriters led by RBC Capital Markets and including Roth Capital Partners and Cormark Securities Inc. and we granted to the underwriters an over-allotment option to purchase up to 7,500,000 additional common shares at a price of $0.50 per share for a period ending 30 days following the closing of the offering.

The total costs associated with the transaction were approximately $2.55 million.

Mr. Inwentash, a related party of the Company by virtue of exercising control or direction over more than 10% of the common shares of the Company participated in this offering and acquired an aggregate of 1.3 million common shares.

3) On April 10, 2014 the Company granted 3,520,000 stock options to directors, members of management and employees at an exercise price of $0.50. These options will be accounted for in the quarter ended May 31, 2014.

PROMISSORY NOTE

THE SECURITY REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE OCTOBER ●, 2013.

FOR VALUE RECEIVED, Lorus Therapeutics Inc. (the "**Debtor**") hereby promises to pay to or to the order of ● (the "**Lender**") the principal amount of $● (the "**Principal Amount**") in lawful money of Canada, with interest thereon calculated at the rate of 10% per annum and payable in the same currency on the last business day of each calendar month. The outstanding Principal Amount, together with any accrued and unpaid interest thereon, will be payable by the Debtor to the Lender on **[June] ●**, 2014, anniversary of the date of this Promissory Note.

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

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

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

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

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

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

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

The Principal Amount hereof, together with interest accrued thereon, may at any time be repaid in full by the Debtor without bonus or penalty and with 10 days prior written notice to the Lender.

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

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

DATED as of the _____th day of _____, 2013.

LORUS THERAPEUTICS INC.

_____

Aiping Young

Acknowledged and agreed:

_____

[NAME OF SUBSCRIBER]

LORUS THERAPEUTICS INC.
(the "**Corporation**")

WARRANT NO. 2013 – PPW-● **PURCHASE WARRANT ENTITLING THE HOLDER TO PURCHASE COMMON SHARES**

THE WARRANTS REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON THE EXERCISE OF THE WARRANTS REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"). THE WARRANTS REPRESENTED HEREBY MAY NOT BE EXERCISED IN THE UNITED STATES OR BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON OR A PERSON IN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES LAWS AND APPLICABLE STATE SECURITIES LAWS. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS ASCRIBED TO THEM IN REGULATION S UNDER THE U.S. SECURITIES ACT.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE OCTOBER ●, 2013.

This is to certify that for value received, _____ (the "**Holder**") is the registered holder of a purchase warrant ("**Warrant**"), entitling the Holder to subscribe for and purchase ● common shares of the Corporation from treasury (each, a "**Share**") at an exercise price of $0.25 (as adjusted pursuant to the provisions hereof, the "**Share Exercise Price**") for a period of twenty-four (24) months, upon the terms and conditions as hereinafter set forth. This Warrant is to remain exercisable until the Expiry Date (as defined hereinafter).

As used herein:

(i) "**Board**" means the board of directors of the Corporation;

(ii) "**Business Day**" means any day other than a Saturday, Sunday or other day on which commercial banks in the City of Toronto are authorized or required by law to close; and

(iii) "**Common Shares**" means the outstanding common shares of the Corporation.

1. Exercise Period

This Warrant is exercisable, in whole or in part, at any time and from time to time during the period from the date hereof and, subject to any regulatory requirements, prior to 5:00 p.m. (Toronto time) on June ●, 2015 (the "**Expiry Date**").

2. Payment

The Shares subscribed for must be paid in full at the time of subscription, by certified cheque or bank draft payable in Canadian funds or wire transfer of immediately available funds to or to the order of the Corporation.

3. Exercise of Warrant

This Warrant may be exercised, in whole or in part, at any time prior to the Expiry Date by the Holder hereof completing the subscription form attached as Schedule A hereto (the "**Subscription Form**") and made a part hereof and delivering same to Elizabeth Williams at the Corporation, at its head office at 2 Meridian Road, Toronto ON, M9W 4Z7 (or such other address as may be designated in writing by the Corporation to the Holder), together with this Warrant and the amount, payable to the order of the Corporation, equal to the Share Exercise Price subscribed for upon exercise of this Warrant. The Corporation will promptly notify the Holder in writing of any change of address of its head office.

Notwithstanding anything to the contrary contained herein, this Warrant has not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or the securities laws of any state of the United States, and this Warrant may not be exercised, and no Shares will be issued upon the exercise of this Warrant, unless an exemption from registration is available, and the Corporation shall have received either written evidence satisfactory to it upon which it can rely that such exemption is available or an opinion of counsel to such effect in form and substance reasonably satisfactory to the Corporation. Therefore, this Warrant may be exercised only by a Holder who, at the time of exercise, (i) certifies that the Holder (a) did not acquire this Warrant in the United States (as such term is defined in Regulation S under the U.S. Securities Act) or at a time when the Holder was a U.S. Person (as such term is defined in Regulation S under the U.S. Securities Act) or acting for the account or benefit of a U.S. Person or a person in the United States, and (b) is not then located in the United States, is not a U.S. Person and is not exercising this Warrant for the account or benefit of a U.S. Person or a person in the United States; or (ii) provides a legal opinion or other evidence reasonably satisfactory to the Corporation that the exercise of this Warrant does not require registration under the U.S. Securities Act or applicable state securities laws; or (iii) certifies that the Holder is the original purchaser from the Corporation of the Units pursuant to which this Warrant was issued and at the time of such acquisition was a U.S. Person, was in the United States or was acting for the account or benefit of a U.S. Person or a person in the United States, and confirms, as of the date of such exercise, each of the representations, warranties and agreements made by it in connection with its acquisition of such Units, including its status as an "accredited investor" within the meaning of Rule 501(a) under the U.S. Securities Act, as though such representations, warranties and agreements were made on the date of such exercise and in respect of the acquisition of the Shares upon the exercise of this Warrant.

4. Share Certificates

Upon valid exercise of this Warrant, the Corporation will cause to be issued to the person or persons in whose name or names the Shares so subscribed for are to be issued the number of fully paid and non-assessable Shares subscribed for and such person or persons will be deemed upon presentation and payment as aforesaid, to be the holder or holders of record of such Shares. Within three (3) Business Days after receipt of the executed Subscription Form and payment of the Share Exercise Price, the Corporation will cause to be mailed or delivered to the holder at the address or addresses specified in the attached Subscription Form, a certificate or certificates evidencing the number of Shares subscribed for.

5. Exercise in Whole or in Part

This Warrant may be exercised in whole or in part, and if exercised in part, the Corporation will issue another Warrant, in a form substantially evidencing the remaining rights to purchase Shares, provided that any such right will terminate on the Expiry Date.

6. Non-Transferability

This Warrant is not transferable by the Holder.

7. No Fractional Shares

No fractional Shares will be issued upon exercise of this Warrant, nor will any compensation be made for such fractional Shares, if any.

8. Adjustments

The Share Exercise Price in effect and the number and type of securities purchasable under this Warrant at any date will be subject to adjustment from time to time as follows:

(a) If and whenever at any time prior to the Expiry Date, the Corporation will (i) subdivide or redivide the outstanding Common Shares into a greater number of Common Shares, (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of Common Shares, or (iii) issue Common Shares to the holders of all or substantially all of the outstanding Common Shares by way of a stock dividend, the Share Exercise Price in effect on the effective date of any such event will be adjusted immediately after such event or on the record date for such issue of Common Shares by way of stock dividend, as the case may be, so that it will equal the amount determined by multiplying the Share Exercise Price in effect immediately prior to such event by a fraction, of which the numerator will be the total number of Common Shares outstanding immediately prior to such event and of which the denominator will be the total number of Common Shares outstanding immediately after such event. The number of Shares which the Holder is entitled to purchase for this Warrant will be adjusted at the same time by multiplying the number by the inverse of the aforesaid fraction. Any such adjustments will be made successively whenever any event referred to in this subparagraph (a) will occur and any such issue of Common Shares by way of a stock dividend will be deemed to have been made on the record date for the stock dividend for the purpose of calculating the number of outstanding Common Shares immediately after such event;

(b) If and whenever at any time prior to the Expiry Date there is a reclassification of the Common Shares at any time outstanding or a capital reorganization of the Corporation not covered in subparagraph (a) or a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other corporation or a sale of the property and assets of the Corporation as or substantially as an entirety to any other person, a Holder of this Warrant which has not been exercised prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, merger or sale will therein or, upon the exercise of such Warrant, be entitled to receive and will accept in lieu of the number of Shares, as then constituted, to which the Holder was previously entitled upon exercise of this Warrant, but for the same aggregate consideration payable therefor, the number of Shares or other securities or property of the Corporation or of the company resulting from such reclassification, capital reorganization, consolidation, amalgamation or merger or of the person to which such sale may be made, as the case may be, that such Holder would have been entitled to receive on such reclassification, capital reorganization, consolidation, amalgamation, merger or sale on the effective date thereof, if the Holder had been the registered holder of the number of Shares to which the Holder was previously entitled upon due exercise of this Warrant; and in any case, if necessary, appropriate adjustment will be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Holder of this Warrant to the end that the provisions set forth herein will thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any Shares or securities or property to which the Holder may be entitled upon the exercise of such Warrant thereafter;

(c) In any case in which this section requires that an adjustment become effective immediately after a record date for an event referred to herein, the Corporation may defer, until the occurrence of such event, issuing to the Holder of any Warrant exercised after such record date and before the occurrence of such event the kind and amount of Shares, other securities or property to which he would be entitled upon such exercise by reason of the adjustment required by such event; provided that the Corporation will deliver to such Holder an appropriate instrument evidencing such Holder's right to receive the kind and amount of Shares, other securities or property to which he or she would be entitled upon the occurrence of the event requiring such adjustment and the right to receive any distributions made or declared in favour of holders of record of Shares as constituted from time to time on and after such date as such Holder would, but for the provisions of this subparagraph (c), have received, or become entitled to receive, on such exercise;

(d) The adjustments provided for in this Section 8 are cumulative and will apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this paragraph; provided that notwithstanding any other provision of this paragraph, (i) no adjustment of the Share Exercise Price or number of Shares, as then constituted, purchasable will be required unless such adjustment would require an increase or decrease of at least 5% in the Share Exercise Price then in effect or the number of Shares, as then constituted, purchasable, and (ii) any adjustments which by reason of this subparagraph (d) are not required to be made will be carried forward and taken into account in any subsequent adjustment;

(e) In the event of any question arising with respect to the adjustments provided in this paragraph, such question will be conclusively determined by the auditors of the Corporation. Such auditors will have access to all necessary records of the Corporation and such determination will be binding upon the Corporation and the Holder;

(f) As a condition precedent to the taking of any action which would require an adjustment in any of the subscription rights pursuant to this Warrant, including the number of Shares which are to be received upon the exercise thereof, the Corporation will take any action which may, in the opinion of counsel, be necessary in order that the Corporation may validly and legally issue as fully paid and non-assessable all the Shares which the Holder of such Warrant is entitled to receive on the full exercise thereof in accordance with the provisions hereof;

(g) No adjustment will be made in the acquisition rights attached to this Warrant, if the issue of Shares is being made pursuant to any Board approved stock option or stock purchase plan in force from time to time for officers, employees or consultants of the Corporation;

(h) No adjustment will be made pursuant to this paragraph if the Holder is entitled to participate in any event described in this paragraph on the same terms, *mutatis mutandis*, as if the Holder had exercised this Warrant prior to, or on the effective date or record date of, such event, subject to regulatory approval; and

(i) In case the Corporation will take any action affecting the Shares other than action described in this Section 8, which in the opinion of the Board would materially affect the rights of the Holder, the Share Exercise Price and/or the number of Shares which may be acquired upon exercise of a Warrant, an appropriate adjustment will be made by action of the Board in such manner and at such time, in their sole discretion, as they may determine to be equitable in the circumstances. Failure of the Board to make such an adjustment will be conclusive evidence that the Board has determined that it is equitable to make no adjustment in the circumstances.

Immediately after the occurrence of any event which requires an adjustment pursuant to this Section 8, other than an adjustment pursuant to Section 8(a), in the Share Exercise Price or in any of the subscription rights pursuant to this Warrant, including the number of Shares, as then constituted, which are to be received upon the exercise thereof, the Corporation will forthwith deliver to the Holder a certificate of the Corporation specifying the particulars of such event and the required adjustment and the computation of such adjustment and give at least 10 Business Days notice to the Holder of this Warrant of the record date or effective date of such event, as the case may be, and such notice will include particulars of such event and the required adjustment.

9. <u>General Covenants of the Corporation</u>

(a) The Corporation covenants and agrees that it is duly authorized to enter into and perform its obligations under this Warrant.

(b) The Corporation will at all times reserve and keep available free from preemptive rights, out of the aggregate of its authorized unissued common shares, for the purpose of enabling it to satisfy any obligation to issue Shares upon exercise of this Warrant, the full number of Shares deliverable upon the exercise or conversion thereof.

(c) The Corporation covenants that all Shares which may be issued on conversion of this Warrant, will upon issue be fully paid and non-assessable.

(d) Subject to applicable laws, the Corporation will from time to time take all action which may be necessary to obtain and keep effective any and all permits, consents and approvals of governmental agencies and authorities and will make all securities' acts filings under Canadian federal, state or provincial laws, which may be or become requisite in connection with the issuance and exercise of this Warrant.

(e) The Corporation will give written notice of the issue of Shares pursuant to the exercise of this Warrant, in such detail as may be required, to each exchange and to applicable securities commissions or similar regulatory authorities.

(f) Upon receipt of evidence satisfactory to the Corporation of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) of indemnification satisfactory to the Corporation, and upon surrender and cancellation of this Warrant, if mutilated, the Corporation will promptly execute and deliver a new Warrant of like tenor and date.

(g) The Corporation covenants and agrees that all necessary corporate actions have been done and performed to create this Warrant and to make this Warrant a legal, valid and binding obligations of the Corporation. The Corporation will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, all other acts, deeds and assurances in law as may be reasonably required for the better accomplishing and effecting of the intentions and provisions of this Warrant.

(h) Subject to the express provisions hereof, the Corporation will carry on and conduct and will cause to be carried on and conducted its business in a proper and efficient manner and will cause to be kept proper books of account in accordance with generally accepted accounting practice; and, subject to the express provisions hereof, it will do or cause to be done, all things necessary to preserve and keep in full force and effect its corporate existence, provided, however, that nothing herein contained will prevent the amalgamation, consolidation, merger, sale, winding up or liquidation of the Corporation or any subsidiary of the Corporation or the abandonment of any rights and franchises of the Corporation or any subsidiary of the Corporation if, in the opinion of the Board or officers of the Corporation, it would be advisable and in the best interests of the Corporation or of such subsidiary of the Corporation to do so.

(i) The Corporation will, issue share certificates representing the number of Shares issuable upon exercise of this Warrant as evidenced by a duly executed Subscription Form, and subject to adjustment as set forth herein within three days of receipt of the Subscription Form by the Corporation.

10. Miscellaneous

(a) The Corporation will not, by amendment of its articles or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder under this Warrant.

(b) The Holder will be bound by the terms of the meetings of the Holders that may be called by the Corporation as set out in Schedule B.

(c) Neither this Warrant nor any term hereof may be waived, discharged or terminated other than by an instrument in writing signed by the Corporation and by the Holder hereof.

(d) This Warrant will be governed by the laws in force in the Province of Ontario.

(e) Time will be of the essence.

(*Signature page follows*)

IN WITNESS WHEREOF the Corporation has this certificate to be signed by the signature of its duly authorized officer this _____th day of _____, 2013.

LORUS THERAPEUTICS INC.

Per: _____

Name: Aiping Young
Title: Chief Executive Officer
Authorized Signing Officer

SCHEDULE A

SUBSCRIPTION FORM

TO: LORUS THERAPEUTICS INC.
2 Meridian Road
Toronto ON
M9W 4Z7

The undersigned holder of the attached warrant (the **"Warrant"**) hereby irrevocably elects to subscribe for ____Shares of Lorus Therapeutics Inc. (the "**Corporation**") at an aggregate subscription price of $0.25, subject to adjustment, evidenced by and on the terms specified in this Warrant and encloses herewith a certified cheque or money order payable to the Corporation.

In connection with this subscription, the undersigned must mark one of Box A or Box B:

Box A ☐ The undersigned hereby certifies that (i) it did not acquire the Warrant in the United States (as that term is defined in Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or at a time when the undersigned was a "U.S. Person" (as that term is defined in the U.S. Securities Act) or acting for the account or benefit of a U.S. Person or a person in the United States, (ii) it is not in the United States or a U.S. Person, (iii) the Warrant is not being exercised for the account or benefit of a U.S. Person or a person in the United States, and (iv) this Subscription Form was not executed or delivered in the United States.

Box B ☐ An exemption from registration under the U.S. Securities Act and all applicable state securities law is available for the issuance of Shares pursuant to this subscription, and attached hereto is an opinion of counsel or other evidence to such effect, it being understood that any opinion of counsel or other evidence tendered in connection with the exercise of this Warrant must be in form and substance satisfactory to the Corporation.

Note: Certificates representing Shares will not be registered or delivered to an address in the United States unless Box B is marked. If Box B is marked, the certificates representing the Shares will bear a legend restricting transfers unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration requirements is available.

The undersigned hereby directs that the said Shares be registered in the name of the Holder as follows:

Name & Address	**Number of Shares**

(Please print full name in which share certificates are to be issued.)

DATED this _____ day of _____, _____.

_____
Name of Warrant Holder (to be the same as appears on the face of the Warrant)

per: _____
Authorized Signing Officer

SCHEDULE B

TERMS OF HOLDER MEETINGS

All capitalized terms used but not defined herein shall have the meaning set forth in the Warrant certificate to which the Schedule B is an attachment.

MEETINGS OF HOLDERS

1. Right to Convene Meetings

The Corporation may convene a meeting of the Holders. Every such meeting shall be held in the City of Toronto, Ontario or at such other place as may be approved or determined by the Corporation.

2. Notice

At least 21 days' prior notice of any meeting of Holders shall be given to the Holders at the expense of the Corporation. Such notice shall state the time and place of the meeting, the general nature of the business to be transacted and shall contain such information as is reasonably necessary to enable the Holders to make a reasoned decision on the matter, but it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Schedule B. The notice convening any such meeting may be signed by an appropriate officer of the Corporation.

3. Chairman

The Corporation may nominate in writing an individual to be chairman of the meeting and if no individual is so nominated, or if the individual so nominated is not present within 15 minutes after the time fixed for the holding of the meeting, the Holders present in person or by proxy shall appoint an individual present to be chairman of the meeting. The chairman of the meeting need not be a Holder.

4. Quorum

Subject to the provisions of Section 11, at any meeting of the Holders a quorum shall consist of two Holders present in person or represented by proxy and representing at least 10% of the aggregate number of Warrants then outstanding. If a quorum of the Holders shall not be present within one-half hour from the time fixed for holding any meeting, the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day in which case it shall be adjourned to the next following Business Day) at the same time and place to the extent possible and, subject to the provisions of Section 11, no notice of the adjournment need be given. Any business may be brought before or dealt with at an adjourned meeting which might have been dealt with at the original meeting in accordance with the notice calling the same. At the adjourned meeting the Holders present in person or represented by proxy shall form a quorum and may transact the business for which the meeting was originally convened, notwithstanding that they may not represent at least 10% of the aggregate number of Warrants then unexercised and outstanding. No business shall be transacted at any meeting unless a quorum is present at the commencement of business.

5. Power to Adjourn

The chairman of any meeting at which a quorum of the Holders is present may, with the consent of the meeting, adjourn any such meeting, and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

6. Show of Hands

Every question submitted to a meeting shall be decided in the first place by a majority of the votes given on a show of hands except that votes on an Extraordinary Resolution shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact.

7. Poll and Voting

On every Extraordinary Resolution, and when demanded by the chairman or by one or more of the Holders acting in person or by proxy, on any other question submitted to a meeting and after a vote by show of hands, a poll shall be taken in such manner as the chairman shall direct. Questions other than those required to be determined by Extraordinary Resolution shall be decided by a majority of the votes cast on the poll. On a show of hands, every person who is present and entitled to vote, whether as a Holder or as proxy for one or more absent Holders, or both, shall have one vote. On a poll, each Holder present in person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each Common Share which he (or the Holder appointing him as proxy) is entitled to acquire upon the exercise of the Warrant then held by him. A proxy need not be a Holder. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Warrants, if any, held or represented by him.

8. Regulations

(a) Subject to the provisions of this Warrant, the Corporation may from time to time make and from time to time vary such regulations as it shall consider necessary or appropriate:

(i) for the deposit of instruments appointing proxies at such place and time as the Corporation, may in the notice convening the meeting direct;

(ii) for the deposit of instruments appointing proxies at some approved place other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed, cabled or telecopied before the meeting to the Corporation at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting;

(iii) for the form of the instrument of proxy and the manner in which the form of proxy may be executed; and

(iv) generally for the calling of meetings of Holders and the conduct of business thereat including setting a record date for Holders entitled to receive notice of or to vote at such meeting.

(b) Any regulations so made shall be binding and effective and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only persons who shall be recognized at any meeting as a Holder, or be entitled to vote or be present at the meeting in respect thereof (subject to Section 9), shall be Holders or persons holding proxies of Holders.

9. Corporation and Counsel May Be Represented

The Corporation, by its respective directors, officers, employees and agents, and the counsel for the Corporation and the Holders may attend any meeting of the Holders and speak thereat but shall have no vote as such unless in their capacities as Holders.

10. Powers Exercisable by Extraordinary Resolution

The Holders at a meeting shall have the power, exercisable from time to time by Extraordinary Resolution:

(a) to sanction any modification, abrogation, alteration or compromise of the rights of the registered holders of Warrants against the Corporation which shall be agreed to by the Corporation; and/or

(b) to assent to any modification of or change in or omission from the provisions contained herein or in any instrument ancillary or supplemental hereto which shall be agreed to by the Corporation; and/or

(c) to restrain any registered holder of a Warrant from taking or instituting any suit or proceedings against the Corporation for the enforcement of any of the covenants on the part of the Corporation conferred upon the registered holders of Warrants by the terms of the Warrants.

Any such Extraordinary Resolution as aforesaid shall be binding upon all the Holders whether or not assenting in writing to any such Extraordinary Resolution, and each Holder shall be bound to give effect thereto accordingly. Such Extraordinary Resolution shall, where applicable, be binding on the Corporation which shall give effect thereto accordingly.

The Corporation shall forthwith upon receipt of an Extraordinary Resolution provide notice to all Holders of the date and text of such resolution. The Holders assenting to an Extraordinary Resolution agree to provide the Corporation forthwith with a copy of any Extraordinary Resolution passed.

11. Meaning of Extraordinary Resolution

(a) The expression "**Extraordinary Resolution**" when used in this Schedule B means, subject as hereinafter in this Section 11 and in Section 14 provided, a resolution proposed by the Corporation at a meeting of Holders duly convened for that purpose and held in accordance with the provisions of this Schedule B at which there are Holders present in person or represented by proxy representing at least 10% of the aggregate number of all the then outstanding Warrants and passed by the affirmative votes of Holders representing not less than $66^{2}/_{3}$% of the aggregate number of Common Shares which may be acquired upon the exercise of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution.

(b) If, at any meeting called for the purpose of passing an Extraordinary Resolution, Holders representing at least 10% of the aggregate number of Common Shares which may be acquired upon the exercise of all the then outstanding Warrants are not present in person or by proxy within one-half hour after the time appointed for the meeting, then the meeting shall stand adjourned to such day, being not less than six or more than 10 Business Days later, and to such place and time as may be appointed by the chairman. Not less than three Business Days' prior notice shall be given of the time and place of such adjourned meeting in the manner provided in subsections 11(d) and 11(e). Such notice shall state that at the adjourned meeting the Holders present in person or represented by proxy shall form a quorum but it shall not be necessary to set forth the purposes for which the meeting was originally called or any other particulars. At the adjourned meeting, the Holders present in person or represented by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in subsection 11(a) shall be an Extraordinary Resolution within the meaning of this Warrant notwithstanding that Holders representing at least 10% of all the Common Shares which may be acquired upon the exercise of all of the then outstanding Warrants are not present in person or represented by proxy at such adjourned meeting.

(c) Votes on an Extraordinary Resolution shall always be given on a poll and no demand for a poll on an Extraordinary Resolution shall be necessary.

(d) Any notice to the Holders under the provisions of this Warrant shall be deemed to be validly given if the notice is sent by prepaid mail or delivered by hand to the holders at their addresses and telecopier numbers appearing in the register of Holders. Any notice so delivered shall be deemed to have been received on the date of delivery if that date is a Business Day or the Business Day following the date of delivery if such date is not a Business Day. Accidental error or omission in giving notice or accidental failure to give notice to any Holder shall not invalidate any action or proceeding founded thereon.

(e) If by reason of any interruption of mail service, actual or threatened, any notice to be given to the Holder would reasonably be unlikely to reach its destination in the ordinary course of mail, such notice shall be valid and effective only if delivered to an officer of the party to which it is addressed or if sent to such party, at the appropriate address, by facsimile transmission or other means of prepaid transmitted or recorded communication.

12. Powers Cumulative

It is hereby declared and agreed that any one or more of the powers or any combination of the powers in this Warrant stated to be exercisable by the Holders by Extraordinary Resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers or any combination of powers from time to time shall not be deemed to exhaust the right of the Holders to exercise such powers or combination of powers then or thereafter from time to time.

13. Minutes

Minutes of all resolutions and proceedings at every meeting of Holders shall be made and duly entered in books to be from time to time provided for that purpose by the Corporation, and any such minutes as aforesaid, if signed by the chairman of the meeting at which such resolutions were passed or proceedings held, or by the chairman of the next succeeding meeting of the Holders, shall be prima facie evidence of the matters therein stated and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes shall have been made shall be deemed to have been duly convened and held, and all resolutions passed thereat or proceedings taken shall be deemed to have been duly passed and taken.

14. Instruments in Writing

All actions which may be taken and all powers that may be exercised by the Holders at a meeting held as provided in this Schedule B also may be taken and exercised by Holders representing at least $66^{2}/_{3}\%$ of the aggregate number of Common Shares issuable upon the exercise of all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by such Holders in person or by attorney duly appointed in writing, and the expression "Extraordinary Resolution" when used in this Warrant shall include an instrument so signed.

15. Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Schedule B at a meeting of Holders shall be binding upon all the Holders, whether present at or absent from such meeting, and every instrument in writing signed by Holders in accordance with Section 14 shall be binding upon all the Holders, whether signatories thereto or not, and each and every Holder shall be bound to give effect accordingly to every such resolution and instrument in writing. In the case of an instrument in writing, the Corporation shall give notice of the effect of the instrument in writing to all Holders as is reasonably practicable.

16. Holdings by the Corporation Disregarded

In determining whether Holders are present at a meeting of Holders for the purpose of determining a quorum or have concurred in any consent, waiver, Extraordinary Resolution or other action under this Warrant, Warrants owned legally or beneficially by the Corporation or any associate, affiliate or insider (as those terms are defined in the *Securities Act* (Ontario) of the Corporation shall be disregarded.

PROMISSORY NOTE

NO. 2013 – CPN-●

THE SECURITY REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE JANUARY 27, 2013.

FOR VALUE RECEIVED, Lorus Therapeutics Inc. (the "**Debtor**") hereby promises to pay to or to the order of● (the "**Lender**") the principal amount of $● (the "**Principal Amount**") in lawful money of Canada, with interest thereon calculated at the rate of 10% per annum and payable in the same currency on the last business day of each month of November, February, May and August following the date hereof. The outstanding Principal Amount, together with any accrued and unpaid interest thereon, will be payable by the Debtor to the Lender on September 26, 2015, the second anniversary of the date of this Promissory Note (the "**Maturity Date**") and upon presentation and delivery of this Promissory Note at the Debtor's head office.

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

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

The Debtor hereby acknowledges that, upon receipt of written notice from the Lender that it elects to convert the Promissory Note into common shares in the share capital of the Debtor ("**Common Shares**") with the original copy of this Promissory Note, this Promissory Note will immediately be converted into the right to receive Common Shares. Upon such conversion, the Debtor will allot to the Lender the number of Common Shares equal to the amount of unpaid principal then owing under this Promissory Note divided by the conversion price of $0.30 per Common Share, subject to any customary adjustment made by the Board of Directors of the Debtor in the context of a reorganization, share consolidation or subdivision, stock dividend or other related transaction, and the Debtor will issue a cheque to the Lender for all accrued but unpaid interest thereon.

The Debtor will not be obliged to issue the Common Shares allotted hereunder until the Lender's delivery of this Promissory Note to the Debtor or its notification to the Debtor that this Promissory Note has been lost, stolen or destroyed, in which case the Lender will execute and deliver an agreement satisfactory to the Debtor to indemnify the Debtor from any loss which may be incurred by it as a result thereof. The Debtor will, as soon as practicable after such delivery of this Promissory Note or such agreement of indemnification, proceed forthwith to issue the Common Shares by taking such action as is required to properly issue such shares. Any Common Shares issued in respect of such conversion will be credited as fully paid. The Lender will not be entitled, upon conversion, to the allotment or issue of any fraction of a share and the number of Common Shares will be rounded down to the nearest whole number. Upon such conversion, the Lender will cease to be entitled to any rights hereunder, excepting only the right to receive the Common Shares allotted on conversion, issued as fully paid, upon delivery of the Promissory Note or indemnification agreement as aforesaid. All Common Shares issued upon conversion of this Promissory Note will be duly approved, fully-paid and non-assessable and any certificate representing such shares will bear the appropriate legends under applicable securities laws.

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

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

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

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

The Principal Amount hereof, together with interest accrued thereon, may at any time be repaid in full by the Debtor without bonus or penalty and with 5 days prior written notice to the Lender.

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

Nothing herein contained shall prevent any arrangement, consolidation, amalgamation or merger of the Debtor involving, with or into any other corporation or corporations, or a conveyance or transfer of all or substantially all of the assets of the Debtor as an entirety to any corporation lawfully entitled to acquire and operate same, provided, however, that the corporation formed by such arrangement, consolidation, amalgamation or merger or which acquires by conveyance or transfer all or substantially all of the assets of the Debtor as an entirety shall, simultaneously with such arrangement, consolidation, amalgamation, merger, conveyance or transfer, assume the due and punctual performance and observance of all the covenants and conditions hereof to be performed or observed by the Debtor.

This Promissory Note is not transferable by the Lender.

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

DATED as of the 26th day of September, 2013.

LORUS THERAPEUTICS INC.

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UNDERWRITING AGREEMENT

November 22, 2013

Lorus Therapeutics Inc.
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Dr. William Rice, Chairman and CEO

Dear Sir:

The undersigned, Clarus Securities Inc. ("**Clarus**") and Canaccord Genuity Corp. ("**Canaccord**", and Clarus and Canaccord together, the "**Co-Lead Underwriters**"), Jennings Capital Inc. and D & D Securities Inc. (collectively with the Co-Lead Underwriters, the "**Underwriters**" and each individually an "**Underwriter**"), understand that Lorus Therapeutics Inc. ("**Lorus**" or the "**Corporation**") proposes to issue and sell 12,730,000 common shares of the Corporation (the '**Purchased Securities**") at a price of $0.55 per share (the "**Purchase Price")**. The offering of the Purchased Securities is hereby referred to as the '**Offering**".

Based on the foregoing, and subject to the terms and conditions contained in this Agreement, the Underwriters severally, on the basis of the percentages set forth in Paragraph 15 of this Agreement and not jointly, agree to purchase from the Corporation, and by its acceptance hereof, the Corporation agrees to issue and sell to the Underwriters, the Purchased Securities, respectively, on the Closing Date (as defined below).

By acceptance of this Agreement, the Corporation grants to the Underwriters a one-time, unassignable right to purchase (the "**Option**") that number of common shares that is equal to 15% of the total number of Purchased Securities sold to the Underwriters (the "**Additional Securities**"). If Clarus and Canaccord, acting jointly on behalf of the Underwriters, elect to exercise such Option, Clarus and Canaccord shall notify the Corporation in writing not later than 30 days after the Closing Date, which notice shall specify the number of Additional Securities to be purchased by the Underwriters and the date on which such Additional Securities are to be purchased. Such date may be the same as the Closing Date but not earlier than the Closing Date nor later than five Business Days after the date of such notice (the "**Option Closing Date**"). Additional Securities may be purchased solely for the purpose of covering overallotments made in connection with the offering of the Purchased Securities for market stabilization purposes permitted pursuant to applicable securities law. If any Additional Securities are purchased, each Underwriter agrees, severally and not jointly, to purchase the number of Additional Securities (subject to such adjustments to eliminate fractional shares as Clarus and Canaccord may determine) based on the percentages set forth in Paragraph 15 of this Agreement.

The Purchased Securities and the Additional Securities are hereinafter collectively referred to as the"**Securities**".

In consideration of the Underwriters' agreement to purchase the Purchased Securities which will result from the acceptance by the Corporation of this offer and in consideration of the services to be rendered by the Underwriters in connection therewith, the Corporation agrees to pay to the Underwriters a fee in cash equal to 6% of the gross proceeds from the sale of the Purchased Securities (the "**Underwriting Fee**"), plus that number of compensation warrants (the "**Compensation Warrants")** equal to 6% of the total number of Purchased Securities sold. Such fee shall be due and payable at the Closing Time (as defined below) against payment for the Purchased Securities.

If the Option is exercised, the Corporation agrees to pay to the Underwriters the Underwriting Fee and to issue additional Compensation Warrants in respect of each Additional Security sold by the Corporation to the Underwriters pursuant to the Option. Such Underwriting Fee shall be due and payable, by the Corporation at the Option Closing Time (as defined below) against payment for the Additional Securities.

The Underwriters shall have the right to invite one or more Selling Firm (as defined below) to form a selling group to participate in the soliciting of offers to purchase the Units, which selling group shall include PowerOne Capital Markets Limited, and the Underwriters have the exclusive right to control all compensation arrangements between the members of the selling group. The Underwriters shall comply, and ensure that any Selling Firm shall agree with the Underwriters to comply, with all applicable laws and with the covenants and obligations given by the Underwriters herein.

The Underwriters propose to distribute the Securities in Canada pursuant to the Final Prospectus (as defined below), all in the manner contemplated by this Agreement.

DEFINITIONS

In this Agreement:

a) "**Additional Securities**" has the meaning given to it above;

b) "**Affiliate**", "**associate**", "**distribution**", "**material change**", "**material fact**" and "**misrepresentation**" have the respective meanings given to them in the *Securities Act* (Ontario);

c) "**Agreement**" means the agreement resulting from the acceptance by the Corporation of the offer made by the Underwriters by this letter;

d) "**Business Day**" means any day, other than a Saturday or Sunday, on which commercial banks in Toronto, Ontario are open for commercial banking business during normal banking hours;

e) "**Canaccord**" has the meaning given to it above;

f) "**Clarus"** has the meaning given to it above;

g) "**Canadian Securities Laws**" means all applicable securities laws in each of the Qualifying Jurisdictions and the respective rules, regulations, blanket orders and blanket rulings under such laws together with applicable published policies, policy statements and notices of the securities regulatory authorities in the Qualifying Jurisdictions;

h) "**Canadian Securities Regulators**" means the applicable securities commission or securities regulatory authority in each of the Qualifying Jurisdictions;

i) "**Claim**" has the meaning given to it in paragraph 11(c);

j) "**Closing**" means the completion of the purchase by the Underwriters of the Purchased Securities pursuant to this Agreement;

k) "**Closing Date**" means December 11, 2013 or such other date as the Corporation and the Underwriters may agree upon in writing but in any event shall not be later than December 18, 2013;

l) "**Closing Time**" means 8:00 a.m. (Eastern Time) on the Closing Date;

m) "**Co-Lead Underwriters**" means Clarus and Canaccord;

n) "**Compensation Warrants**" has the meaning given to it above.

o) **"Corporation**" has the meaning given to it above;

p) "**Employment Laws**" has the meaning given to it in paragraph 4(i)(xxviii);

q) "**Environmental Laws**" means any federal, state, provincial, territorial or local law, statute, ordinance, rule, regulation, order, decree, judgment, injunction, permit, license, authorization or other binding requirement, or common law, relating to health, safety or the protection, cleanup or restoration of the environment or natural resources, including those relating to the distribution, processing, generation, treatment, storage, disposal, transportation, other handling or release or threatened release of Hazardous Materials;

r) "**Final Prospectus**" means the (final) short form prospectus to be prepared by the Corporation under NI 44-101 and relating to the distribution of the Securities (including, for greater certainty, the documents incorporated, or deemed to be incorporated, by reference therein);

s) "**Financial Information**" has the meaning given to it in paragraph 4(b)(i);

t) "**Financial Statements**" has the meaning given to it in paragraph 4(i)(v);

u) "**Governmental Authority**" means any (a) multinational, federal, provincial, state, regional, municipality, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, bureau or agency, domestic or foreign, (b) any subdivision, agent, commission, board, or authority of any of the foregoing, or (c) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, and any stock exchange or self-regulatory authority and, for greater certainty includes the Canadian Securities Regulators and the TSX;

v) "**Hazardous Materials**" means any material (including, without limitation, pollutants, contaminants, hazardous or toxic substances or wastes) that is regulated by or may give rise to liability under any Environmental Law;

w) "**Indemnifier**" has the meaning given to it paragraph 11(c);

x) "**Indemnified Party**" has the meaning given to it in paragraph 11(c);

y) "**Intellectual Property**" has the meaning given to it in paragraph 4(i)(xxiv);

z) "**MI 11-102**" means Multilateral Instrument 11-102 – *Passport System* adopted by certain of the Canadian Securities Regulators;

aa) **"NI 44-101"** means National Instrument 44-101 - *Short Form Prospectus Distributions* adopted by the Canadian Securities Regulators;

bb) "**notice**" has the meaning given to it in paragraph 21;

cc) "**Offering Documents**" means, together, the Preliminary Prospectus, the Final Prospectus and any Prospectus Amendment or any Supplementary Material, if any, (including, for greater certainty, the documents incorporated, or deemed to be incorporated, by reference therein);

dd) "**Offering Expenses**" has the meaning given to it in paragraph 14;

ee) "**Option**" has the meaning given to it above;

ff) **"Option Closing Date**" has the meaning given to it in above;

gg) "**Option Closing Time**" means 8:00 a.m. (Eastern Time) on the Option Closing Date;

hh) "**Preliminary Passport System Decision Document**" means a preliminary receipt for the Preliminary Prospectus issued in accordance with MI 11-102;

ii) "**Preliminary Prospectus**" means the preliminary short form prospectus prepared by the Corporation relating to the distribution of the Securities (including, for greater certainty, the documents incorporated, or deemed to be incorporated, by reference therein);

jj) "**Prospectus Amendment**" means any amendment to the Preliminary Prospectus, including the Amended and Restated Preliminary Prospectus anticipated to be filed by the Corporation on November 22, 2013), or the Final Prospectus (including, for greater certainty, the documents incorporated, or deemed to be incorporated, by reference therein);

kk) "**Purchase Price**" has the meaning given to it above;

ll) "**Purchased Securities**" has the meaning given to it above;

mm) "**Qualifying Jurisdictions**" means the provinces of Alberta, British Columbia and Ontario;

nn) "**Securities**" has the meaning given to it above;

oo) "**Selling Firm**" has the meaning given to it in paragraph 3(a);

pp) "**Subsidiary"** means NuChem Pharmaceuticals Inc., a corporation incorporated under the laws of Ontario;

qq) "**Supplementary Material**" means, collectively, any Prospectus Amendment and each other document incorporated or deemed to be incorporated by reference in the Final Prospectus or any Prospectus Amendment, filed or that may be filed by the Corporation with any Canadian Securities Regulators in connection with the qualification for distribution of the Securities under Canadian Securities Laws;

rr) "**TSX**" means the Toronto Stock Exchange;

ss) "**Underwriter**" and "**Underwriters**" have the respective meanings given to them above;

tt) "**Underwriter Expenses**" has the meaning given to it in paragraph 14; and

uu) "**Underwriting Fee**" has the meaning given to it above.

Unless otherwise expressly provided in this Agreement, words importing only the singular number include the plural and vice versa and words importing gender include all genders.

All references to dollars or "$" are to Canadian dollars unless otherwise expressed.

TERMS AND CONDITIONS

1. Compliance with Securities Laws

The Corporation represents and warrants to, and covenants and agrees with, the Underwriters that the Corporation will, as soon as reasonably possible following the execution of this Agreement, file a Prospectus Amendment to the Preliminary Prospectus in a form approved by the Underwriters, acting reasonably, and will obtain a receipt from the Ontario Securities Commission, and, pursuant to MI 11-102 a receipt for the Prospectus Amendment will be deemed to have been issued by the Canadian Securities Regulators in each of the Qualifying Jurisdictions other than the Province of Ontario. The Corporation represents and warrants to, and covenants and agrees with, the Underwriters that the Corporation will have, forthwith after any comments with respect to the Prospectus Amendment have been received from, and have been resolved with, the Canadian Securities Regulators, but in any event by no later than 5 p.m. (Toronto time) on December 6, 2013, prepared and filed a Final Prospectus and will have obtained a receipt from the Ontario Securities Commission, and, pursuant to MI 11-102 a receipt for the Final Prospectus will be deemed to have been issued by the Canadian Securities Regulators in each of the Qualifying Jurisdictions other than the Province of Ontario. The Corporation will promptly fulfill and comply with, to the satisfaction of the Underwriters, acting reasonably, the Canadian Securities Laws required to be fulfilled or complied with by the Corporation to enable the Securities to be lawfully distributed to the public in the Qualifying Jurisdictions through the Underwriters or any other investment dealers or brokers registered as such in the Qualifying Jurisdictions.

2. Due Diligence

Prior to the filing of the Final Prospectus, any Prospectus Amendment and any Supplementary Material, the Corporation shall permit the Underwriters to review and participate in the preparation of any Prospectus Amendment, the Final Prospectus, and any Supplementary Material and shall allow each of the Underwriters to conduct any due diligence investigations which any of them reasonably requires in order to fulfill its obligations as an underwriter under the Canadian Securities Laws and in order to enable it to responsibly execute the certificate in the Final Prospectus, any Prospectus Amendment and any Supplementary Material required to be executed by it. Up to the later of the Closing Date and the date of completion of the distribution of the Securities, the Corporation shall allow each of the Underwriters to conduct any due diligence investigations that any of them reasonably requires to confirm as at any date that it continues to have reasonable grounds for the belief that the Offering Documents do not contain a misrepresentation as at such date or as at the date of such Offering Documents.

3. Distribution and Certain Obligations of the Underwriters

(a) The Underwriters shall, and shall require any investment dealer or broker, other than the Underwriters, with which the Underwriters have a contractual relationship in respect of the distribution of the Securities (a "**Selling Firm**"), to comply with the Canadian Securities Laws in connection with the distribution of the Purchased Securities and shall offer the Securities for sale to the public directly and through Selling Firms upon the terms and conditions set out in the Offering Documents and this Agreement. The Underwriters shall, and shall require any Selling Firm to, offer for sale to the public and sell the Securities only in those jurisdictions where they may be lawfully offered for sale or sold.

(b) The Underwriters shall, and shall require any Selling Firm to agree, to distribute the Securities in a manner which complies with and observe all applicable laws and regulations in each jurisdiction into and from which they may offer to sell the Securities or distribute the Offering Documents in connection with the distribution of the Securities and will not, directly or indirectly, offer, sell or deliver any Securities or deliver the Offering Documents to any person in any jurisdiction other than in the Qualifying Jurisdictions except in a manner which will not require the Corporation to comply with the registration, prospectus, filing or other similar requirements under the applicable securities laws of such other jurisdictions.

(c) For the purposes of this paragraph, the Underwriters shall be entitled to assume that the Securities are qualified for distribution in any Qualifying Jurisdiction where a receipt or similar document for the Final Prospectus shall have been obtained from the applicable securities commission following the filing of the Final Prospectus.

4. Delivery of Documents

The Corporation shall deliver or cause to be delivered to each of the Underwriters and the Underwriters' counsel at the respective times indicated, the following documents:

(a) At or prior to the filing thereof with the Canadian Securities Regulators:

(i) a copy of the Preliminary Prospectus and the Final Prospectus signed and certified as required by the Canadian Securities Laws in the Qualifying Jurisdictions, and a copy of any Supplementary Material filed by the Corporation under Canadian Securities Laws applicable in the Qualifying Jurisdictions; and

(ii) [intentionally deleted]

(iii) a copy of any other document required to be filed by the Corporation under the Canadian Securities Laws

(b) [intentionally deleted]

(c) [intentionally deleted]

(d) [intentionally deleted]

(e) At or prior to the filing of the Final Prospectus with the Canadian Securities Regulators, a "long-form" comfort letter of KPMG LLP, dated the date of the Final Prospectus (with the requisite procedures to be completed by such auditors within two Business Days of the date of the Final Prospectus), addressed to the Underwriters and the directors of the Corporation, in form and substance satisfactory to the Underwriters, with respect to certain financial and accounting information relating to the Corporation in the Final Prospectus, which letter shall be in addition to the auditors' report contained in the Final Prospectus and the auditors' comfort letters addressed to the Canadian Securities Regulators.

(f) [intentionally deleted]

(g) Offering Document Amendments

In the event that the Corporation is required by Canadian Securities Laws to prepare and file a Prospectus Amendment, the Corporation shall prepare and deliver promptly to the Underwriters signed and certified copies of such Prospectus Amendment. Any Prospectus Amendment shall be in form and substance satisfactory to the Underwriters.

(h) **Representations as to Prospectus and Offering Document Amendments**

Filing of the Preliminary Prospectus, Final Prospectus and any Prospectus Amendment or Supplementary Material shall constitute a representation and warranty by the Corporation to the Underwriters that as at their respective dates and as at the date of filing:

(i) all information and statements (except information and statements relating solely to the Underwriters which have been provided by the Underwriters in writing specifically for use in the Preliminary Prospectus, the Final Prospectus and any Prospectus Amendment or Supplementary Material) contained in the Preliminary Prospectus, the Final Prospectus and any Prospectus Amendment or Supplementary Material contain no misrepresentation and constitute full, true and plain disclosure of all material facts relating to the Corporation and the Securities as required by Canadian Securities Laws;

(ii) no material fact or information has been omitted from such disclosure (except facts or information relating solely to the Underwriters) which is required to be stated in such disclosure or is necessary to make the statements or information contained in such disclosure not misleading in light of the circumstances under which they were made; and

(iii) such documents comply fully with the requirements of Canadian Securities Laws, other than as to non-material matters of form or similar non-material matters.

Such filings shall also constitute the Corporation's consent to the Underwriters' use of the Preliminary Prospectus, the Final Prospectus and any Prospectus Amendment or Supplementary Material in connection with the distribution of the Securities in the Qualifying Jurisdictions in compliance with this Agreement and Canadian Securities Laws.

(I) **Representations and Warranties of the Corporation**

The Corporation represents and warrants to the Underwriters that, and acknowledges that the Underwriters are relying upon such representations and warranties in purchasing the Securities, if any:

(i) the Corporation is a corporation existing under the laws of Canada and is properly registered under the laws of all jurisdictions in which its business is carried on except where the failure to be so registered would not have a material adverse effect on the business or operations of the Corporation;

(ii) the Subsidiary is duly incorporated and validly existing under the laws of its jurisdiction of incorporation;

(iii) the Corporation has the requisite corporate power, authority and capacity to enter into this Agreement and to perform the transactions contemplated herein and each of the Corporation and its Subsidiary has the requisite corporate power, authority and capacity to own, lease and to operate its property and assets including licences or other similar rights and to carry on the business as currently carried on or as currently proposed to be carried on;

(iv) the Corporation has authorized share capital consisting of an unlimited number of Common Shares, of which 46,696,327 Common Shares are currently issued and outstanding;

(v) the financial statements (collectively, the "**Financial Statements**") of the Corporation incorporated by reference in the Preliminary Prospectus and the Final Prospectus present fairly in all material respects the consolidated financial position of the Corporation for fiscal year ended May 31, 2013 and the three-month periods ended August 31, 2013 and August 31, 2012, and have been prepared in accordance with international financial reporting standards, applied on a consistent basis;

(vi) the Corporation is not in material violation of, and the execution and delivery of this Agreement and the performance by the Corporation of its obligations under this Agreement will not result in any material breach or violation of, or be in material conflict with, or constitute a material default under, or create a state of facts which after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents or by-laws of the Corporation or any resolution of the directors or shareholders of the Corporation or any material contract, mortgage, note, indenture, joint venture or partnership arrangement, agreement (written or oral), instrument, lease, judgment, decree, order, statute, rule, licence or regulation applicable to the Corporation;

(vii) no approval, authorization, consent or other order of, and no filing, registration or recording with, any Governmental Authority is required of the Corporation in connection with the execution, delivery or performance by the Corporation of this Agreement except as disclosed in the Final Prospectus and compliance with the Canadian Securities Laws with regard to the distribution of the Securities, if any, in the Qualifying Jurisdictions;

(viii) this Agreement has been duly authorized, executed and delivered by the Corporation and constitutes a legal, valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and except as limited by the application of equitable principles when equitable remedies are sought and subject to the fact that rights of indemnity and contribution may be limited by applicable law;

(ix) the Securities (including the Purchased Securities) are duly and validly authorized and will be, at the Closing Time, duly and validly issued;

(x) to the knowledge of the Corporation, no securities commission, stock exchange or comparable authority has issued any order preventing or suspending the use or effectiveness of the Preliminary Prospectus, the Final Prospectus, or any Prospectus Amendment or preventing the distribution of the Securities, if any, in any Qualifying Jurisdiction nor instituted proceedings for that purpose and to the knowledge of the Corporation, no such proceedings are pending or contemplated;

(xi) Computershare Investor Services Inc., at its principal office in the City of Toronto, has been duly appointed as registrar and transfer agent for the common shares of the Corporation;

(xii) except as disclosed in the Offering Documents, there is no litigation or governmental or other proceeding or investigation at law or in equity before any court or before or by any federal, provincial, state, municipal or other governmental or public department, commission, board, agency or body, domestic or foreign, pending or, to the Corporation's best knowledge, threatened (and the Corporation does not know of any basis therefor) against, or involving the assets, properties or business of, the Corporation or the Subsidiary nor are there any matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments asserted by any such authority which would materially adversely affect the value or the operation of such assets or properties or the business, results of operations, prospects or condition (financial or otherwise) of the Corporation and the Subsidiary, taken as a whole;

(xiii) no person, firm or corporation has (or will have at the Closing Time) any agreement or option, or right or privilege (whether pre-emptive or contractual) capable of becoming an agreement or option, for the purchase from the Corporation of any unissued equity securities of the Corporation except as described in the Final Prospectus;

(xiv) to the Corporation's knowledge, (A) none of the officers or employees of the Corporation or the Subsidiary, (B) no person who owns, directly or indirectly, more than 10% of any class of securities of the Corporation or securities of any person exchangeable, convertible or exercisable for more than 10% of any class of securities of the Corporation, and (C) no associate or Affiliate of any of the foregoing, had or has any material interest, direct or indirect, in any transaction or any proposed transaction with the Corporation or the Subsidiary, except for potential participation in the Offering or as publicly disclosed;

(xv) except for certain amounts withheld by the Corporation on the salary of certain employees, the Corporation has not made any payment or loan to, or borrowed any moneys from nor is otherwise indebted to, any director, employee, shareholder or any person not dealing at arm's length (within the meaning of the *Income Tax Act* (Canada) or any Affiliate (as this term is defined in the *Business Corporations Act* (Ontario)) of any of the foregoing, except as specifically identified and quantified in the Financial Statements or in the Offering Documents;

(xvi) there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations) or other relationships of the Corporation with unconsolidated entities or other persons that may have a material adverse effect on the financial condition, changes in financial conditions, results of operations, earnings, cash flow, liquidity, capital expenditures, capital resources or significant components of revenue or expenses of the Corporation or that would reasonably be expected to be material to an investor in making a decision to purchase the Securities;

(xvii) the Corporation has no outstanding indebtedness or liabilities and is not a party to or bound by any suretyship, guarantee, indemnification or assumption agreement, or endorsement of, or any other similar commitment with respect to the obligations, liabilities or indebtedness of any person, other than those specifically identified in the Financial Statements or in the Offering Documents or incurred since August 31, 2013 in the ordinary course of business;

(xviii) the accounts receivable set out in the Financial Information of the Corporation were generated in the ordinary course of business, are bona fide and collectible or are the object of sufficient and normal provisions;

(xix) KPMG LLP are independent with respect to the Corporation within the meaning of the applicable Canadian Securities Laws, and there has not been any disagreement (within the meaning of National Instrument 51-102 of the Canadian Securities Regulators) between the Corporation and KPMG LLP during the last three completed fiscal years of the Corporation;

(xx) each of the Corporation and the Subsidiary maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity international financial reporting standards to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded carrying value for assets is compared with the recoverable value for assets at reasonable intervals and appropriate action is taken with respect to any differences;

(xxi) except with respect to such matters as would not be material to the entity required to make such filings, (A) each of the Corporation and the Subsidiary has duly and in a timely manner filed all returns, elections and designations relating to taxes which are required to be filed by it with any Governmental Authority; (B) all of such returns, elections and designations have been prepared and made in accordance with applicable law and have completely and correctly reported all income and expenses and other amounts and information required to be reported thereon; (C) each of the Corporation and the Subsidiary has duly and timely paid all taxes, including all installments on account of taxes for the current year, that are due and payable prior to the date hereof, other than those which are being contested in good faith and in respect of which adequate reserves have been provided in the financial statements in the Offering Documents. Provision has been made in such financial statements for amounts at least equal to the amount of all taxes owing by the Corporation and the Subsidiary that are not yet due and payable and that relate to periods ending on or prior to the Closing. Neither the Corporation nor the Subsidiary has requested any extension of time within which to file any tax return, which tax return has not since been filed. Each of the Corporation and the Subsidiary have not received any refund of taxes to which it is not entitled; (D) there are no actions, suits, proceedings, investigations or claims pending or threatened against the Corporation or the Subsidiary in respect of taxes, or any matters under discussion with any Governmental Authority relating to taxes asserted by any such authority; (E) neither the Corporation nor the Subsidiary has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any taxes or tax returns. There are no liens for taxes upon any asset of the Corporation or the Subsidiary; and (F) all taxes and other contributions that the Corporation or the Subsidiary is required by law to withhold, collect or remit including, without limitation, for employee income tax, unemployment insurance, sales tax, goods and services tax, revenue taxes and non-resident withholding tax, have been duly withheld or collected and will be duly withheld or collected up until Closing Time, and have been paid or will in a timely manner be paid over to the proper Governmental Authority or held by them or on behalf of them;

(xxii) each of the Corporation and the Subsidiary have conducted and is conducting its business in compliance with all applicable laws, rules and regulations of each jurisdiction in which it carries on business and holds all licenses, registrations and qualifications, including, but not limited to, export permits, which are material to the Corporation and the Subsidiary on a consolidated basis in all jurisdictions in which it carries on business to carry on its business as now conducted and all such licenses, registrations or qualifications, including but not limited to, export permits, are valid and existing and in good standing;

(xxiii) the Corporation and the Subsidiary and their properties, assets and operations are in compliance with, and hold all material permits, authorizations and approvals which the Corporation and the Subsidiary are required to hold under Environmental Laws (as defined below); there are no past, present or reasonably anticipated future events, conditions, circumstances, activities, practices, actions, omissions or plans that could reasonably be expected to give rise to any material costs or liabilities to the Corporation and the Subsidiary on a consolidated basis under, or to interfere with or prevent compliance by the Corporation or the Subsidiary with, Environmental Laws; neither the Corporation nor the Subsidiary (A) is the subject of any investigation, (B) has received any notice or claim, (C) is a party to or affected by any pending or, to the knowledge of the Corporation and the Subsidiary after due inquiry, threatened action, suit or proceeding, (D) is bound by any judgment, decree or order, or (E) is a party to any agreement, in each case relating to any alleged violation of any Environmental Law or any actual or alleged release or threatened release or cleanup at any location of any Hazardous Materials;

(xxiv) except as described in the Offering Documents, (A) the Corporation and the Subsidiary own or have the right to use pursuant to licenses, the inventions, patent applications, patents, trade-marks (both registered and unregistered), trade names, copyrights, trade secrets and other proprietary information (collectively, "**Intellectual Property**") (1) described in the Offering Documents as being owned or licensed by them or (2) which are used for the conduct of their respective businesses as currently carried on and with respect to Intellectual Property owned by the Corporation or the Subsidiary, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim, equity, covenants, conditions, options to purchase and restrictions or other adverse claims or interest of any kind or nature and each license granted by a third party to the Corporation and the Subsidiary in connection with the Intellectual Property is, to the knowledge of the Corporation, valid, subsisting and in good standing (under which none of them are or have been in default, other than any defaults which have been cured); (B) to the extent any Intellectual Property owned by, and material to the past or current operations of, the Corporation or the Subsidiary has been created in whole or in part by current or past employees, independent contractors or any other persons, (1) any rights therein of such persons have been validly and irrevocably assigned in writing to the Corporation or a Material Subsidiary, as the case may be and (2) all employees have waived all moral rights in such person's contribution to such Intellectual Property or component thereof; (C) to the Corporation's knowledge, there is no Intellectual Property being used or enforced by the Corporation or by the Subsidiary , nor by its employees, directors, shareholders, consultants, independent contractors or other persons with access to Intellectual Property, in a manner that would result in its abandonment, cancellation or unenforceability; (D) to the Corporation's knowledge, no third parties have any rights to any Intellectual Property owned or exclusively licensed within a territory and/or field of use by the Corporation or the Subsidiary (including any license or the right to any royalty or other payments), except for the ownership rights and other retained rights of the owners of the Intellectual Property which is exclusively licensed to the Corporation or the Subsidiary and the rights of other licensees of such Intellectual Property outside of any such applicable territory or field of use and any rights or licenses granted by the Corporation or a Material Subsidiary to end-users in connection with the use of the products of the Corporation; (E) to the Corporation's knowledge, there is no infringement or violation by third parties of any Intellectual Property owned by the Corporation or the Subsidiary which could have a material adverse effect and, to the Corporation's knowledge, the use of such Intellectual Property by the Corporation and/or Subsidiary does not infringe on or violate any rights of third parties; (F) there is no action, suit, proceeding or claim pending or, to the knowledge of the Corporation and the after due internal inquiry, threatened by others challenging the Corporation or the Subsidiary's rights in or to any Intellectual Property or the validity of any Intellectual Property owned by the Corporation or the Subsidiary, and, to the Corporation's knowledge, there is no fact which could form a reasonable basis for any such claim with respect to any material Intellectual Property; (G) there is no action, suit, proceeding or claim pending or, to the knowledge of the Corporation and the Subsidiary after due internal inquiry, threatened by others that either the Corporation or the Subsidiary infringes or otherwise violates any Intellectual Property of others, and there is no fact which could form a reasonable basis for any such claim; and (H) except in respect of Intellectual Property that is not material to the business of the Corporation, there is no application for registration of any Intellectual Property owned by the Corporation or the Subsidiary that has been rejected and neither the Corporation nor the Subsidiary has failed to diligently prosecute and maintain any application or registration, or comply with any agreement or order of any court which would prevent it from owning, using or commercializing any Intellectual Property currently used, commercialized in the conduct of its business; (I) the Corporation and the Subsidiary have obtained written confidentiality and non-disclosure agreements executed by all of its key engineering and technical employees, independent consultants, suppliers, system integrators, customers and any other person with access to confidential information of the Corporation or the Subsidiary , acknowledging the confidential nature of such Intellectual Property and agreeing to protect such information from unauthorized disclosure, and to their knowledge, the Corporation and the Subsidiary are not aware of any unauthorized disclosure of such information by any of the foregoing or others;

(xxv) the current uses of open source software by the Corporation and its Subsidiary do not and will not in any material way adversely affect their respective businesses as currently carried on;

(xxvi) the information supplied by the Corporation to the Underwriters and their counsel in connection with the due diligence conducted by them including information provided at due diligence sessions, was true and accurate in all material respects and not misleading and all expressions of opinion and expectation therein contained are honestly and fairly based and such replies have been prepared or approved by persons having appropriate knowledge and responsibility to enable them properly to provide such replies and all such replies have been given in good faith;

(xxvii) the corporate records and minute books for each of the Corporation and Subsidiary which have been made available to the Underwriters and their counsel for review contain, in all material respects, complete and accurate minutes of all meetings of the directors and shareholders of the Corporation and Subsidiary held since incorporation;

(xxviii) each of the Corporation and the Subsidiary is in material compliance with all the provisions of all federal, provincial, local and foreign laws and regulations respecting employment and employment practices, terms and conditions of employment and wages and hours (collectively, "**Employment Laws**"); (B) there is no pending investigation, inquiry or claim involving the Corporation or the Subsidiary by or before any Governmental Authority or body of any province of Canada or any other country responsible for the enforcement of any Employment Law; (C) no collective labour dispute, grievance, arbitration or legal proceeding is ongoing, pending or, to the knowledge of the Corporation and the Subsidiary after due inquiry, threatened and no material individual labour dispute, grievance, arbitration or legal proceeding is ongoing, pending or, to the knowledge of the Corporation and the Subsidiary after due inquiry, threatened with any employee of the Corporation or the Subsidiary and none has occurred during the past year; and (D) no union has been accredited or otherwise designated to represent any employees of the Corporation or the Subsidiary and, to the knowledge of the Corporation and the Subsidiary after due inquiry, no accreditation request or other representation question is pending with respect to the employees of the Corporation or the Subsidiary, and no collective agreement or collective bargaining agreement or modification thereof has expired or is in effect in any of the Corporation's or the Subsidiary' facilities and none is currently being negotiated by the Corporation or the Subsidiary;

(xxix) the Corporation has no pension, retirement or similar plans relating to the current or former employees, officers or directors of the Corporation or the Subsidiary , whether written or oral (other than a defined- contribution matching plan in respect of employee registered retirement savings plans);

(xxx) there are no reports or information that in accordance with the requirements of the Canadian Securities Regulators must be made publicly available or filed in connection with the offering of the Securities that have not been made publicly available as required;

(xxxi) the filing by the Corporation of any signed Prospectus Amendment or material change report required to be filed under the Canadian Securities Laws will constitute a representation and warranty by the Corporation to the Underwriters that all the information and statements contained therein are true and correct and that no material information has been omitted therefrom which is necessary to make the statements contained therein not misleading;

(xxxii) the Securities do not constitute "taxable Canadian property" (as defined under the *Income Tax Act* (Canada));

(xxxiii) the Corporation is a reporting issuer or the equivalent in good standing in all of the Qualifying Jurisdictions under the Canadian Securities Laws and the Corporation is in compliance, in all material respects, with all of its applicable continuous disclosure obligations under the Canadian Securities Laws and the rules and regulations of the TSX;

(xxxiv) the Corporation is qualified under NI 44-101 to file a prospectus in the form of a short form prospectus in each of the Qualifying Jurisdictions and on the date of and upon filing of the Final Prospectus there will be no documents required to be filed under the Canadian Securities Laws in connection with the distribution of the Securities that will not have been filed as required;

(xxxv) the Corporation is, and will at the Closing Time be, in compliance in all material respects with the by-laws, rules and regulations of the TSX;

(xxxvi) the Corporation is in compliance in all material respects with its timely disclosure obligations under Canadian Securities Laws and the rules and regulations of the TSX and has filed all documents required to be filed by it with the Canadian Securities Regulators under applicable Canadian Securities Laws, and no document has been filed on a confidential basis with the Canadian Securities Regulators that remains confidential at the date hereof. None of the documents filed in accordance with applicable Canadian Securities Laws contained, as at the date of the filing thereof, a misrepresentation;

(xxxvii) the Corporation is in compliance with National Instrument 52-108 - *Auditor Oversight of the Canadian Securities Regulators*; there is not currently and there has not been any reportable events (within the meaning of National Instrument 51-102 - *Continuous Disclosure Obligations of the Canadian Securities Regulators*) between the Corporation and such auditors; and

(xxxviii) the Corporation (i) has not made any acquisition that is a "significant acquisition" within the meaning of Canadian Securities Laws in its current financial year or prior financial years in respect of which historical and/or pro forma financial statements would be required to be included or incorporated by reference into the Offering Documents, and (ii) does not currently propose to make an acquisition that has progressed to a state where a reasonable person would believe that the likelihood of the acquisition being completed is high, and that would be a "significant acquisition" within the meaning of the Canadian Securities Laws, if completed as of the date of the Offering Documents.

(j) **[intentionally deleted]**

(k) **Commercial Copies**

The Corporation shall cause commercial copies of the Preliminary Prospectus and Final Prospectus to be delivered to the Underwriters without charge, in such quantities and in such cities as the Underwriters may reasonably request by oral instructions to the printer of such documents. The delivery of the Preliminary Prospectus and Final Prospectus, as the case may be, shall be effected as soon as possible after filing thereof with the Canadian Securities Regulators but, in any event on or before 5:00 p.m. (Toronto time) on the next business day after the filing thereof in Toronto and two business days following the filing thereof in other Canadian cities. The Corporation shall similarly cause to be delivered commercial copies of any Offering Document Amendments or Supplementary Material for the distribution of the Securities in compliance with the provisions of this Agreement and the Canadian Securities Laws. The delivery of the Preliminary Prospectus or Final Prospectus, as the case may be, shall constitute the consent of the Corporation to the Underwriters' use of the Final Prospectus for the distribution of the Securities in the Qualifying Jurisdictions in compliance with the provisions of this Agreement and Canadian Securities Laws. Such deliveries shall constitute the consent of the Corporation to the Underwriters' use of the Offering Documents for the distribution of the Securities in compliance with the provisions of this Agreement and the Canadian Securities Laws. The commercial copies of the Preliminary Prospectus and Final Prospectus shall be identical in content to the electronically transmitted versions thereof filed with Canadian Securities Regulators on the System for Electronic Document Analysis and Retrieval (SEDAR).

(l) **Change of Closing Date**

Subject to the termination provisions contained in paragraph 10, if a material change or a change in a material fact occurs prior to the Closing Date, the Closing Date shall be, unless the Corporation and the Underwriters otherwise agree in writing or unless otherwise required under Canadian Securities Laws, the sixth Business Day following the later of:

(i) the date on which all applicable filings or other requirements of Canadian Securities Laws with respect to such material change or change in a material fact have been complied with in all Qualifying Jurisdictions and any appropriate receipts obtained or deemed to have been obtained for such filings and notice of such filings from the Corporation or its counsel have been received by the Underwriters; and

(ii) the date upon which the commercial copies of any Prospectus Amendments have been delivered in accordance with paragraph 4(k).

(m) **Completion of Distribution**

The Underwriters shall after the Closing Time:

(iii) use their best efforts to complete distribution of the Securities as promptly as possible; and

(iv) give prompt written notice to the Corporation when, in the opinion of the Underwriters, they have completed distribution of the Securities, including the total proceeds realized in each of the Qualifying Jurisdictions and any other jurisdiction from such distribution.

5. **Changes**

(a) **Material Change or Change in Material Fact During Distribution**

During the period from the date of this Agreement to the later of the Option Closing Date and the date of completion of distribution of the Securities under the Final Prospectus, the Corporation shall promptly notify the Underwriters in writing of:

(i) any material change (actual, anticipated, contemplated or threatened, financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of the Corporation and its Subsidiary taken as a whole;

(ii) any material fact which has arisen or has been discovered and would have been required to have been stated in the Offering Documents had the fact arisen or been discovered on, or prior to, the date of such document; and

(iii) any change in any material fact (which for the purposes of this Agreement shall be deemed to include the disclosure of any previously undisclosed material fact) contained in the Offering Documents which fact or change is, or may be, of such a nature as to render any statement in the Offering Documents misleading or untrue or which would result in a misrepresentation in the Offering Documents or which would result in the Offering Documents not complying (to the extent that such compliance is required) with Canadian Securities Laws, in each case, as at any time up to and including the later of the Option Closing Date and the date of completion of the distribution of the Securities.

The Corporation shall promptly, and in any event within any applicable time limitation, comply, to the satisfaction of the Underwriters, acting reasonably, with all applicable filings and other requirements under the Canadian Securities Laws as a result of such fact or change; provided that the Corporation shall not file any Prospectus Amendment or other document without first obtaining from the Underwriters the approval of the Underwriters, after consultation with the Underwriters with respect to the form and content thereof, which approval will not be unreasonably withheld. The Corporation shall in good faith discuss with the Underwriters any fact or change in circumstances (actual, anticipated, contemplated or threatened, financial or otherwise) which is of such a nature that there is reasonable doubt whether written notice need be given under this paragraph.

(b) **Change in Canadian Securities Laws**

If during the period of distribution of the Securities there shall be any change in Canadian Securities Laws which, in the opinion of the Underwriters, acting reasonably, requires the filing of a Prospectus Amendment, the Corporation shall, to the satisfaction of the Underwriters, acting reasonably, promptly prepare and file such Prospectus Amendment with the appropriate securities regulatory authority in each of the Qualifying Jurisdictions where such filing is required.

6. Services Provided by Underwriters and Underwriting Fee

In return for the Underwriters' services in acting as underwriters in connection with the offering of Securities, the Corporation agrees to pay the Underwriters, at the Closing Time and the Option Closing Time, as the case may be, the Underwriting Fee and to issue the Compensation Warrants. The Underwriting Fee shall be payable as provided for in paragraph 7.

7. Delivery of Purchase Price, Underwriters' Fee and Certificates

The purchase and sale of the Purchased Securities shall be completed at the Closing Time at the offices of McCarthy Tétrault LLP in Toronto or at such other place as the Underwriters and the Corporation may agree upon. The purchase and sale of the Additional Securities shall be completed at the Option Closing Time at the offices of McCarthy Tétrault LLP in Toronto or at such other place as the Underwriters and the Corporation may agree upon.

At the Closing Date or the Option Closing Date, as the case may be, the Corporation shall duly and validly deliver to the Underwriters in electronic, uncertificated form, or in the manner directed by the Underwriters in writing, the Purchased Securities or the Additional Securities, as the case may be, registered in the name of "CDS & CO." or in such other name or names as Clarus and Canaccord may direct the Corporation in writing not less than 24 hours prior to the Closing Time against payment by Clarus and Canaccord to (i) the Corporation the Purchase Price, net of the Underwriting Fee and Offering Expenses for the Purchased Securities or the Additional Securities, as the case may be, and (ii) the Corporation for payment of Offering Expenses, in each case by wire transfer, certified cheque or bank draft, together with a receipt signed by Clarus and Canaccord for such Purchased Securities or Additional Securities, as the case may be.

8. **[Intentionally deleted.]**

9. Underwriters' Obligation to Purchase

The Underwriters' obligation to purchase the Purchased Securities at the Closing Time shall be subject to the accuracy in all material respects of the representations and warranties of the Corporation contained in this Agreement as of the date of this Agreement and as of the Closing Date, the performance by the Corporation of its obligations in all material respects under this Agreement and the following conditions:

(a) **Delivery of Opinions**

(i) The Underwriters shall have received at the Closing Time a legal opinion dated the Closing Date, in form and substance satisfactory to counsel to the Underwriters, addressed to the Underwriters and counsel to the Underwriters from McCarthy Tétrault LLP, counsel to the Corporation, as to the laws of Canada and the Qualifying Jurisdictions, which counsel in turn may rely upon the opinions of local counsel where they deem such reliance proper as to the laws other than those of Canada, Ontario, Alberta and British Columbia and as to matters of fact, on certificates of the auditors of the Corporation, public and stock exchange officials and officers of the Corporation, with respect to the following matters:

(A) as to the due incorporation and valid existence of the Corporation under the laws of its jurisdiction of incorporation and as to the adequacy of the corporate power of the Corporation to carry out its obligations under this Agreement;

(B) as to the authorized and issued capital of the Corporation;

(C) [intentionally deleted];

(D) that the Corporation has all requisite corporate power and authority under the laws of its respective jurisdiction of incorporation and all other jurisdictions where it carries on a material part of its business or owns any material property to, and each is qualified to, carry on its businesses as presently carried on and to carry out the transactions contemplated by the Offering Documents;

(E) that all necessary corporate action has been taken by the Corporation to authorize the execution and delivery of each of the Preliminary Prospectus, the Final Prospectus and, if applicable, any Prospectus Amendments and any Supplementary Material and the filing of such documents under Canadian Securities Laws in each of the Qualifying Jurisdictions;

(F) that the Securities have been duly authorized and issued by the Corporation and are outstanding as fully paid and non-assessable shares;

(G) that the attributes of the Securities are consistent in all material respects with the description of the Securities in the Offering Documents;

(H) that the execution and delivery of this Agreement, the fulfillment of the terms of this Agreement, the sale of the Securities and the consummation of the transactions contemplated by this Agreement do not and will not result in a breach (whether after notice or lapse of time or both) of any of the terms, conditions or provisions of the constating documents;

(I) that this Agreement has been duly authorized executed and delivered by the Corporation and constitutes a legal, valid and binding obligation of the Corporation and is enforceable in accordance with its terms, except as enforcement of this Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and except as limited by the application of equitable principles when equitable remedies are sought; provided that such counsel may express no opinion as to the enforceability of the indemnity provisions of paragraph 11 and the contribution provisions of paragraph 12;

(J) the Securities are qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder for a trust governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plan;

(K) [intentionally deleted];

(L) that Computershare Investor Services Inc. at its principal offices in the city of Toronto has been duly appointed as the transfer agent and registrar for the common shares of the Corporation;

(M) that all documents have been filed, all requisite proceedings have been taken and all legal requirements have been fulfilled by the Corporation to qualify the Securities for distribution and sale to the public in each of the Qualifying Jurisdictions through investment dealers or brokers registered under the applicable laws of the Qualifying Jurisdictions who have complied with the relevant provisions of such applicable laws;

(N) that the Securities have been conditionally approved for listing on the TSX;

(O) [intentionally deleted];

(P) that the Corporation is a reporting issuer or the equivalent under the Canadian Securities Laws of each of the Qualifying Jurisdictions that recognizes such concept and is not included on the list of defaulting issuers maintained pursuant to the Canadian Securities Laws of each of the Qualifying Jurisdictions that maintain such list;

(Q) that the Corporation is qualified under NI 44-101 to file a prospectus in the form of a short form prospectus in each of the Qualifying Jurisdictions; and

(R) as to all other legal matters reasonably requested by counsel to the Underwriters relating to the distribution of the Securities, including delivery at closing of a favourable legal opinion from counsel to the Corporation on matters of law pertaining to the Intellectual Property of the Corporation and, in particular, its asset known as LOR-253.

(b) **Delivery of Comfort Letter**

The Underwriters shall have received at the Closing Time a letter dated the Closing Date, in form and substance satisfactory to the Underwriters, addressed to the Underwriters and the directors of the Corporation from KPMG LLP, confirming the continued accuracy of the comfort letter to be delivered to the Underwriters pursuant to paragraph 4(e) with such changes as may be necessary to bring the information in such letter forward to a date not more than two Business Days prior to the Closing Date, which changes shall be acceptable to the Underwriters.

(c) **Delivery of Certificates**

(i) The Underwriters shall have received at the Closing Time a certificate dated the Closing Date, addressed to the Underwriters and counsel to the Underwriters and signed by appropriate officers of the Corporation, with respect to the constating documents of the Corporation, all resolutions of the board of directors of the Corporation relating to this Agreement, the incumbency and specimen signatures of signing officers of the Corporation and such other matters as the Underwriters may reasonably request.

(ii) [Intentionally deleted.]

(iii) The Underwriters shall have received at the Closing Time a certificate dated the Closing Date, addressed to the Underwriters and counsel to the Underwriters and signed on behalf of the Corporation by the Chief Executive Officer and the Chief Financial Officer of the Corporation or other officers of the Corporation acceptable to the Underwriters, certifying for and on behalf of the Corporation after having made due enquiry and after having carefully examined the Offering Documents, that:

(A) since the respective dates as of which information is given in the Offering Documents that (A) there has been no material change (actual, anticipated, contemplated or threatened, whether financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of the Corporation and its Subsidiary on a consolidated basis, and (B) no transaction has been entered into by any of the Corporation or any of its Subsidiary which is material to the Corporation and its Subsidiary on a consolidated basis, other than as disclosed in the Offering Documents, as the case may be;

(B) no order, ruling or determination having the effect of suspending the sale or ceasing the trading of the common shares or any other securities of the Corporation has been issued by any regulatory authority and is continuing in effect and no proceedings for that purpose have been instituted or are pending or, to the knowledge of such officers, contemplated or threatened under any of the Canadian Securities Laws or by any other regulatory authority;

(C) the Corporation has complied with the terms and conditions of this Agreement on its part to be complied with up to the Closing Time;

(D) the representations and warranties of the Corporation contained in this Agreement are true and correct as of the Closing Time with the same force and effect as if made at and as of the Closing Time; and

(E) such other matters as the Underwriters may reasonably request.

(d) The Securities shall be approved for listing and trading on the TSX at the opening of trading on the Closing Date and Option Closing Date, as applicable.

(e) The several obligations of the Underwriters to purchase the Additional Securities hereunder upon the exercise of the Option are subject to the delivery to Clarus and Canaccord on the Option Closing Date of certificates dated the Option Closing Date substantially similar to the certificates referred to in clauses 9(c)(iii) and (iv) and such other documents as they may reasonably request with respect to the good standing of the Corporation, the due authorization of the Additional Securities and other matters related to the Additional Securities.

10. Rights of Termination

Each Underwriter may terminate their obligations under this Agreement by written notice to the Corporation on or before the Closing Time if any of the circumstances set forth below in 10(a), (b), (c), (d), (e), (f) or (g) shall occur.

(a) **Restrictions on Distribution**

Any inquiry, action, suit, investigation or other proceeding (whether formal or informal) is commenced, announced or threatened or any order is made or issued under or pursuant to any federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality (including without limitation the TSX or any securities regulatory authority) (other than an inquiry, action, suit, investigation or other proceeding based upon the activities of the Underwriters), or there is a change in any law, rule or regulation, or the interpretation or administration thereof, which, in the reasonable opinion of the Underwriters, operates to prevent, restrict or otherwise materially adversely affect the distribution or trading of the common shares of the Corporation or the Purchased Securities or any other securities of the Corporation.

(b) **Material Change**

There shall occur or come into effect any material change in the business, affairs or financial condition or financial prospects of the Corporation or its subsidiaries or any change in any material fact (other than a material change or a change in a material fact related solely to the Underwriters or their Affiliates), or should there be discovered any previously undisclosed material fact, misrepresentation or undisclosed items (other than facts, misrepresentations or items related solely to the Underwriters or their Affiliates) which, in each case, in the reasonable opinion of the Underwriters, has or could reasonably be expected to have a material adverse effect on the market price or value or marketability of the Purchased Securities.

(c) **Disaster Out**

There should develop, occur or come into effect or existence any event, action, state, or condition or any action, law or regulation, inquiry, including, without limitation, terrorism, accident or major financial, political or economic occurrence of national or international consequence, or any action, governmental law, regulation or inquiry or other occurrence of any nature, which, in the reasonable opinion of the Underwriters, materially adversely affects or involves, or may materially adversely affect or involve, the financial markets in Canada or the U.S. or the business, operations or affairs of the Corporation or the marketability of the Purchased Securities.

(d) **Adverse Order**

An order shall have been made or threatened to cease or suspend trading in the Purchased Securities, or to otherwise prohibit or restrict in any manner the distribution or trading of the Purchased Securities, or proceedings are announced or commenced for the making of any such order by any securities regulatory authority or similar regulatory or judicial authority or the TSX, which order has not been rescinded, revoked or withdrawn.

(e) Breach

The Corporation is in material breach of any material term, condition or covenant of this Agreement, or any representation or warranty given by the Corporation becomes or is false in any material respect.

(f) Market-Out

The state of the financial markets in Canada or elsewhere where it is planned to market the securities is such that, in the reasonable opinion of the Underwriters (or any one of them), the Common Shares cannot be marketed profitably.

(g) Non-Compliance with Conditions

The Corporation agrees that all terms and conditions in paragraph 10 shall be construed as conditions and complied with so far as they relate to acts to be performed or caused to be performed by it, that it will use its reasonable commercial efforts to cause such conditions to be complied with, and that any breach or failure by the Corporation to comply with any such conditions shall entitle any of the Underwriters to terminate their obligations to purchase the Securities by notice to that effect given to the Corporation at or prior to the Closing Time, unless otherwise expressly provided in this Agreement. Each Underwriter may waive, in whole or in part, or extend the time for compliance with, any terms and conditions without prejudice to its rights in respect of any other terms and conditions or any other or subsequent breach or non-compliance, provided that any such waiver or extension shall be binding upon an Underwriter only if such waiver or extension is in writing and signed by the Underwriter.

(h) Exercise of Termination Rights

The rights of termination contained in paragraphs 10(a), (b), (c), (d), (e), (f) and (g) may be exercised by any of the Underwriters and are in addition to any other rights or remedies any of the Underwriters may have in respect of any default, act or failure to act or non- compliance by the Corporation in respect of any of the matters contemplated by this Agreement or otherwise. In the event of any such termination, there shall be no further liability on the part of the Underwriters to the Corporation or on the part of the Corporation to the Underwriters except in respect of any liability which may have arisen prior to or arise after such termination under paragraphs 11, 12 and 14. A notice of termination given by an Underwriter under paragraphs 10(a), (b), (c), (d), (e), (f) and (g) shall not be binding upon any other Underwriter.

11. Indemnity

(a) **Rights of Indemnity from the Corporation**

The Corporation agrees to indemnify and save harmless each of the Underwriters and their respective affiliates, directors, officers, employees and agents from and against all liabilities, claims, losses, costs, damages and expenses (including without limitation any legal fees or other expenses reasonably incurred by such Underwriters in connection with defending or investigating any of the above but excluding any loss of profits and other consequential damages), in any way caused by, or arising directly or indirectly from, or in consequence of:

(i) any information or statement (except any statement relating solely to the Underwriters which has been provided by the Underwriters, as the case may be, in writing specifically for use in the Offering Documents) contained in the Prospectus, any Prospectus Amendment or in any certificate of the Corporation delivered pursuant to this Agreement which at the time and in the light of the circumstances under which it was made contains or is alleged to contain a misrepresentation;

(ii) any omission or alleged omission to state in the Offering Documents or any certificate of the Corporation delivered pursuant to this Agreement (except any fact relating solely to the Underwriters), whether material or not, required to be stated in such document or necessary to make any statement in such document not misleading in light of the circumstances under which it was made;

(iii) any order made or enquiry, investigation or proceedings commenced or threatened by any securities commission or other competent authority based upon any untrue statement or omission or alleged untrue statement or alleged omission or any misrepresentation or alleged misrepresentation (except for a statement which has been provided by the Underwriters, in writing specifically for use in the Offering Documents or omission relating solely to the Underwriters, or alleged untrue statement which has been provided by the Underwriters, in writing specifically for use in the Offering Documents or alleged omission relating solely to the Underwriters contained in the Offering Documents or based upon any failure to comply with the Canadian Securities Laws (other than any failure to comply by the Underwriters, preventing or restricting the trading in or the sale or distribution of the Securities in any of the Qualifying Jurisdictions));

(iv) the non-compliance or alleged non-compliance by the Corporation with any of the Canadian Securities Laws including the Corporation's non-compliance with any statutory requirement to make any document available for inspection; or

(v) any breach by the Corporation of its representations, warranties, covenants or obligations to be complied with under this Agreement.

(b) **[intentionally deleted]**

(c) **Notification of Claims**

If any matter or thing contemplated by paragraph 11(a) or 11(b) (any such matter or thing being referred to as a "**Claim**") is asserted against any person or company in respect of which indemnification is or might reasonably be considered to be provided, such person or company (the "**Indemnified Party**") will notify the Corporation (the "**Indemnifier**") as soon as possible of the nature of such Claim (but the omission so to notify the Indemnifier of any potential Claim shall not relieve the Indemnifier from any liability which they may have to any Indemnified Party and any omission so to notify the Indemnifier of any actual Claim shall affect the Indemnifier s' liability only to the extent that the Indemnifier is materially prejudiced by that failure). The Indemnifier shall assume the defence of any suit brought to enforce such Claim; provided, however, that

(i) the defence shall be conducted through legal counsel acceptable to the Indemnified Party, acting reasonably, and

(ii) no settlement of any such Claim or admission of liability may be made by the Indemnifier without the prior written consent of the Indemnified Party acting reasonably, unless such settlement includes an unconditional release of the Indemnified Party from all liability arising out of such action or claim and does not include a statement as to or an admission of fault, culpability or failure to act, by or on behalf of any Indemnified Party.

(d) **Right of Indemnity in Favour of Others**

With respect to any Indemnified Party who is not a party to this Agreement, the parties to this Agreement shall obtain and hold the rights and benefits of this paragraph in trust for and on behalf of their respective affiliates, associates, directors, officers, employees and agents.

(e) **Retaining Counsel**

In any such Claim, the Indemnified Party shall have the right to retain other counsel to act on his or its behalf, provided that the fees and disbursements of such counsel shall be paid by the Indemnified Party unless: (i) the Indemnifier and the Indemnified Party shall have mutually agreed to the retention of the other counsel; (ii) the named parties to any such Claim (including any added third or impleaded party) include both the Indemnified Party and the Indemnifier and the representation of both parties by the same counsel would be inappropriate due to the actual or potential differing interests between them; or (iii) the Indemnifier shall not have retained counsel within seven Business Days following receipt by the Indemnifier of notice of any such Claim from the Indemnified Party.

12. **Contribution**

(a) **Rights of Contribution**

In order to provide for a just and equitable contribution in circumstances in which the indemnity provided in paragraph 11 would otherwise be available in accordance with its terms but is, for any reason, held to be unavailable to or unenforceable by an Indemnified Party or enforceable otherwise than in accordance with its terms, the Corporation and the Underwriters shall contribute to the aggregate of all claims, expenses, costs and liabilities and all losses (other than loss of profits) of a nature contemplated by paragraph 11 in such proportions as is appropriate to reflect (i) as between the Corporation and the Underwriters, the relative benefits received by the Corporation on the one hand and by the Underwriters on the other hand from the offering of the Securities, (ii) as between the Corporation and the Underwriters, the relative fault of the Corporation on the one hand and the Underwriters on the other hand; provided, however, that in the case of (i) and (ii), in no case shall any Underwriter (except as may be provided in any agreement among Underwriters relating to the offering of the Securities) be responsible for any amount in excess of the Underwriting Fee applicable to the Securities purchased by such Underwriter from the Corporation. If the allocation provided for in item (i) in the immediately preceding sentence is unavailable for any reason, the Corporation on the one hand and the Underwriters on the other hand, severally and not jointly, shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Corporation on the one hand and of the Underwriters on the other hand in connection with the statements or omissions which resulted in such liabilities, claims, losses, costs, damages or expenses as well as any other relevant equitable considerations, provided, however, that in no case shall any Underwriter (except as may be provided in any agreement among Underwriters relating to the offering of the Securities) be responsible for any amount in excess of the Underwriting Fee applicable to the Securities purchased by such Underwriter from the Corporation hereunder. As regards item (i) above, benefits received by the Corporation shall be deemed to be equal to the total net proceeds (before deducting expenses) from the offering of the Securities received by it, and benefits received by the Underwriters shall be deemed to be equal to the total Underwriting Fee received from the Corporation, net of reimbursable expenses. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Corporation and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph 12(a), no person who has engaged in fraud, fraudulent misrepresentation or negligence under Canadian Securities Laws (as determined by a court of competent jurisdiction in a final non-appealable judgment), shall be entitled to contribution from any person who was not guilty of such fraud, fraudulent misrepresentation or negligence. For purposes of this paragraph 12, each person who controls an Underwriter within the meaning of Canadian Securities Laws and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each officer of the Corporation who shall have signed the Offering Documents and each director of the Corporation shall have the same rights to contribution as the Corporation, subject in each case to the applicable terms and conditions of this paragraph 12(a). For greater certainty, no party will have any obligation to contribute pursuant to this paragraph 12 in respect of any Claim except to the extent the indemnity in paragraph 11 of this Agreement would have been applicable to that Claim in accordance with its terms, had that indemnity been found to be enforceable and available to the Indemnified Party.

(b) **Rights of Contribution in Addition to Other Rights**

The rights to contribution provided in this paragraph shall be in addition to and not in derogation of any other right to contribution which the Underwriters may have by statute or otherwise at law.

(c) **Calculation of Contribution - Underwriters**

In the event that an Indemnifier may be held to be entitled to contribution from the Underwriters under the provisions of any statute or at law, the Indemnifier shall be limited to contribution in an amount not exceeding the lesser of:

(i) the portion of the full amount of the loss or liability giving rise to such contribution for which the Underwriters are responsible, as determined in paragraph 12(a) or (b), as the case may be, and

(ii) the amount of the fee actually received by the Underwriters under this Agreement,

and an Underwriter shall in no event be liable to contribute any amount in excess of such Underwriter's portion of the Underwriting Fee actually received under this Agreement.

(d) [intentionally deleted]

(e) **Notice**

If the Underwriters have reason to believe that a claim for contribution may arise, they shall give the Indemnifier notice of such claim in writing as soon as reasonably possible, but failure to notify the Indemnifier shall not relieve the Indemnifier of any obligation which he or it may have to the Underwriters under this paragraph 12.

(f) **Right of Contribution in Favour of Others**

With respect to this paragraph 12, the Indemnifiers acknowledge and agree that the Underwriters are contracting on their own behalf and as agents for their affiliates, directors, officers, employees and agents (and in the case of each Underwriter, each person who controls such Underwriter).

13. **Severability**

If any provision of this Agreement is determined to be void or unenforceable in whole or in part, it shall be deemed not to affect or impair the validity of any other provision of this Agreement and such void or unenforceable provision shall be severable from this Agreement.

14. **[intentionally deleted]**

15. **Rights to Purchase**

(a) **Obligation of Underwriters to Purchase**

The obligation of the Underwriters to purchase the Purchased Securities or the Additional Securities, as the case may be at the Closing Time or on the Option Closing Date, as the case may be, shall be several and not joint and several and shall be limited to the percentage of the Purchased Securities or the Additional Securities, as the case may be set out opposite the name of the Underwriters respectively below:

Clarus Securities Inc.	25%
Canaccord Genuity Corp.	25%
Jennings Capital Inc.	20%
D&D Securities Inc.	15%

Selling Group concession 15% (to be purchased by the Co-Lead Underwriters on a pro rata between them in the event that it is not purchased by Selling Firms at the Closing Time)

Subject to paragraph 15(c), in the event that any of the Underwriters shall fail to purchase its applicable percentage of the Purchased Securities or the Additional Securities, as the case may be, at the Closing Time or on the Option Closing Date, as the case may be, the others shall have the right, but shall not be obligated, to purchase on a pro rata basis all of the percentage of the Purchased Securities or the Additional Securities, as the case may be, on a pro rata basis which would otherwise have been purchased by that one of the Underwriters which is in default.

(b) **Purchases by Other Underwriters**

If the amount of the Purchased Securities or the Additional Securities, as the case may be which the remaining Underwriters wish to purchase exceeds the amount of the Purchased Securities or the Additional Securities, as the case may be, which would otherwise have been purchased by an Underwriter which is in default, such Purchased Securities or the Additional Securities, as the case may be, shall be divided pro rata among the Underwriters desiring to purchase such Purchased Securities or the Additional Securities, as the case may be, in proportion to the percentage of Purchased Securities or the Additional Securities, as the case may be which such Underwriters have agreed to purchase as set out in paragraph 15(a).

(c) **Rights to Purchase of Other Underwriters**

In the event that one or more but not all of the Underwriters shall exercise their right of termination under paragraph 10, the others shall have the right, but shall not be obligated, to purchase all of the percentage of the Purchased Securities or the Additional Securities, as the case may be which would otherwise have been purchased by such Underwriters which have so exercised their right of termination.

16. **Restrictions on Concurrent Offerings**

From the date hereof until 90 days after the Closing Date, neither the Corporation nor any of its affiliates shall, without the Co-Lead Underwriters' prior written consent, such consent not to be unreasonably withheld or delayed, authorize, issue or sell securities of the Corporation or such affiliates (whether in a public offering, by way of private placement or otherwise), other than:

(i) the Purchased Securities and the Additional Securities;

(ii) non-convertible debt securities;

(iii) common shares of the Corporation issued upon the exercise of employee or executive incentive compensation arrangements established and disclosed to the Co-Lead Underwriters prior to the date of this Agreement or upon exercise of convertible securities outstanding as of the date hereof, or such other arrangement approved by the Co-Lead Underwriters;

(iv) pursuant to the Corporation's stock option plan or any other compensation plan; or

(v) common shares of the Corporation issued as consideration for the acquisition of a business or technology;

or agree to do so or publicly announce any intention to do so.

17. **Publicity**

The Corporation agrees that each Underwriter may separately or together, subsequent to the announcement of the sale of the Purchased Securities, make public their involvement with the Corporation, including the right of the Co-Lead Underwriters, at their own expense to, following the Closing, place advertisements describing its services to the Corporation in financial, news or business publications, consistent with what has already been publicly disclosed regarding the sale of the Securities. If requested by the Co-Lead Underwriters, the Corporation will include an acceptable reference to the Co-Lead Underwriters in any press release or other public announcement made by the Corporation regarding the matters described in this Agreement. In any event, any press release issued by the Corporation shall be issued only after consultation with the Co-Lead Underwriters and in compliance with applicable laws.

18. **Survival of Representations and Warranties**

The representations, warranties, obligations and agreements of the Corporation and the Underwriters, as applicable, contained in this Agreement and in any certificate delivered pursuant to this Agreement or in connection with the purchase and sale of the Securities shall survive the purchase of the Securities and shall continue in full force and effect unaffected by any subsequent disposition of the Securities by the Underwriters or the termination of the Underwriters' obligations until the later of: (i) two years following the Closing Date; and (ii) the latest date under the Canadian Securities Laws in which a purchaser of Securities is resident or, if the Canadian Securities Laws do not specify such a date, the latest date under the *Limitations Act, 2002* (Ontario) that such Purchaser may be entitled to commence an action for breach of a representation or warranty in this Agreement.

19. **Time**

Time is of the essence in the performance of the parties' respective obligations under this Agreement.

20. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario.

21. **Notice**

Unless otherwise expressly provided in this Agreement, any notice or other communication to be given under this Agreement (a "**notice**") shall be in writing addressed as follows:

If to the Corporation, addressed and sent to:

Lorus Therapeutics Inc.
2 Meridian Road
Toronto, Ontario
Canada M9W 4Z7
Attention: William Rice
Facsimile: 416.798.2200

With a copy to:

McCarthy Tétrault LLP
1150, rue de Claire Fontaine
7th Floor
Québec QC G1R 5G4
Attention: Charles-Antoine Soulière
Facsimile: 418-521-3099

If to the Underwriters, addressed and sent to:

Canaccord Genuity Corp.
Brookfield Place
3100 – 161 Bay Street
P.O. Box 516
Toronto, Ontario
M5J 2S1
Attention: Steve Winokur, Managing Director
Facsimile: 416-869-3876

Clarus Securities Inc.
Exchange Tower
130 King Street West, Suite 3640
P.O. Box 38
Toronto, Ontario
M5X 1A9
Attention: Mark Pavan, Managing Director
Facsimile: 416-343-2798

With a copy to:

Stikeman Keeley Spiegel Pasternack LLP
200 Front Street West, Suite 2300
Toronto, Ontario
M5V 3K2
Attention: Robert Spiegel
Facsimile: 416-365-1813

or to such other address as any of the parties may designate by giving notice to the others in accordance with this paragraph.

Each notice shall be personally delivered to the addressee or sent by fax to the addressee and:

(a) a notice which is personally delivered shall, if delivered on a Business Day, be deemed to be given and received on that day and, in any other case, be deemed to be given and received on the first Business Day following the day on which it is delivered; and

(b) a notice which is sent by fax shall be deemed to be given and received on the first Business Day following the day on which it issent.

22. **Authority of Co-Lead Underwriters**

The Co-Lead Underwriters are hereby authorized by each of the other Underwriters to act on their behalf and the Corporation shall be entitled to and shall act on any notice given in accordance with paragraph 21 by or on behalf of the Underwriters by the Co-Lead Underwriters which represents and warrants that it has irrevocable authority to bind the Underwriters, except in respect of any consent to a settlement pursuant to paragraph 11(c) which consent shall be given by the Indemnified Party or a notice of termination pursuant to paragraph 10 which notice may be given by any of the Underwriters, or any waiver pursuant to paragraph 10(g), which waiver must be signed by all of the Underwriters. The Co-Lead Underwriters shall consult with the other Underwriters concerning any matter in respect of which they act as representative of the Underwriters. The obligation of the Underwriters under this Agreement shall be several and not joint and several.

23. **Counterparts**

This Agreement may be executed by the parties to this Agreement in counterpart and may be executed and delivered by facsimile and all such counterparts and facsimiles shall together constitute one and the same agreement.

If the foregoing is in accordance with your understanding and is agreed to by you, please signify your acceptance by executing the enclosed copies of this letter where indicated below and returning the same to the Underwriters upon which this letter as so accepted shall constitute an Agreement among us.

24. **[intentionally deleted]**

25. **Entire Agreement**

The terms and conditions of this Agreement supersede any previous verbal or written agreement between the Underwriters (or any of them) and anyone or more of the Corporation.

Yours very truly,

CLARUS SECURITIES INC.

By: *(s) Marc Pavan*
Name: Marc Pavan
Title: Managing Director

CANACCORD GENUITY CORP.

By: *(s) Steve Winokur*
Name: Steve Winokur
Title: Managing Director

JENNINGS CAPITAL INC.

By: *(s) Douglas A. Harris*
Name: Douglas A. Harris
Title: Director, Investment Banking

D&D SECURITIES INC.

By: *(s) Patrick Lilly*
Name: Patrick Lilly
Title: President

LORUS THERAPEUTICS INC.

By: *(s) Dr. Willam Rice*
Name: Dr. William Rice
Title: Chairman & CEO

EXECUTION COPY

UNDERWRITING AGREEMENT

March 27, 2014

Lorus Therapeutics Inc.
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Gregory K. Chow
Chief Financial Officer

Dear Sir:

RBC Dominion Securities Inc. (the "Lead Underwriter"), Roth Capital Partners, LLC ("ROTH") and Cormark Securities Inc. (collectively with the Lead Underwriter, the "Underwriters") understand that Lorus Therapeutics Inc. (the "Company"):

(i) proposes to issue and sell an aggregate of 50,000,000 common shares of the Company (the "Offered Shares"); and

(ii) has filed a preliminary short form prospectus dated March 26, 2014 (such short form prospectus, including the documents incorporated by reference therein, the "Initial Preliminary Prospectus") relating to the distribution of the Offered Shares and the Over-Allotment Shares (as defined herein) (collectively, the "Offered Securities") with the Securities Commissions (as defined herein) and that a Passport Decision Document (as defined herein) was issued on March 26, 2014 in respect of the Initial Preliminary Prospectus by the Ontario Securities Commission (the "Reviewing Authority"), in its capacity as principal regulator, pursuant to the Passport System (as defined herein) evidencing that a receipt therefor has been issued by the Securities Commissions.

Upon and subject to the terms and conditions hereof: the Underwriters hereby severally offer to purchase from the Company in their respective percentages set out in paragraph 13 hereof, and the Company hereby agrees to sell to the Underwriters the Offered Shares at a price of $0.50 per Offered Share (the "Offering Price"), for an aggregate purchase price of $25,000,000 (the "Purchase Price").

The Company shall, as soon as possible after the execution hereof and on a basis acceptable to the Underwriters, acting reasonably, prepare and file under and as required by Securities Laws with each of the Securities Commissions an amended and restated Initial Preliminary Prospectus (such short form prospectus, including the documents incorporated by reference therein, the "Amended and Restated Preliminary Prospectus") and all other required documents and obtain a Passport Decision Document therefor from the Reviewing Authority no later than 5:00 p.m. (Toronto time) on March 27, 2014. The Company shall also prepare and, forthwith after any comments with respect to the Amended and Restated Preliminary Prospectus have been received from and have been resolved with the Reviewing Authority, and on a basis acceptable to the Underwriters, acting reasonably, file under and as required by Securities Laws with each of the Securities Commissions a (final) short form prospectus (such short form prospectus, including the documents incorporated by reference therein, which includes, for greater certainty, the template version (as defined herein) of any marketing materials (as defined herein) provided to potential investors in accordance with paragraph 4 in connection with the distribution of the Offered Securities) (the "Final Prospectus") and all other required documents, in order to qualify for distribution to the public the Offered Securities in each of the Qualifying Jurisdictions through the Underwriters (other than ROTH), and obtain a Passport Decision Document therefor from the Reviewing Authority no later than the Qualification Deadline (as defined herein).

Offered Securities may also be offered and sold in the United States by the Underwriters directly or through their U.S. registered broker-dealer affiliates (the "U.S. Affiliates"), as applicable, pursuant to, and only pursuant to, Rule 144A (as defined herein) and in accordance with applicable state securities laws and the provisions of Annex A hereto.

The Company hereby grants to the Underwriters an over-allotment option (the "Over-Allotment Option") for the purpose of satisfying over-allotments, if any, and for market stabilization purposes by the Underwriters. The Over-Allotment Option shall entitle the Underwriters to purchase from the Company up to an additional 7,500,000 common shares of the Company (the "Over-Allotment Shares") at a price of $0.50 per Over-Allotment Share. The Over-Allotment Option shall be exercisable in whole or in part, at any time and from time to time, up to 30 days after the Closing Date (the "Over-Allotment Expiry Date"). Each Underwriter may purchase their respective percentages, as set out in paragraph 13 hereof, of Over-Allotment Shares in respect of which the Over-Allotment Option is exercised. If the Lead Underwriter, on behalf of the Underwriters, elects to exercise the Over-Allotment Option, the Lead Underwriter shall deliver written notice to the Company specifying the number of Over-Allotment Shares in respect of which the Over-Allotment Option is at such time being exercised.

In consideration of the Underwriters' agreement to purchase the Offered Shares which will result from the acceptance of this offer by the Company, and in consideration of the services to be rendered by the Underwriters in connection with the Offering (as defined herein), the Company agrees to pay to the Lead Underwriter, on behalf of the Underwriters, at the Closing Time (as defined herein) a cash fee (the "Underwriting Fee") of $1,750,000 (being 7.0% of the gross proceeds of the Offered Shares purchased by the Underwriters at the Closing Time), and the Company agrees to pay to the Lead Underwriter, on behalf of the Underwriters, at the Over-Allotment Closing Time (as defined herein) the fee set forth in paragraph 8.3, in each case, plus applicable taxes, if any. The Lead Underwriter shall be entitled to receive, out of the Underwriting Fee, a work fee equal to 6.0% of the aggregate Underwriting Fee (the "Work Fee"). The allocation of the remainder of the Underwriting Fee (after application of the Work Fee) among the Underwriters will be in the respective percentages set forth in paragraph 13 hereof.

Terms and Conditions

1. **Definitions and Interpretation**

1.1 Whenever used in this Agreement:

"Agreement" means this underwriting agreement;

"Amended and Restated Preliminary Prospectus" has the meaning given to it above;

"Amendment" means the Amended and Restated Preliminary Prospectus and any other amendment to the Preliminary Prospectus or the Final Prospectus required to be prepared and filed by the Company under Securities Laws in connection with the Offering;

"Auditors" means KPMG LLP;

"Business Day" means any day other than a Saturday or a Sunday on which Schedule I Canadian chartered banks are open for business in Toronto, Ontario;

"Claims" means, with respect to any Indemnified Party, any losses (other than losses of profit in connection with the distribution of the Offered Securities), claims, costs, expenses, actions, suits, proceedings, investigations, damages and liabilities (joint and several), including, without limitation, the fees and expenses of such Indemnified Party's counsel, all amounts paid to settle Claims if settled in accordance with the terms hereof or satisfy judgments or awards, and other out-of-pocket expenses incurred in investigating and defending any pending or threatened action, suit, proceeding, investigation or claim that may be made or threatened against any such Indemnified Party or in enforcing any indemnification provided for hereunder;

"Closing Date" means April 10, 2014 or any earlier or later date as the Company and the Lead Underwriter, on behalf of the Underwriters, may mutually agree upon in writing as the date on which the transactions contemplated herein are completed;

"Closing Time" means 8:00 a.m., Toronto time, on the Closing Date, or such other time on the Closing Date as the Company and the Lead Underwriter, on behalf of the Underwriters, may mutually agree upon;

"Common Shares" means the common shares of the Company and includes, for certainty, the Offered Securities;

"Company" has the meaning given to it above;

"Company Entities" means, collectively, the Company and NuChem Pharmaceuticals Inc.;

"Company Intangible Property" means the Intangible Property owned or licensed by or to the Company or any other of the Company Entities or in which the Company or any other of the Company Entities has an interest;

"DEA" has the meaning given to it in paragraph 7.1.27;

"Defaulted Shares" has the meaning given to it in paragraph 13.2;

"Environmental Laws" means any applicable law, regulation, order, judgment, injunction, permit, license, authorization or other binding requirement relating to human health or safety or the regulation, protection, cleanup or restoration of the environment or natural resources, including those relating to the distribution, processing, generation, treatment, control, storage, disposal, transportation, other handling or release or threatened release of Hazardous Substances;

"FDA" has the meaning given to it in paragraph 7.1.27;

"Final Prospectus" has the meaning given to it above;

"Financial Statements" means (i) the audited consolidated financial statements of the Company as at and for the year ended May 31, 2013, the Auditors' report thereon and the notes thereto, and (ii) the unaudited consolidated financial statements of the Company for the six month period ended November 30, 2013;

"FINRA" means Financial Industry Regulatory Authority, Inc.

"Governmental Authority" means any federal, provincial, state, municipal, local or other governmental or public department, commission, board, bureau, agency, instrumentality or body, domestic or foreign, any subdivision or authority of any of the foregoing or any quasi-governmental, self-regulatory organization or private body exercising any regulatory, expropriation or taxing authority under or for the account of its members or any of the foregoing;

"Governmental Licences" has the meaning given to it in paragraph 7.1.27;

"Hazardous Substances" has the meaning given to it in paragraph 7.1.29;

"Health Canada" has the meaning given to it in paragraph 7.1.27;

"Indemnified Parties" has the meaning given to it in paragraph 9.1;

"Indemnifying Party" has the meaning given to it in paragraph 9.1;

"Initial Preliminary Prospectus" has the meaning given to it above;

"Intangible Property" means all patents, patentable subject matter, copyrights, registered and unregistered trade-marks, service marks, domain names, trade-names, logos, commercial symbols, industrial designs (including applications for all of the foregoing and renewals, divisions, continuations, continuations-in-part, extensions and reissues, where applicable, relating thereto), inventions, licences, sublicences, trade secrets, know-how, confidential and proprietary information, patterns, drawings, computer software, databases and all other intellectual property, whether registered or not, owned by, licensed to or used by a person, in any format or medium whatsoever;

"Knowledge" means information to the best of the knowledge, after due inquiry, of the following persons: Dr. William Rice, Gregory Chow, Avanish Vellanki and Elizabeth Williams and includes any information that they ought reasonably to have known;

"Lead Underwriter" has the meaning given to it above;

"marketing materials" has the meaning ascribed thereto in NI 41-101;

"Material Adverse Effect" means, in respect of the Company, any fact, event, effect or change, as the case may be, that (i) is or is reasonably likely to be materially adverse to the results of operations, financial condition, prospects, business, assets, capital, liabilities (contingent or otherwise) or operations of the Company Entities (taken as a whole) or (ii) would result in any Offering Document containing a misrepresentation;

"NI 41-101" means National Instrument 41-101 *General Prospectus Requirements*, as amended and replaced;

"NI 44-101" means National Instrument 44-101 *Short Form Prospectus Distributions*, as amended and replaced;

"Offered Securities" has the meaning given to it above;

"Offered Shares" has the meaning given to it above;

"Offering" means the offering of Offered Securities pursuant to the Final Prospectus as described under the "Plan of Distribution" section thereof;

"Offering Documents" means the Initial Preliminary Prospectus, the Amended and Restated Preliminary Prospectus, the Final Prospectus, the U.S. Placement Memorandum (as defined herein) and any Amendment;

"Offering Price" has the meaning given to it above;

"Over-Allotment Closing Time" has the meaning given to it in paragraph 8.3;

"Over-Allotment Expiry Date" has the meaning given to it above;

"Over-Allotment Option" has the meaning given to it above;

"Over-Allotment Shares" has the meaning given to it above;

"Passport Decision Document" means a decision document issued by the applicable Securities Commission, as principal regulator, pursuant to the Passport System and which evidences the receipt by the Securities Commissions in each of the other Qualifying Jurisdictions for the Initial Preliminary Prospectus, the Amended and Restated Preliminary Prospectus, the Final Prospectus or any Amendment, as the case may be;

"Passport System" means the passport system procedures provided for under National Policy 11-202 *Process for Prospectus Reviews in Multiple Jurisdictions*;

"person" means any individual, partnership, limited partnership, joint venture, sole proprietorship, company or corporation, trust, trustee, unincorporated organization, a government or an agency or political subdivision thereof;

"Purchase Price" has the meaning given to it above;

"Qualification Deadline" means 5:00 p.m. (Toronto time) on April 3, 2014 or such later date and time as the Company and the Lead Underwriter, on behalf of the Underwriters, may mutually agree upon in writing;

"Qualifying Jurisdictions" mean, collectively, all of the provinces of Canada other than Quebec;

"Refusing Underwriter" has the meaning given to it in paragraph 13.2;

"Reviewing Authority" has the meaning given to it above;

"ROTH" has the meaning given to it above;

"Rule 144A" means Rule 144A under the U.S. Securities Act;

"SEC" means the United States Securities and Exchange Commission;

"Securities Commission" means the applicable securities commission or regulatory authority in each of the Qualifying Jurisdictions;

"Securities Laws" mean, collectively, and, as the context may require, the applicable securities laws of each of the Qualifying Jurisdictions, and the respective regulations and rules made under those securities laws together with all applicable policy statements, instruments, blanket orders and rulings of the Securities Commissions and all discretionary orders or rulings, if any, of the Securities Commissions made in connection with the transactions contemplated by this Agreement together with applicable published policy statements of the Canadian Securities Administrators, as the context may require;

"Selling Firms" has the meaning given to it in paragraph 2.1.1;

"Standard Listing Conditions" has the meaning given to it in paragraph 5.2;

"Stock Exchange" means the Toronto Stock Exchange;

"template version" has the meaning ascribed thereto in NI 41-101 and includes any revised template version of marketing materials as contemplated by NI 41-101;

"Underwriters" has the meaning given to it above;

"Underwriters' Disclosure" means disclosure in respect of one or more of the Underwriters provided to the Company in writing by an Underwriter for inclusion in the applicable disclosure document;

"Underwriting Fee" has the meaning given to it above and in paragraph 8.3;

"United States Purchaser" means a person in the United States who agrees to purchase Offered Securities in accordance with Annex A attached hereto;

"U.S. Affiliates" has the meaning given to it above;

"U.S. Exchange Act" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;

"U.S. Placement Memorandum" means the Initial Preliminary Prospectus, the Amended and Restated Preliminary Prospectus and the Final Prospectus supplemented with wrap pages for the purpose of, among other things, describing restrictions imposed under the U.S. Securities Act;

"U.S. Securities Act" means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"U.S. Securities Laws" means the applicable blue sky or securities legislation of any state or territory of the United States or the District of Columbia and the rules and regulations promulgated thereunder, together with the U.S. federal securities laws, including, without limitation, the U.S. Exchange Act and the U.S. Securities Act; and

"Work Fee" has the meaning given to it above.

1.2 Whenever used in this Agreement, the terms "affiliate", "associate", "distribution", "misrepresentation", "material fact" and "material change" shall, except to the extent modified herein or as the context requires, have the meanings given to such terms, and "distribution" shall include a "distribution to the public" as defined, under applicable Securities Laws.

1.3 Whenever used in this Agreement, words importing the singular number only shall include the plural and *vice versa* and words importing the masculine gender shall include the feminine gender.

1.4 All references to monetary amounts in this Agreement are to the lawful money of Canada.

1.5 All capitalized terms not otherwise defined herein shall have the meanings given to them in the Offering Documents.

2. **Covenants of the Underwriters**

2.1 The Underwriters covenant with the Company that:

2.1.1 during the course of the distribution of the Offered Securities to the public by or through the Underwriters (other than ROTH), the Underwriters (other than ROTH) will offer the Offered Securities for sale to the public on behalf of the Company, directly and through other investment dealers and brokers (the Underwriters (other than ROTH), together with such investment dealers and brokers, are referred to herein as the "Selling Firms") in the Qualifying Jurisdictions only as permitted by and in accordance with applicable Securities Laws which, for greater certainty, shall include delivery by the Underwriters (other than ROTH) of a copy of the Final Prospectus and any Amendment to each purchaser of Offered Securities from the Underwriters (other than ROTH), only upon the terms and conditions set forth in this Agreement and that they will not, directly or indirectly, offer Offered Securities for sale in any jurisdiction, other than the Qualifying Jurisdictions, that would require the filing of a prospectus, registration statement, offering memorandum or similar document or would result in the Company having any reporting or other obligation in such jurisdiction (other than a Form D in the United States in connection with any private placement of the Offered Securities in the United States). In particular, the Underwriters acknowledge that the Offered Securities have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States, except as hereinafter provided in accordance with the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A. The Underwriters make the representations, warranties and covenants applicable to them in Annex A hereto and agree, on behalf of themselves and their U.S. Affiliates, as applicable, for the benefit of the Company, to comply with the selling restrictions imposed by the laws of the United States and described in Annex A hereto, which forms part of this Agreement. They also agree to obtain such an agreement from each Selling Firm. For greater certainty, ROTH will not, directly or indirectly, solicit offers to purchase or sell Offered Securities in Canada.

2.1.2 For the purposes of this paragraph 2, the Underwriters shall be entitled to assume that the Offered Securities are qualified for distribution in any province of Canada referred to in the Passport Decision Document for the Final Prospectus obtained from the Reviewing Authority following the filing of the Final Prospectus until the Underwriters receive written notice to the contrary from the Company or the applicable Securities Commissions.

2.1.3 Notwithstanding the foregoing provisions of this paragraph 2.1, no Underwriter will be liable to the Company with respect to a default by another Underwriter or a Selling Firm (that is not an affiliate of such Underwriter) appointed by another Underwriter under this paragraph 2.1;

2.1.4 they will complete and will use all reasonable efforts to cause the Selling Firms, if any, to complete the distribution of Offered Securities as promptly as possible after the Closing Time or Over-Allotment Closing Time, as applicable, and the Lead Underwriter will (a) notify the Company when, in its opinion, the distribution of the Offered Securities shall have ceased and (b) provide a breakdown of the number of Offered Securities distributed in each Qualifying Jurisdiction where such breakdown is required for the purpose of calculating fees payable to, or reimbursable by, a Securities Commission;

2.1.5 after the Underwriters have made a reasonable effort to sell all of the Offered Shares to the public at the Offering Price, the Underwriters may decrease the Offering Price for the Offered Shares, provided that the Purchase Price payable by the Underwriters to the Company at the Closing Time shall not be decreased;

2.1.6 upon the request of the Company, the Underwriters will provide the Stock Exchange with a letter setting forth the anticipated distribution of the Offering based upon subscriptions for the Offered Securities received as of the date of such request;

2.1.7 they will not make any representations or warranties with respect to the Company or the Offered Securities other than as set forth in this Agreement, the Amended and Restated Preliminary Prospectus, the Final Prospectus, the U.S. Placement Memorandum, any Amendment or otherwise with the written approval of the Company, acting reasonably;

2.1.8 provided that they are satisfied, in their sole discretion that it is responsible for them to do so, they will execute and deliver to the Company the certificates required to be executed by the Underwriters under applicable Securities Laws in connection with the Amended and Restated Preliminary Prospectus, the Final Prospectus and any Amendment; and

2.1.9 the obligations of the Underwriters under this Agreement are several and not joint and several, and no Underwriter will be liable for any act, omission, default or conduct by any other Underwriter or any Selling Firm (that is not an affiliate of such Underwriter) appointed by any other Underwriter.

2.2 ROTH hereby covenants and agrees with the Company that:

2.2.1 it will not sell or offer to sell, nor allow any agent or Selling Firm acting on behalf of ROTH in connection with the Offering to sell or offer to sell, any of the Offered Securities to any person resident in Canada or for the benefit of a person resident in Canada;

2.2.2 concurrent with the closing of the Offering, ROTH will deliver to the Lead Underwriter, on behalf of the Underwriters (other than ROTH), with a copy to the Company, an "all-sold" certificate confirming that neither ROTH nor any of the agents or Selling Firms acting on ROTH's behalf in connection with the Offering, has offered or sold any of the Offered Securities to any person resident in Canada or for the benefit of a Person resident in Canada; and

2.2.3 it shall include a statement in the confirmation slip or other notice provided to any purchaser of the Offered Securities sold by ROTH that it is ROTH's understanding that such purchaser is not a resident of Canada nor is such purchaser holding such Offered Securities on behalf of or for the benefit of a person resident in Canada.

3. **Covenants of the Company**

3.1 The Company covenants and agrees with the Underwriters that:

3.1.1 it has prepared and filed the Initial Preliminary Prospectus in each Qualifying Jurisdiction (and has obtained a Passport Decision Document therefor from the Reviewing Authority) and other related documents in respect of the proposed distribution of the Offered Securities;

3.1.2 it shall fulfill to the satisfaction of the Underwriters (other than ROTH) all legal requirements to be fulfilled by it to enable the Offered Securities to be offered for sale and sold to the public in the Qualifying Jurisdictions by or through the Selling Firms who comply with all applicable Securities Laws in each of the Qualifying Jurisdictions; such fulfillment shall include, without limiting the generality of the foregoing, compliance with all applicable Securities Laws including, without limitation, (i) the Company obtaining a Passport Decision Document for the Amended and Restated Preliminary Prospectus no later than 5:00 p.m. (Toronto time) on March 27, 2014 and delivering a copy thereof to the Underwriters and their counsel; and (ii) the Company preparing and, forthwith after any comments with respect to the Amended and Restated Preliminary Prospectus have been received from and have been resolved with the Reviewing Authority, but not later than the Qualification Deadline, obtaining a Passport Decision Document for the Final Prospectus and delivering a copy thereof to the Underwriters and their counsel;

3.1.3 it shall fulfill to the satisfaction of the Underwriters all legal requirements to be fulfilled by it as required under U.S. Securities Laws to offer and sell the Offered Securities in accordance with Annex A hereto in transactions exempt from the registration requirements of the U.S. Securities Act pursuant to Rule 144A and applicable state securities laws in the United States;

3.1.4 until the completion of the distribution of the Offered Securities, it shall allow and assist the Underwriters to participate fully in the preparation of the Amended and Restated Preliminary Prospectus and the Final Prospectus and any Amendment and shall allow the Underwriters to conduct all "due diligence" investigations which the Underwriters may reasonably require to fulfill the Underwriters' obligations as underwriters, to enable the Underwriters to avail themselves of a defence to any claim for misrepresentation in the Amended and Restated Preliminary Prospectus, the Final Prospectus and any Amendment and to enable the Underwriters responsibly to execute any certificate required to be executed by the Underwriters in any such documentation. It shall be a condition precedent to the Underwriters' execution of any certificate in the Amended and Restated Preliminary Prospectus, the Final Prospectus and any Amendment that the Underwriters be satisfied, acting reasonably, as to the form and content of the document and the execution thereby of such certificate shall be conclusive evidence of such satisfaction;

3.1.5 it will comply with section 57 of the *Securities Act* (Ontario) and with the other comparable provisions of the applicable Securities Laws and U.S. Securities Laws and during the period from the date of signing the Amended and Restated Preliminary Prospectus to the date of completion of distribution of the Offered Securities, will promptly notify the Underwriters in writing of the full particulars of any material change, actual, anticipated, contemplated, proposed or threatened, in the business, financial condition, assets, liabilities (contingent or otherwise), results of operations or prospects of the Company (on a consolidated basis) or of any change in any material fact contained or referred to in the Amended and Restated Preliminary Prospectus, the Final Prospectus, the U.S. Placement Memorandum or in any Amendment, and of the existence of any material fact which is, or may be, of such a nature as to render the Amended and Restated Preliminary Prospectus, the Final Prospectus, the U.S. Placement Memorandum or any Amendment, untrue, false or misleading in a material respect or result in a misrepresentation. It shall, to the satisfaction of the Underwriters and their counsel, acting reasonably, promptly comply with all applicable filing and other requirements under the Securities Laws and the U.S. Securities Laws as a result of such change. It shall, in good faith, first discuss with the Lead Underwriter any change in circumstances (actual, proposed or, within the Company's Knowledge, threatened) which is of such a nature that there is reasonable doubt whether notice need be given to the Underwriters pursuant to this paragraph 3.1.5 and, in any event, prior to making any filing referred to in this paragraph 3.1.5. For greater certainty but not so as to limit the generality of the foregoing, it is understood and agreed that, during the period from the date of signing the Amended and Restated Preliminary Prospectus to the date of completion of the distribution of the Offered Securities, if the Underwriters and the Company determine, acting reasonably, that a material change or change in a material fact has occurred which makes untrue or misleading any statement of a material fact contained in the Amended and Restated Preliminary Prospectus, the Final Prospectus or any Amendment, or which may result in a misrepresentation, the Company will:

3.1.5.1 prepare and file promptly any Amendment which in its opinion, acting reasonably, may be necessary or advisable, after consultation with the Underwriters; and

3.1.5.2 contemporaneously with filing the Amendment under the applicable laws of the Qualifying Jurisdictions, deliver to the Underwriters:

3.1.5.2.1 a copy of the Amendment, signed as required by the Securities Laws;

3.1.5.2.2 a copy of all documents relating to the proposed distribution of the Offered Securities and filed with the Amendment under the applicable Securities Laws; and

3.1.5.2.3 such other documents as the Underwriters shall reasonably require;

3.1.6 it will ensure that, at the Closing Time, the Offered Shares will be conditionally approved for listing on the Stock Exchange, subject only to compliance with Standard Listing Conditions; and

3.1.7 it will use commercially reasonable efforts to maintain the Company's status as a reporting issuer not in default under Securities Laws and maintain the listing of the Common Shares (including the Offered Securities) on the Stock Exchange for a period of 12 months from the Closing Date, provided, for greater certainty, that nothing in this paragraph 3.1.7 shall prevent the Company from participating in a merger, business combination or similar transaction.

3.2 During the period commencing on the date hereof and ending on the date the Lead Underwriter, on behalf of the Underwriters, notifies the Company of the completion of the distribution of the Offered Securities, the Company will promptly inform the Underwriters of the full particulars of:

3.2.1 the receipt of any comments from the Securities Commissions with respect to the Amended and Restated Preliminary Prospectus, Final Prospectus or any Amendment;

3.2.2 any request of any Securities Commission for any Amendment or for any additional information in connection with the Offering;

3.2.3 the issuance by any Securities Commission, the Stock Exchange or any other Governmental Authority of any order to cease or suspend trading of any securities of the Company or of the institution or threat of institution of any proceedings for that purpose; and

3.2.4 any notice or other correspondence received by it from any Governmental Authority requesting information, meeting or hearing or commencing or threatening any investigation into the Company or its business that could reasonably be expected to have a material adverse effect on the business, financial condition, assets, liabilities (contingent or otherwise), results of operations or prospects of the Company Entities (taken together) or the completion of the Offering.

3.3 The Company will use reasonable commercial efforts to promptly do, make, execute, deliver or cause to be done, made, executed or delivered, all such acts, documents and things as the Underwriters may reasonably require from time to time for the purpose of giving effect to the transactions contemplated by this Agreement and take all such steps as may be reasonably within its power to implement the transactions contemplated by this Agreement.

3.4 The Company will apply the net proceeds from the issue and sale of the Offered Securities substantially in accordance with the disclosure set forth under the heading "Use of Proceeds" in the Final Prospectus and any Amendment.

3.5 The Company shall cause each of its directors and senior officers to enter into a lock-up agreement in the form of agreement contemplated in Schedule "A" hereto.

3.6 The Company makes the representations, warranties and covenants applicable to it in Annex A hereto, which forms part of this Agreement.

4. **Marketing Materials**

4.1 The Company covenants and agrees with the Underwriters that during the distribution of the Offered Securities:

4.1.1 it shall prepare, in consultation with the Lead Underwriter, and approve in writing, prior to such time marketing materials are provided to potential investors, any marketing materials reasonably requested to be provided by the Underwriters to any potential investor of Offered Securities, such marketing materials to comply with Securities Laws and to be acceptable in form and substance to the Lead Underwriter and its counsel, acting reasonably, and approved in writing by the Lead Underwriter as contemplated by the Securities Laws;

4.1.2 it shall file a template version with the Securities Commissions as soon as reasonably practicable after such marketing materials are so approved in writing by it and the Lead Underwriter and in any event on or before the day the marketing materials are first provided to any potential investor of Offered Securities;

4.1.3 any comparables (as defined in NI 41-101) shall be removed from the template version in accordance with NI 44-101 prior to filing such template version with the Securities Commission and a complete template version containing such comparables and any disclosure relating to the comparables, if any, shall be delivered to the Securities Commissions by the Company; and

4.1.4 following the approvals set forth in this paragraph 4.1, the Underwriters may provide a limited-use version (as defined in NI 41-101) of such marketing materials to potential investors of Offered Securities in accordance with Securities Laws.

4.2 The Company and the Underwriters, on a several basis, covenant and agree, during the distribution of the Offered Securities:

4.2.1 not to provide any potential investor of Offered Securities with any marketing materials unless a template version of such marketing materials has been filed by the Company with the Securities Commissions on or before the day such marketing materials are first provided to any potential investor of Offered Securities;

4.2.2 not to provide any potential investor with any materials or information in relation to the distribution of the Offered Securities or the Company other than: (A) such marketing materials that have been approved and filed in accordance with paragraph 4.1; (B) the Offering Documents in accordance with this Agreement; and (C) any standard term sheets (as defined in NI 41-101) approved in writing by the Company and the Lead Underwriter; and

4.2.3 that any marketing materials approved and filed in accordance with paragraph 4.1 and any standard term sheets approved in writing by the Company and the Lead Underwriter, shall only be provided to potential investors in the Qualifying Jurisdictions.

5. **Deliveries**

The Company shall cause to be delivered to the Lead Underwriter on behalf of the Underwriters:

5.1 contemporaneously with the filing thereof with the Securities Commissions, copies of the Amended and Restated Preliminary Prospectus, the Final Prospectus and any Amendment, a copy of any other document required to be filed by the Company under the Securities Laws in connection therewith, in each case, signed, where applicable, as required by the Securities Laws and the U.S. Placement Memorandum. The Company has previously delivered to the Underwriters copies of the Initial Preliminary Prospectus as approved, signed and certified as required by Securities Laws;

5.2 at the time of the delivery to the Lead Underwriters pursuant to this paragraph 5 of the Final Prospectus or any Amendment, evidence satisfactory to the Underwriters of the approval of the listing on the Stock Exchange of the Offered Securities, subject only to satisfaction by the Company of customary post-closing conditions imposed by the Stock Exchange in similar circumstances (the "Standard Listing Conditions");

5.3 at the Closing Time, the Over-Allotment Closing Time and at the time of the delivery to the Lead Underwriter pursuant to this paragraph 5 of the Final Prospectus or any Amendment, a comfort letter of the Auditors dated the Closing Date, Over-Allotment Closing Date or the date of the Final Prospectus or Amendment, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Underwriters, relating to the financial information contained or incorporated by reference in the Final Prospectus or Amendment, as the case may be, and matters involving changes or developments since the respective dates of which the financial information is given to a date not more than two Business Days prior to the date of such letter, which letter shall be in addition to the Auditors' report in the Final Prospectus or Amendment;

5.4 without charge, at those delivery points in the Qualifying Jurisdictions as the Underwriters may reasonably request, as soon as possible and in any event to the City of Toronto no later than 12:00 noon (local time) on the first Business Day, and to other cities no later than 12:00 noon (local time) on the second Business Day, after the Passport Decision Document has been issued to the Company therefor and thereafter from time to time during the distribution of the Offered Securities, as many commercial copies of the Amended and Restated Preliminary Prospectus and the Final Prospectus and the corresponding U.S. Placement Memorandum, as the Underwriters may reasonably request. They shall similarly cause to be delivered commercial copies of any Amendment, but only to the extent that, under applicable Securities Laws, copies thereof may be required to be delivered to purchasers or prospective purchasers of the Offered Securities; and

5.5 during the period commencing on the date hereof and ending on the date of completion of the distribution of the Offered Securities, the Company will promptly provide to the Lead Underwriter and its counsel drafts of any press release of the Company or the Company Entities relating to any of the Company Entities or the Offering, for review and approval by the Lead Underwriter and its counsel, such approval not to be unreasonably withheld, prior to issuance.

6. **Representations and Warranties - Prospectus**

6.1 The delivery to the Lead Underwriter of the documents referred to in paragraphs 5.1 and 5.4 hereof shall constitute the representation and warranty of the Company to the Underwriters that: each such document at the time of its respective delivery fully complied with the requirements of the Securities Laws and U.S. Securities Laws, as applicable, pursuant to which it was or is prepared, and, as applicable, filed and that all the information and statements contained therein (except information and statements relating solely to Underwriters' Disclosure) are at the respective dates thereof, true and correct in all material respects, contain no misrepresentation and constitute full, true and plain disclosure of all material facts relating to the Company and the other Company Entities, taken together, and the Offered Securities as required by applicable Securities Laws and U.S. Securities Laws, as applicable.

6.2 The Company consents to the use by the Underwriters of the documents referred to in paragraphs 5.1 and 5.4 hereof in connection with the distribution of the Offered Securities in the Qualifying Jurisdictions and the United States subject to the provisions of this Agreement.

7. **Representations and Warranties - General**

7.1 The Company represents and warrants to the Underwriters, and acknowledges that each Underwriter is relying upon such representations and warranties, that:

7.1.1 Each of the Company Entities is a duly incorporated, amalgamated or continued company and validly existing and in good standing under the laws of its jurisdiction of incorporation, amalgamation or continuation and no proceedings have been instituted or, to the Company's Knowledge, are pending for the dissolution or liquidation of the Company or Company Entity, as applicable. Each of the Company Entities has the corporate power and capacity to own its assets currently owned by it and to carry on its business currently carried on by it as disclosed in the Offering Documents. Each of the Company Entities is duly qualified, licensed or registered to carry on business in all jurisdictions except where the failure to be so registered, licensed or qualified would result in a Material Adverse Effect.

7.1.2 NuChem Pharmaceuticals Inc. is the only subsidiary of the Company and has no active business or operations and no material assets or liabilities. The Company owns 80% of the issued and outstanding voting share capital and 100% of the issued and outstanding non-voting preference share capital of NuChem Pharmaceuticals Inc. and:

7.1.2.1 all such shares are legally and beneficially owned by the Company free and clear of all liens, charges and encumbrances of any kind whatsoever;

7.1.2.2 no person has any agreement, or option or right or privilege (whether preemptive or contractual) capable of becoming an agreement for the purchase of all or any part of the securities of NuChem Pharmaceuticals Inc.; and

7.1.2.3 all such shares have been validly issued and are outstanding as fully paid and non-assessable.

Except for the shares of NuChem Pharmaceuticals Inc. held by the Company, neither the Company nor the other Company Entities own securities or ownership interest in any other person which are material to the Company Entities, taken as a whole.

7.1.3 The authorized capital of the Company consists of an unlimited number of Common Shares of which 62,335,827 Common Shares were issued and outstanding as of the close of business on March 26, 2014 as fully paid and non-assessable shares in the capital of the Company.

7.1.4 Other than options to purchase 6,566,223 Common Shares, warrants to purchase 23,367,124 Common Shares, deferred share units convertible into 780,000 Common Shares and promissory notes convertible into a maximum of 2,000,000 Common Shares, no person has any agreement, option, right or privilege, whether pre-emptive, contractual or otherwise, capable of becoming an agreement for the purchase, acquisition, subscription for or issuance of any of the unissued shares of the Company or any other Company Entity, or other securities convertible, exchangeable or exercisable for shares of the Company or any other Company Entity.

7.1.5 The Company is not party to and, to the Company's Knowledge, there are no shareholders' agreements, pooling agreements, voting trusts or other similar agreements with respect to the ownership or voting of any of the securities of the Company or pursuant to which any person may have any right or claim in connection with any existing or past equity interest in the Company.

7.1.6 The Company has all requisite power and capacity to enter into and perform its obligations under this Agreement. This Agreement has been duly authorized, executed and delivered by the Company, and constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms subject to bankruptcy, insolvency, creditor arrangement laws and laws affecting creditors' rights generally and equitable relief and except as rights to indemnity and contribution may be limited by applicable laws.

7.1.7 The issue and sale of the Offered Securities, the execution and delivery of and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under (whether after notice or lapse of time or both):

7.1.7.1 any statute, rule or regulation applicable to the Company, including, without limitation, the Securities Laws;

7.1.7.2 the articles, by-laws or resolutions of the directors or the shareholders of the Company which are in effect at the date hereof;

7.1.7.3 any mortgage, note, indenture, contract, agreement, joint venture, partnership, instrument, lease or other document to which the Company is a party or by which it is bound; or

7.1.7.4 any judgment, decree or order of any Governmental Authority binding the Company or its property or assets.

7.1.8 No consent, approval, authorization, order, registration, clearance or qualification of or with any Governmental Authority is required for the issue and sale of the Offered Securities or the consummation by the Company of the transactions contemplated by this Agreement, except such as have been, or will have been prior to the Closing Time, obtained under the Securities Laws in connection with the purchase and distribution of the Offered Securities by the Underwriters.

7.1.9 The Company meets the requirements under the Securities Laws, including the rules and procedures established pursuant to NI 44-101, for the distribution of the Offered Securities in each of the Qualifying Jurisdictions.

7.1.10 The Company has all requisite power, capacity and authority to execute and deliver the Offering Documents (including any marketing materials) and to file such documents (other than the U.S. Placement Memorandum) with the Securities Commissions, and all necessary action has been taken by the Company to authorize the execution and delivery of the Offering Documents (including any marketing materials) and to file such documents (other than the U.S. Placement Memorandum) with the Securities Commissions.

7.1.11 The Offered Securities have been duly authorized for issuance to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment of the consideration set forth herein, the Offered Securities will be validly issued and fully paid and non-assessable; the issuance of the Offered Securities is not subject to the preemptive or similar rights of any person.

7.1.12 The description of the Offered Securities set forth in each of the Offering Documents, insofar as they purport to constitute a summary of the terms of the Offered Securities, are fair and adequate summaries of the matters referred to therein.

7.1.13 The Common Shares that are currently issued and outstanding are listed and posted for trading on the Stock Exchange and the Company is not in default of its listing requirements on the Stock Exchange in any material respect.

7.1.14 No order having the effect of ceasing or suspending the distribution of the Offered Securities has been issued by any Governmental Authority and no proceeding for that purpose has been initiated or, to the Company's Knowledge, are pending, contemplated or threatened by any Governmental Authority.

7.1.15 Computershare Investor Services Inc., through its offices in the City of Toronto, Ontario has been duly appointed as the registrar and transfer agent for the Common Shares.

7.1.16 The Company is a reporting issuer or the equivalent in the Qualifying Jurisdictions and is not in default of any of the requirements of Securities Laws.

7.1.17 Each document filed or to be filed with the Securities Commissions and incorporated by reference in any Offering Document, when such document was or is filed with the Securities Commissions, complied as to form or will comply as to form when so filed in all material respects with the applicable requirements of Securities Laws, except in those respects for which exemptive relief has been obtained, and none of such documents, as of their respective dates, contained or will contain any misrepresentation.

7.1.18 The Financial Statements have been prepared in accordance with applicable laws and International Financial Reporting Standards applied on a consistent basis throughout the periods referred to therein, present fairly, in all material respects, the financial position and condition of the Company on a consolidated basis as at the date thereof and the results of its operations and the changes in its cash flows for the period then ended, and there were no liabilities, contingent, contractual or otherwise, of the Company as of the dates set forth therein, other than those disclosed in the Financial Statements.

7.1.19 The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with International Financial Reporting Standards and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to differences, (v) material information relating to each of the Company Entities is made known to those within the Company Entity responsible for the preparation of the financial statements during the period in which the financial statements have been prepared and that such material information is disclosed to the public within the time periods required by applicable laws, and (vi) all significant deficiencies and material weaknesses in the design or operation of such internal controls that could adversely affect the Company's ability to disclose to the public information required to be disclosed by it in accordance with applicable law and all fraud, whether or not material, that involves management or employees that have a significant role in the Company's internal controls have been disclosed to the audit committee of the Company.

7.1.20 All of the material transactions of the Company and each of the other Company Entities have been promptly and properly recorded or filed in or with their respective books or records and their respective minute books contain all of their material transactions, all records of the meetings and proceedings of their directors, shareholders and other committees, if any, since their respective incorporations.

7.1.21 To the Company's Knowledge, the Auditors (including any former auditors, as applicable), who have reported on the consolidated financial statements of the Company incorporated by reference in each of the Offering Documents, are independent with respect to the Company within the meaning of Section 161 of the *Canada Business Corporations Act* and Securities Laws.

7.1.22 There has not been any reportable event (within the meaning of National Instrument 51-102 *Continuous Disclosure Obligations*) with the current or any former auditors of the Company in the past three financial years.

7.1.23 Except as disclosed in the Offering Documents, none of the insiders of the Company (as defined in Securities Laws), or any associate or affiliate of any of such insiders, had or has any material interest, direct or indirect, in any transaction or any proposed transaction of any Company Entity which, as the case may be, materially affects, is material to or will materially affect the Company Entities (taken as a whole).

7.1.24 Except as disclosed in the Offering Documents, there are no related party transactions within the meaning of Multilateral Instrument 61-101 involving the Company.

7.1.25 Except as disclosed in the Offering Documents, there has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company Entities (taken together) and no event has occurred or circumstances exist which would be reasonably expected to result in a material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of the Company Entities (taken together).

7.1.26 The Company has not made any significant acquisition as such term is defined in Part 8 of National Instrument 51-102 in the current financial year or prior financial years in respect of which historical and/or pro forma financial statements would be required to be included or incorporated by reference into the Offering Documents, and, except as disclosed in the Offering Documents, the Company has not entered into any agreement or arrangement in respect of a transaction that would be a proposed significant acquisition (as such term is defined in National Instrument 44-101).

7.1.27 Each of the Company Entities has conducted and is conducting its business in compliance in all material respects with all applicable federal, provincial, state and municipal laws, rules, regulations, tariffs, orders and directives of each jurisdiction in which it carries on business. Each Company Entity possesses such permits, certificates, licences, approvals, registrations, qualifications, consents and other authorizations (collectively, "Governmental Licences") issued by the appropriate Governmental Authority necessary to conduct the business now operated by it in all jurisdictions in which it carries on business, including without limitation those required by the Health Products and Food Branch of Health Canada ("Health Canada"), the United States Food and Drug Administration (the "FDA"), the United States Drug Enforcement Administration (the "DEA") and any foreign regulatory authorities performing functions similar to those performed by Health Canada, FDA, or DEA other than individually or in aggregate would not have a Material Adverse Effect. Each Company Entity is in material compliance with the terms and conditions of all such Governmental Licences. All of such Governmental Licences are in good standing, valid and in full force and effect. The Company has no reason to believe that any party granting any such Governmental Licenses is considering limiting, suspending, modifying, withdrawing or revoking the same in any material respect.

7.1.28 Each of the Company Entities has operated and is currently in material compliance with all applicable rules, regulations and policies of Health Canada the FDA, DEA, or any other Governmental Authority having jurisdiction over it and its activities. The research, pre-clinical and clinical validation studies and other studies and tests conducted by or on behalf of or sponsored by a Company Entity or in which a Company Entity or its products or product candidates have participated were and, if still pending, are being conducted in all material respects in accordance with good clinical practice and medical standard-of-care procedures including in accordance with the protocols submitted to Health Canada, the FDA or any other Governmental Authority exercising comparable authority and the Company does not have Knowledge of any other trials, studies or tests, the results of which reasonably call into question the results of such studies and tests. The Company has not received any notices or other correspondence from such regulatory authorities or any other Governmental Authority or any other person requiring the termination, suspension or material modification of any such research, pre-clinical and clinical validation studies or other studies and tests. The Company has not failed to submit to the FDA any necessary Investigational New Drug Application for a clinical trial it is conducting or sponsoring, except where such failure would not, individually or in the aggregate, have a Material Adverse Effect. All such submissions and any New Drug Application submission were in material compliance with applicable laws when submitted and no material deficiencies have been asserted by the FDA with respect to any such submissions, except any deficiencies which could not, individually or in the aggregate, have a Material Adverse Effect.

7.1.29 Except as would not have a Material Adverse Effect:

7.1.29.1 (i) neither the Company nor any of the other Company Entities is in violation of any applicable Environmental Laws; (ii) the Company Entities have all permits, authorizations and approvals required under any applicable Environmental Laws and each are in compliance with their requirements; and (iii) there are no pending or, to the Company's Knowledge, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, orders, directions, notices of non-compliance or violation or alleging liability, investigation or proceedings relating to any applicable Environmental Law against the Company or any other Company Entity, and, to the Company's Knowledge, there are no facts or circumstances which would reasonably be expected to form the basis for any such administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, orders, directions, notices of non-compliance or violation, investigation or proceedings;

7.1.29.2 neither the Company nor any of the other Company Entities has not generated, manufactured, processed, distributed, used, treated, stored, disposed of, transported or handled any pollutants, contaminants, chemicals or industrial toxic or hazardous waste or substances (collectively, "Hazardous Substances") in a manner that could result in a material liability; and

7.1.29.3 other than in compliance with, and without attracting any material liability under, applicable laws, neither the Company nor any of the other Company Entities has caused or permitted the release, in any manner whatsoever, of any Hazardous Substances on or from any of its properties or assets or any such release on or from a facility owned or operated by third parties but with respect to which any Company Entity is or may reasonably be alleged to have material liability or has received any notice that it is potentially responsible for site clean-up or other corrective action under any applicable laws.

7.1.30 none of the Company Entities own real property and each of them has good and marketable title to all personal property owned by it free and clear of all liens. Any real property or building held under lease by a Company Entity is held by it under valid and subsisting leases enforceable against its respective lessors. With respect to each premises which a Company Entity occupies as tenant, such Company Entity occupies such premises and has the exclusive right to occupy and use such premises and each of the leases pursuant to which such Company Entity occupies such premises is in good standing and in full force and effect;

7.1.31 to the Company's knowledge, the Company and/or the other Company Entities owns, or has obtained valid and enforceable licenses for, or otherwise has rights to all Intangible Property described in the Amended and Restated Preliminary Prospectus;

7.1.32 the Company has no Knowledge that it lacks or will be unable to obtain any rights or licenses to conduct the business of the Company Entities as proposed in the Amended and Restated Preliminary Prospectus;

7.1.33 to the Company's Knowledge, there is no infringement by any third party of any Company Intangible Property;

7.1.34 there is no ongoing, pending or, to the Company's Knowledge, threatened, action, suit, proceeding or claim by others challenging the Company's rights in or to any Company Intangible Property;

7.1.35 there is no ongoing, pending or, to the Company's Knowledge, threatened, action, suit, proceeding or claim by others challenging the validity or enforceability of any Company Intangible Property;

7.1.36 the Company has no Knowledge of any third parties who have rights to any Company Intangible Property except for the ownership rights of the owners of the Company Intangible Property which are licensed to the Company and/or the other Company Entities;

7.1.37 there is no ongoing, pending, or to the Company's Knowledge, threatened, action, suit, proceeding or claim by others that the business as currently conducted, the Company or any of the other Company Entities infringes or otherwise violates (or would infringe or otherwise violate upon commercialization of the Company's products under development) any Intangible Property of others;

7.1.38 to the Company's Knowledge, no information known to us to be "material to patentability" (as such term is defined in section 1.56 of Title 37 - Code of Federal Regulations Patents, Trademarks, and Copyrights) has been withheld by us with intention to deceive the United States Patent and Trademarks Office in connection with the prosecution of the U.S. patents and applications owned by the Company or any of the other Company Entities;

7.1.39 there is no ongoing, pending, or to the Company's Knowledge, threatened, action suit, proceeding or claim by others claiming breach of any license relating to the Company Intangible Property;

7.1.40 except as would not have a Material Adverse Effect, each of the Company Entities has duly and on a timely basis filed all foreign, federal, state, provincial and municipal tax returns required to be filed by it, has paid all taxes due and payable and has paid all assessments and reassessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which are claimed by any Governmental Authority to be due and owing and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required to be filed;

7.1.41 there are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax return or payment of any tax, governmental charge or deficiency by any Company Entity;

7.1.42 to the Company's Knowledge, there are no actions, suits, proceedings, investigations or claims threatened or pending against the Company in respect of taxes, governmental charges or assessments;

7.1.43 there are no matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments asserted by any such authority;

7.1.44 no default exists under and no event has occurred which, after notice or lapse of time or both, or otherwise, would constitute a default under or breach of, by a Company Entity, or any other person, any obligation, agreement, covenant or condition contained in any contract, indenture, trust, deed, mortgage, loan agreement, note, lease or other agreement or instrument to which a Company Entity is a party or by which a Company Entity or any of its properties may be bound, except to the extent any such default does not have a Material Adverse Effect;

7.1.45 the Company has procured and maintains adequate insurance against all reasonable insurable risks with respect to its business, has not failed to give any notice or to present any material claim under any insurance policy in a due and timely fashion, and all of the policies in respect of such insurance coverage are in good standing in all respects and there are no material defaults thereunder;

7.1.46 no general labour dispute with the employees of any of the Company Entities exists or, to the Company's Knowledge, is imminent;

7.1.47 other than as disclosed to the Underwriters, none of the Company Entities has been served with or otherwise received notice of any legal, governmental or regulatory proceedings, including any investigation, claim, complaint or other similar proceeding and, to the Company's Knowledge, there are no legal, governmental or regulatory proceedings (whether or not purportedly on behalf of the Company) pending, to which any Company Entity is a party or of which any its property or assets is the subject and to the Company's Knowledge and other than as disclosed to the Underwriters, no such proceedings have been threatened or contemplated;

7.1.48 other than the Underwriters, there is no person, firm or corporation acting or, to the Company's Knowledge, purporting to act at the request of the Company, who is entitled to any brokerage or finder's fee in connection with the transactions contemplated herein; and

7.1.49 no representation or warranty by the Company in this Agreement and no statement contained in the this Agreement or any certificate or other document furnished or to be furnished pursuant to this Agreement contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading.

8. **Closing of the Offering**

The closing of the purchase and sale of the Offered Shares provided for in this Agreement shall be completed at the offices of McCarthy Tétrault LLP located at Suite 5300, TD Bank Tower, 66 Wellington Street West, Toronto, Ontario, M5K 1E6, at the Closing Time.

8.1 The following are conditions precedent to the obligations of the Underwriters to purchase the Offered Shares under this Agreement, which conditions may be waived in writing in whole or in part by the Lead Underwriter on behalf of the Underwriters:

8.1.1 receipt by the Underwriters of the following documents:

8.1.1.1 a favourable legal opinion, dated the Closing Date, from the Company's counsel, McCarthy Tétrault LLP, with respect to all such matters as the Underwriters may reasonably request, including, without limiting the generality of the foregoing:

8.1.1.1.1 the Company is a corporation existing under the *Canada Business Corporations Act*;

8.1.1.1.2 the Company has the corporate power and authority to carry on its business as now conducted by it and carry on its business as described in the Final Prospectus and any Amendment, and to execute, deliver and perform its obligations under this Agreement;

8.1.1.1.3 this Agreement and the performance of the Company's obligations hereunder, have been duly authorized by all necessary corporate action on the part of the Company;

8.1.1.1.4 this Agreement has been duly executed and delivered by the Company, and constitutes a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms;

8.1.1.1.5 the execution and delivery by the Company of this Agreement, and the performance by the Company of its obligations hereunder does not contravene: (i) the articles or bylaws of the Company; or (ii) any resolution of the directors or shareholders of the Company;

8.1.1.1.6 as to the authorized capital of the Company as of the close of business on the business day immediately preceding the Closing Date;

8.1.1.1.7 the Company is a reporting issuer in each of the Qualifying Jurisdictions;

8.1.1.1.8 the Initial Preliminary Prospectus, Amended and Restated Preliminary Prospectus, Final Prospectus and any Amendment, and the filing thereof with the Securities Commissions, have been duly authorized by and on behalf of the Company, and each of the Initial Preliminary Prospectus, Amended and Restated Preliminary Prospectus, Final Prospectus and any Amendment has been duly executed pursuant to such authorization by and on behalf of the Company;

8.1.1.1.9 the statements as to the qualification of the Offered Securities as investments under the heading "Eligibility for Investment" in the Final Prospectus and any Amendment are accurate in all material respects, subject to the limitations and qualifications stated or referred to in the Final Prospectus and any Amendment;

8.1.1.1.10 the statements as to matters of the federal laws of Canada set out in the Final Prospectus and any Amendment under the heading "Material Canadian Federal Income Tax Consequences" are accurate in all material respects, subject to the limitations and qualifications stated or referred to in the Final Prospectus and any Amendment;

8.1.1.1.11 all necessary documents have been filed, all necessary proceedings have been taken and all necessary legal requirements have been fulfilled by or under the laws of the Qualifying Jurisdictions to qualify the Offered Securities for sale to the public in each of such Qualifying Jurisdictions through investment dealers or brokers registered under the applicable laws of such Qualifying Jurisdictions who have complied with the relevant provisions of such law and the terms of such registrations;

8.1.1.1.12 the Stock Exchange has conditionally approved the listing of the Offered Shares, subject only to the fulfillment of Standard Listing Conditions;

8.1.1.1.13 the issuance of the Offered Shares has been duly authorized by the Company and, upon receipt by the Company of consideration therefor in accordance with the terms of this Agreement, the Offered Shares will be validly issued, fully-paid and non-assessable common shares of the Company;

8.1.1.1.14 the attributes of the Offered Securities conform, in all material respects, with the description thereof contained in the Final Prospectus; and

8.1.1.1.15 Computershare Investor Services Inc. has been duly appointed as registrar and transfer agent of the Common Shares.

It is understood that such counsel may rely on the opinions of local counsel acceptable to them as to matters governed by the laws of jurisdictions other than Canada and the Provinces of British Columbia, Alberta and Ontario (or alternatively, make arrangements to have such opinions directly addressed to the Underwriters and counsel to the Underwriters) and may rely, to the extent appropriate in the circumstances, as to matters of fact, on certificates of an officer of the Company and public officials, as applicable, and letters from stock exchange representatives and transfer agents;

8.1.1.2 in the event that a United States Purchaser has agreed to purchase Offered Securities, a favourable legal opinion, dated the Closing Date or Over-Allotment Closing Time, as applicable, from the Company's United States counsel, Cooley LLP, that no registration of the Offered Securities will be required under the U.S. Securities Act in connection with (i) the offer, sale and delivery of the Offered Securities in the United States or (ii) the initial re-offer and resale of the Offered Securities by the Underwriters directly, or through the U.S. Affiliates, as applicable, in the United States, provided, in each case, that the sale of Offered Securities in the United States is made in accordance with the terms as set out in Annex A;

8.1.1.3 an opinion from Canadian and U.S. counsel to the Corporation on matters of law pertaining to the patent applications and patents of the Corporation in the form substantially delivered to the Underwriters on the date hereof;

8.1.1.4 a certificate or certificates, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company, or such other officers of the Company as may be acceptable to the Underwriters, certifying on behalf of the Company, not in their personal capacity and without personal liability:

(i) that the Company has complied with all terms and conditions of this Agreement to be complied with thereby at or prior to the Closing Time;

(ii) that the representations and warranties of the Company contained herein are true and correct as of the Closing Time with the same force and effect as if made at and as of the Closing Time after giving effect to the transactions contemplated hereby;

(iii) that no order, ruling or determination having the effect of ceasing or suspending trading in the Offered Securities has been issued and no proceedings for such purpose are pending or, to the best of the knowledge, information and belief of the persons signing such certificate, are contemplated or threatened;

(iv) since the respective dates of the Final Prospectus and any Amendment there has been no material adverse change, financial or otherwise, in the business, affairs, operations, assets, liabilities (contingent or otherwise), capital or prospects of the Company Entities (taken as a whole), or any development involving a prospective material adverse change, financial or otherwise, in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of the Company Entities (taken as a whole), from that disclosed in the Final Prospectus or any Amendment, as the case may be (as they existed at the time of filing); and

(v) since the date of this Agreement, no transaction or agreement has been entered into by any Company Entity which is material to the Company Entities (taken as a whole) other than as described in the Final Prospectus or any Amendment;

and such statements shall be true in fact;

8.1.1.5 the executed lock-up agreements of each of the Company's directors and senior officers contemplated by paragraph 3.5 hereof;

8.1.1.6 the comfort letter from the Auditors required to be delivered at the Closing Time pursuant to paragraph 5.3;

8.1.1.7 evidence satisfactory to the Underwriters that the Company has obtained all necessary approvals for the listing of the Offered Securities on the Stock Exchange subject only to the Standard Listing Conditions;

8.1.1.8 evidence satisfactory to the Underwriters that the Board of Directors has authorized and approved the issuance of the Offered Securities and all matters relating thereto;

8.1.1.9 one or more global certificates representing the Offered Shares registered in the name of CDS & Co. or its nominee, or in such name or names as the Lead Underwriter may direct (or its equivalent in the non-certificated inventory system of the Company's registrar and transfer agent), against payment to the Company, or as the Company may direct, of the Purchase Price net of the Underwriting Fee by wire transfer payable in Toronto; and

8.1.1.10 such other certificates and other documents as the Underwriters may require, acting reasonably, and as are customary in a transaction of this nature;

all in form and substance satisfactory to the Underwriters, acting reasonably; and

8.1.2 the Underwriters not having previously terminated their obligations pursuant to paragraph 11 of this Agreement.

8.2 It shall be a condition precedent to the Company's obligations to issue and sell the Offered Shares that:

8.2.1 the Underwriters shall have delivered or caused to be delivered to the Company a wire transfer representing the Purchase Price payable by the Underwriters for the Offered Shares, less the Underwriting Fee; and

8.2.2 the Underwriters shall have complied with the covenants and satisfied all terms and conditions herein contained to be complied with and satisfied by them at or prior to the Closing Time.

8.3 The Over-Allotment Option shall be exercisable, in whole or in part, at any time and from time to time, until the Over-Allotment Expiry Date. If the Lead Underwriter, on behalf of the Underwriters, elects to exercise the Over-Allotment Option, the Lead Underwriter shall deliver written notice to the Company confirming the number of Over-Allotment Shares in respect of which the Over-Allotment Option is being exercised. Upon exercise of the Over-Allotment Option, the Company shall become obligated, on the Over-Allotment Option Closing Time, to issue and sell and the Underwriters shall become severally obligated to purchase the total number of the Over-Allotment Shares as to which the Underwriters are exercising the Over-Allotment Option in accordance with their respective percentages set out in paragraph 13 hereof. The Over-Allotment Option closing time (the "Over-Allotment Closing Time") shall be determined by the Lead Underwriter on behalf of the Underwriters but shall not be earlier than two complete Business Days or later than five Business Days after the exercise of the Over-Allotment Option and, in any event, shall not be earlier than the Closing Date.

If the Over-Allotment Option is exercised as to all or any portion of the Over-Allotment Shares, one or more global certificates for such Over-Allotment Shares (or its equivalent in the non-certificated inventory system of the Company's registrar and transfer agent), and payment therefor, shall be delivered at the Over-Allotment Closing Time in the manner, and upon the terms and conditions, set forth in paragraphs 8.1 and 8.2, except that reference therein to the Offered Shares and Closing Time shall be deemed, for the purposes of this paragraph 8.3, to refer to such Over-Allotment Shares and Over-Allotment Closing Time, respectively, and the amount payable by the Underwriters to the Company in respect of the exercise of the Over-Allotment Option shall be equal to the sum of (i) the number of Over-Allotment Shares in respect of which the Over-Allotment Option is exercised multiplied by $0.50 and the underwriting fee payable by the Company to the Underwriters in respect of such exercise shall be equal to 7.0% of the aggregate price in respect of such Over-Allotment Shares, plus applicable taxes, if any (such fee, also the "Underwriting Fee"). The Lead Underwriter shall be entitled to receive, out of the Underwriting Fee payable pursuant to this paragraph 8.3, the Work Fee. The allocation of the remainder of the Underwriting Fee payable pursuant to this paragraph 8.3 (after application of the Work Fee) among the Underwriters will be in the respective percentages set forth in paragraph 13 hereof.

If the Over-Allotment Option is exercised, the obligations of the Underwriters to purchase the Over-Allotment Shares shall be conditional on the delivery by the Company of the certificate referred to in paragraph 8.1.1.4 as of the Over-Allotment Closing Time as if references therein to Closing Time were references to Over-Allotment Closing Time, the comfort letter from the Auditors required to be delivered at the Over-Allotment Closing Time pursuant to paragraph 5.3 and such other certificates, opinions, agreements, materials or other documents in form and substance satisfactory to the Underwriters as they may reasonably request.

The obligation of the Underwriters to close the exercise of the Over-Allotment Option at the Over-Allotment Closing Time shall be conditional on the Underwriters not having previously terminated their obligations pursuant to paragraph 11 this Agreement, with reference therein to "Closing Time" being deemed, for the purposes hereof, to refer to the Over-Allotment Closing Time.

9. **Indemnity**

9.1 The Company (the "Indemnifying Party") shall indemnify and hold harmless each of the Underwriters and their respective subsidiaries and affiliates, and each of their respective directors, officers, employees, shareholders, partners, "controlling persons" (within the meaning of Section 15 of the U.S. Securities Act or Section 20 of the U.S. Exchange Act) and agents (collectively, the "Indemnified Parties") from and against all Claims to which any of the Indemnified Parties may become subject or otherwise involved in any capacity insofar as the Claims arise out of, result from, are based upon, or arise directly or indirectly by reason of:

9.1.1 any information or statement (except any information or statement relating to Underwriters' Disclosure) contained in the Initial Preliminary Prospectus, Amended and Restated Preliminary Prospectus, Final Prospectus, the U.S. Placement Memorandum or any Amendment, being or being alleged to be an untrue statement, omission or misrepresentation; or

9.1.2 any order made or any inquiry, investigation or proceeding announced, instituted or threatened by any court, securities regulatory authority, stock exchange or by any other competent authority, based upon any untrue statement, omission or misrepresentation or alleged untrue statement, omission or misrepresentation (except a statement, omission or misrepresentation relating solely to Underwriters' Disclosure) in the Initial Preliminary Prospectus, Amended and Restated Preliminary Prospectus, Final Prospectus, the U.S. Placement Memorandum or any Amendment (except any document or material delivered or filed solely by the Underwriters) preventing or restricting the trading in or the sale or distribution of the Offered Securities in any of the Qualifying Jurisdictions or the United States; or

9.1.3 any breach or default under any representation, warranty, covenant or agreement of the Company in this Agreement or any other documents, materials, instruments or certificates to be delivered pursuant hereto or the failure thereby to comply with any of its obligations hereunder or thereunder; or

9.1.4 the Company failing to comply with any requirement of any Securities Laws or U.S. Securities Laws relating to the offering of the Offered Securities.

9.2 If any Claim contemplated by this paragraph 9 shall be asserted against any of the Indemnified Parties, or if any potential Claim contemplated by this paragraph 9 shall come to the knowledge of any of the Indemnified Parties, the Indemnified Party concerned shall notify the Indemnifying Party, as soon as practicable, of the nature of such Claim (provided that any failure or delay to so notify shall not, except (and only) to the extent of actual material prejudice to the Indemnifying Party therefrom, affect the Indemnifying Party's liability under this paragraph 9), and the Indemnifying Party shall, subject as hereinafter provided, be entitled (but not required) to assume the defence on behalf of the Indemnified Party of any suit brought to enforce such Claim. Any such defence shall be through legal counsel acceptable to the Indemnified Party, and the Indemnifying Party shall pay the fees and disbursements of such counsel relating to such matter, and no admission of liability or settlement shall be made by the Indemnifying Party without, in each case, the prior written consent of the Indemnified Party, such consent not to be unreasonably withheld. Without limiting the generality of the foregoing, the Indemnifying Party shall not, without the Underwriters' prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any Claim in respect of which indemnification may be sought hereunder (whether or not any Indemnified Party is a party thereto) unless such settlement, compromise, consent or termination includes an unconditional release of all Indemnified Parties from any liabilities arising out of such Claim without any admission of negligence, misconduct, liability or responsibility by any Indemnified Party. An Indemnified Party shall have the right to employ separate counsel in any such suit and participate in the defence thereof but the fees and expenses of such counsel shall be at the expense of the Indemnified Party unless: (i) the Indemnifying Party fails to assume the defence of such suit on behalf of the Indemnified Party within 14 days of receiving notice of such suit or having assumed such defense, fails to pursue it; (ii) the employment of such counsel has been authorized by the Indemnifying Party; or (iii) the named parties to any such suit (including any added or third parties) include both the Indemnified Party and the Indemnifying Party and the Indemnified Party shall have been advised in writing by counsel that there may be one or more legal defences available to the Indemnified Party which are different from or in addition to those available to the Indemnifying Party or the Indemnified Party is advised by counsel that there is an actual or potential conflict in the Indemnifying Party's and its interests (in each of which cases the Indemnifying Party shall not have the right to assume the defence of such suit on behalf of the Indemnified Party, the Indemnified Party shall be required to keep the Indemnifying Party apprised of the developments of the Claim, including providing copies of any material documents related thereto to the Indemnifying Party and the Indemnifying Party shall be liable to pay the reasonable fees and expenses of the counsel for the Indemnified Party). No admission of liability or settlement may be made by an Indemnified Party without, in each case, the prior written consent of the Indemnifying Party, such consent not to be unreasonably withheld. It is understood that the Indemnifying Party shall, in connection with any one Claim or separate but substantially similar or related Claims in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of only one separate law firm at any time for all Indemnified Parties not having actual or potential differing interests. It is the intention of the Indemnifying Party to constitute the Underwriters as trustees for the Underwriters' subsidiaries and affiliates and their respective directors, officers, employees, shareholders, partners, controlling persons and agents of the covenants of the Indemnifying Party under this paragraph 9 and the Underwriters agree to accept such trust and to hold and enforce such covenants on behalf of such persons.

9.3 The Indemnifying Party agrees to reimburse the Underwriters for the time spent by the Underwriters' personnel in connection with any Claim contemplated by paragraph 9.1 at their normal per diem rates. The Indemnifying Party also agrees that if any Claim contemplated by paragraph 9.1 is brought against, or an investigation commenced in respect of, the Indemnifying Party or the Indemnifying Party and the Indemnified Party and personnel of the Underwriters will be required to testify, participate or respond in respect of or in connection with this Agreement, the Underwriters will, acting reasonably have the right to employ their own counsel in connection therewith and the Indemnifying Party will reimburse the Underwriters for the time spent by their personnel in connection therewith at their normal per diem rates together with such reasonable disbursements and out-of-pocket expenses as may be reasonably incurred, including reasonable fees and disbursements of the Underwriters' counsel.

9.4 If for any reason the indemnification provided for in paragraph 9.1 is unavailable or unenforceable, in whole or in part, to or by an Indemnified Party in respect of any losses, claims, damages, liabilities, costs or expenses (or claims in respect thereof) for which indemnity is provided in paragraph 9.1, and subject to the restrictions and limitations referred to therein, the Indemnifying Party and each affected Underwriter shall contribute to the aggregate amount paid or payable (or, if such indemnity is unavailable only in respect of a portion of the amount so paid or payable, such portion of the amount so paid or payable) by such Underwriters as a result of such losses (other than losses of profits in connection with the distribution of the Offered Securities), claims, damages, liabilities, costs or expenses (or claims in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Party on the one hand and the Underwriters on the other hand from the sale of the Offered Securities as well as their relative fault; provided, however, that no Underwriter shall in any event be liable to contribute, in the aggregate, any amount in excess of that Underwriter's portion of the Underwriting Fee actually received under this Agreement.

The relative benefits received by the Indemnifying Party on the one hand and the Indemnified Parties on the other hand shall be deemed to be in the proportion that the total proceeds received from the sale of the Offered Securities (net of the Underwriting Fee (or any portion thereof) actually received) is to the Underwriting Fee (or any portion thereof) actually received. The amount paid or payable by an Indemnified Party as a result of such losses, claims, damages, liabilities, costs or expenses (or claims in respect thereof) referred to above shall be deemed to include any reasonable legal or other expenses incurred by such Indemnified Party in connection with investigating or defending any such losses, claims, damages, liabilities, costs or reasonable expenses (or claims in respect thereof), whether or not resulting in any such claim.

9.5 The Underwriters shall cease to be entitled to the rights of indemnity and contribution contained in this paragraph 9 and shall promptly reimburse any funds advanced by the Indemnifying Party pursuant to this paragraph 9:

9.5.1 if the Company has complied with the provisions of paragraph 3.1.5 and the person asserting any Claim for which indemnity would otherwise be available was not delivered a copy of the Final Prospectus or was not provided with a copy of any Amendment which corrects any misrepresentation contained in the Final Prospectus which is the basis for such Claim and which Final Prospectus or Amendment is required under Securities Laws to be delivered to such person by the Underwriters or members of any Selling Firm; and

9.5.2 if and to the extent that a court of competent jurisdiction in a final judgment that has become non-appealable or a governmental authority in a final ruling from which no appeal can be made shall determine that a Claim to which an Indemnified Party may be subject has resulted from the gross negligence or willful misconduct of the Indemnified Party (provided that for greater certainty, an Underwriter's failure to conduct such reasonable investigations so as to provide reasonable grounds for a belief that the Amended and Restated Preliminary Prospectus, Final Prospectus or any Amendment contained no misrepresentation (or, colloquially, to permit the Underwriter to sustain a "due diligence defense" under Securities Laws) shall not automatically be deemed to constitute "gross negligence" or "willful misconduct" for purposes of this paragraph 9.5.2 or otherwise automatically be deemed to disentitle an Indemnified Party from claiming indemnification or contribution).

9.6 The Indemnified Parties shall be indemnified by the Indemnifying Party to the extent and manner as set out herein. Such indemnity shall be in addition to, and not in derogation or substitution for, any other liability that any party may have, or any right that any of the Indemnified Parties may have, apart from that indemnity. The rights of contribution provided in this paragraph 9 are in addition to and not in derogation or substitution of any other right to contribution which the Indemnified Parties may have by statute or otherwise at law.

9.7 The Indemnifying Party hereby waives any right it may have of first requiring an Indemnified Party to proceed against, enforce any other right, power, remedy or security or claim payment from, any other person before claiming against it.

9.8 Notwithstanding any other section or provision contained herein, the rights to indemnity and contribution contained in this paragraph 9 shall survive the Closing Time and shall, subject to Section 16, continue in full force and effect unaffected by any disposition by the Underwriters of any or all of the Offered Securities.

10. **Expenses**

10.1 Whether or not the transactions herein contemplated shall be completed, all reasonable expenses of or incidental to the Offering and the transactions herein contemplated including, without limitation: listing fees, expenses payable in connection with the qualification of the distribution of the Offered Securities, the fees and expenses of counsel for the Company, all fees and expenses of local counsel, all fees and expenses of the Auditors and Underwriters (including (i) consultant fees and (ii) fees of Underwriters' legal counsel (up to a maximum of $130,000, plus disbursements and applicable taxes, subject to be increased upon the Company's written consent, which consent shall not be unreasonably withheld), all reasonable costs and out of pocket expenses incurred in the marketing of the Offered Securities (including travel), all costs relating to roadshows, meetings and the preparation of audio-visual and other meeting materials and all costs incurred in connection with preparing, printing and providing commercial copies of the Initial Preliminary Prospectus, Amended and Restated Preliminary Prospectus, the Final Prospectus, the U.S. Placement Memorandum, any Amendment, marketing materials, other documents and certificates representing the Offered Securities, and all applicable taxes, shall be borne by and be for the account of the Company.

11. **Termination**

11.1 In addition to any other remedies which may be available to the Underwriters, an Underwriter shall be entitled, at its option, to terminate and cancel, without any liability on the Underwriter's part, that Underwriter's obligations under this Agreement if, prior to the Closing Time:

11.1.1 any order to cease or suspend trading in any securities of the Company, or prohibiting or restricting the distribution of the Offered Shares is made, or any proceeding is announced or commenced for the making of any such order, by any securities regulatory authority, any stock exchange or by any other competent authority, and has not been rescinded, revoked or withdrawn;

11.1.2 any inquiry, action, suit, investigation or other proceeding (whether formal or informal) is instituted, announced or threatened or any order is issued by any Governmental Authority or otherwise (other than an inquiry, investigation, proceeding or order based upon the activities or alleged activities of the Underwriters or the Selling Firms), or there is any change of law, or the interpretation or administration thereof, which in the reasonable opinion of the Underwriter operates to prevent or restrict the trading in the Common Shares or the distribution of the Offered Shares or which in the reasonable opinion of the Underwriter, acting in good faith, could be expected to have a material adverse effect on the market price or value of the Offered Shares or Common Shares, by giving the Company and, if applicable, the Lead Underwriter written notice to that effect not later than the Closing Time;

11.1.3 there shall occur any material change in the business, financial condition, assets, liabilities (contingent or otherwise), results of operations or prospects of the Company Entities (taken as a whole) or any change in any material fact contained or referred to in the Final Prospectus or any Amendment, or there shall exist or be discovered by any Underwriter any material fact which is, or may be, of such a nature as to render the Final Prospectus or any Amendment, untrue, false or misleading in a material respect or result in a misrepresentation (other than a change or fact related solely to the Underwriters or the Selling Firms), which in the reasonable opinion of the Underwriter could be expected to have a material adverse effect on the market price or value of the Offered Shares or Common Shares, by giving the Company and, if applicable, the Lead Underwriter written notice to that effect not later than the Closing Time;

11.1.4 there should develop, occur or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions or any action, law, regulation or inquiry which, in the reasonable opinion of the Underwriter, (i) materially adversely affects or involves, or may materially adversely affect or involve, the financial markets in Canada or the United States either in general, or solely in respect of the biotechnology and healthcare sector, or the business, operations or affairs of the Company Entities (taken as a whole), or the market price or value of the Offered Shares or Common Shares or (ii) results in the Offered Shares to not be marketed profitably, by giving the Company and, if applicable, the Lead Underwriter written notice to that effect not later than the Closing Time; or

11.1.5 the Passport Decision Document for the Final Prospectus has not been received by the Qualification Deadline.

If an Underwriter terminates its obligations hereunder pursuant to this paragraph 11, the Company's liability hereunder to that Underwriter shall be limited to the Company's obligations under paragraph 9 and payment of expenses referred to in paragraph 10 hereof.

12. **Reliance on Lead Underwriter, etc.**

All steps or other actions which must or may be taken by the Underwriters in connection with this Agreement shall be taken by the Lead Underwriter, with the exception of the matters contemplated by paragraphs 2.1.4, 9, 11, 13 and 14, on the Underwriters' behalf, and the execution of this offer by the Underwriters shall constitute the authority of the Company for accepting notification of any such steps or other actions from the Lead Underwriter.

13. **Underwriters' Obligation to Purchase Offered Securities**

13.1 The Underwriters' obligation to purchase the Offered Securities at the Closing Time or Over-Allotment Closing Time, as applicable, shall be several and not joint, and the Underwriters' respective obligations in this respect shall be as to the following percentages of the aggregate amount of Offered Securities to be purchased at that time:

Underwriter	Percentage
RBC Dominion Securities Inc.	55%
Roth Capital Partners, LLC	27.5%
Cormark Securities Inc.	17.5%

13.2 Except as set out below, if one or more of the Underwriters fails to purchase (each, a "Refusing Underwriter") its or their applicable percentages of the aggregate amount of the Offered Securities at the Closing Time (the "Defaulted Shares"), the other Underwriter or Underwriters shall have the right, but shall not be obligated, to purchase on a pro rata basis (or in such other proportion as the remaining Underwriters may mutually agree) all, but not less than all, of the Defaulted Shares which would otherwise have been purchased by the Refusing Underwriter(s). Nothing in this paragraph 13.2 shall oblige the Company to sell to any or all of the Underwriters less than all of the aggregate amount of the Offered Securities or shall relieve any of the Underwriters in default hereunder from liability to the Company.

14. **Conditions**

All of the terms and conditions contained in this Agreement to be satisfied by the Company prior to the Closing Time or Over-Allotment Closing Time, as applicable, shall be construed as conditions, and any breach or failure by the Company to comply with any of such terms and conditions shall entitle any Underwriter to terminate its obligations hereunder by written notice to that effect given to the Company prior to the Closing Time or Over-Allotment Closing Time, as applicable. It is understood and agreed that the Underwriters may waive in whole or in part, or extend the time for compliance with, any of such terms and conditions without prejudice to their rights in respect of any such terms and conditions or any other or subsequent breach or non-compliance; provided, however, that to be binding, any such waiver or extension must be in writing and signed by all the Underwriters. If an Underwriter elects to terminate its obligations hereunder the obligations of the Company hereunder shall be limited to the indemnity referred to in paragraph 9 hereof and the payment of expenses referred to in paragraph 10 hereof.

15. **Survival**

All warranties, representations, covenants and agreements of the Company herein contained (including its obligations under paragraphs 9 and 10 shall survive the purchase by the Underwriters of the Offered Securities and shall continue in full force and effect for the period hereinafter described, regardless of any investigation which the Underwriters may carry out or which may be carried out on behalf of the Underwriters or otherwise and notwithstanding any subsequent disposition by the Underwriters of the Offered Securities. Such warranties, representations, covenants and agreements of the Company shall survive for such maximum period of time as the Underwriters may be entitled to commence an action, or exercise a right of rescission, with respect to a misrepresentation contained in the Final Prospectus or an Amendment or either of them, pursuant to applicable Securities Laws in any of the Qualifying Jurisdictions (and, for greater certainty, each of the Indemnified Parties shall be entitled to bring a claim for indemnification pursuant to paragraph 9 hereof within such period of time). Notwithstanding the foregoing, in the case of any fraud or fraudulent misrepresentation of the Company, the representations, warranties and covenants of the Company contained in this Agreement or in agreements, certificates or other documents referred to in this Agreement or delivered pursuant to this Agreement shall survive the purchase and sale of the Offered Securities and the termination of this Agreement and shall remain in full force and effect indefinitely.

16. **Securities Sales**

The Company will not, without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld, during the period commencing on the signing of this Agreement and ending 90 days following the Closing Date, (i) offer, pledge, sell, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer, lend or dispose of directly or indirectly, Common Shares or any securities convertible into or exercisable or exchangeable for Common Shares, or (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Common Shares or such other securities of the Company, whether any such transaction referred to in clauses (i) or (ii) of this paragraph is to be settled by delivery of Common Shares or such other securities of the Company, in cash or otherwise, other than (a) the sale of the Offered Securities as contemplated in this Agreement, (b) issuances of Common Shares in connection with the exercise of obligations outstanding as at the date hereof, (c) issuances under any of the Company's incentive plans existing as at the date hereof, (d) issuance of securities as consideration in connection with bona fide arm's-length acquisitions or debt financings by the Company, or (e) issuance of securities in connection with any licensing or commercial transaction with a bona fide third party.

17. **Notice**

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be personally delivered or sent by facsimile on a Business Day to the following addresses:

in the case of the Company:

2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Dr. William Rice
Fax Number: 416-798-2200

with a copy (which shall not constitute notice) to:

McCarthy Tétrault LLP
1150, rue de Claire Fontaine, 7th Floor
Québec, Québec
G1R 5G4

Attention: Charles-Antoine Soulière
Facsimile: 418-521-3099

in the case of the Underwriters:

RBC Dominion Securities Inc.
Royal Bank Plaza, 200 Bay Street
South Tower, 4th Floor
Toronto, Ontario
M5J 2W7

Attention: Matt Pittman
Fax Number: 416-842-6678

-and-

Roth Capital Partners, LLC
888 San Clemente Drive
Newport Beach, CA 92660

Attention: Aaron M. Gurewitz
Fax Number: 949-720-7227

-and-

Cormark Securities Inc.
Royal Bank Plaza
South Tower, Suite 2800
200 Bay Street
Toronto, Ontario M5J 2J2
Canada

Attention: Jeff Kennedy
Fax Number: 416-943-6499

with a copy (which shall not constitute notice) to:

Torys LLP
79 Wellington Street West, Suite 3000
Box 270, TD Centre
Toronto, Ontario
M5K 1N2

Attention: Cheryl Reicin
Fax Number: 416-865-7380

The Company or any of the Underwriters may change its address by notice given in the manner aforesaid. Any such notice or other communication shall be deemed to have been given on the day on which it was delivered or sent by facsimile if received during normal business hours; otherwise it shall be deemed to have been received by 9:00 a.m. on the next Business Day.

18. **Time of Essence**

Time shall be of the essence of this Agreement.

19. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the courts of Ontario shall have non-exclusive jurisdiction over any dispute hereunder.

20. **Counterparts**

This Agreement may be executed in several counterparts, including by facsimile, each of which when so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

21. **Publicity**

Neither the Company nor the Underwriters shall make any public announcement concerning the appointment of the Underwriters or the offering without the consent of the other parties, acting reasonably, and any public announcements shall be made in compliance with applicable Securities Laws. After completion of the Offering, the Underwriters shall be entitled to place advertisements in financial and other newspapers and journals at their own expense describing their services hereunder.

22. **Acknowledgement by the Company**

The Company hereby acknowledges that (i) the purchase and sale of the Offered Securities pursuant to this Agreement, including the determination of the Offering Price, is an arm's-length commercial transaction between the Company, on the one hand, and each of the Underwriters and any affiliate through which it may be acting, on the other, (ii) each of the Underwriters is acting as principal and not as an agent or fiduciary of the Company, (iii) the engagement by the Company of each of the Underwriters in connection with the offering and sale of the Offered Securities and the process leading up to the offering and sale thereof is as independent contractors and not in any other capacity; (iv) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company; and (v) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the Offering and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate. Furthermore, the Company agrees that it is solely responsible for making its own judgments in connection with the offering and sale of the Offered Securities (irrespective of whether any of the Underwriters has advised or is currently advising the Company on related or other matters) and no Underwriter has any obligation to the Company with respect to the Offering except the obligations expressly set forth in this Agreement. The Company agrees that it will not claim that the Underwriters have rendered advisory services of any nature or respect, or owe an agency, fiduciary or similar duty to the Company, in connection with the offering and sale of the Offered Securities.

23. **Underwriters' Activities**

The Company acknowledges that the Underwriters and their affiliates carry on a range of businesses, including providing banking, credit derivative, hedging and foreign exchange products and services, institutional and retail brokerage, investment advisory, research, investment management, securities lending and custodial services to clients (including companies that are or may be involved in the transactions contemplated in this Agreement or are affiliated with the Company) and trading in financial products as agent or principal. It is possible that the Underwriters and other entities in their respective groups that carry on those businesses may hold long or short positions, and may trade or otherwise effect or recommend transactions, in securities of companies or other entities (including the Company), which are or may be involved in the transactions contemplated in this Agreement or are affiliated with the Company and effect transactions in those securities for their own account or for the account of their respective clients. The Company agrees that these divisions and entities may hold such positions and effect such transactions without regard to the Company's interest under this Agreement.

24. **Entire Agreement**

Unless expressly otherwise agreed to in writing between the applicable parties, this Agreement, including Annex A hereto, constitutes the entire agreement among the Underwriters and the Company relating to the subject matter of this Agreement and supersedes all prior agreements between those parties with respect to their respective rights and obligations in respect of the transactions contemplated under this Agreement.

25. **U.S. Offers**

25.1 The Underwriters make the representations, warranties, covenants and agreements applicable to them in Annex A hereto and agree, on behalf of themselves and their U.S. Affiliates, if applicable, for the benefit of the Company, to comply with the U.S. selling restrictions imposed by the laws of the United States and set forth in Annex A hereto. Notwithstanding the foregoing provisions of this section, no Underwriter or its U.S. Affiliate will be liable to the Company under this section or Annex A hereto with respect to a violation by another Underwriter or its U.S. Affiliate of the provisions of this section or Annex A hereto if the former Underwriter or its U.S. Affiliate is not itself also in violation.

25.2 The Company makes the representations, warranties, covenants and agreements applicable to it in Annex A hereto.

[*Remainder of page intentionally left blank. Signature pages follow.*]

If the foregoing is in accordance with your understanding and is agreed to by you, please confirm your acceptance by signing this letter at the place indicated and returning a copy to the Lead Underwriter on behalf of the Underwriters.

Yours very truly,

RBC DOMINION SECURITIES INC.

By: *(signed) Matt Pittman*
Name: Matt Pittman
Title: Director

ROTH CAPITAL PARTNERS, LLC

By: *(signed) Aaron M. Gurewitz*
Name: Aaron M. Gurewitz
Title: Head of Equity Capital Markets

CORMARK SECURITIES INC.

By: *(signed) Marwan Kubursi*
Name: Marwan Kubursi
Title: Managing Director

Accepted and agreed to as of March 27, 2014.

LORUS THERAPEUTICS INC.

By: *(signed) Gregory K. Chow*
Name: Gregory K. Chow
Title: Chief Financial Officer

I have authority to bind the Company.

Schedule A

FORM OF LOCK-UP AGREEMENT

RBC Dominion Securities Inc., as representative of the several Underwriters party to the Underwriting Agreement referred to below
Royal Bank Plaza, 200 Bay Street
South Tower, 4th Floor
Toronto, Ontario
M5J 2W7

Re: Lorus Therapeutics Inc. – Public Offering

Ladies and Gentlemen:

The undersigned understands that you, as representative of the several Underwriters, have entered into an Underwriting Agreement (the "Underwriting Agreement") with Lorus Therapeutics Inc., a Canadian corporation (the "Company"), providing for the public offering (the "Public Offering") by the several Underwriters (the "Underwriters"), of common shares of the Company (the "Securities"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Underwriting Agreement.

In consideration of the Underwriters' agreement to purchase and make the Public Offering of the Securities, and for other good and valuable consideration receipt of which is hereby acknowledged, the undersigned hereby agrees that, without the prior written consent of RBC Dominion Securities Inc. (which consent shall not be unreasonably withheld), on behalf of the Underwriters, the undersigned will not, whether for his or her own account or for the account of another, and will cause any spouse, immediate family member of the undersigned or immediate family member of the spouse living in the undersigned's household, or any trust of which any of the foregoing individuals are beneficiaries, to not in any manner, for a period commencing on the date hereof and terminating as described below, during the period ending 90 days after the closing date of the Public Offering:

(1) offer, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any common shares of the Company (the "Common Shares") or any securities convertible into or exercisable or exchangeable for Common Shares (including, without limitation, Common Shares which may be deemed to be beneficially owned by the undersigned in accordance with Canadian securities laws and securities which may be issued upon exercise of a stock option or warrant); or

(2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Shares;

whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Shares or such other securities, in cash or otherwise, in each case other than (A) transfers of Common Shares as a bona fide gift or gifts, or (B) transfers of Common Shares pursuant to a third party take-over bid made to all shareholders of the Company or similar acquisition transaction provided that in the event that the take-over or acquisition transaction is not completed, any Common Shares shall remain subject to the restrictions contained in this Letter Agreement; provided that in the case of any transfer or distribution pursuant to clause (A), each donee shall execute and deliver to RBC Dominion Securities Inc. a lock-up letter in the form of this paragraph.

In furtherance of the foregoing, the Company and any duly appointed transfer agent for the registration or transfer of the securities described herein are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Letter Agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Letter Agreement. All authority herein conferred or agreed to be conferred and any obligations of the undersigned shall be binding upon the successors, assigns, heirs or personal representatives of the undersigned.

The undersigned understands that if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Securities, the undersigned shall be released from, all obligations under this Letter Agreement. The undersigned understands that the Underwriters are entering into the Underwriting Agreement and proceeding with the Public Offering in reliance upon this Letter Agreement.

This Letter Agreement shall be governed by and construed in accordance with the laws of Province of Ontario, without regard to the conflict of laws principles thereof.

Very truly yours,

ANNEX A
TO
UNDERWRITING AGREEMENT

U.S. Selling Restrictions

As used in this Annex A, the following terms shall have the meanings indicated:

"**Directed Selling Efforts**" means "directed selling efforts" as that term is defined in Rule 902 of Regulation S;

"**Foreign Issuer**" shall have the meaning ascribed thereto in Rule 902 of Regulation S;

"**Foreign Private Issuer**" shall have the meaning ascribed thereto in Rule 405 of the U.S. Securities Act;

"**General Solicitation**" and "**General Advertising**" mean "general solicitation" and "general advertising", respectively, as used in Rule 502(c) under the U.S. Securities Act, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or any seminar or meeting whose attendees had been invited by general solicitation or general advertising or in any other manner involving a public offering within the meaning of Section 4(a)(2) of the U.S. Securities Act;

"**Preliminary U.S. Private Placement Memorandum**" means, the preliminary private placement memorandum dated on or about the date of the Amended and Restated Preliminary Prospectus prepared in accordance with the securities laws of the United States in respect of sales of Offered Securities to Qualified Institutional Buyers under Rule 144A in the form approved by the Company and the Underwriters, as the foregoing may be amended;

"**Qualified Institutional Buyer**" means a "qualified institutional buyer" as that term is defined in Rule 144A;

"**Regulation S**" means Regulation S adopted by the SEC under the U.S. Securities Act;

"**Substantial U.S. Market Interest**" means "substantial U.S. market interest" as that term is defined in Rule 902 of Regulation S;

"**United States**" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia; and

"**U.S. Private Placement Memorandum**" means the private placement memorandum dated on or about the date of the Final Prospectus prepared in accordance with the securities laws of the United States in respect of sales of Offered Securities to Qualified Institutional Buyers under Rule 144A, in the form approved by the Company and the Underwriters, as the foregoing may be amended.

All other capitalized terms used but not otherwise defined in this Annex A shall have the meanings assigned to them in the Underwriting Agreement to which this Annex A is attached.

Representations, Warranties and Covenants of the Underwriters

Each Underwriter, separately and not jointly, acknowledges, on behalf of itself and, other than ROTH, its U.S. Affiliates, that the Offered Securities have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold to any person within the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, each Underwriter, separately but not jointly, on behalf of itself and, other than ROTH, its U.S. Affiliates, represents, warrants and covenants to the Company that:

1. It has not offered and sold, and will not offer and sell (a) any of the Offered Securities outside of the United States except in an offshore transaction in accordance with Rule 903 of Regulation S or (b) any of the Offered Securities in the United States except in accordance with Rule 144A as provided below. Accordingly, neither the Underwriter, its affiliates nor any persons acting on their behalf has engaged or will engage in, has made or will make or has facilitated or will facilitate the making of (except as permitted below) (i) any offer to sell or any solicitation of an offer to buy any Offered Securities to any person in the United States; (ii) any sale of Offered Securities to any purchaser unless, at the time the buy order was or will have been originated, the purchaser was outside the United States, or such Underwriter, affiliate or person acting on behalf of either reasonably believed that such purchaser was outside the United States; or (iii) any Directed Selling Efforts, General Solicitation or General Advertising in the United States with respect to the Offered Securities.

2. All offers and sales of the Offered Securities in the United States will be effected (other than by ROTH) by or through the U.S. Affiliate of the Underwriter, duly registered under Section 15 the U.S. Exchange Act and applicable state securities laws (unless exempted from the respective state's broker-dealer registration requirements), or otherwise pursuant to Rule 15a-6 under the U.S. Exchange Act and will be effected in accordance with all applicable U.S. broker-dealer requirements. Each U.S. Affiliate of the Underwriter purchasing Offered Securities in the United States, and shall be on the date of any sale of the Offered Securities, is a Qualified Institutional Buyer and a member in good standing with FINRA. ROTH is duly registered under Section 15 of the U.S. Exchange Act and applicable state securities laws (unless exempted from the respective state's broker-dealer registration requirements).

3. Any offer or solicitation of an offer to buy Offered Securities by it or its U.S. Affiliate that has been made or will be made in the United States and any sale of Offered Securities by it or its U.S. Affiliate in the United States was or will be made by the Underwriters or their U.S. Affiliates, acting as principals, in accordance with Rule 144A only to persons they reasonably believe to be Qualified Institutional Buyers in transactions that are exempt from registration under the U.S. Securities Act and applicable state securities laws. All offers and sales of Offered Securities in the United States by the Underwriter or its U.S. Affiliate were made and will be made in compliance with all applicable United States federal and state broker-dealer requirements and all applicable rules of FINRA.

4. Immediately prior to soliciting such offerees, the Underwriter and its U.S. Affiliate, if applicable, had reasonable grounds to believe and did believe that each offeree was a Qualified Institutional Buyer.

5. At closing, it, together with its U.S. Affiliate selling Offered Securities in the United States, if applicable, will provide a certificate, substantially in the form of Exhibit A to this Annex A relating to the manner of the offer and sale of the Offered Securities in the United States.

6. The Underwriter shall inform (and shall cause its U.S. Affiliate to inform, if applicable) each purchaser to whom it or its U.S. Affiliate sells Offered Securities in the United States that such securities have not been and will not be registered under the U.S. Securities Act and are being sold to it in reliance on the exemption from registration under the U.S. Securities Act provided by Rule 144A.

7. The Underwriter shall or shall cause its U.S. Affiliate to deliver a copy of the Preliminary U.S. Private Placement Memorandum or the U.S. Private Placement Memorandum, to each of its offerees in the United States and a copy of the U.S. Private Placement Memorandum and any Amendment to each purchaser of the Offered Securities in the United States at or prior to the time of purchase of Offered Securities.

8. Neither the Underwriter, its U.S. Affiliate or any person acting on its behalf has taken or will take, directly or indirectly, any action in violation of Regulation M under the U.S. Exchange Act in connection with the offer and sale of the Offered Securities.

9. Prior to the completion of any sale of Offered Securities in the United States, the Underwriter or its U.S. Affiliate, as applicable, will cause each purchaser purchasing Offered Securities pursuant to Rule 144A (a "**U.S. Purchaser**") to provide to the Underwriter or its U.S. Affiliate, as applicable, a duly executed investment letter in the form attached to the U.S. Private Placement Memorandum as Exhibit A.

Representations, Warranties and Covenants of the Company

The Company represents, warrants, covenants and agrees (provided that for purposes of the following representations, warranties, covenants and agreements of the Company, none of the Underwriters, their U.S. Affiliates, the Selling Firms or anyone acting on any of their behalf will be deemed to be an affiliate or a person acting on behalf of the Company) that:

1. The Company, as of the Closing Date is and as of any Over-Allotment Closing Time will be, a Foreign Private Issuer and reasonably believed at the commencement of the offering of the Offered Securities that there was, and reasonably believes there is and will be on the Closing Date and any Additional Closing Time, no Substantial U.S. Market Interest in the Common Shares.

2. For so long as the Offered Securities which have been sold in the United States pursuant hereto are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, and if the Company is neither (i) subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the U.S. Exchange Act nor (ii) exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder, the Company shall provide to any holders of the Offered Securities which have been sold in the United States pursuant hereto, or to any prospective purchasers of the Offered Securities designated by such holders, upon request of such holders or prospective purchasers, at or prior to the time of resale, the information required to be provided by Rule 144A(d)(4) under the 1933 Act (so long as such requirement is necessary in order to permit holders of the Offered Securities to effect resales under Rule 144A).

3. Neither the Company nor any of its affiliates, nor any person acting on its or their behalf, has engaged or will engage in any Directed Selling Efforts with respect to the Offered Securities or in any form of General Solicitation or General Advertising with respect to the Offered Securities in the United States.

4. The Offered Securities are not, and as of the Time of Closing or any Over-Allotment Closing Time the Offered Securities will not be, and no securities of the same class as any of the Offered Securities are or will be, (i) listed on a national securities exchange in the United States registered under Section 6 of the U.S. Exchange Act; (ii) quoted in an "automated inter-dealer quotation system", as such term is used in the U.S. Exchange Act; or (iii) convertible or exchangeable at an effective conversion premium (calculated as specified in paragraph (a)(6) of Rule 144A) or exercisable at an effective premium (calculated as specified in paragraph (a)(7) of Rule 144A), in each case, of less than ten percent for securities so listed or quoted.

5. The Company is not now and as a result of the sale of the Offered Securities contemplated hereby or the application of the proceeds of the sale of the Offered Securities will not be, an open-ended investment company, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

6. Neither the Company nor any of its affiliates, nor any person acting on its or their behalf, has offered or will offer the Offered Securities except through the Underwriters and their U.S. Affiliates pursuant to this Annex A to the Underwriting Agreement, nor has the same taken or will take any action which would cause any exemptions or exclusions from the registration requirements of the U.S. Securities Act, including those provided by Rule 903 of Regulation S, Section 4(a)(2) of the U.S. Securities Act and Rule 144A, to be unavailable for the offer and sale of the Offered Securities.

7. In connection with offers and sales of Offered Securities outside of the United States, the Company, its affiliates and any person acting on its or their behalf have complied and will comply with the requirements for an "offshore transaction" within the meaning of Regulation S.

8. None of the Company, its affiliates or any person acting on its or their behalf has taken or will take any action, directly or indirectly, that would constitute a violation of Regulation M under the U.S. Exchange Act in connection with the offer and sale of the Offered Securities.

EXHIBIT A TO ANNEX A
UNDERWRITERS' CERTIFICATE

In connection with the private placement in the United States of the common shares (the "Offered Shares") of Lorus Therapeutics Inc. (the "Company") pursuant to the Underwriting Agreement dated March 27, 2014 among the Company and the Underwriters named therein (the "Underwriting Agreement"), each of the undersigned does hereby certify as follows:

1 . **[Name of U.S. broker-dealer affiliate] [Roth Capital Partners, LLC]** is a duly registered broker or dealer with the United States Securities and Exchange Commission and is a member of and in good standing with the Financial Industry Regulatory Authority, Inc. on the date hereof;

2. each offeree in the United States to which the undersigned offered Offered Shares was provided with a copy of the Preliminary U.S. Private Placement Memorandum or the U.S. Private Placement Memorandum and the documents incorporated by reference therein for the offering of the Offered Shares in the United States and each purchaser of Offered Shares in the United States to which the undersigned sold Offered Shares was provided with a copy of the U.S. Private Placement Memorandum prior to the time of purchase of Offered Shares;

3. immediately prior to our transmitting such Preliminary U.S. Private Placement Memorandum or U.S. Private Placement Memorandum to such offerees, we had reasonable grounds to believe and did believe that each such offeree was, and continue to believe that each such offeree who is purchasing Offered Shares in the United States from us is, a Qualified Institutional Buyer;

4. each U.S. Purchaser has provided a duly executed investment letter in the form attached to the U.S. Private Placement Memorandum as Exhibit A to the Underwriter or its U.S. Affiliate, as applicable;

5. no form of General Solicitation (as defined in the Underwriting Agreement) or General Advertising (as defined in the Underwriting Agreement) was used by us, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or any seminar or meeting whose attendees had been invited by general solicitation or general advertising, in connection with the offer or sale of the Offered Shares in the United States; and

6. the offering of the Offered Shares in the United States has been conducted by us in accordance with the terms of the Underwriting Agreement.

Terms used in this certificate have the meanings given to them in the Underwriting Agreement unless otherwise defined herein.

DATED this ■ day of ■, 2014.

[UNDERWRITER]

Per: _____
Name:
Title:

[U.S. BROKER-DEALER AFFILIATE]

Per: _____
Name:
Title:

LEASE AMENDING AGREEMENT

This agreement ("Agreement") is made the 15th day of April, 2005

BETWEEN:

565991 ONTARIO LIMITED ("Landlord"), an Ontario corporation having its principal office at 36E Stoffel Drive, Toronto, Ontario M9W 1A8

- and -

LORUS THERAPEUTICS INC. ("Tenant"), an Ontario corporation having its principal office at 2 Meridian Road, Toronto, Ontario M9W 4Z7.

WHEREAS Landlord and Tenant entered into a lease agreement ("Lease") made the 27th day of July, 2001 of the lands and building municipally known as 2 Meridian Road, Toronto, Ontario, which building has a leasable area of 20,500 square feet more or less (the "Premises");

AND WHEREAS the Lease expires on the 31st day of March, 2005;

AND WHEREAS Landlord and Tenant have reached an agreement to extend the term of the Lease and to amend certain of its provisions, as more particularly set out herein;

AND WHEREAS the terms not defined herein shall be as defined in the Lease;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the terms and conditions herein and good and valuable consideration, the receipt and sufficiency of which is acknowledged by each party hereto, the parties hereto hereby agree that:

1. Article 1.02 of the Lease is hereby amended to provide that the Term of the Lease shall be extended for a further three (3) year period commencing April 1st, 2005 and ending March 31st, 2008, and that the extension period from April 1st, 2005 to March 31st, 2008 is hereinafter referred to as the "Extension Term", and that all references to the Term in the Lease shall be amended to include the Extension Term.

2. Article 3.02(a) of the Lease is hereby amended to provide that the Net Rent for the Extension Term is payable in monthly instalments each in advance on the first day of each calendar month of the Extension Term as follows:

	Annual Net Rent	Monthly Instalments	Net Rent per square foot
April 1, 2005 – March 31, 2006	$112,750.00	$9,395.83	$5.50
April 1, 2006 – March 31, 2008	$128,125.00	$10,677.08	$6.25

3. Article 3.03(h)(iv) of the Lease is hereby amended to provide that Additional Rent shall include, not exclude, the cost of repairs of the roof and roof membrane of the Building.

4. Article 4.01 of the Lease is hereby amended by insertion of the following subparagraph (h):

(h) The Tenant shall immediately repair the Premises as follows:

(i) sidewalk in front of offices to be repaired;
(ii) paving in parking lot to be repaired;
(iii) truck-height barrier on east side entrance to be repaired; and
(iv) security gate on west side entrance to be repaired or replaced.

5. Article 8.01(b) of the Lease is hereby amended to provide that prior to the Landlord taking possession of and selling or disposing of records on the Premises germane to the business of the Tenant (the "Confidential Records") the Landlord shall give the Tenant sufficient opportunity to download, retrieve or delete the Confidential Records.

6. Article 11.18 of the Lease is hereby amended to provide that the Tenant shall, upon written notice to the Landlord given at least 120 days prior to the expiry of the Extension Term, have the option to further extend the Extension Term for a further period of three (3) years (the "Option Term"), subject to and upon the same terms and conditions of the Lease, except that:

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

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

7. All other terms and conditions of the Lease shall either be modified as necessary to accord with the above amendments or shall remain unamended, and in full force and effect.

8. This Agreement may be signed in counterparts and via facsimile and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same document.

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

LORUS THERAPEUTICS INC.

Per: _____
Shane A. Ellis, Vice President
Legal Affairs and Corporate Secretary

Per: _____
Dr. Jim A. Wright
President & Chief Executive Office

We have authority to bind the corporation.

565991 ONTARIO LIMITED

Per: _____
Sergio Dalbo, President

I have authority to bind the corporation

LEASE AMENDING AGREEMENT

This agreement ("Agreement") is made the 25th day of February, 2008

BETWEEN:

565991 ONTARIO LIMITED (the "Landlord"),
a corporation incorporated under the laws of Ontario

- and -

LORUS THERAPEUTICS INC.,
formerly known as 6650309 Canada Inc. (the "Tenant"),
a corporation incorporated under the laws of Canada

WHEREAS

A. By a lease dated the 27th day of July, 2001 (the "Original Lease"), the Landlord leased to 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, for and during a term of three (3) years commencing on the 1st day of April, 2002 and expiring on the 31st day of March, 2005, certain premises (the "Premises") comprising a leasable area of 20,500 square feet more or less (the "Original Lease") on the lands municipally known as 2 Meridian Road, Toronto, Ontario;

B. By a lease amending agreement made the 15th day of April, 2005 (the "First Amending Agreement"), the Landlord and 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, extended the term of the Original Lease for a further period of three (3) years commencing on the 1st day of April, 2005 and expiring on the 31st day of March, 2008, and amended certain of its other provisions;

C. By an assignment, consent and lease amending agreement made as of July, 2007 (the "Second Amending Agreement") made between the Landlord, 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.) and the above-named current Tenant, Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.), the Original Lease as amended by the First Amending Agreement was further amended and assigned by 4325231 Canada Inc. to Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.) with the consent of the Landlord;

D. The Original Lease, the First Amending Agreement and the Second Amending Agreement are herein referred to as the "Lease";

E. By Articles of Arrangement filed July 10th, 2007 pursuant to the Canada Business Corporations Act, the name of Lorus Therapeutics Inc. was changed to 4325231 Canada Inc. and the name of 6650309 Canada Inc. was changed to Lorus Therapeutics Inc.

F. The Landlord and the above-named current Tenant have reached an agreement to extend the term of the Lease and to amend certain of its other provisions, as more particularly set out herein;

G. Terms not defined herein shall be as defined in the Lease;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the terms and conditions herein and good and valuable consideration, the receipt and sufficiency of which is acknowledged by each party hereto, the parties hereto hereby agree that:

1. Article 1.02 of the Lease is hereby amended to provide that the Term of the Lease shall be extended for a further three (3) year period commencing April 1st, 2008 and ending March 31st, 2011, and that the extension period from April 1st, 2008 to March 31st, 2011 is hereinafter referred to as the "Second Extension Term", and that all references to the Term in the Lease shall be amended to include the Second Extension Term.

2. Article 3.02(a) of the Lease is hereby amended to provide that the Net Rent for the Second Extension Term is payable in monthly instalments each in advance on the first day of each calendar month of the Second Extension Term as follows:

Rent	Annual Net Rent	Monthly Instalments	Net Rent per Square Foot
April 1, 2008 – March 31, 2009	$129,150.00	$10,762.50	$6.30
April 1, 2009 – March 31, 2010	$134,275.00	$11,189.58	$6.55
April 1, 2010 – March 31, 2011	$139,400.00	$11,616.67	$6.80

3. Article 4.01(h) of the Lease is hereby deleted as the repair work was completed.

4. Article 4.07 of the Lease is hereby deleted as the repair work set out in Article 4.01(h) was completed.

5. Article 11.18 of the Lease is hereby deleted as there is no further option to extend.

6. All other terms and conditions of the Lease shall either be modified as necessary to accord with the above amendments or shall remain unamended, and in full force and effect.

7. This Agreement may be signed in counterparts and via facsimile and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same document.

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

LORUS THERAPEUTICS INC.

Per: _____
Dr. Aiping H. Young, President
I have authority to bind the corporation.

565991 ONTARIO LIMITED

Per: _____
Sergio Dalbo, President
I have authority to bind the corporation.

LEASE AMENDING AGREEMENT

This agreement (the "Agreement") is made the 15th day of December, 2010

BETWEEN:

565991 ONTARIO LIMITED (the "Landlord"),
a corporation incorporated under the laws of Ontario

- and -

LORUS THERAPEUTICS INC.,
formerly known as 6650309 Canada Inc. (the "Tenant"),
a corporation incorporated under the laws of Canada

WHEREAS

A. By a lease dated the 27th day of July, 2001 (the "Original Lease"), the Landlord leased to 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, for and during a term of three (3) years commencing on the 1st day of April, 2002 and expiring on the 31st day of March, 2005, certain premises (the "Premises") comprising a leasable area of 20,500 square feet more or less (the "Original Lease") on the lands municipally known as 2 Meridian Road, Toronto, Ontario;

B. By a lease amending agreement made the 15th day of April, 2005 (the "First Amending Agreement"), the Landlord and 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, extended the term of the Original Lease for a further period of three (3) years commencing on the 1st day of April, 2005 and expiring on the 31st day of March, 2008, and amended certain of its other provisions;

C. By an assignment, consent and lease amending agreement made as of July, 2007 (the "Second Amending Agreement") made between the Landlord, 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.) and the above-named Tenant, Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.), the Original Lease as amended by the First Amending Agreement was further amended and assigned by 4325231 Canada Inc. to Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.) with the consent of the Landlord;

D. By Articles of Arrangement filed July 10th, 2007 pursuant to the Canada Business Corporations Act, the name of Lorus Therapeutics Inc. was changed to 4325231 Canada Inc. and the name of 6650309 Canada Inc. was changed to Lorus Therapeutics Inc.

E. By a lease amending agreement made the 25th day of February, 2008 (the "Third Amending Agreement"), the Landlord and the above-named Tenant extended the term of the Original Lease, as amended by the First Amending Agreement and the Second Amending Agreement, for a further three (3) year period commencing April 1st, 2008 and ending March 31st, 2011, and amended certain of its other provisions;

F. The Original Lease, the First Amending Agreement, the Second Amending Agreement and the Third Amending Agreement are herein referred to as the "Lease";

G. The Landlord and the above-named Tenant have reached an agreement to extend the term of the Lease and to amend certain of its other provisions, as more particularly set out herein;

H. Terms not defined herein shall be as defined in the Lease;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the terms and conditions herein and good and valuable consideration, the receipt and sufficiency of which is acknowledged by each party hereto, the parties hereto hereby agree that:

1. Article 1.02 of the Lease is hereby amended to provide that the Term of the Lease shall be extended for a further two (2) year period commencing April 1st, 2011 and ending March 31st, 2013, and that the extension period from April 1st, 2011 to March 31st, 2013 is hereinafter referred to as the "Third Extension Term", and that all references to the Term in the Lease shall be amended to include the Third Extension Term.

SAS

2. Article 3.02(a) of the Lease is hereby amended to provide that the Net Rent for the Third Extension Term is payable in monthly instalments each in advance on the first day of each calendar month of the Third Extension Term as follows:

Rent	Annual Net Rent	Monthly Instalments	Net Rent per Square Foot
April 1, 2011 – March 31, 2012	$139,400.00	$11,616.67	$6.80
April 1, 2012 – March 31, 2013	$144,525.00	$12,043.75	$7.05

3. All other terms and conditions of the Lease shall either be modified as necessary to accord with the above amendments or shall remain unamended, and in full force and effect.

4. This Agreement may be signed in counterparts and via facsimile and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same document.

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

LORUS THERAPEUTICS INC.

Per: _____
Dr. Aiping H. Young, President
I have authority to bind the corporation.

565991 ONTARIO LIMITED

Per: _____
Sergio Delbo, President
I have authority to bind the corporation.

LEASE AMENDING AGREEMENT

This agreement (the "Agreement") is made the 1st day of February, 2013

BETWEEN:

565991 ONTARIO LIMITED (the "Landlord"),
a corporation incorporated under the laws of Ontario

- and -

LORUS THERAPEUTICS INC.,
formerly known as 6650309 Canada Inc. (the "Tenant"),
a corporation incorporated under the laws of Canada

WHEREAS

A. By a lease dated the 27th day of July, 2001 (the "Original Lease"), the Landlord leased to 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, for and during a term of three (3) years commencing on the 1st day of April, 2002 and expiring on the 31st day of March, 2005, certain premises (the "Premises") comprising a leasable area of 20,500 square feet more or less (the "Original Lease") on the lands municipally known as 2 Meridian Road, Toronto, Ontario;

B. By a lease amending agreement made the 15th day of April, 2005 (the "First Amending Agreement"), the Landlord and 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.), as tenant, extended the term of the Original Lease for a further period of three (3) years commencing on the 1st day of April, 2005 and expiring on the 31st day of March, 2008, and amended certain of its other provisions;

C. By an assignment, consent and lease amending agreement made as of July, 2007 (the "Second Amending Agreement") made between the Landlord, 4325231 Canada Inc. (then known as Lorus Therapeutics Inc.) and the above-named Tenant, Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.), the Original Lease as amended by the First Amending Agreement was further amended and assigned by 4325231 Canada Inc. to Lorus Therapeutics Inc. (then known as 6650309 Canada Inc.) with the consent of the Landlord;

D. By Articles of Arrangement filed July 10th, 2007 pursuant to the Canada Business Corporations Act, the name of Lorus Therapeutics Inc. was changed to 4325231 Canada Inc. and the name of 6650309 Canada Inc. was changed to Lorus Therapeutics Inc.

E. By a lease amending agreement made the 25th day of February, 2008 (the "Third Amending Agreement"), the Landlord and the above-named Tenant extended the term of the Original Lease, as amended by the First Amending Agreement and the Second Amending Agreement, for a further three (3) year period commencing April 1st, 2008 and ending March 31st, 2011, and amended certain of its other provisions;

F. By a lease amending agreement made the 15th day of December, 2010 (the "Fourth Amending Agreement"), the Landlord and the above-named Tenant extended the term of the Original Lease, as amended by the First Amending Agreement, the Second Amending Agreement and the Third Amending Agreement, for a further two (2) year period commencing April 1st, 2011 and ending March 31st, 2013, and amended certain of its other provisions;

G. The Original Lease, the First Amending Agreement, the Second Amending Agreement, the Third Amending Agreement and the Fourth Amending Agreement are herein referred to as the "Lease";

H. The Landlord and the above-named Tenant have reached an agreement to extend the term of the Lease and to amend certain of its other provisions, as more particularly set out herein;

I. Terms not defined herein shall be as defined in the Lease;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the terms and conditions herein and good and valuable consideration, the receipt and

sufficiency of which is acknowledged by each party hereto, the parties hereto hereby agree that:

1. Article 1.02 of the Lease is hereby amended to provide that the Term of the Lease shall be extended for a further two (2) year period commencing April 1st, 2013 and ending March 31st, 2015, and that the extension period from April 1st, 2013 to March 31st, 2015 is hereinafter referred to as the "Fourth Extension Term", and that all references to the Term in the Lease shall be amended to include the Fourth Extension Term.

2. Article 3.02(a) of the Lease is hereby amended to provide that the Net Rent for the Fourth Extension Term is payable in monthly instalments each in advance on the first day of each calendar month of the Fourth Extension Term as follows:

Rent	Annual Net Rent	Monthly Instalments	Net Rent per Square Foot
April 1, 2013 – March 31, 2014	$144,525.00	$12,043.75	$7.05
April 1, 2014 – March 31, 2015	$149,650.00	$12,470.83	$7.30

3. All other terms and conditions of the Lease shall either be modified as necessary to accord with the above amendments or shall remain unamended, and in full force and effect.

4. This Agreement may be signed in counterparts and via facsimile and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same document.

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

LORUS THERAPEUTICS INC.

Per: _____
Name: Aiping Young
Title: President & CEO
I have authority to bind the corporation.

565991 ONTARIO LIMITED

Per: _____
Sergio Dal Bo
President
I have authority to bind the corporation.

LORUS THERAPEUTICS INC.

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT is made the 25th day of October, 2013

BETWEEN:

LORUS THERAPEUTICS INC.
(the "Corporation")

- and -

DR. WILLIAM G. RICE
(the "Executive")

RECITALS:

A. The Corporation is involved in the biopharmaceutical business specializing in the development and commercialization of pharmaceutical products and technologies.

B. The Corporation wishes to employ the Executive in the position of Chairman of the Board ("Chair") and Chief Executive Officer.

C. The Corporation and the Executive have agreed to enter into this Executive Employment Agreement ("Agreement") in order to formalize in writing the terms and conditions reached between them governing the Executive's employment with the Corporation in his position as Chair and Chief Executive Officer.

NOW THEREFORE in consideration of the covenants in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the parties, the parties agree as follows:

1. **Definitions**

In this Agreement,

"Affiliate" means a corporation, partnership, limited liability company or any other entity which owns at least a majority of the outstanding shares of the Corporation or of which the Corporation owns at least a majority of the outstanding shares, equity or other ownership interests;

"Agreement" means this agreement and all schedules attached to this agreement, in each case as they may be amended or supplemented from time to time;

"Basic Salary" has the meaning set out in Section 4.1;

"Benefits" has the meaning set out in Section 4.2;

"Business Day" means any day, other than Saturday, Sunday, or a Corporation recognized holiday in the jurisdiction in which the recipient of a notice or other communication received in accordance with Section 12 is located;

"Disability" means the Executive's inability to perform the essential functions of the position described in this Agreement, with or without reasonable accommodations, for a period of 180 consecutive calendar days, or for any period of 180 days (whether or not consecutive) in any consecutive 365-day period, due to a physical or mental disability. A determination of a Disability shall be made by a physician satisfactory to both the Executive and the Corporation; provided that if the Executive and the Corporation do not agree on a physician, the Executive and the Corporation shall each select a physician and these two together shall select a third physician, whose determination as to a Disability shall be binding on all parties. The Corporation shall administer this provision in compliance with all applicable federal and state laws;

"Employment Period" has the meaning set out in Section 2;

"Good Reason" means any one of the following conditions that occurs without the Executive's written consent: (i) a material reduction in the Executive's responsibilities and authority as Chief Executive Officer of the Corporation; (ii) a material reduction in the Executive's Basic Salary, other than in connection with an across-the-board decrease of base salaries applicable to all senior executives of the Corporation; or (iii) relocation of the Executive's principal place of employment to a place that increases the Executive's one-way commute from the Executive's residence by at least fifty (50) miles as compared to the Executive's then-current principal place of employment immediately prior to such relocation. Notwithstanding the foregoing, in order to resign for Good Reason, the Executive must (1) provide the Corporation with written notice within sixty (60) days after the first occurrence of the event giving rise to Good Reason setting forth the basis for the resignation; (2) allow the Corporation at least thirty (30) days from receipt of such written notice to rescind or cure such event (the "Cure Period"); and (3) if such condition is not reasonably rescinded or cured within the Cure Period, the Executive's resignation from all positions he then holds with the Corporation (including any subsidiary or parent entities) must be effective not later than thirty (30) days after the expiration of the Cure Period and in any event not later than two (2) years following the first occurrence of the event giving rise to Good Reason;

"Just Cause" means: (i) theft, fraud, dishonesty or material misconduct by the Executive involving the property, business or affairs of the Corporation or the carrying out of the Executive's duties, which results in (or could result in) material harm to the Corporation; (ii) any material breach by the Executive of any term of this Agreement (other than a material breach of the Employee Proprietary Information and Inventions Agreement attached hereto as Schedule "B") that is capable of correction, after notice by the Corporation of the failure to do so and an opportunity for the Executive to correct the same within a reasonable time from the date of receipt of that notice and which material breach would constitute just cause for the termination of this Agreement and the Executive's employment hereunder; or (iii) any material breach of the Employee Proprietary Information and Inventions Agreement attached hereto as Schedule "B";

"Person" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

"Share Option Plan" means the Corporation's Stock Option Plan as the same is in effect at any relevant time;

"Stock Option Agreement" means any agreement required to be executed and delivered pursuant to the Share Option Plan"; and

"Year of Employment" means any 12-month period commencing on the date of commencement of the Executive's employment under this Agreement contained in Schedule "A" or on any anniversary of that date.

2. Employment and Term

The Corporation will employ the Executive, and the Executive will serve the Corporation in the office set forth in Schedule "A", with effect from the date contained in Schedule "A", until the effective date that the Executive's employment is terminated in accordance with Section 7 hereof (the "Employment Period").

3. Nature of Employment

3.1. The Executive will perform the duties of the office as outlined in Schedule "A".

3.2. During the Employment Period, the Executive will faithfully, honestly and diligently serve the Corporation. The Executive will (except in the case of illness, accident or vacation) devote all of the Executive's business time and attention to the Executive's employment and will use the Executive's best efforts to promote the interests of the Corporation. Notwithstanding the foregoing, the Executive may remain as Chairman of the Board of Cylene Pharmaceuticals, Inc. and, with the prior written consent of the Board of Directors of the Corporation (the "Board"), which consent will not be unreasonably withheld, serve on the board of directors of other corporations or accept part-time unpaid academic appointments, provided that any such board or academic appointment does not interfere with the performance of the Executive's obligations hereunder, and provides, in a manner satisfactory to the Board, for the adequate protection of any intellectual property arising out of or in connection with such appointment. Unless otherwise specified in Schedule "A", the Executive appreciates that the Executive's duties may involve travel from the Executive's place of employment (both within and outside the United States), and the Executive agrees to travel as reasonably required in order to fulfill the Executive's duties. The Executive will be reimbursed for the cost of any business visitor visas necessary for the performance of his duties while employed by the Corporation.

3.3. The Executive will comply with all rules, regulations and reasonable and legal instructions of the Corporation now in force, or that may be adopted from time to time, and communicated by the Corporation to its executives generally.

4. Remuneration

4.1. Basic Salary. The Corporation will pay to the Executive a gross annual salary (the "Basic Salary") as set out in Schedule "A". The Basic Salary will be payable in equal installments in accordance with the practices of the Corporation applicable to its other senior executives.

4.2. Benefits. The Executive will be eligible to participate in all Corporation benefit programs provided by the Corporation to its United States-based executive officers, once such benefit programs have been adopted and established in the United States. At this time, the Corporation anticipates such benefit programs will include: group health care coverage (including medical, dental and vision), life insurance, short term and long term disability coverage, accidental death and dismemberment, a 401(k) plan, and a non-qualified deferred compensation plan ("Deferred Compensation Plan"). Until the Corporation adopts and establishes a group health care coverage plan, the Corporation agrees to pay Executive a taxable monthly benefits allowance, as set out in Schedule "A."

4.3. Deferred Compensation Plan. The Corporation will make pre-ordinary income tax contributions to the Executive's Deferred Compensation Plan account as set out in Schedule "A".

4.4. Bonus Remuneration. The Executive will be entitled to receive bonus remuneration ("Bonus Remuneration") in respect of each Year of Employment during the Employment Period, or any part thereof, as the Board, in its good faith discretion, may authorize in accordance with the terms of any management incentive compensation plan of the Corporation in effect from time to time. The Executive's current Bonus Remuneration target is as set out in Schedule "A".

4.5. Share Options. The Executive shall be eligible to receive options to acquire common shares of the Corporation, subject to Executive's continued employment with the Corporation through the applicable date of grant, and in accordance with the following:

4.5.1. the Executive shall on the Effective Date of this Agreement (as set out in Schedule "A"), receive a grant of an option to acquire 425,000 common shares of the Corporation (the "Initial Option"). The Initial Option will be granted pursuant to and subject to the terms of the Share Option Plan and its standard Stock Option Agreement. The Initial Option will immediately be fully vested and exercisable on the date of grant and will have an exercise price equal to the fair market value of the common shares on the date of grant.

4.5.2. the Executive shall, within two (2) days following the closing of a bridge financing of the Corporation of at least U.S. $4 million on or about December 31, 2013, by way of equity investment, receive a grant of an additional option to acquire 845,000 common shares of the Corporation (the "Additional Option"). The Additional Option will be granted pursuant to and subject to the terms of the Share Option Plan and its standard Stock Option Agreement, upon approval of the Board. The Additional Option shall vest over three years and will have an exercise price equal to the fair market value of the common shares on the date of grant.

4.5.3. the Executive shall, within two (2) days upon the closing of the Corporation's financing of at least U.S. $17 million on or about April 30, 2014, by way of equity investment (the "PIPE"), receive an additional grant of an option to acquire 1,680,000 common shares of the Corporation (the "PIPE Option"). The PIPE Option will be granted pursuant to and subject to the terms of the Share Option Plan and its standard Stock Option Agreement, upon approval of the Board. The PIPE Option will vest over three years and will have an exercise price equal to the fair market value of the common shares on the date of grant.

4.6. Communication of Annual Objectives. Prior to the commencement of each Year of Employment throughout the Employment Period, the Lead Independent director of the Corporation, based on discussions with the full Board, will provide a written communication to the Executive setting out:

4.6.1. the corporate objectives as agreed to by the Executive and the Board relating to the employment of the Executive for the ensuing fiscal year of the Corporation;

4.6.2. the Basic Salary of the Executive during the ensuing fiscal year; and

4.6.3. the potential Bonus Remuneration to which the Executive may become entitled during the ensuing fiscal year and the basis of calculation thereof;

in each case as the same have been determined by the Compensation Committee of the Board and approved by the Board.

5. **Expenses**

5.1. Travel and Related Expenses. The Corporation will, upon presentation of expense statements or receipts and any other supporting documentation as the Corporation may reasonably require, pay or reimburse the Executive in accordance with the Corporation's expense policies for all travel and out-of-pocket expenses reasonably incurred or paid by the Executive in the performance of the Executive's duties and responsibilities.

5.2. Automobile. The Corporation will provide the Executive with an annual automobile allowance as set out in Schedule "A", such automobile allowance to be inclusive of all costs, including without limitation, the purchase or lease and maintenance of the Executive's automobile.

6. **Vacation**

Executive will be entitled during each Year of Employment during the Employment Period to accrue vacation time at the rate provided in Schedule "A". Vacation will be taken by the Executive at times reasonably acceptable to the Corporation having regard to its operations and will be in accordance with the Corporation's vacation policy.

7. **Termination of Employment**

7.1. The Corporation shall have the right to terminate the Executive's employment with or without Just Cause, at any time and without notice. The Executive shall have the right to resign for Good Reason by written notice of resignation delivered to the Board in accordance with the definition of "Good Reason." The Executive shall have the right to resign without Good Reason by providing at least sixty (60) days written notice of the resignation delivered to the Corporation (provided that after Executive has provided such notice to the Corporation, the Corporation may in its discretion shorten such notice period to a lesser duration and in such case the Corporation would only have to provide Executive with the compensation and benefits that had been earned as of the actual date of Executive's termination of employment). If the Executive resigns without Good Reason, he will continue to be paid until his 60-day notice period, or shorter period thereof, ends during the Employment Period. In light of the parties' understanding and mutual agreement that it is essential that the Corporation have an orderly transition period in the event of Executive's resignation without Good Reason, in such event, the Executive agrees to provide any transitional services reasonably requested by the Board during such notice period (at the Corporation's sole cost and expense) and further agrees that the Corporation shall be entitled to obtain equitable relief to the extent needed to require Executive's specific performance during the notice period, provided that the Corporation waives any right to seek contractual damages or other monetary remedies that arise solely with respect to any resignation upon less than sixty (60) days written notice.

This Agreement and the Executive's employment hereunder will automatically terminate upon the Executive's death, without any further obligations on the part of the Corporation to the Executive or the Executive's estate, other than accrued and unpaid Basic Salary and accrued and unused vacation pay, and any other accrued benefit required to be paid by law, up to the date of the Executive's death.

7.2. Mitigation. In the event of termination of the Executive's employment and his execution and non-revocation of the Release and Waiver that entitles him to severance, the Executive shall have no obligation to find employment.

7.3. Resignation as Officer or Director. Upon termination of employment, the Executive shall be deemed to automatically resign each position that he then holds as an officer or director of the Corporation; provided that (and without limiting the foregoing), if requested by the Corporation, the Executive shall contemporaneously deliver a written notice of resignation to the Board, unless requested by the Board in writing to continue on in one of his positions with the Corporation.

7.4. Severance Benefits For Qualifying Termination. If: (i) the Executive's employment is terminated either: (A) by the Corporation without Just Cause (other than due to Executive's death or Disability), or (B) by the Executive for Good Reason (each a "Qualifying Termination"); and (ii) the Executive satisfies the Release Requirement, then the Executive will receive the following Severance Benefits:

7.4.1. Either (a) a lump sum cash payment equal to the Executive's annual Basic Salary at the time of employment termination (without giving effect to any reduction in Basic Salary that would give Executive the right to resign for Good Reason), less applicable deductions and withholdings, to be paid by the Corporation on the first payroll period following the Effective Date of the Release (the "Lump Sum Payment"); or (b) if the Corporation, in the good faith discretion of the Board, is unable to make the Lump Sum Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to the Executive's annual Basic Salary (without giving effect to any reduction in Basic Salary that would give Executive the right to resign for Good Reason) to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date (the "Monthly Installment Payments"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Corporation may elect to make the Monthly Installment Payments in lieu of the Lump Sum Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and other guidance thereunder and any state law of similar effect (collectively "Section 409A").

7.4.2. A lump sum cash payment in an amount equal to the average of the Bonus Remuneration the Executive received from the Corporation during the last three Years of Employment completed prior to the year of the employment termination, pro rated based on the number of days the Executive worked during the year of the employment termination divided by 365 (the "Bonus Payment"). The Bonus Payment, less applicable deductions and withholdings, will be paid on the first payroll period following the Effective Date of the Release; and

7.4.3. If the Corporation has not previously established a group health plan that Executive has commenced to participate in prior to Executive's termination, the Corporation shall continue to pay the Executive a monthly payment of U.S.$2,000.00 (before deduction for income taxes and other required deductions), payable on the last Friday of each month, for a period of twelve (12) months following the date of termination, provided that any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid during the first payroll period that follows the Effective Date of the Release. If the Corporation has previously established a group health plan in which Executive participates prior to Executive's termination and Executive timely elects COBRA coverage following any Qualifying Termination, the Corporation will pay the Executive for the full amount of such COBRA premiums for himself and his covered dependants (on a monthly basis) for a period of up to twelve (12) months following the date of termination; *provided, that,* if and to the extent that any benefit described in this Section 7.4.3 is not or cannot be paid or provided under any Corporation plan or program without adverse tax consequences to the Corporation or for any other reason, as determined by the Corporation in its sole discretion, then the Corporation shall pay the Executive a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding premiums for a period of up to twelve (12) months following the date of termination; *provided, further, that* the COBRA payments or, if applicable, the monthly payment discussed above, shall terminate on the earliest to occur of (A) the close of the 12-month period following the termination of the Executive's employment; (B) the expiration of the Executive's (or Executive's dependents') eligibility for continuation coverage under COBRA; and (C) the date when the Executive becomes eligible for group health insurance coverage in connection with new employment or self-employment. If the Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA coverage during the period provided in this Section 7.4.3, Executive must immediately provide written notice to the Corporation of such event, and the Corporation-provided COBRA payments, or if applicable, the monthly payments under this Section 7.4.3 shall immediately cease.

7.5. Release Requirement. Notwithstanding the foregoing, to be eligible for any of the Severance Benefits, on or within thirty (30) days following the termination of employment, the Executive must satisfy the requirement (the "Release Requirement") to return to the Corporation a signed and dated general release of all known and unknown claims in a form acceptable to the Corporation (the "Release and Waiver") and allow that Release and Waiver to become effective in accordance with its terms (such date, the "Effective Date of the Release"). No Severance Benefits will be paid hereunder prior to the Effective Date of the Release. Accordingly, if the Executive breaches the preceding sentence and/or refuses to sign and deliver to the Corporation an executed Release and Waiver or signs and delivers to the Corporation the Release and Waiver but exercises his right, if any, under applicable law to revoke the Release and Waiver (or any portion thereof), then the Executive will not be entitled to any bonus, severance, or payment under this Agreement.

8. **IRS Code Section 409A**

Notwithstanding anything to the contrary herein, the following provisions apply to the extent benefits provided herein are subject to Section 409A. Severance Benefits shall not commence until the Executive has a "separation from service" for purposes of Section 409A. Each installment of Severance Benefits is a separate "payment" for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i), and the Severance Benefits are intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), and 1.409A-1(b)(9). However, if such exemptions are not available and the Executive is, upon separation from service, a "specified employee" for purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences to the Executive under Section 409A, the timing of the Severance Benefits payments shall be delayed until the earlier of (i) six (6) months and one day after the separation from service, or (ii) the date of the Executive's death. If the Corporation determines that any Severance Benefits provided under this Agreement constitutes "deferred compensation" under Section 409A, for purposes of determining the schedule for payment of the Severance Benefits the Effective Date of the Release will not be deemed to have occurred any earlier than the sixtieth (60^{th}) date following the Separation From Service, regardless of when the Release actually becomes effective. The Severance Benefits are intended to qualify for an exemption from application of Section 409A or comply with its requirements to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly.

9. **Parachute Payment**

If any payment or benefit the Executive would receive pursuant to this Agreement ("Payment") would (i) constitute a "Parachute Payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then such Payment shall be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion of the Payment, which such amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting Parachute Payments is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: reduction of cash payments; reduction of employee benefits. The accounting firm then engaged by the Corporation for general audit purposes shall perform the foregoing calculations. The Corporation shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Executive and the Corporation.

10. **No Conflicting Obligations**

10.1. The Executive warrants to the Corporation that:

10.1.1. the performance of the Executive's duties as an employee of the Corporation will not breach any agreement or other obligation to keep confidential the proprietary information of any third party; and

10.1.2. the Executive is not bound by any agreement with or obligation to any third party that conflicts with the Executive's obligations as an employee of the Corporation or that may affect the Corporation's interest in the Inventions (as defined in the Employee Proprietary Information and Inventions Agreement attached hereto as Schedule "B").

10.2. The Executive will not, in the performance of the Executive's duties as an employee of the Corporation:

10.2.1. improperly bring to the Corporation or use any trade secrets, confidential information or other proprietary information of any third party; or

10.2.2. knowingly infringe the intellectual property rights of any third party.

11. **Proprietary Information and Assignment of Inventions Agreement**

Concurrently herewith, the Executive shall execute and deliver to the Corporation (and comply with) an Employee Proprietary Information and Inventions Agreement ("PIA") in the form attached hereto as Schedule "B."

12. **Notices**

Any notice or other communication required or permitted to be given hereunder must be in writing, and must be given by facsimile or other means of electronic communication or by hand-delivery as hereinafter provided, except that any notice of termination by the Corporation under Section 7 above must be hand-delivered or given by registered mail. Any notice or other communication, if mailed by registered mail, will be deemed to have been received on the day that mail is delivered by the post office, or if sent by facsimile, will be deemed to have been received on the Business Day following the confirmed sending, or if delivered by hand to the Executive will be deemed to have been received at the time it is delivered to the Executive or, if delivered to the Executive or the Corporation at the applicable address noted in Schedule "A", when it is delivered either to the individual designated in Schedule "A" or to an individual at that address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address will also be governed by this section. Notices and other communications must be addressed as set out in Schedule "A".

13. **Headings**

The inclusion of headings in this Agreement is for convenience of reference only and is not to affect construction or interpretation.

14. **Invalidity of Provisions**

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any provision by a court of competent jurisdiction will not affect the validity or enforceability of any other provision.

15. **Entire Agreement**

This Agreement and the attached Schedules "A" and "B" constitute the entire agreement between the parties pertaining to the subject matter of this Agreement. This Agreement supersedes and replaces all prior agreements, if any, written or oral, with respect to the Executive's employment by the Corporation. There are no warranties, representations or agreements between the parties in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement. No reliance is placed on any representation, opinion, advice or assertion of fact made by the Corporation, or its directors, officers and agents (for each of whom the Corporation contracts as trustee) to the Executive, except to the extent that the same has been reduced to writing and included as a term of this Agreement. Accordingly, there will be no liability, either in tort or in contract, assessed in relation to any representation, opinion, advice or assertion of fact, except to the extent aforesaid.

16. **Waiver, Amendment**

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement will be binding unless executed in writing by the Corporation and the Executive. No waiver of any provision of this Agreement will constitute a waiver of any other provision nor will any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

17. **Binding Effect: Assignment**

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. The Executive may not assign his rights or delegate his obligations under this Agreement, and any attempt at an assignment or delegation shall be void and of no effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, successors and permitted assigns.

18. **Affiliates**

To the extent that the Executive performs services for Affiliates of the Corporation, his obligations hereunder with respect to the Corporation also shall be deemed to include such Affiliates.

19. **Governing Law**

This Agreement and the Executive's employment hereunder will be governed by and construed in accordance with the laws of the State of California.

20. **Arbitration**

20.1. All disputes, controversies or differences between the parties hereto which are not settled by common accord shall be conclusively settled by arbitration before one arbitrator in San Diego, California, in accordance only with the then-current American Arbitration Association Employment Rules, and judgment and the award rendered by the arbitrator may be entered in any court or tribunal of competent jurisdiction. In any arbitration proceeding conducted pursuant to this section, both parties shall have the right to discovery, to call witnesses and to cross-examine the other party's witnesses (either through legal counsel, expert witnesses, or both). All decisions of the arbitrator shall be final, conclusive and binding upon the parties. The arbitrator shall issue a written decision, including the essential findings and conclusions on which the award is based, and all decisions of the arbitrator shall not be subject to judicial review.

20.2. The Corporation shall bear the fees and costs of the arbitrator and the arbitration specific costs and each party shall bear their own costs and expenses (including attorneys' fees and expenses) incurred in connection with the arbitration; provided, in the event of such arbitration or any litigation between the Executive and the Corporation in aid of arbitration or to enforce an award or in respect of a matter that is not subject to arbitration pursuant to this Agreement, the prevailing party shall be entitled to attorneys' fees and costs pursuant to applicable law and, if a party to this Agreement hereafter pursues any dispute by any method other than as set forth herein, the responding party shall be entitled to recover from the initiating party all damages, costs, expenses and attorneys' fees incurred as a result of defending such action.

20.3. The agreement to arbitrate provided by this section specifically includes, but is not limited to: any claims arising out of or relating to the Executive's employment with the Corporation or the terms and conditions or the termination thereof; any claims arising out of or relating to this Agreement or any other agreement to which the Executive and the Corporation are parties and that arises out of or relates in any way to the Executive's employment with the Corporation or the terms and conditions or the termination thereof; any claim that this Agreement or any such other agreement is invalid, unenforceable, void, voidable or is or may be rescinded, revoked or terminated and any claim arising out of or relating in any way to any action or omission of any kind whatsoever in the course of or connected in any way with any relations between the Corporation and the Executive, including, by way of example and not limitation, the following types of claims: wage or overtime claims, wrongful or constructive discharge claims, discrimination claims (including sex, age, race, religion, national origin), harassment claims of any kind and claims for denial of benefits. BY AGREEING TO ARBITRATION HEREUNDER, BOTH THE EXECUTIVE AND THE CORPORATION UNDERSTAND THEY ARE AGREEING TO HAVE ANY DISPUTE RELATING TO THIS AGREEMENT OR THE BREACH OR TERMINATION THEREOF DECIDED BY A NEUTRAL ARBITRATOR AND AS TO THOSE DISPUTES DECIDED BY THE NEUTRAL ARBITRATOR, THE EXECUTIVE AND THE CORPORATION ARE GIVING UP THEIR RIGHT TO A JURY OR COURT TRIAL.

20.4. Notwithstanding the foregoing provisions of this section, either the Executive or the Corporation, in a court of competent jurisdiction, may seek to obtain preliminary injunctive and/or other equitable relief in support of claims to be prosecuted in an arbitration to the extent allowed by the California Arbitration Act by filing an action in court in accordance with California Code of Civil Procedure Section 1281.8.

21. **Counterparts**

This Agreement may be signed in counterparts. Each counterpart will constitute an original document and all counterparts, taken together, will constitute one and the same instrument. Executed counterparts may be delivered by telecopier or other electronic delivery.

22. **Acknowledgement**

The Executive acknowledges that:

(i) the Executive has received a copy of this Agreement;

(ii) the Executive has had sufficient time to review and consider this Agreement thoroughly;

(iii) the Executive has read and understands the terms of this Agreement and the Executive's obligations under this Agreement;

(iv) the Executive has been given an opportunity to obtain independent legal advice, or other advice as the Executive may desire, concerning the interpretation and effect of this Agreement, and by signing this Agreement the Executive has either obtained advice or voluntarily waived the Executive's opportunity to receive same; and

(v) this Agreement is entered into voluntarily by the Executive.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF THE PARTIES HAVE EXECUTED THIS AGREEMENT UNDER THEIR RESPECTIVE SEALS.

LORUS THERAPEUTICS INC.

Date: Oct. 25, 2013

By: /s/ Jim A. Wright c/s

Name: Jim A. Wright

Title: Chairman of the Board of Directors

I agree and accept employment on these terms.

WITNESS:)
)
)
/s/ Aiding H Young)
Signature of Witness)
)
)
Aiding H Young)
Witness Name (Please Print))

/s/ William G. Rice l/s
DR. WILLIAM G. RICE

SCHEDULE "A"

EXECUTIVE EMPLOYMENT AGREEMENT

This schedule is attached to and forms an essential part of the executive employment agreement (the "Agreement") between Lorus Therapeutics Inc. (the "Corporation") and Dr. William G. Rice (the "Executive").

1. In accordance with Section 2 of the Agreement, the Executive's employment with the Corporation will commence on October 25, 2013 (the "Effective Date").

2. In accordance with Section 2 of the Agreement, the office to be held by the Executive in the Corporation will be Chair and Chief Executive Officer. The Corporation may, at any time, and subject to the Executive's rights under the Agreement, assign the Executive to perform other functions (with the Corporation and/or any of its Affiliates) that are consistent with the Executive's skill and experience and the position of Chair and Chief Executive Officer.

3. In accordance with Section 3.1 of the Agreement, the undersigned has agreed to perform the duties of the office of Chair and Chief Executive Officer in accordance with paragraph 2 of this Schedule "A" and as set out in the job description attached as Appendix 1 to this Schedule "A", as amended from time to time by the Corporation with the prior written consent of the Executive.

4. In accordance with Section 4.1 of the Agreement, the Executive will be entitled to a Basic Salary of U.S. $380,000.00 per year (before deduction for income taxes and other required deductions), which Basic Salary will be increased to U.S. $480,000.00 per year effective as of the closing of the PIPE (as defined in the Agreement). Thereafter, the Corporation will review the Executive's Basic Salary annually, with a view to considering increases which the Board, upon advice of the Compensation Committee, deems to be appropriate and in the best interests of the Corporation.

5. In accordance with Section 4.2 of the Agreement, the Executive will be entitled to a monthly payment of U.S. $2,000.00 (before deduction for income taxes and other required deductions), payable on the last Friday of each month, until such time that the Corporation adopts and establishes a group health care coverage plan and the Executive commences participation in such plan.

6. In accordance with Section 4.3 of the Agreement, the Corporation shall contribute an amount equal to 3% of the Executive's Basic Salary annually to the Executive's Deferred Compensation Plan account, with such contributions made on a pre-ordinary income tax basis and in manner that complies with the requirements of Section 409A of the U.S. Internal Revenue Code.

7. In accordance with and subject to Section 4.4 of the Agreement and any management incentive compensation plan, the Executive shall be entitled to receive annual Bonus Remuneration of up to 45% of his then current Basic Salary (as determined as of the last day of the applicable performance period for which the Bonus Remuneration was earned); provided that upon the closing of the PIPE, the Compensation Committee of the Corporation will evaluate in good faith the Executive's eligibility for an immediate payment of a pro rata portion of the Bonus Remuneration for the applicable performance period. Any Bonus Remuneration will be paid to the Executive no later than the later of: (i) the fifteenth (15th) day of the third (3rd) month following the close of the Corporation's fiscal year in which such Bonus Remuneration is earned or (ii) March 15 following the calendar year in which such Bonus Remuneration is earned.

8. In accordance with Section 5.2 of the Agreement, the Executive will be provided with an annual automobile allowance of U.S. $14,400.00 (before deduction for income taxes and other required deductions) payable in equal monthly installments on the last Friday of each month.

9. In accordance with Section 6, the Executive will accrue twenty-five (25) days of paid vacation annually, to be adjusted to reflect periods of employment of less than a full calendar year (which, if not fully used, may be carried over from year to year, up to a reasonable cap as set forth by the Corporation).

10. In accordance with Section 12, any notice or communication to be given or made must be addressed as follows:

if to the Executive
Attention: Dr. William G. Rice
13601 Nogales Drive
Del Mar, CA 92014

if to the Corporation:
Lorus Therapeutics Inc.
2 Meridien Road
Toronto, ON
Attention: Lead Independent Director

with copies to:

McCarthy Tétrault LLP
Suite 4700, Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1E6

Attention:	Trevor Lawson
Tel:	(416) 601-8227
Facsimile:	(416) 868-0673
Email:	tlawson@mccarthy.ca

APPENDIX 1

Job Description

Dr. William G. Rice

Dr. William G. Rice ("Rice") will be the Chair and Chief Executive Officer of the Corporation.

As Chair and Chief Executive Officer, Rice will provide leadership, strategic vision, direction and effective operational execution within budget to the Corporation and its executives and employees.

Rice will be responsible for developing, implementing, executing and achieving the Corporation's strategic plans and for ensuring that the Corporation's strategic plans and objectives are effectively communicated, both internally to the board of directors, executives and employees, and externally to the bio-technology and investment communities, including shareholders and potential investors. Rice will also be responsible for securing strategic alliances with other credible bio-technology and pharmaceutical companies, for raising financing as required and for ensuring that the Corporation is able to attract, motivate and retain superior executives and employees.

Rice will report to the Board of Directors of the Corporation and will be a member of the Board of Directors of the Corporation.

In addition to the foregoing, Rice shall have such further responsibilities consistent with the position of Chair and Chief Executive Officer as shall be assigned to Rice by the Board of Directors of the Corporation from time to time.

SCHEDULE "B"

EMPLOYEE PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT

I understand that as part of my employment ("Employment") by Lorus Therapeutics Inc. (the "Company"), whether pursuant to that certain Executive Employment Agreement of even date herewith (the "Employment Agreement") or otherwise, I am or may be expected to make new contributions and discoveries of value to the Company. I further understand that my Employment creates in me a duty of trust and confidentiality to the Company with respect to any information (1) related, applicable or useful to the business of the Company, including the Company's anticipated research and development assigned to me by the Company; or (2) resulting from the use of equipment, supplies or facilities owned, leased or contracted for by the Company; or (3) related, applicable or useful to the business of any client of the Company, which may be made known to me by the Company or by any client of the Company, or learned by me during the period of my Employment.

As part of the consideration for my Employment and the compensation received by me from the Company (including bonuses and benefits) from time to time, I hereby agree as follows:

1. All Proprietary Information (as defined on Annex 1 hereto) and Inventions (as defined on Annex 1 hereto) shall be the sole property of the Company and its assigns, and the Company and its assigns shall be the sole owner of all patents, trademarks, service marks and copyrights and other rights (collectively referred to herein as "Rights") pertaining to Proprietary Information and Inventions. I hereby assign to the Company any rights I may have or acquire in Proprietary Information or Inventions or Rights pertaining to the Proprietary Information or Inventions. I further agree as to all Proprietary Information or Inventions to assist the Company or any person designed by it in every proper way (but at the Company's expense) to obtain and from time to time enforce Rights relating to said Proprietary Information or Inventions in any and all countries. I will execute all documents for use in applying for, obtaining and enforcing such Rights on such Proprietary Information or Inventions as thereof to the Company or persons designated by it. My obligation to assist the Company or any person designated by it in obtaining and enforcing Rights relating to Proprietary Information or Inventions shall continue beyond the cessation of my Employment ("Cessation of my Employment"), but the Company shall compensate me at a reasonable rate after the Cessation of my Employment for time actually spent by me upon the Company's request for such assistance. In the event the Company is unable, after reasonable effort, to secure my signature on any document or documents needed to apply for or enforce any Right relating to Proprietary Information or to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agents and attorneys-in-fact to act for and in my behalf and stead in the execution and filing of any such application and in furthering the application for an enforcement of Rights with the same legal force and effect as if such acts were performed by me. I hereby acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my Employment and which are protectable by copyright are "works for hire" as that term is defined in the United States Copyright Act (17 USCA, Section 101).

2. I will promptly disclose to the Company, and the Company hereby agrees to receive such disclosures in confidence, all discoveries, developments, designs, improvements, inventions, formulas, software programs, processes, techniques, know-how, negative know-how and data, whether or not patentable or registrable under patent, copyright or similar statutes or reduced to practice, made or conceived or reduced to practice or learned by me, either alone or jointly with others during the period of my Employment, for the purpose of permitting the Company to determine whether they constitute Inventions. In order to facilitate the complete and accurate disclosures described above, I agree to maintain complete written records of all Inventions, and of all work, study and investigation related thereto done by me during my Employment, which records shall be the property of the Company.

3. At all times, both during my Employment and after the Cessation of my Employment, whether the cessation is voluntary or involuntary, for any reason or no reason, or by disability, I will keep in strictest confidence and trust all Proprietary Information, and I will not disclose, use, or induce or assist in the use or disclosure of any Proprietary Information or Rights pertaining to Proprietary Information, or anything related thereto, without the prior express written consent of the Company, except as may be necessary in the ordinary course of performing my duties as an employee of the Company. I recognize that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty of the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree that I owe the Company and such third parties, during my Employment and thereafter, a duty to hold all such confidential or proprietary information in the strictest confidence, and I will not disclose, use, or induce or assist in the use or disclosure of any such confidential or proprietary information without the prior express written consent of the Company, except as may be necessary in the ordinary course of performing my duties as an employee of the Company consistent with the Company's agreement with such third party.

4. I acknowledge that during my Employment with the Company, I have a fiduciary duty and/or duty of loyalty to the Company. During the period of my Employment, I will not, unless provided for in my Employment Agreement or with the Company's express written consent: (a) directly or indirectly engage in any activity which is in competition with the Company, (b) alone or in concert with others, in any way use or disclose Proprietary Information in order to solicit, entice or in any way divert any client to do business with any business entity in competition with the Company, or (c) make any copies of Proprietary Information without the express written authorization of the Company, unless such copies are necessary in the ordinary course of performing my duties as an employee of the Company. Additionally, I agree that during my Employment with the Company and for one (1) year thereafter, I will not either directly or indirectly, solicit or attempt to solicit any employee, independent contractor, or consultant of the Company to terminate his, her or its relationship with the Company in order to become an employee, consultant, or independent contractor to or for any other person or entity.

5. In the event of the Cessation of my Employment, I will deliver to the Company all devices, records, sketches, reports, proposals, client information, lists, correspondence, equipment, software, documents, photographs, photostats, negatives, undeveloped film, notes, drawings, specifications, tape recordings or other electronic recordings, programs, data and other materials or property of any nature belonging to the Company or pertaining to my work with the Company, and I will not take with me, or allow a third party to take, any of the foregoing or any reproduction of any of the foregoing.

6. Any provision in this Agreement requiring me to assign my rights in any invention shall not apply to an invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, the terms of which have been set forth on Annex 1 to this Agreement. I understand that I bear the full burden of proving to the Company that an invention qualifies fully under Section 2870. By signing this Agreement, I acknowledge receipt of a copy of this Agreement and of written notification of the provisions of Section 2870. Notwithstanding the foregoing, I also assign to the Company (or as directed by it) any rights I may have or acquire in any Invention, full title to which is required to be in the United States by a contract between the Company and the United States or any of its agencies.

7. As a matter of record I have listed in Item 1 of Annex 2 attached hereto all inventions or improvements relevant to the subject matter of my Employment which have been made or conceived of or first reduced to practice by me alone or jointly with others prior to my Employment. I represent and warrant that such list is complete. I further represent and warrant that, in due consideration for my Employment and the compensation received by me from the Company, and in return for the Company reimbursing me for the fees associated with the patent application described under Annex 2, I hereby voluntarily agree to sell, convey, assign and transfer unto the Company, its successors, assigns and legal representatives, the full and exclusive right, title and interest in and to the patent application described under Annex 2, for which I am the sole inventor, and all related U.S. and foreign patent applications and patents. I hereby covenant that I have the full right to convey the patent application and all related U.S. and foreign patent applications and patents, and that I have not executed and will not execute any agreement in conflict herewith. I hereby agree and acknowledge that California Labor Code Section 2870 does not apply to my voluntary assignment of the patent application described under Annex 2.

8. I represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my Employment with the Company. I have not entered into, and I agree that I will not enter into, any agreement, either written or oral, in conflict herewith.

9. I represent and warrant to and covenant with the Company that I will not bring to the Company, as of this date, any materials or documents of a former employer (which term, for purposes of this paragraph 9, shall also include persons, firms, corporations and other entities for which I have acted as an independent contractor or consultant) that are not generally available to the public, unless I have obtained written authorization from any such former employer for their possession and use. The materials or documents of a former employer that are not generally available to the public that I will bring to the Company for use in my Employment are identified in Item 2 of Annex 2 attached hereto, and as to each such item, I represent and warrant that I have obtained prior to the commencement date of my Employment express written authorization for their possession and use in my service to the Company. I also understand that, in my service to the Company, I am not to breach any obligation of confidentiality that I have to former employers, and I agree to fulfill all such obligations during my Employment.

10. I acknowledge that irreparable injury will result to the Company from my violation or continued violation of the terms of this Agreement, and I expressly agree that the Company shall be entitled, in addition to damages and any other remedies provided by law, to an injunction or other equitable remedy respecting such violation or continued violation by me.

11. The terms and conditions of this Agreement shall apply to any period, if any, during which I perform services for the Company as a consultant or independent contractor, as well as any time during which I am employed directly by the Company. Upon the Cessation of my Employment, I agree to sign and deliver the "Termination Certificate" attached hereto as Annex 3. My failure to sign such Termination Certificate, however, shall not affect my obligations under the Agreement.

12. Nothing in this Agreement shall obligate the Company to continue to retain me as an employee. I understand that this means that the Company has and will continue to have the absolute and unconditional right to terminate my Employment for any reason or no reason, with or without cause or prior notice, provided that such termination shall not relieve the Company of any obligations it may have to make payments to me pursuant to the Employment Agreement.

13. I acknowledge that I have carefully read this Agreement, know its contents, and either have been represented by independent counsel who has explained to me the legal consequences of this Agreement or have determined not to obtain such independent counsel after being advised by the Company to obtain such independent counsel.

Executed this 25th day of October, 2013.

LORUS THERAPEUTICS INC.

By: /s/ Jim A. Wright
Name: JIM A. WRIGHT
Title Chairman of the Board

/s/ William G. Rice
DR. WILLIAM G. RICE, an individual

Annex 1 to Schedule "B"

"PROPRIETARY INFORMATION" DEFINED:

For purposes of this Agreement, **"Proprietary Information"** shall mean information not generally available to the public that has been created, discovered, developed, or otherwise become known to the Company or in which property rights have been assigned or otherwise conveyed to the Company, which information has material economic value or potential material economic value to the business in which the Company is or will be engaged. Proprietary Information shall include, but not be limited to (i) trade secrets, processes, formulas, data, know-how, negative know-how, improvements, discoveries, developments, designs, inventions, techniques, all technical data, proposals, reports, and client information compiled by the Company, and any modifications or enhancements thereto, software, programs, and information (whether or not necessarily in writing) which has actual or potential economic value to the Company, (ii) all loan prospects and applications in process or pipeline that are generated or produced at any time during the term of this Agreement, and (iii) the operating, investment, pricing or similar or other policies, procedures, practices or systems of the Company.

"INVENTIONS" DEFINED:

For purposes of this Agreement, **"Inventions"** shall mean all discoveries, developments, designs, improvements, inventions, formulas, software, programs, processes, techniques, know-how, negative know-how, and data, whether or not patentable or registrable under patent, copyright or similar statutes, that are related to or useful in the business or future business of the Company or result from use of premises or other property owned, leased or contracted for by the Company. Without limiting the generality of the foregoing, Inventions shall also include anything that derives actual or potential economic value from not being generally known to the public, or to other persons who can obtain economic value from its disclosure or use, in each case that are related to or useful in the business or future business of the Company.

CALIFORNIA LABOR CODE SECTION 2870:

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

Annex 2 to Schedule "B"

ITEM 1:

The following is a complete list of all inventions or improvements relevant to the subject matter of my employment with the Company that have been made or conceived of or first reduced to practice by me alone or jointly with others prior to my employment with the Company:

LOR-2 53 AND OTHER THERAPEUTIC AGENTS FOR TREATMENT

- Filed: October 4, 2013
- Inventor: Dr. William G. Rice
- Title: Selection and Treatment of Patients with Acute Myeloid Leukemias Having Aberrant Expression of the CDX2 Gene and Suppression of the KLF4 Gene with LOR-253 or Other Therapeutic Agents that Induce KLF4 Expression

ITEM 2:

The following is a complete list of all materials and documents of a former employer that are not generally available to the public that I will bring or have brought to the Company or have used or will use in my employment:

N/A

Annex 3 to Schedule "B"

EMPLOYEE PROPRIETARY INFORMATION
AND INVENTIONS AGREEMENT
TERMINATION CERTIFICATION

I hereby certify as follows:

1. When I signed the attached Employee Proprietary Information and Inventions Agreement (the **"Agreement"**), I read and understood the terms of the Agreement.

2. I hereby acknowledge that I have fully complied with the terms of the Agreement, including, without limitation, the disclosure and assignment to Lorus Therapeutics Inc., its subsidiaries and affiliates (the **"Company"**) of any Inventions covered by that Agreement, and the return of any documents and other materials of any nature pertaining to my employment with the Company.

3. I hereby acknowledge and agree to comply with my continuing obligations under the Agreement, including, without limitation, my obligation not to use for personal benefit or disclose to others any Proprietary Information of the Company.

4. I understand and acknowledge that should I fail to comply with my obligations under the Agreement, the Company shall have the right to obtain an injunction against me, including, without limitation, an injunction prohibiting me from disclosing Proprietary Information to a third party.

Dated: 25 Oct 2013

/s/ William G. Rice
Signature of Employee

William G. Rice, Ph. D.
Print Name

LORUS THERAPEUTICS INC.

EXECUTIVE EMPLOYMENT AGREEMENT

for

GREGORY CHOW

This Executive Employment Agreement (the "***Agreement***"), made between Lorus Therapeutics Inc. (the "***Company***") and Gregory Chow ("***Executive***") (together, the "***Parties***"), is effective as of November 29, 2013 (the "***Effective Date***"). From and following the Effective Date, this Agreement shall replace and supersede that certain Consulting Services Agreement between Executive and the Company entered into as of November 4, 2013 (the "***Consulting Agreement***"); *provided that,* Executive will retain the right to receive all consulting fees earned as of the Effective Date, pursuant to the terms of the Consulting Agreement.

Whereas, the Company desires for Executive to provide services to the Company, and wishes to provide Executive with certain compensation and benefits in return for such employment services; and

Whereas, Executive wishes to be employed bythe Company and to provide personal services to the Company in return for certain compensation and benefits;

Now, Therefore, in consideration of the mutual promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

1. Employment by the Company.

1.1 Position. Executive shall serve as the Company's Chief Financial Officer. During the term of Executive's employment with the Company, Executive will devote Executive's best efforts and substantially all of Executive's business time and attention to the business of the Company, except for approved vacation periods and reasonable periods of illness or other incapacities permitted by the Company's general employment policies.

1.2 Duties and Location. Executive shall perform such duties as are required by the Company's Chief Executive Officer, to whom Executive will report. Executive's primary office location shall be the Company's California office. The Company reserves the right to reasonably require Executive to perform Executive's duties at places other than Executive's primary office location from time to time, and to require reasonable business travel. The Company may modify Executive's job title and duties as it deems necessary and appropriate in light of the Company's needs and interests from time to time.

1.3 Policies and Procedures. The employment relationship between the Parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. Compensation.

2.1 Salary. For services to be rendered hereunder, Executive shall receive a base salary at the rate of U.S. $250,000 per year (the "***Base Salary***"), which Base Salary will be increased to the rate of $315,000 per year effective as of the closing of the Second Financing (as defined in Section 5.2 herein). The Base Salary will be subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule.

2.2 Bonus. Executive will be eligible for an annual discretionary bonus of up to forty percent (40%) of Executive's then current Base Salary (the "***Annual Bonus***"). Whether Executive receives an Annual Bonus for any given fiscal year, and the amount of any such Annual Bonus, will be determined in the good faith discretion of the Company's Board of Directors ("***Board***"), based upon the Company's and Executive's achievement of objectives and milestones to be determined on an annual basis by the Board. Executive must remain an active employee through the end of any given fiscal year in order to earn an Annual Bonus for that fiscal year, and any such bonus will be paid prior to the fifteenth (15^{th}) day of the third (3^{rd}) month following the close of the Company's fiscal year in which Executive's right to such amount became vested. Except as otherwise provided in Section 6.2 herein, Executive will not be eligible for, and will not earn, any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the end of the fiscal year.

3. Standard Company Benefits. Executive shall, in accordance with Company policy and the terms and conditions of the applicable Company benefit plan documents, be eligible to participate in the benefit and fringe benefit programs provided by the Company to its U.S. based executive officers and other employees from time to time.

4. Expenses. The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in furtherance or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time. Specifically, Executive will be reimbursed for the cost of any business visitor visas necessary for the performance of his duties while employed by the Company.

5. Equity. Pursuant to the Consulting Agreement, Executive was eligible to receive grants of options to acquire a total of 1,275,000 common shares of the Company (collectively, the "***Option***"). Executive acknowledges that he has already received a grant of the first tranche of the Option (for 425,000 shares) from the Company, which were granted and became fully vested and exercisable on November 4, 2013 (the "***First Tranche***"). Notwithstanding the termination of the Consulting Agreement, and in addition to the First Tranche, Executive shall be eligible to receive grants of the remaining portions of the Option on the following terms:

5.1 Second Tranche. Subject to approval by the Board, and contingent upon Executive's continued services through the closing of a bridge financing of the Company of at least U.S. $4 million (the "***First Financing***"), within two (2) days following the closing of the First Financing, Executive shall be granted an option to purchase 425,000 common shares of the Company with an exercise price equal to the fair market value of the common shares on the date of grant (the "***Second Tranche***"). The Second Tranche shall be governed in all respects by the terms of the Company's Share Option Plan and its standard form of Stock Option Agreement, and shall vest over 36 months from the date of grant in 36 equal monthly installments, subject to Executive's continued services through each vesting date.

5.2 Third Tranche. Subject to approval by the Board, and contingent upon Executive's continued services through the closing of a financing by the Company of at least U.S. $17 million (the "***Second Financing***"), within two (2) days following the closing of the Second Financing, Executive shall be granted an option to purchase 425,000 common shares of the Company with an exercise price equal to the fair market value of the common shares on the date of grant (the "***Third Tranche***"). The Third Tranche shall be governed in all respects by the terms of the Company's Share Option Plan and its standard form of Stock Option Agreement, and shall vest over 36 months from the date of grant in 36 equal monthly installments, subject to Executive's continued services through each vesting date.

6. Termination of Employment; Severance.

6.1 At-Will Employment. Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause (as defined below) or advance notice.

6.2 Termination Without Cause; Resignation for Good Reason.

(i) The Company may terminate Executive's employment with the Company at any time without Cause. Further, Executive may resign at any time for Good Reason (as defined below).

(ii) In the event Executive's employment with the Company is terminated by the Company without Cause, or Executive resigns for Good Reason, then provided such termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h), without regard to any alternative definition thereunder, a "***Separation from Service***"), and provided that Executive satisfies the Release Requirement in Section 7 herein, and remains in compliance with the terms of this Agreement, the Company shall provide Executive with the following "***Severance Benefits***":

(a) Either (a) a lump sum cash payment equal to Executive's annual Base Salary at the time of employment termination (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings, (the "***Lump Sum Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's annual Base Salary (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason) to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date (the "***Monthly Installment Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly Installment Payments in lieu of the Lump Sum Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***") and the regulations and other guidance thereunder and any state law of similar effect (collectively "***Section 409A***").

(b) Either (a) a lump sum cash payment in an amount equal to the average of the Annual Bonus payment Executive received from the Company during the last three years of employment completed prior to the year of the employment termination, pro rated based on the number of days Executive worked during the fiscal year of the employment termination, divided by 365 (the "***Severance Bonus Payment***"), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings (the "***Lump Sum Bonus Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Bonus Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's Severance Bonus Payment to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date (the "***Monthly Installment Bonus Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly Installment Bonus Payments in lieu of the Lump Sum Bonus Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(c) If the Company has previously established a group health plan in which Executive participates prior to Executive's termination and Executive timely elects COBRA coverage following any such termination, the Company will pay Executive for the full amount of such COBRA premiums for himself and his covered dependents (on a monthly basis) for a period of up to twelve (12) months following the date of termination; *provided, that,* if and to the extent that any benefit described in this Section 6.2(ii)(c) is not or cannot be paid or provided under any Company plan or program without penalties or adverse tax consequences to the Company or for any other reason, as determined by the Company in its sole discretion, then the Company shall pay Executive a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding premiums for a period of up to twelve (12) months following the date of termination; *provided, further, that* the COBRA payments or, if applicable, the taxable monthly payment discussed above, shall terminate on the earliest to occur of (A) the close of the 12-month period following the termination of Executive's employment; (B) the expiration of Executive's (or Executive's dependents') eligibility for continuation coverage under COBRA; and (C) the date when Executive becomes eligible for group health insurance coverage in connection with new employment or self-employment. If Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA coverage during the period provided in this Section 6.2(ii)(c), Executive must immediately provide written notice to the Company of such event, and the Company-provided COBRA payments, or if applicable, the monthly payments under this Section 6.2(ii)(c) shall immediately cease.

(iii) Furthermore, in the event Executive's employment with the Company is terminated by the Company pursuant to Section 6.2(ii), in either case, within three (3) months immediately preceding or twelve (12) months immediately following the consummation of a Change in Control (as defined below), in lieu of (and not additional to) the severance benefits described in Section 6.2(ii), and provided that Executive satisfies the Release Requirement in Section 7 herein and remains in compliance with the terms of this Agreement, the Company shall instead provide Executive with the following benefits (the "***Change in Control Severance Benefits***"). For the avoidance of doubt: (A) in no event will Executive be entitled to severance benefits under Section 6.2(ii) and this Section 6.2(iii), and (B) if the Company has commenced providing severance benefits to Executive under Section 6.2(ii) prior to the date that Executive becomes eligible to receive Change in Control Severance Benefits under this Section 6.2(iii), the benefits previously provided to Executive under Section 6.2(ii) of this Agreement shall reduce the severance benefits provided under this Section 6.2(iii):

(a) Either (a) a lump sum cash payment equal to eighteen (18) months of Executive's annual Base Salary at the time of employment termination (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings (the "***Lump Sum CIC Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to eighteen (18) months of Executive's annual Base Salary (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason) to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date, less applicable deductions and withholdings (the "***Monthly CIC Installment Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly CIC Installment Payments in lieu of the Lump Sum CIC Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(b) Either (a) a lump sum cash payment in an amount equal to 150% of the average of the Annual Bonus payment Executive received from the Company during the last three years of employment completed prior to the year of the employment termination, pro rated based on the number of days Executive worked during the fiscal year of the employment termination, divided by 365 (the "***CIC Bonus Payment***"), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings, (the "***Lump Sum CIC Bonus Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum CIC Bonus Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's CIC Bonus Payment to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date, less applicable deductions and withholdings (the "***Monthly CIC Installment Bonus Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly CIC Installment Bonus Payments in lieu of the Lump Sum CIC Bonus Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(c) If the Company has previously established a group health plan in which Executive participates prior to Executive's termination and Executive timely elects COBRA coverage following any such termination, the Company will pay Executive for the full amount of such COBRA premiums for himself and his covered dependants (on a monthly basis) for a period of up to twelve (12) months following the date of termination; *provided, that,* if and to the extent that any benefit described in this Section 6.2(ii)(c) is not or cannot be paid or provided under any Company plan or program without penalties or adverse tax consequences to the Company or for any other reason, as determined by the Company in its sole discretion, then the Company shall pay Executive a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding premiums for a period of up to twelve (12) months following the date of termination; *provided, further, that* the COBRA payments or, if applicable, the monthly payment discussed above, shall terminate on the earliest to occur of (A) the close of the 12-month period following the termination of Executive's employment; (B) the expiration of Executive's (or Executive's dependents) eligibility for continuation coverage under COBRA; and (C) the date when Executive becomes eligible for group health insurance coverage in connection with new employment or self-employment. If Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA coverage during the period provided in this Section 6.2(iii)(c), Executive must immediately provide written notice to the Company of such event, and the Company-provided COBRA payments, or if applicable, the monthly payments under this Section 6.2(iii)(c) shall immediately cease.

(d) Notwithstanding anything to the contrary set forth in the Company's Share Option Plan or form of award agreement, effective as of Executive's employment termination date, the vesting and exercisability of all then outstanding unvested stock options, restricted shares or other equity awards then held by Executive shall accelerate such that all shares become immediately vested and exercisable, if applicable, by Executive upon such termination and shall remain exercisable, if applicable, following Executive's termination as set forth in the applicable equity award documents.

6.3 Termination for Cause; Resignation Without Good Reason; Death or Disability.

(i) The Company may terminate Executive's employment with the Company at any time for Cause. Further, Executive may resign at any time without Good Reason. Executive's employment with the Company may also be terminated due to Executive's death or disability.

(ii) If Executive resigns without Good Reason, or the Company terminates Executive's employment for Cause, or upon Executive's death or disability, then (i) Executive will no longer vest in the Option, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (c) Executive will not be entitled to any severance benefits, including (without limitation) the Severance Benefits and Change in Control Benefits listed in Sections 6.2(h) and 6.2(iii). In addition, Executive shall resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

7. Conditions to Receipt of Severance Benefits and Change in Control Severance Benefits. Notwithstanding the foregoing, to be eligible for any of the Severance Benefits or Change in Control Severance Benefits, on or within thirty (30) days following the termination of employment, Executive must satisfy the requirement (the "***Release Requirement***") to return to the Company a signed and dated general release of all known and unknown claims in a form acceptable to the Company (the "***Release and Waiver***") and allow that Release and Waiver to become effective in accordance with its terms (such date, the "***Effective Date of the Release***"). No Severance Benefits or Change in Control Severance Benefits will be paid hereunder prior to the Effective Date of the Release. Accordingly, if Executive breaches the preceding sentence and/or refuses to sign and deliver to the Company an executed Release and Waiver or signs and delivers to the Company the Release and Waiver but exercises his right, if any, under applicable law to revoke the Release and Waiver (or any portion thereof), then Executive will not be entitled to any severance, payment or benefit under this Agreement.

8. Section 409A. It is intended that all of the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations 1.409A-1(b)(4), 1.409A-l(b)(5) and 1.409A-1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions, and to the extent no so exempt, this Agreement (and any definitions hereunder) will be construed in a manner that complies with Section 409A. For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section 1,409A-2(b)(2)(iii)), Executive's right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment. Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed by the Company at the time of Executive's Separation from Service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments upon Separation from Service set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation", then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments shall not be provided to Executive prior to the earliest of (i) the expiration of the six-month and one day period measured from the date of Executive's Separation from Service with the Company, (ii) the date of Executive's death or (iii) such earlier date as permitted under Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Paragraph shall be paid in a lump sum to Executive, and any remaining payments due shall be paid as otherwise provided herein or in the applicable agreement. No interest shall be due on any amounts so deferred. If the Company determines that any severance benefits provided under this Agreement constitutes "deferred compensation" under Section 409A, for purposes of determining the schedule for payment of the severance benefits, the effective date of the Release will not be deemed to have occurred any earlier than the sixtieth (60th) date following the Separation From Service, regardless of when the Release actually becomes effective.

9. Section 280G; Limitations on Payment.

9.1 If any payment or benefit Executive will or may receive from the Company or otherwise (a "***280G Payment***") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "***Excise Tax***"), then any such 280G Payment provided pursuant to this Agreement (a "***Payment***") shall be equal to the Reduced Amount. The "***Reduced Amount***" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the "***Reduction Method***") that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "***Pro Rata Reduction Method***").

9.2 Notwithstanding any provision of section 10.1 to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (*e.g.,* being terminated without Cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

9.3 Unless Executive and the Company agree on an alternative accounting firm or law firm, the accounting firm engaged by the Company for general tax compliance purposes as of the day prior to the effective date of the Change in Control transaction shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control transaction, the Company shall appoint a nationally recognized accounting or law firm to make the determinations required by this section 10. The Company shall bear all expenses with respect to the determinations by such accounting or law firm required to be made hereunder. The Company shall use commercially reasonable efforts to cause the accounting or law firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to Executive and the Company within fifteen (15) calendar days after the date on which Executive's right to a 280G Payment becomes reasonably likely to occur (if requested at that time by Executive or the Company) or such other time as requested by Executive or the Company.

9.4 If Executive receives a Payment for which the Reduced Amount was determined pursuant to clause (x) of Section 9.1 and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, Executive agrees to promptly return to the Company a sufficient amount of the Payment (after reduction pursuant to clause (x) of Section 9.1) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) of Section 9.1, Executive shall have no obligation to return any portion of the Payment pursuant to the preceding sentence.

10. Definitions.

10.1 Cause. For purposes of this Agreement, "Cause" for termination will mean: (a) Executive's commission of any felony or commission of a crime involving dishonesty; (b) Executive's participation in any fraud against the Company; (c) material breach of Executive's duties to the Company; (d) Executive's persistent unsatisfactory performance of job duties after written notice from the Board and a reasonable opportunity to cure (if deemed curable); (e) Executive's intentional damage to any property of the Company; (f) Executive's misconduct, or other violation of Company policy that causes harm: (g) breach of any written agreement between Executive and the Company; and (h) conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

10.2 Good Reason. For purposes of this Agreement, Executive shall have "Good Reason" for resignation from employment with the Company if any of the following actions are taken by the Company without Executive's prior written consent: (a) a material reduction in Executive's Base Salary, unless pursuant to a salary reduction program applicable generally to the Company's senior executives; (b) a material reduction in Executive's duties (including responsibilities and/or authorities), *provided, however,* that a change in job position (including a change in title) shall not be deemed a "material reduction" in and of itself unless Executive's new duties are materially reduced from the prior duties; or (c) relocation of Executive's principal place of employment to a place that increases Executive's one-way commute by more than fifty (50) miles as compared to Executive's then-current principal place of employment immediately prior to such relocation. In order for Executive to resign for Good Reason, each of the following requirements must be met: (i) Executive must provide written notice to the Company's Chief Executive Officer within 30 days after the first occurrence of the event giving rise to Good Reason setting forth the basis for Executive's resignation, (ii) the Executive must allow the Company at least 30 days from receipt of such written notice to cure such event, (iii) such event is not reasonably cured by the Company within such 30 day period (the "***Cure Period***"), and (iv) Executive must resign from all positions Executive then holds with the Company not later than 30 days after the expiration of the Cure Period.

10.3 Change in Control. For purposes of this Agreement, "Change in Control" shall mean the consummation of any of the following: (a) the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is party (including, without limitation, any stock acquisition, reorganization, merger or consolidation but excluding any sale of stock for capital raising purposes) other than a transaction or series of transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction continue to retain (either by such voting securities remaining outstanding or by such voting securities being converted into voting securities of the surviving entity), following such transaction, at least fifty percent (50%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction or series of transactions; (b) a sale, lease or other conveyance of all or substantially all of the assets of the Company; or (c) any liquidation, dissolution or winding up of the Company, whether voluntarily or involuntarily. Notwithstanding the foregoing, the Company and Executive agree that Change in Control does not include any reorganization, sale or plan of arrangement undertaken to move the domicile of the Company to the U.S., pursuant to which the Company will become a wholly-owned subsidiary of a Delaware corporation.

11. Proprietary Information Obligations.

11.1 Confidential Information Agreement. As a condition of employment, Executive shall execute and abide by the Company's standard form of Employee Confidential Information and Inventions Assignment Agreement (the "***Confidentiality Agreement***").

11.2 Third-Party Agreements and Information. Executive represents and warrants that Executive's employment by the Company does not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, that would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

12. Outside Activities During Employment.

12.1 Non-Company Business. Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

12.2 No Adverse Interests. Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise.

13. Tax Equalization. The Company will provide Executive with tax equalization, if applicable, to account for any tax liabilities above US tax liabilities, resulting from the performance of Executive's duties hereunder.

14. Dispute Resolution. To ensure the rapid and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, including but not limited to statutory claims, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, Executive's employment with the Company, or the termination of Executive's employment from the Company, will be resolved pursuant to the Federal Arbitration Act, 9 U.S.C. §1-16, and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted in San Jose, California by JAMS, Inc. ("***JAMS***") or its successors, under JAMS' then applicable rules and procedures for employment disputes (which can be found at http://www.jamsadr.com/rules-clauses/, and which will be provided to Executive on request); provided that the arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The Parties shall be entitled to all rights and remedies that either would be entitled to pursue in a court of law, *provided, however*, that in no event shall the arbitrator be empowered to hear or determine any class or collective claim of any type.**Both Executive and the Company acknowledge that by agreeing to this arbitration procedure, they waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The Company shall pay all filing fees in excess of those which would be required if the dispute were decided in a court of law, and shall pay the arbitrator's fee. Nothing in this Agreement is intended to prevent either the Company or Executive from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

15. General Provisions.

15.1 Notices. Any notices provided must be in writing and will be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at the address as listed on the Company payroll.

15.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the Parties.

15.3 Waiver. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

15.4 Complete Agreement. This Agreement, together with the Employee Confidential Information and Inventions Agreement between the Company and Executive, of even date herewith, constitute the entire agreement between Executive and the Company with regard to the subject matter hereof and is the complete, final, and exclusive embodiment of the Company's and Executive's agreement with regard to this subject matter. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. It cannot be modified or amended except in a writing signed by a duly authorized officer of the Company.

15.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but both of which taken together will constitute one and the same Agreement.

15.6 Headings. The headings of the paragraphs hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

15.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably.

15.8 Tax Withholding and Indemnification. All payments and awards contemplated or made pursuant to this Agreement will be subject to withholdings of applicable

In Witness Whereof, the Parties have executed this Agreement on the day and year first written above.

Lorus Therapeutics Inc.

By: **/s/ William G. Rice, Ph.D.**
William G. Rice, Ph.D.
Chairman of the Board and Chief Executive Officer

Executive

/s/ Gregory Chow
Gregory Chow

LORUS THERAPEUTICS INC.

EXECUTIVE EMPLOYMENT AGREEMENT

for

AVANISH VELLANKI

This Executive Employment Agreement (the "***Agreement***"), made between Lorus Therapeutics Inc. (the "***Company***") and Avanish Vellanki ("***Executive***") (together, the "***Parties***"), is effective as of **November 29th,** 2013 (the "***Effective Date***"). From and following the Effective Date, this Agreement shall replace and supersede that certain Consulting Services Agreement between Executive and the Company entered into as of November 4, 2013 (the "***Consulting Agreement***"); *provided that*, Executive will retain the right to receive all consulting fees earned as of the Effective Date, pursuant to the terms of the Consulting Agreement.

Whereas, the Company desires for Executive to provide services to the Company, and wishes to provide Executive with certain compensation and benefits in return for such employment services; and

Whereas, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

Now, Therefore, in consideration of the mutual promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

1. Employment by the Company.

1.1 Position. Executive shall serve as the Company's Chief Business Officer. During the term of Executive's employment with the Company, Executive will devote Executive's best efforts and substantially all of Executive's business time and attention to the business of the Company, except for approved vacation periods and reasonable periods of illness or other incapacities permitted by the Company's general employment policies.

1.2 Duties and Location. Executive shall perform such duties as are required by the Company's Chief Executive Officer, to whom Executive will report. Executive's primary office location shall be the Company's California office. The Company reserves the right to reasonably require Executive to perform Executive's duties at places other than Executive's primary office location from time to time, and to require reasonable business travel. The Company may modify Executive's job title and duties as it deems necessary and appropriate in light of the Company's needs and interests from time to time.

1.3 Policies and Procedures. The employment relationship between the Parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. Compensation.

2.1 Salary. For services to be rendered hereunder, Executive shall receive a base salary at the rate of U.S. $250,000 per year (the "***Base Salary***"), which Base Salary will be increased to the rate of $315,000 per year effective as of the closing of the Second Financing (as defined in Section 5.2 herein). The Base Salary will be subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule.

2.2 Bonus. Executive will be eligible for an annual discretionary bonus of up to forty percent (40%) of Executive's then current Base Salary (the "***Annual Bonus***"). Whether Executive receives an Annual Bonus for any given fiscal year, and the amount of any such Annual Bonus, will be determined in the good faith discretion of the Company's Board of Directors ("***Board***"), based upon the Company's and Executive's achievement of objectives and milestones to be determined on an annual basis by the Board. Executive must remain an active employee through the end of any given fiscal year in order to earn an Annual Bonus for that fiscal year, and any such bonus will be paid prior to the fifteenth (15^{th}) day of the third (3^{rd}) month following the close of the Company's fiscal year in which Executive's right to such amount became vested. Except as otherwise provided in Section 6.2 herein, Executive will not be eligible for, and will not earn, any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the end of the fiscal year.

3. Standard Company Benefits. Executive shall, in accordance with Company policy and the terms and conditions of the applicable Company benefit plan documents, be eligible to participate in the benefit and fringe benefit programs provided by the Company to its U.S. based executive officers and other employees from time to time.

4. Expenses. The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in furtherance or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time. Specifically, Executive will be reimbursed for the cost of any business visitor visas necessary for the performance of his duties while employed by the Company.

5. Equity. Pursuant to the Consulting Agreement, Executive was eligible to receive grants of options to acquire a total of 1,275,000 common shares of the Company (collectively, the "***Option***"). Executive acknowledges that he has already received a grant of the first tranche of the Option (for 425,000 shares) from the Company, which were granted and became fully vested and exercisable on November 4, 2013 (the "***First Tranche***"). Notwithstanding the termination of the Consulting Agreement, and in addition to the First Tranche, Executive shall be eligible to receive grants of the remaining portions of the Option on the following terms:

5.1 Second Tranche. Subject to approval by the Board, and contingent upon Executive's continued services through the closing of a bridge financing of the Company of at least U.S. $4 million (the "***First Financing***"), within two (2) days following the closing of the First Financing, Executive shall be granted an option to purchase 425,000 common shares of the Company with an exercise price equal to the fair market value of the common shares on the date of grant (the "***Second Tranche***"). The Second Tranche shall be governed in all respects by the terms of the Company's Share Option Plan and its standard form of Stock Option Agreement, and shall vest over 36 months from the date of grant in 36 equal monthly installments, subject to Executive's continued services through each vesting date.

5 . 2 Third Tranche. Subject to approval by the Board, and contingent upon Executive's continued services through the closing of a financing by the Company of at least U.S. $17 million (the "***Second Financing***"), within two (2) days following the closing of the Second Financing, Executive shall be granted an option to purchase 425,000 common shares of the Company with an exercise price equal to the fair market value of the common shares on the date of grant (the "***Third Tranche***"). The Third Tranche shall be governed in all respects by the terms of the Company's Share Option Plan and its standard form of Stock Option Agreement, and shall vest over 36 months from the date of grant in 36 equal monthly installments, subject to Executive's continued services through each vesting date.

6. Termination of Employment; Severance.

6.1 At-Will Employment. Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause (as defined below) or advance notice.

6.2 Termination Without Cause; Resignation for Good Reason.

(i) The Company may terminate Executive's employment with the Company at any time without Cause. Further, Executive may resign at any time for Good Reason (as defined below).

(i i) In the event Executive's employment with the Company is terminated by the Company without Cause, or Executive resigns for Good Reason, then provided such termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-l(h), without regard to any alternative definition thereunder, a "***Separation from Service***"**),** and provided that Executive satisfies the Release Requirement in Section 7 herein, and remains in compliance with the terms of this Agreement, the Company shall provide Executive with the following "***Severance Benefits***":

(a) Either (a) a lump sum cash payment equal to Executive's annual Base Salary at the time of employment termination (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings, (the "***Lump Sum Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's annual Base Salary (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason) to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date (the "***Monthly Installment Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly Installment Payments in lieu of the Lump Sum Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***") and the regulations and other guidance thereunder and any state law of similar effect (collectively "***Section 409A***").

(b) Either (a) a lump sum cash payment in an amount equal to the average of the Annual Bonus payment Executive received from the Company during the last three years of employment completed prior to the year of the employment termination, pro rated based on the number of days Executive worked during the fiscal year of the employment termination, divided by 365 (the "***Severance Bonus Payment***"), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings (the "***Lump Sum Bonus Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Bonus Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's Severance Bonus Payment to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date (the "***Monthly Installment Bonus Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly Installment Bonus Payments in lieu of the Lump Sum Bonus Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(c) If the Company has previously established a group health plan in which Executive participates prior to Executive's termination and Executive timely elects COBRA coverage following any such termination, the Company will pay Executive for the full amount of such COBRA premiums for himself and his covered dependants (on a monthly basis) for a period of up to twelve (12) months following the date of termination; *provided, that,* if and to the extent that any benefit described in this Section 6.2(ii)(c) is not or cannot be paid or provided under any Company plan or program without penalties or adverse tax consequences to the Company or for any other reason, as determined by the Company in its sole discretion, then the Company shall pay Executive a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding premiums for a period of up to twelve (12) months following the date of termination; *provided, further, that* the COBRA payments or, if applicable, the taxable monthly payment discussed above, shall terminate on the earliest to occur of (A) the close of the 12-month period following the termination of Executive's employment; (B) the expiration of Executive's (or Executive's dependents') eligibility for continuation coverage under COBRA; and (C) the date when Executive becomes eligible for group health insurance coverage in connection with new employment or self-employment. If Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA coverage during the period provided in this Section 6.2(ii)(c), Executive must immediately provide written notice to the Company of such event, and the Company-provided COBRA payments, or if applicable, the monthly payments under this Section 6.2(ii)(c) shall immediately cease.

(iii) Furthermore, in the event Executive's employment with the Company is terminated by the Company pursuant to Section 6.2(ii), in either case, within three (3) months immediately preceding or twelve (12) months immediately following the consummation of a Change in Control (as defined below), in lieu of (and not additional to) the severance benefits described in Section 6.2(ii), and provided that Executive satisfies the Release Requirement in Section 7 herein and remains in compliance with the terms of this Agreement, the Company shall instead provide Executive with the following benefits (the "***Change in Control Severance Benefits***"). For the avoidance of doubt: (A) in no event will Executive be entitled to severance benefits under Section 6.2(ii) and this Section 6.2(iii), and (B) if the Company has commenced providing severance benefits to Executive under Section 6.2(ii) prior to the date that Executive becomes eligible to receive Change in Control Severance Benefits under this Section 6.2(iii), the benefits previously provided to Executive under Section 6.2(ii) of this Agreement shall reduce the severance benefits provided under this Section 6.2(iii):

(a) Either (a) a lump sum cash payment equal to eighteen (18) months of Executive's annual Base Salary at the time of employment termination (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings (the "***Lump Sum CIC Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to eighteen (18) months of Executive's annual Base Salary (without giving effect to any reduction in Base Salary that would give Executive the right to resign for Good Reason) to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date, less applicable deductions and withholdings (the "***Monthly CIC Installment Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly CIC Installment Payments in lieu of the Lump Sum CIC Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(b) Either (a) a lump sum cash payment in an amount equal to 150% of the average of the Annual Bonus payment Executive received from the Company during the last three years of employment completed prior to the year of the employment termination, pro-rated based on the number of days Executive worked during the fiscal year of the employment termination, divided by 365 (the "***C/C Bonus Payment***"), to be paid by the Company on the first payroll period following the Effective Date of the Release, less applicable deductions and withholdings, (the "***Lump Sum CIC Bonus Payment***"); or (b) if the Company, in the good faith discretion of the Board, is unable to make the Lump Sum CIC Bonus Payment at the time of employment termination due to a lack of sufficient operating funds, an amount equal to Executive's CIC Bonus Payment to be paid in substantially equal installments on a monthly basis during the nine (9) month period following the employment termination date, less applicable deductions and withholdings (the "***Monthly CIC Installment Bonus Payments***"); provided that, in each case, any payments scheduled to be made prior to the Effective Date of the Release shall instead accrue and be paid in a single lump sum during the first payroll period following the Effective Date of the Release. Notwithstanding the foregoing, the Company may elect to make the Monthly CIC Installment Bonus Payments in lieu of the Lump Sum CIC Bonus Payment only if an exemption is available from application of Section 409A of the Code with respect to such payments so that such payment schedule will not result in adverse tax consequences to Executive under Section 409A of the Code.

(c) If the Company has previously established a group health plan in which Executive participates prior to Executive's termination and Executive timely elects COBRA coverage following any such termination, the Company will pay Executive for the full amount of such COBRA premiums for himself and his covered dependants (on a monthly basis) for a period of up to twelve (12) months following the date of termination; *provided, that,* if and to the extent that any benefit described in this Section 6.2(ii)(c) is not or cannot be paid or provided under any Company plan or program without penalties or adverse tax consequences to the Company or for any other reason, as determined by the Company in its sole discretion, then the Company shall pay Executive a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding premiums for a period of up to twelve (12) months following the date of termination; *provided, further, that* the COBRA payments or, if applicable, the monthly payment discussed above, shall terminate on the earliest to occur of (A) the close of the 12-month period following the termination of Executive's employment; (B) the expiration of Executive's (or Executive's dependents') eligibility for continuation coverage under COBRA; and (C) the date when Executive becomes eligible for group health insurance coverage in connection with new employment or self-employment. If Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA coverage during the period provided in this Section 6.2(iii)(c), Executive must immediately provide written notice to the Company of such event, and the Company- provided COBRA payments, or if applicable, the monthly payments under this Section 6.2(iii)(c) shall immediately cease.

(d) Notwithstanding anything to the contrary set forth in the Company's Share Option Plan or form of award agreement, effective as of Executive's employment termination date, the vesting and exercisability of all then outstanding unvested stock options, restricted shares or other equity awards then held by Executive shall accelerate such that all shares become immediately vested and exercisable, if applicable, by Executive upon such termination and shall remain exercisable, if applicable, following Executive's termination as set forth in the applicable equity award documents.

6.3 Termination for Cause; Resignation Without Good Reason; Death or Disability.

(i) The Company may terminate Executive's employment with the Company at any time for Cause. Further, Executive may resign at any time without Good Reason. Executive's employment with the Company may also be terminated due to Executive's death or disability.

(ii) If Executive resigns without Good Reason, or the Company terminates Executive's employment for Cause, or upon Executive's death or disability, then (i) Executive will no longer vest in the Option, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (c) Executive will not be entitled to any severance benefits, including (without limitation) the Severance Benefits and Change in Control Benefits listed in Sections 6.2(ii) and 6.2(iii). In addition, Executive shall resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

7. Conditions to Receipt of Severance Benefits and Change in Control Severance Benefits. Notwithstanding the foregoing, to be eligible for any of the Severance Benefits or Change in Control Severance Benefits, on or within thirty (30) days following the termination of employment, Executive must satisfy the requirement (the "***Release Requirement***") to return to the Company a signed and dated general release of all known and unknown claims in a form acceptable to the Company (the "***Release and Waiver***") and allow that Release and Waiver to become effective in accordance with its terms (such date, the "***Effective Date of the Release***"). No Severance Benefits or Change in Control Severance Benefits will be paid hereunder prior to the Effective Date of the Release. Accordingly, if Executive breaches the preceding sentence and/or refuses to sign and deliver to the Company an executed Release and Waiver or signs and delivers to the Company the Release and Waiver but exercises his right, if any, under applicable law to revoke the Release and Waiver (or any portion thereof), then Executive will not be entitled to any severance, payment or benefit under this Agreement.

8. Section 409A. It is intended that all of the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions, and to the extent no so exempt, this Agreement (and any definitions hereunder) will be construed in a manner that complies with Section 409A. For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), Executive's right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment. Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed by the Company at the time of Executive's Separation from Service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments upon Separation from Service set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation", then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments shall not be provided to Executive prior to the earliest of (i) the expiration of the six-month and one day period measured from the date of Executive's Separation from Service with the Company, (ii) the date of Executive's death or (iii) such earlier date as permitted under Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Paragraph shall be paid in a lump sum to Executive, and any remaining payments due shall be paid as otherwise provided herein or in the applicable agreement. No interest shall be due on any amounts so deferred. If the Company determines that any severance benefits provided under this Agreement constitutes "deferred compensation" under Section 409A, for purposes of determining the schedule for payment of the severance benefits, the effective date of the Release will not be deemed to have occurred any earlier than the sixtieth (60th) date following the Separation From Service, regardless of when the Release actually becomes effective.

9. Section 280G; Limitations on Payment.

9.1 If any payment or benefit Executive will or may receive from the Company or otherwise (a "***280G Payment***") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "***Excise Tax***"), then any such 280G Payment provided pursuant to this Agreement (a "***Payment***") shall be equal to the Reduced Amount. The "***Reduced Amount***" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the "***Reduction Method***") that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "***Pro Rata Reduction Method***").

9.2 Notwithstanding any provision of section 9.1 to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (*e.g.,* being terminated without Cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

9.3 Unless Executive and the Company agree on an alternative accounting firm or law firm, the accounting firm engaged by the Company for general tax compliance purposes as of the day prior to the effective date of the Change in Control transaction shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control transaction, the Company shall appoint a nationally recognized accounting or law firm to make the determinations required by this section 10. The Company shall bear all expenses with respect to the determinations by such accounting or law firm required to be made hereunder. The Company shall use commercially reasonable efforts to cause the accounting or law firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to Executive and the Company within fifteen (15) calendar days after the date on which Executive's right to a 280G Payment becomes reasonably likely to occur (if requested at that time by Executive or the Company) or such other time as requested by Executive or the Company.

9.4 If Executive receives a Payment for which the Reduced Amount was determined pursuant to clause (x) of Section 9.1 and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, Executive agrees to promptly return to the Company a sufficient amount of the Payment (after reduction pursuant to clause (x) of Section 9.1) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) of Section 9.1, Executive shall have no obligation to return any portion of the Payment pursuant to the preceding sentence.

10. Definitions.

10.1 Cause. For purposes of this Agreement, "Cause" for termination will mean: (a) Executive's commission of any felony or commission of a crime involving dishonesty; (b) Executive's participation in any fraud against the Company; (c) material breach of Executive's duties to the Company; (d) Executive's persistent unsatisfactory performance of job duties after written notice from the Board and a reasonable opportunity to cure (if deemed curable); (e) Executive's intentional damage to any property of the Company; (f) Executive's misconduct, or other violation of Company policy that causes harm; (g) breach of any written agreement between Executive and the Company; and (h) conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

10.2 Good Reason. For purposes of this Agreement, Executive shall have "Good Reason" for resignation from employment with the Company if any of the following actions are taken by the Company without Executive's prior written consent: (a) a material reduction in Executive's Base Salary, unless pursuant to a salary reduction program applicable generally to the Company's senior executives; (b) a material reduction in Executive's duties (including responsibilities and/or authorities), *provided, however,* that a change in job position (including a change in title) shall not be deemed a "material reduction" in and of itself unless Executive's new duties are materially reduced from the prior duties; or (c) relocation of Executive's principal place of employment to a place that increases Executive's one-way commute by more than fifty (50) miles as compared to Executive's then-current principal place of employment immediately prior to such relocation. In order for Executive to resign for Good Reason, each of the following requirements must be met: (i) Executive must provide written notice to the Company's Chief Executive Officer within 30 days after the first occurrence of the event giving rise to Good Reason setting forth the basis for Executive's resignation, (ii) the Executive must allow the Company at least 30 days from receipt of such written notice to cure such event, (iii) such event is not reasonably cured by the Company within such 30 day period (the "***Cure Period***"), and (iv) Executive must resign from all positions Executive then holds with the Company not later than 30 days after the expiration of the Cure Period.

10.3 Change in Control. For purposes of this Agreement, "Change in Control" shall mean the consummation of any of the following: (a) the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is party (including, without limitation, any stock acquisition, reorganization, merger or consolidation but excluding any sale of stock for capital raising purposes) other than a transaction or series of transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction continue to retain (either by such voting securities remaining outstanding or by such voting securities being converted into voting securities of the surviving entity), following such transaction, at least fifty percent (50%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction or series of transactions; (b) a sale, lease or other conveyance of all or substantially all of the assets of the Company; or (c) any liquidation, dissolution or winding up of the Company, whether voluntarily or involuntarily. Notwithstanding the foregoing, the Company and Executive agree that Change in Control does not include any reorganization, sale or plan of arrangement undertaken to move the domicile of the Company to the U.S., pursuant to which the Company will become a wholly-owned subsidiary of a Delaware corporation.

11. Proprietary Information Obligations.

11.1 Confidential Information Agreement. As a condition of employment, Executive shall execute and abide by the Company's standard form of Employee Confidential Information and Inventions Assignment Agreement (the "***Confidentiality Agreement***").

11.2 Third-Party Agreements and Information. Executive represents and warrants that Executive's employment by the Company does not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, that would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

12. Outside Activities During Employment.

12.1 Non-Company Business. Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder. Notwithstanding the foregoing, Executive may remain as Co-Founder and Executive Chairman of Independence Brewing Company Pvt. Ltd, and the associated position of Manager of Indus Brew LLC, provided that such outside activities do not materially interfere with the performance of Executive's duties hereunder.

12.2 No Adverse Interests. Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise.

13. Tax Equalization. The Company will provide Executive with tax equalization, if applicable, to account for any tax liabilities above US tax liabilities, resulting from the performance of Executive's duties hereunder.

14. Dispute Resolution. To ensure the rapid and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, including but not limited to statutory claims, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, Executive's employment with the Company, or the termination of Executive's employment from the Company, will be resolved pursuant to the Federal Arbitration Act, 9 U.S.C. §1-16, and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted in San Jose, California by JAMS, Inc. ("***JAMS***") or its successors, under JAMS' then applicable rules and procedures for employment disputes (which can be found at http://www.jamsadr.com/rules-clauses/, and which will be provided to Executive on request); provided that the arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The Parties shall be entitled to all rights and remedies that either would be entitled to pursue in a court of law, *provided, however*, that in no event shall the arbitrator be empowered to hear or determine any class or collective claim of any type.**Both Executive and the Company acknowledge that by agreeing to this arbitration procedure, they waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The Company shall pay all filing fees in excess of those which would be required if the dispute were decided in a court of law, and shall pay the arbitrator's fee. Nothing in this Agreement is intended to prevent either the Company or Executive from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

15. General Provisions.

15.1 Notices. Any notices provided must be in writing and will be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at the address as listed on the Company payroll.

15.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the Parties.

15.3 Waiver. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

15.4 Complete Agreement. This Agreement, together with the Employee Confidential Information and Inventions Agreement between the Company and Executive, of even date herewith, constitute the entire agreement between Executive and the Company with regard to the subject matter hereof and is the complete, final, and exclusive embodiment of the Company's and Executive's agreement with regard to this subject matter. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. It cannot be modified or amended except in a writing signed by a duly authorized officer of the Company.

15.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but both of which taken together will constitute one and the same Agreement.

15.6 Headings. The headings of the paragraphs hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

15.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably.

15.8 Tax Withholding and Indemnification. All payments and awards contemplated or made pursuant to this Agreement will be subject to withholdings of applicable taxes in compliance with all relevant laws and regulations of all appropriate government authorities. Executive acknowledges and agrees that the Company has neither made any assurances nor any guarantees concerning the tax treatment of any payments or awards contemplated by or made pursuant to this Agreement. Executive has had the opportunity to retain a tax and financial advisor and fully understands the tax and economic consequences of all payments and awards made pursuant to the Agreement.

15.9 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of California.

In Witness Whereof, the Parties have executed this Agreement on the day and year first written above.

Lorus Therapeutics Inc.

By: /s/ William G. Rice
William G. Rice, Ph. D.
Chairman of the Board and Chief Executive Officer

Executive

/s/ Avanish Vellanki
Avanish Vellanki

LORUS THERAPEUTICS INC.

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT is made the 21st day of September, 2006

BETWEEN:

LORUS THERAPEUTICS INC.
(the "Corporation")

- and –

DR. AIPING YOUNG
(the "Executive")

RECITALS:

A. The Corporation is a member of a group of companies comprising Lorus Therapeutics Inc. and its Affiliates from time to time (the "Lorus Group") and is involved in the biopharmaceutical business specializing in the development and commercialization of pharmaceutical products and technologies.

B. The Executive is currently employed by the Corporation in the position of Chief Operating Officer.

C. The terms and conditions of the Executive's employment by the Corporation are currently governed by the Employment Agreement entered into between the Executive and the Corporation, effective October 29, 1999.

D. The Corporation wishes to continue the Executive's employment in the position of President and Chief Executive Officer.

E. The Corporation and the Executive have agreed to enter into a new Employment Agreement to formalize in writing the terms and conditions reached between them governing the Executive's continuing employment with the Corporation in the position of President and Chief Executive Officer;

NOW THEREFORE in consideration of the covenants in this Agreement and for other good and valuable consideration, including, without limitation, the grant of stock options described herein, the receipt and sufficiency of which are acknowledged by the parties, the parties agree as follows:

1. Definitions

In this Agreement,

"**Affiliate**" means any company that is an affiliate of the Corporation as defined under the *Securities Act* (Ontario);

"Agreement" means this agreement and all schedules attached to this agreement, in each case as they may be amended or supplemented from time to time;

"Basic Salary" has the meaning set out in section 4.1;

"Benefits" has the meaning set out in section 4.2;

"Business Day" means any day, other than Saturday, Sunday or any statutory holiday in the Province of Ontario;

"Change in Control" means:

(a) the initial acquisition by any Person, or any Persons acting jointly or in concert, whether directly or indirectly, of Voting Shares of the Corporation which, together with all other Voting Shares of the Corporation held by such persons, constitutes, in the aggregate, more than 50% of all outstanding Voting Shares of the Corporation (an "Acquisition");

(b) an amalgamation, arrangement or other form of business combination of the Corporation with another corporation which results in the holders of voting shares of that other corporation holding, in the aggregate, more than 50% of all outstanding Voting Shares of the Corporation resulting from the business combination (an "Arrangement");

(c) a sale, disposition, lease or exchange to or with another Person or Persons (other than an Affiliate) of assets of the Corporation representing 50% or more of the net book value of the assets of the Corporation, determined as of the date of the most recently published audited annual or unaudited quarterly interim financial statements of the Corporation (a "Sale"); or

(d) a change in the composition of the Board over any twelve (12) month period such that more than 50% of the individuals who were directors of the Corporation at the beginning of the period are no longer directors at the end of the period, unless such change is a consequence of normal attrition or as a result of a decision of the Board;

For greater certainty, "Change in Control" does not include: (1) an Acquisition, Arrangement or Sale which is undertaken for the purposes of financing the Corporation or (2) an Acquisition, Arrangement or Sale in which substantially all of the assets of the Corporation are sold, disposed of, leased or exchanged to a corporation with substantially the same ownership of Voting Shares as those of the Corporation immediately preceding such Acquisition, Arrangement or Sale or (3) any other capital reorganization of the Corporation.

"Competitive Business" means any business involved anywhere in the world in developing, producing, distributing, selling or licensing pharmaceutical goods, in any media now existing or hereafter developed, and/or services relating to pharmaceutical products and technologies in the same therapeutic categories as those in which the Corporation is actively involved;

"Confidential Information" means all confidential or proprietary information, intellectual property (including trade secrets) and confidential facts relating to the business or affairs of the Lorus Group, its clients or its suppliers (excluding general skills and knowledge), whether or not originated by the Executive;

"Developments" means all discoveries, inventions, designs, works of authorship, improvements and ideas (whether or not patentable or copyrightable) and legally recognized proprietary rights (including, but not limited to, patents, copyrights, trademarks, topographies, know-how and trade secrets), and all records and copies of records relating to the foregoing, that are owned by the Lorus Group or that:

(a) result or derive from the Executive's employment or from the Executive's knowledge or use of Confidential Information;

(b) are conceived or made by the Executive (individually or in collaboration with others) during the term of the Executive's employment by the Corporation;

(c) result from or derive from the use or application of the resources of the Lorus Group; or

(d) relate to the business operations of or actual or demonstrably anticipated research and development by the Lorus Group;

"Directors and Officers Alternate Compensation Plan" means the plan established, subject to shareholder approval, to permit the Corporation to discharge certain of its compensation obligations to its directors and senior officers through the issuance of common shares of the Corporation;

"Disability" means the mental or physical state of the Executive such that the Executive has been unable as a result of illness, disease, mental or physical disability or similar cause, as determined by a legally qualified medical practitioner selected by the Corporation, to fulfill the Executive's obligations under this Agreement either for any consecutive 180-day period or for any period of 180 days (whether or not consecutive) in any consecutive 365-day period;

"Employment Period" has the meaning set out in section 2;

Good Reason" means the occurrence of any of the following upon, or prior to the expiry of the eighteen (18) month period following, a Change in Control, unless the Executive provides express written consent thereto:

(a) Change in Duties. The assignment to the Executive of any duties inconsistent with the Executive's status as President and Chief Executive Officer, or a material change in the nature or status of the Executive's responsibilities, or a material change in the duties or reporting relationships of the Executive, in each case from those in effect immediately prior to a Change in Control of the Corporation;

(b) Reduced Base Salary. A material reduction by the Corporation in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time or the failure by the Corporation to grant the Executive a salary increase at a rate commensurate with the increases accorded to other key executives of the Corporation at the Executive's status and level of seniority with the Corporation;

(c) Reduced Bonus Entitlement. A material reduction by the Corporation in the Executive's bonus entitlement;

(d) Relocation. The Corporation requiring the Executive to be based anywhere other than within the greater metropolitan area where the Executive is primarily based at the time of a Change in Control of the Corporation, except for required travel on the Corporation's business to an extent substantially consistent with the Executive's travel obligations in the ordinary course of business immediately prior to the Change in Control of the Corporation;

(e) Pension Plan, Benefit Plans and Perquisites. The failure by the Corporation to continue to provide the Executive with benefits at least as favourable as those enjoyed by the Executive under the Pension Plans, or any retirement arrangement established for the Executive, or any of the Corporation's life insurance, medical, health, and accident, disability or savings plans in which the Executive was participating at the time of a Change in Control of the Corporation; the taking of any action by the Corporation that would directly or indirectly materially reduce any such benefits or deprive the Executive of any material perquisite enjoyed by the Executive at the time of the Change in Control, including, without limitation and to the extent applicable, car allowance, secretarial services, office space, telephones, computer facilities, expense reimbursement or other such perquisites to which the Executive is entitled at the time of the Change in Control;

(f) Share Options. The failure by the Corporation to grant the Executive any portion of the share options to which the Executive is entitled pursuant to this Agreement and the Corporation's Stock Option Plan in effect at the time of the Change in Control without the Executive's consent; or

(g) any other reason which would be considered to amount to constructive dismissal by a court of competent jurisdiction;

Any event, act or omission which constitutes Good Reason within the meaning of this definition shall be deemed not to be Good Reason if the Executive fails to object within sixty (60) days of learning of the event, act or omission or, if the event, act or omission is curable and is cured in its entirety by the Corporation within thirty (30) days of written notice. The Executive shall have sixty (60) days upon learning of the event, act or omission to give notice in writing to the Corporation stating the Executive's basis for the Executive's position that there is Good Reason. Upon the receipt of such written notice, the Corporation shall have thirty (30) days to cure the event, act or omission in its entirety and if so cured there shall be deemed to be no Good Reason.

"Just Cause" means: (i) theft, fraud, dishonesty or misconduct by the Executive involving the property, business or affairs of the Lorus Group or the carrying out of the Executive's duties; (ii) any material breach or non-observance by the Executive of any term of this Agreement (other than those listed in (iii)) that is capable of correction, after notice by the Corporation of the failure to do so and an opportunity for the Executive to correct the same within a reasonable time from the date of receipt of that notice and which breach or non-observance would constitute just cause for the termination of this Agreement and the Executive's employment hereunder at common law; or (iii) any breach or non-observance or threatened breach or non-observance of any of sections 9, 10, 11, 12 or 13;

"Person" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

"Share Option Plan" means the Corporation's Stock Option Plan as the same is in effect at any relevant time;

"Stock Option Agreement" means any agreement required to be executed and delivered pursuant to the Share Option Plan"

"Stop Work Notice" has the meaning set out in section 8.3;

"Termination Date" has the meaning set out in section 8.2;

"Voting Shares" means any securities of the Corporation ordinarily carrying the right to vote at elections of directors of the Corporation or such Affiliate, provided that if any such security shall at any time carry the right to cast more than one vote for the election of directors, such security shall, when and so long as it carries such right, be considered for the purposes of this Agreement to constitute and be such number of securities of the Corporation as is equal to the number of votes for the election of directors that may be cast by its holder; and

"Year of Employment" means any 12-month period commencing on the date of commencement of the Executive's employment under this Agreement contained in Schedule "A" or on any anniversary of that date.

2. **Employment and Term**

The Corporation will employ the Executive, and the Executive will serve the Corporation in the office set forth in Schedule "A", with effect from the date contained in Schedule "A", until the effective date that the Executive's employment is terminated in accordance with section 8 hereof (the "Employment Period").

3. **Nature of Employment**

3.1. The Executive will perform the duties of the office as outlined in Schedule "A".

3.2. During the Employment Period, the Executive will faithfully, honestly and diligently serve the Corporation and the Lorus Group. The Executive will (except in the case of illness or accident) devote all of the Executive's business time and attention to the Executive's employment and will use the Executive's best efforts to promote the interests of the Corporation. Notwithstanding the foregoing, the Executive may, with the prior written consent of the board of directors of the Corporation, which consent will not be unreasonably withheld, serve on the board of directors of other corporations or accept part-time unpaid academic appointments, provided that any such board or academic appointment does not interfere with the performance of the Executive's obligations hereunder, is not a Competitive Business and provides, in a manner satisfactory to the board of directors of the Corporation, for the adequate protection of any intellectual property arising out of or in connection with such appointment. Unless otherwise specified in Schedule "A", the Executive appreciates that the Executive's duties may involve travel from the Executive's place of employment (both within and outside of the country in which that place is located), and the Executive agrees to travel as reasonably required in order to fulfill the Executive's duties.

3.3. The Executive will comply with all rules, regulations and instructions of the Corporation now in force, or that may be adopted from time to time, and communicated by the Corporation to its executives generally.

4. **Remuneration**

4.1. Basic Remuneration. The Corporation will pay the Executive a gross annual salary (the "Basic Salary") as provided in Schedule "A". The Basic Salary will be payable in equal instalments in accordance with the practices of the Corporation applicable to its other senior executives. The Corporation will review the Executive's Basic Salary annually, with a view to considering increases, as appropriate.

4.2. Benefits. The Executive will be entitled to participate in all benefit plans, funds or arrangements available from time to time to senior executive officers of the Corporation (the "Benefits") (currently the benefits set out in Schedule "A").

4.3. Bonus Remuneration. The Executive will be entitled to receive bonus remuneration, if any, in respect of each Year of Employment during the Employment Period, or any part thereof, as the board of directors of the Corporation, in its sole discretion, may authorize in accordance with the terms of any management incentive compensation plan of the Corporation in effect from time to time. The Executive's current bonus target is as set forth in Schedule "A".

4.4. Share Options.

4.4.1 the Executive shall, within seven (7) days following the effective date of this Agreement (as set out in Schedule "A"), receive a grant of 1,000,000 options to acquire common shares in the capital of the Corporation pursuant to the Corporation's 2003 Share Option Plan, subject to the execution and delivery by the Executive of a duly completed Stock Option Agreement.

4.4.2 the Executive shall be eligible to receive a grant of options to acquire up to 500,000 common shares in the capital of the Corporation per Year of Employment during the Employment Period pursuant to the Share Option Plan in respect of the attainment of those corporate performance objectives during the previous fiscal year to be determined by the board of directors in its sole discretion. Share options will be granted, if at all, to the extent that the board of directors of the Corporation, in its sole discretion, may determine.

4.4.3 subject to the last sentence of this paragraph, the Executive shall be eligible to receive a grant of an additional 1,000,000 options to acquire common shares in the capital of the Corporation provided that within a three (3) year period following the effective date of this Agreement (as set out in Schedule "A"), the price of the Corporation's common shares on the Toronto Stock Exchange (or such other exchange on which the majority of the Corporation's common shares are traded) exceed $1.00 per share for a period of ninety (90) consecutive calendar days; other than if such increase in the Corporation's share price occurs by way of (i) consolidation, amalgamation, arrangement, including an Arrangement, Amalgamation or Sale of the Corporation with or into any other corporation resulting in any reclassification of the outstanding common shares (provided that the foregoing shall not be deemed to include any transaction that creates value for shareholders of the Corporation), (ii) any change of the common shares into other securities, or (iii) any other capital reorganization of the Corporation, including, without limitation, a consolidation or other reclassification of the securities of the Corporation; all as determined by the board of directors of Corporation in its sole discretion. For greater clarity, the intention of the foregoing grant of options is to recognize shareholder value created by the Executive during the term of her employment with the Corporation and the board of directors of the Corporation shall have regard to this in determining whether the foregoing milestone has been met.

4.5 Communication of Annual Objectives. Prior to the commencement of each Year of Employment throughout the Employment Period, the Chair of the board of directors of the Corporation will provide a written communication to the Executive setting out:

4.5.1 the corporate objectives relating to the employment of the Executive for the ensuing fiscal year of the Corporation;

4.5.2 the Basic Salary of the Executive during the ensuing fiscal year;

4.5.3 the potential bonus to which the Executive may become entitled during the ensuing fiscal year and the basis of calculation thereof; and

4.5.4 the stock options to which the Executive may become entitled;

in each case as the same have been determined by the Compensation Committee of the board of directors of the Corporation and approved by the board of directors.

5. **Expenses**

5.1. Travel and Related Expenses. The Corporation will, upon presentation of expense statements or receipts and any other supporting documentation as the Corporation may reasonably require, pay or reimburse the Executive in accordance with the Corporation's expense policies for all travel and out-of-pocket expenses reasonably incurred or paid by the Executive in the performance of the Executive's duties and responsibilities.

5.2. Automobile. The Corporation will provide the Executive with an annual automobile allowance as set out in Schedule "A", such automobile allowance to be inclusive of all costs, including without limitation, the purchase or lease and maintenance of the Executive's automobile.

5.3. Memberships. The Corporation will pay, on behalf of the Executive, the cost of annual memberships as set out in Schedule "A".

6. **Vacation**

The Executive will be entitled during each Year of Employment during the Employment Period to vacation time with pay as provided in Schedule "A". Vacation will be taken by the Executive at times reasonably acceptable to the Corporation having regard to its operations. The Corporation acknowledges that the Executive currently has 76 days of accrued vacation which the Executive remains entitled to exercise at time or times mutually agreeable to the Executive and the Corporation. However, the Executive agrees and acknowledges that, with respect to the Executive's vacation entitlements which accrue following the effective date of this Agreement and the Executive's employment hereunder, if the Executive has not taken the full vacation to which the Executive is entitled in any calendar year, the Executive may, with the consent of the Chair, carry over up to one week of unused vacation to the following Year of Employment, and otherwise will lose the entitlement to the unused portion of vacation, except as provided under applicable employment legislation.

Notwithstanding the foregoing, if the Executive's employment is terminated pursuant to section 8 below, the Executive will not be entitled to receive any payment in lieu of any vacation to which the Executive was entitled as of the date of termination and which had not already been taken by the Executive except to the extent, if any, of the payments in respect of vacation pay required under applicable employment legislation, or otherwise as approved by the board of directors of the Corporation acting in its discretion.

7. **Directors and Officers Alternative Compensation Plan**

Subject to the Executive's prior written consent, the Executive will participate in the Directors and Officers Alternative Compensation Plan. Participation in the Directors and Officers Alternative Compensation Plan shall, to the extent required, be subject to the plan being approved by the shareholders of the Corporation.

8. **Termination**

8.1. Notice. The Executive's employment may be terminated at any time;

8.1.1. by the Corporation without prior notice and without further obligations under this Agreement to the Executive for reasons of Just Cause or because of the occurrence of Disability;

8.1.2. by the Executive on giving prior written notice as specified in Section 8.5, below, in the event of a Change in Control, or otherwise as specified in Schedule "A"; or

8.1.3. in any other case by the Corporation on giving prior written notice as specified in Schedule "A", provided that if, in the case of termination by the Corporation under this section 8.1.3, the Executive is entitled under the applicable employment legislation to a longer period of notice than that prescribed above, the notice to be given by the Corporation under this section 8.1.3 will be that minimum period of notice that is required under applicable employment legislation and no more.

The Executive's employment will be automatically terminated, without further obligation on the part of the Corporation or the Lorus Group, upon the Executive's death.

8.2. Effective Date. The effective date on which the Executive's employment will be deemed to have been terminated under this section 8 (the "Termination Date") will be:

8.2.1. in the case of termination under section 8.1.1, the day on which the Executive is deemed, under section 16, to have received notice from the Corporation of termination;

8.2.2. in the case of termination under section 8.1.2 or 8.1.3, the last day of the minimum period referred to in the relevant section; and

8.2.3. in the case of the death of the Executive, on the date of the Executive's death.

8.3. Immediate Departure.

8.3.1. Stop Work Notice. Notwithstanding the foregoing, where the Corporation is giving or has given written notice to the Executive pursuant to sections 8.1.2 and 8.1.3 above, the Corporation will have the right, at any time prior to the end of the Employment Period, by giving notice to the Executive to that effect (a "Stop Work Notice"), to require that the Executive cease to perform the Executive's duties and responsibilities and cease attending at the Corporation's premises immediately upon the giving of the Stop Work Notice. The Executive will, as requested in these circumstances, resign all offices held in the Lorus Group.

If a Stop Work Notice is given, the Corporation will, subject to subsection 8.3.2, continue to pay the Executive to the end of the Employment Period. For that purpose, in calculating the Executive's entitlement to Basic Salary and bonus remuneration, if any, the Executive will be considered to have been actively employed by the Corporation to the end of the Employment Period. The Executive will be entitled to Benefits only if permitted by the terms of any fund, plan or arrangement. To the extent that continued participation is not permitted, the Corporation will pay to the Executive the amount of contributions the Corporation would otherwise have been required to make with respect to any relevant fund, plan or arrangement to the end of the Employment Period.

8.3.2. Mitigation. Subject to this section, the Executive will not be required to mitigate the Executive's loss, or to account to the Corporation for any amount earned that might otherwise be considered to mitigate the liability of the Corporation to make the payments described above.

However, if the Executive accepts alternative employment during the notice period:

8.3.2.1. all obligations of the Corporation in respect of the continuation of benefits or payments of premiums in lieu will cease with effect as of the date of commencement of the alternative employment;

8.3.2.2. the Corporation will, within 14 days after receiving the notice referred to in subsection 8.3.2.3, pay to the Executive an amount equal to one-half of the Basic Salary that would otherwise have been paid to the end of the Employment Period. Payment of this amount will be in lieu of the further payments contemplated by subsection 8.3.1. Upon such payment, the Executive will provide to the Corporation, appropriate releases, resignations and other similar documentation; and

8.3.2.3. the Executive will advise the Corporation forthwith of the acceptance of any employment relevant to this paragraph.

8.4. Lump Sum Payment.

8.4.1. Payment in Lieu of Notice. Notwithstanding section 8.3 above, where the Executive has been given notice of termination under section 8.1.3 above, the Corporation will be entitled to immediately terminate the employment of the Executive (the "End Date") upon the payment to the Executive, within 14 days thereof, in addition to accrued and unpaid Basic Salary and earned bonuses to that date, a lump sum payment equal to the Basic Salary and Bonus Remuneration which the Executive would otherwise have been entitled to receive during the relevant notice period referred to in section 8.1.3 and less any amounts owing by the Executive to the Corporation. The Executive will provide to the Corporation appropriate resignations, releases and other similar documentation. For the purposes of this payment, "Bonus Remuneration" shall be calculated based on the amount of Bonus Remuneration paid to the Executive in respect of the last fiscal year completed prior to the End Date, calculated pro-rata over the relevant notice period referred to in Section 8.1.3.

8.4.2. Benefits. In addition to the payments referred to in subsection 8.4.1 above, the Executive will be entitled to Benefits, to the extent permitted by the terms of any fund, plan or arrangement, and, if so permitted, the Corporation will continue to make the contributions required to be made with respect to any such fund, plan or arrangement, during the relevant period to which the lump sum payment relates. To the extent that the terms of any fund, plan or arrangement do not permit the Executive to continue to receive the Benefits, the Corporation will pay to the Executive, in lieu of such Benefits, an additional amount equal to the amount which the Corporation would have been required to contribute pursuant to the terms of any fund, plan or arrangement in respect of any Executive during the relevant period to which the lump sum payment relates.

8.4.3 Share Options. Subject to the terms of the Share Option Plan, the approval of the board of directors and regulatory approval, all share options granted to the Executive which remain unvested as of the End Date shall vest on the first day following the End Date. Subject to approval of the board of directors and regulatory approval, the Executive shall have twelve (12) months following the End Date during which to exercise all of the Executive's vested share options, including such share options which vest prior to and following the End Date. Other than as described herein, The Executive shall have no further entitlements with respect to the grant or vesting of share options following the End Date.

8.5. Change in Control. Upon the occurrence a Change in Control; and:

(i) the termination of the Executive's employment by the Corporation for any reason other than Just Cause or the Executive's Death or Disability; or

(ii) where the Executive terminates her employment with the Corporation for Good Reason,

either upon the occurrence of a Change in Control or at any time prior to the expiry of the eighteen (18) month period following a Change in Control, and following the delivery of written notice of termination by the Executive to the Corporation, the Executive shall be entitled to terminate this Agreement and the Executive's employment hereunder, and shall be entitled to receive within fourteen (14) days following the effective date of such termination by the Executive (the "End Date"), and in lieu of any other amounts to which the Executive may otherwise be entitled upon termination of the Executive's employment, including, without limitation, under any other section of this Agreement, the following:

8.5.1 Lump-Sum Payment. In addition to accrued and unpaid Basic Salary and earned bonuses to the End Date, a lump sum payment equal to the Basic Salary and Bonus Remuneration which the Executive would otherwise have been entitled to receive for a minimum period of twenty-four (24) months, plus one additional month for each Year of Employment completed as of the date on which such notice of termination is given ("Severance Period"), less any amounts owing by the Executive to the Corporation. For the purposes of this payment, "Bonus Remuneration" shall be calculated based on the amount of Bonus Remuneration paid to the Executive in respect of the last fiscal year completed prior to the End Date, calculated pro-rata over the Severance Period.

8.5.2 Benefits. In addition to the payments referred to in subsection 8.5.1, above, the Executive will be entitled to Benefits, to the extent permitted by the terms of any fund, plan or arrangement, and, if so permitted, the Corporation will continue to make the contributions required to be made with respect to any such fund, plan or arrangement, during the Severance Period. To the extent that the terms of any fund, plan or arrangement do not permit the Executive to continue to receive the Benefits, the Corporation shall pay to the Executive, in lieu of such Benefits, an additional amount equal to the amount which the Corporation would have been required to contribute pursuant to the terms of any fund, plan or arrangement in respect of any Executive during the relevant period to which the lump sum payment relates.

8.5.3 Share Options. Subject to the terms of the Share Option Plan, the approval of the board of directors and regulatory approval, all share options granted to the Executive which remain unvested as of the End Date shall vest on the first day following the End Date. Subject to approval of the board of directors and regulatory approval, the Executive shall have twelve (12) months following the End Date during which to exercise all of the Executive's vested share options, including such share options which vest prior to and following the End Date. Other than as described herein, The Executive shall have no entitlements with respect to the grant or vesting of share options following the End Date.

8.6. No Other Entitlement. Except as provided above in this section 8, where the Executive's employment has been terminated by the Executive or terminated or deemed to have been terminated by the Corporation for any reason, the Executive will not be entitled, except to the extent required under any mandatory employment standard under the applicable employment legislation, to receive any payment as termination pay, severance pay, pay in lieu of notice, or as damages. Except as to any entitlement as provided above, the Executive hereby waives any claims the Executive may have against the Corporation for or in respect of termination pay, severance pay, or on account of loss of office or employment or notice in lieu thereof or damages in lieu thereof (other than rights to accrued and unpaid Basic Salary and vacation pay and to reimbursement for expenses pursuant to section 5.1). Payments to the Executive upon termination in accordance with this Agreement by the Corporation will be deemed to include and to satisfy entitlement to termination pay, vacation pay and severance pay pursuant to the applicable employment legislation to the extent of those payments. Receipt by the Executive of payments in accordance with this Agreement will be deemed to constitute a full and final release and discharge by the Executive of the Corporation, the Lorus Group and all of its directors, officers and agents (for each of whom the Corporation contracts as a trustee) from all claims including, without limitation, any claims in respect of the Executive's hiring by, employment with and termination of employment with the Corporation.

9. **No Conflicting Obligations**

9.1. The Executive warrants to the Corporation that:

9.1.1. the performance of the Executive's duties as an employee of the Corporation will not breach any agreement or other obligation to keep confidential the proprietary information of any third party; and

9.1.2. the Executive is not bound by any agreement with or obligation to any third party that conflicts with the Executive's obligations as an employee of the Corporation or that may affect the Corporation's interest in the Developments.

9.2. The Executive will not, in the performance of the Executive's duties as an employee of the Corporation:

9.2.1. improperly bring to the Corporation or use any trade secrets, confidential information or other proprietary information of any third party; or

9.2.2. knowingly infringe the intellectual property rights of any third party.

10. **Confidential Information**

The Executive agrees that the Confidentiality Agreement executed by the Executive on October 29, 1999 remains in full force and effective following the effective date of this Agreement and forms part of this Agreement.

11. **Competition and Solicitation**

11.1. Non-Competition. The Executive acknowledges that employment by the Corporation will give the Executive access to the Confidential Information, and that the Executive's knowledge of the Confidential Information will enable the Executive to put the Corporation at a significant competitive disadvantage if the Executive is employed or engaged by or becomes involved in a Competitive Business. Accordingly, during the Employment Period and for the relevant period of time specified in Schedule "A" after the Termination Date, the Executive will not, directly or indirectly, individually or in partnership or in conjunction with any other Person:

11.1.1. be engaged, directly or indirectly, in any manner whatsoever, including, without limitation, either individually or in partnership, jointly or in conjunction with any other person, or as an employee, consultant, adviser, principal, agent, member, shareholder or proprietor in any Competitive Business; or

11.1.2. advise, invest in, lend money to, guarantee the debts or obligations of, or otherwise have any other financial or other interest (including an interest by way of royalty or other compensation arrangements) in or in respect of any Person which carries on a Competitive Business.

The restrictions in section 11.1 above will not prohibit the Executive from (i) holding not more than five percent of the issued shares of a public company listed on any recognized stock exchange or traded on any *bona fide* "over the counter" market anywhere in the world or (ii) with the prior written consent of the board of directors of the Corporation, which consent will not be unreasonably withheld, serve on the board of directors of other corporations or accept part-time unpaid academic appointments, provided that any such board or academic appointment does not interfere with the performance of the Executive's obligations hereunder, is not a Competitive Business and provides, in a manner satisfactory to the board of directors of the Corporation, for the adequate protection of any intellectual property arising out of or in connection with such appointment.

For greater certainty, the Executive's obligations under this section 11.1 are in addition to the obligations respecting disclosure and use of Confidential Information pursuant to the Confidentiality Agreement referred to in section 10.

11.2. No Solicitation of Clients and Suppliers. The Executive acknowledges the importance to the business carried on by the Lorus Group of the client and supplier relationships developed by it and the unique opportunity that the Executive's employment and the Executive's access to the Confidential Information offers to interfere with these relationships. Accordingly, the Executive will not while employed or engaged by the Lorus Group and for the period of time specified in Schedule "A", directly or indirectly, contact or solicit any person who the Executive knows to be a prospective, current or former client or supplier of the Lorus Group for the purpose of selling to the client or buying from the supplier any products or services that are the same as or substantially similar to, or in any way competitive with, the products or services sold or purchased by the Lorus Group during the Executive's Employment or at the end thereof, as the case may be.

11.3. No Solicitation of Employees. The Executive acknowledges the importance to the business carried on by the Lorus Group of the human resources engaged and developed by it and the unique access that the Executive's employment offers to interfere with these resources. Accordingly, the Executive will not during the Employment Period and for the period of time specified in Schedule "A", induce or solicit, attempt to induce or solicit or assist any third party in inducing or soliciting any employee or consultant of the Lorus Group, to leave the Lorus Group or to accept employment or engagement elsewhere.

11.4. Independent Covenants. Each of sections 11.1, 11.2 and 11.3 will be construed as constituting obligations independent of any other obligations in this Agreement. The existence of any claim or cause of action the Executive may have or assert against the Corporation, whether based on this Agreement or otherwise, will not constitute a defence to the enforcement by the Corporation of any of the covenants and agreements in the foregoing sections.

12. **Intellectual Property Rights**

12.1. Ownership. All Developments will be the exclusive property of the Lorus Group and the Lorus Group will have sole discretion to deal with Developments. For greater certainty, all work done during the Employment Period by the Executive for the Corporation or a member of the Lorus Group is a work for hire of which the Corporation or the member of the Lorus Group, as the case may be, is the first author for copyright purposes and in respect of which all copyright will vest in the Corporation or the relevant member of the Lorus Group, as the case may be.

12.2. Records. The Executive will keep complete, accurate and authentic notes, reference materials, data and records of all Developments in the manner and form requested by the Corporation. All these materials will be Confidential Information upon their creation.

12.3. Moral Rights. The Executive hereby irrevocably waives all moral rights arising under the*Copyright Act* (Canada) as amended (or any successor legislation of similar effect) or similar legislation in any applicable jurisdiction, or at common law, that the Executive may have now or in the future with respect to the Developments, including, without limitation, any rights the Executive may have to have the Executive's name associated with the Developments or to have the Executive's name not associated with the Developments, any rights the Executive may have to prevent the alteration, translation or destruction of the Developments, and any rights the Executive may have to control the use of the Developments in association with any product, service, cause or institution. The Executive agrees that this waiver may be invoked by the Corporation, and by any of its authorized agents or assignees, in respect of any or all of the Developments.

12.4. Further Assurances. The Executive will do all further things that may be reasonably necessary or desirable in order to give full effect to the foregoing. If the Executive's co-operation is required in order for the Lorus Group to obtain or enforce legal protection of the Developments following the termination of the Executive's employment, the Executive will provide that co-operation so long as the Corporation pays to the Executive reasonable compensation for the Executive's time at a rate to be agreed, provided that the rate will not be less than the last basic salary or compensation rate paid to the Executive by the Corporation during the Executive's employment.

13. **Warranties, Covenants and Remedies**

13.1. The obligations of the Executive as set forth in sections 9, 10, 11 and 12 of this Agreement will be deemed to have commenced as of the date on which the Executive was first employed by the Lorus Group. The Executive warrants that the Executive has not, to date, breached any of the obligations set forth in any of those sections. Any breach or threatened breach of those sections by the Executive will constitute Just Cause for immediate termination of the Executive's employment or engagement by the Corporation.

13.2. The Executive understands that the Lorus Group has expended significant financial resources in developing its products and the Confidential Information. Accordingly, a breach or threatened breach by the Executive of any of sections 9, 10, 11, 12 or 13.1 could result in unfair competition with the Lorus Group and could result in the Lorus Group and its shareholders suffering irreparable harm that is not capable of being calculated and that cannot be fully or adequately compensated by the recovery of damages alone. Accordingly, the Executive agrees that the Corporation will be entitled to interim and permanent injunctive relief, specific performance and other equitable remedies, in addition to any other relief to which the Corporation or the Lorus Group may become entitled.

13.3. The Executive's obligations under each of sections 9,10,11,12,13.1 and 13.2 are to remain in effect in accordance with each of their terms and will exist and continue in full force and effect despite any termination, breach or repudiation, or alleged breach or repudiation, of this Agreement or the Executive's employment (including, without limitation, the Executive's wrongful dismissal) by the Corporation or the Lorus Group.

14. **Co-operation by Executive**

The Executive will co-operate in all respects with the Corporation if a question arises as to whether the Executive has a Disability. Without limitation, the Executive will authorize the Executive's medical doctor or other health care specialist to discuss the condition of the Executive with the Corporation and will as reasonably requested by the Corporation submit to examination by a medical doctor or other health care specialist selected by the Corporation.

15. **Employers and Employees Act Not to Apply**

The Corporation and the Executive agree that section 2 of the *Employers and Employees Act* (Ontario) or other similar provisions in Applicable Employment Legislation will not apply to or in respect of this Agreement or the employment of the Executive hereunder.

16. **Notices**

Any notice or other communication required or permitted to be given hereunder must be in writing, and must be given by facsimile or other means of electronic communication or by hand-delivery as hereinafter provided, except that any notice of termination by the Corporation under section 8 above must be hand-delivered or given by registered mail. Any notice or other communication, if mailed by registered mail, will be deemed to have been received on the day that mail is delivered by the post office, or if sent by facsimile, will be deemed to have been received on the Business Day following the sending, or if delivered by hand to the Executive will be deemed to have been received at the time it is delivered to the Executive or, if delivered to the Executive or the Corporation at the applicable address noted in Schedule "A", when it is delivered either to the individual designated in Schedule "A" or to an individual at that address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address will also be governed by this section. Notices and other communications must be addressed as set out in Schedule "A".

17. **Headings**

The inclusion of headings in this Agreement is for convenience of reference only and is not to affect construction or interpretation.

18. **Invalidity of Provisions**

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any provision by a court of competent jurisdiction will not affect the validity or enforceability of any other provision.

19. **Entire Agreement**

This Agreement, the attached Schedule "A" and the Confidentiality Agreement referred to in section 10 constitute the entire agreement between the parties pertaining to the subject matter of this Agreement. This Agreement supersedes and replaces all prior agreements, if any, written or oral, with respect to the Executive's employment by the Corporation, including the Employment Agreement entered into by the Executive and the Corporation, effective October 29, 1999, and any rights which the Executive may have by reason of any prior agreement or by reason of the Executive's prior employment, if any, by the Lorus Group. There are no warranties, representations or agreements between the parties in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement. No reliance is placed on any representation, opinion, advice or assertion of fact made by the Corporation, the Lorus Group or its directors, officers and agents (for each of whom the Corporation contracts as trustee) to the Executive, except to the extent that the same has been reduced to writing and included as a term of this Agreement. Accordingly, there will be no liability, either in tort or in contract, assessed in relation to any representation, opinion, advice or assertion of fact, except to the extent aforesaid.

20. **Waiver, Amendment**

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement will be binding unless executed in writing by the party to be bound. No waiver of any provision of this Agreement will constitute a waiver of any other provision nor will any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

21. **Governing Law and Attornment**

This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario. The parties attorn to the non-exclusive jurisdiction of the Courts of Ontario.

22. **Counterparts**

This Agreement may be signed in counterparts. Each counterpart will constitute an original document and all counterparts, taken together, will constitute one and the same instrument. Executed counterparts may be delivered by telecopier or other electronic delivery.

23. **Acknowledgement**

The Executive acknowledges that:

(i) the Executive has received a copy of this Agreement;

(ii) the Executive has had sufficient time to review and consider this Agreement thoroughly;

(iii) the Executive has read and understands the terms of this Agreement and the Executive's obligations under this Agreement;

(iv) the restrictions placed upon the Executive by this Agreement are reasonably necessary to protect the Lorus Group proprietary interests in the Confidential Information and the Developments, and will not preclude the Executive from being gainfully employed in a suitable capacity following termination of the Executive's employment by the Corporation, given the Executive's general knowledge and experience;

(v) the Executive has been given an opportunity to obtain independent legal advice, or other advice as the Executive may desire, concerning the interpretation and effect of this Agreement, and by signing this Agreement the Executive has either obtained advice or voluntarily waived the Executive's opportunity to receive same; and

(vi) the Agreement is entered into voluntarily by the Executive.

IN WITNESS WHEREOF THE PARTIES HAVE EXECUTED THIS AGREEMENT UNDER THEIR RESPECTIVE SEALS.

LORUS THERAPEUTICS INC.

Date: September 21, 2006

By: /s/ Graham Strachan
Chair

I agree and accept employment on these terms.

WITNESS:)
)
)
)
/s/ Gloria Knight)
Signature of Witness)
)
GLORIA A. KNIGHT)
Witness Name (Please Print))

/s/ Aiping Young 1/s
DR. AIPING YOUNG
PRESIDENT & CEO

SCHEDULE "A"

EXECUTIVE EMPLOYMENT AGREEMENT

This schedule is attached to and forms an essential part of the executive employment agreement (the "Agreement") between Lorus Therapeutics Inc. (the "Corporation") and Dr. Aiping Young (the "Executive").

1. In accordance with section 2, the Executive's employment with the Corporation under this Agreement will commence on September 21, 2006.

2. In accordance with section 2, the office to be held by the Executive in the Corporation will be President and Chief Executive Officer. The Corporation may, at any time, assign the Executive to perform other functions (with the Corporation and/or any of its Affiliates) that are consistent with the Executive's skill and experience and the position of President and Chief Executive Officer.

3. In accordance with section 3.1, the undersigned has agreed to perform the duties of the office of President and Chief Executive Officer in accordance with paragraph 2 above and as set out in the job description attached as Appendix 1 to this Schedule "A", as amended from time to time by the Corporation with the prior written consent of the Executive.

4. In accordance with section 4.1, the Executive will be entitled to an annual basic salary of CDN$300,000.00 (before deduction for income taxes and other required deductions, but excluding the Benefits paid by the Corporation as provided in section 4.2 of the Agreement).

5. In accordance with section 4.2, the Executive is currently entitled to receive the following benefits: Health (including extended health care coverage and travel assistance), Dental, Life Insurance, Short Term and Long Term Disability coverage with all premiums to be paid by the Corporation and with no deductibles, and Group RRSP. The Corporation will reimburse the Executive for vision wear to a maximum of $100 per annum.

6. In accordance with and subject to section 4.3, the Executive shall be entitled to receive a Bonus of up to 40% of the Executive's Basic Salary.

7. In accordance with Section 5.2, the Executive will be provided with an annual automobile allowance of $12,000 (before deduction for income taxes) payable in equal monthly installments on the last Friday of each month.

8. In accordance with section 5.3, the Corporation will pay annually the first $1,000 of membership fees in any health club on behalf of the Executive.

9. In accordance with section 6, the Executive will be entitled to five (5) weeks of paid vacation annually, to be adjusted to reflect periods of employment of less than a full calendar year.

10. In accordance with section 8.1.2, the Executive may terminate the Executive's employment on giving to the Corporation at least four (4) months prior written notice. However, the Executive will attempt to provide as much (additional) prior notice as is possible and will, in all cases, assist fully as reasonably requested by the Corporation in effecting an orderly transition to the Executive's successor.

11. In accordance with section 8.1.3, the Corporation may terminate the Executive's employment on giving to the Executive a minimum of eighteen (18) months prior written notice, plus an additional one (1) month of written notice per each Year of Employment completed as of the date on which such written notice is provided to the Executive.

12. In accordance with section 11.1, the "Non-Competition" provisions will be valid until twelve (12) months following the Termination Date.

13. In accordance with section 11.2, the "No Solicitation of Clients and Suppliers" provisions will be valid until twelve (12) months following the Termination Date.

14. In accordance with section 11.3, the "No Solicitation of Employees" provisions will be valid until twelve (12) months following the Termination Date.

15. In accordance with section 16, any notice or communication to be given or made must be addressed as follows:

if to the Executive:

7 Sandfield Road
Toronto, ON
M3B 2B5

Attention: Dr.Aiping Young

if to the Corporation:

Lorus Therapeutics Inc.
2 Meridien Road
Toronto, ON

Attention: Chair of Board of Directors

with copies to:

McCarthy Tétrault LLP
Suite 4700, Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1E6

Attention:	Trevor Lawson
Tel:	(416) 601-8227
Facsimile:	(416) 868-0673
Email:	tlawson@mccarthy.ca

APPENDIX 1

Job Description

Dr. Aiping Young

Dr. Aiping Young ("Young") will be the President and Chief Executive Officer of the Corporation.

As President and Chief Executive Officer, Young will provide leadership, strategic vision, direction and effective operational execution within budget to the Corporation and its executives and employees.

Young will be responsible for developing, implementing, executing and achieving the Corporation's strategic plans and for ensuring that the Corporation's strategic plans and objectives are effectively communicated, both internally to the board of directors, executives and employees, and externally to the bio-technology and investment communities, including shareholders and potential investors. Young will also be responsible for securing significant partnerships with other credible biotechnology and pharmaceutical companies, for raising financing as required and for ensuring that the Corporation is able to attract, motivate and retain superior executives and employees.

Young will report to the Chair of the Corporation and will be a member of the board of directors of the Corporation.

In addition to the foregoing, Young shall have such further responsibilities consistent with the position of President and Chief Executive Officer as shall be assigned to Young by the Chair of the Corporation from time to time.

Draft: May 22, 2012

AMENDING AGREEMENT TO EXECUTIVE EMPLOYMENT AGREEMENT
("Amending Agreement")

THIS AMENDING AGREEMENT is dated as of the 29 day of May, 2012

IS MADE BETWEEN

LORUS THERAPEUTICS INC.
(the "**Corporation**")

- and -

DR. AIPING YOUNG
(the "Executive")

RECITALS

A. The Parties entered into an executive employment agreement (the "**Employment Agreement**") dated September 21st, 2006.

B. The parties wish to amend the Employment Agreement as provided herein in accordance with section 20 of the Employment Agreement.

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

1. Unless the context otherwise requires, all capitalized terms not defined herein shall have the meanings assigned to them in the Employment Agreement.

2. Section 1 of the Employment Agreement is hereby amended to delete the reference to "eighteen (18) month period" in the second line of the definition of "Good Reason" and to replace it with "thirty-six (36) month period".

3. Section 8.5 of the Employment agreement is hereby amended to delete the reference to "eighteen (18) month period" in the second line below section 8.5(ii) and to replace it with "thirty-six (36) month period".

4. The Parties hereto expressly covenant and agree that the provisions hereof shall be binding upon each of them, that the Employment Agreement will be amended and modified accordingly, that the same shall be read and construed as if the provisions hereof were therein written and that, in the event of any conflict between any of the provisions of the Employment Agreement and the provisions herein contained, the provisions herein contained shall prevail.

5. It is hereby declared and agreed that the Employment Agreement and all covenants, clauses, provisos, powers, matters and things whatsoever contained therein, save and except as herein modified, altered or amended, shall continue in force and have application to the terms and conditions herein contained, and the Employment Agreement, save as herein modified, altered or amended, is ratified and confirmed by each of the parties hereto.

6. This Amending Agreement may be executed in one or more counterparts. When each of the parties hereto who have executed an identical counterpart and delivered a copy thereof to each party (by personal delivery, electronic or facsimile transmission), then all the counterparts taken together shall be deemed to constitute a single identical agreement dated as of the date first set forth above.

7. This Amending Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have executed this Amending Agreement as of the day, month and year first above written.

LORUS THERAPEUTICS INC.

By: /s/ J.A.Wright
Name: J.A.WRIGHT
Title: CHAIRMAN, BOARD

WITNESS:

/s/ Grace Tse
Signature of Witness

Grace Tse
Witness Name (Please Print)

/s/ Aiping Young
DR. AIPING YOUNG

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANTTO
SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, William G. Rice, certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc. for the year ended May 31, 2013;

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

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

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 15, 2014

/s/ William G. Rice
William G. Rice
Chairman, President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIALOFFICER PURSUANTTO
SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, Gregory K. Chow, certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc. for the year ended May 31, 2013;

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

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

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 15, 2014

/s/ Gregory K. Chow
Gregory K. Chow
Senior Vice President and CFO

Exhibit 13.1

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

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William G. Rice, Ph.D., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of the end of the period covered by the Report and the results of operations of the Company for the period covered by the Report.

Date: May 15, 2014

/s/ William G. Rice
William G. Rice, Ph.D.
President and Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 13.2

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

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory Chow, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of the end of the period covered by the Report and the results of operations of the Company for the period covered by the Report.

Date: May 15, 2014

/s/ Gregory Chow
Gregory Chow
Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

MANAGEMENT DISCUSSION AND ANALYSIS

MAY 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

July 11, 2013

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 Securities Exchange Commission, 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 not sufficient to execute its current planned expenditures for the next twelve months without further financing. 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 consolidated financial statements for the year ended May 31, 2013 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.

Cash Position

At May 31, 2013, we had cash and cash equivalents totaling $653 thousand compared to $320 thousand at May 31, 2012. Subsequent to the year end in June, 2013, we raised gross proceeds of $893 thousand in a private placement (described above under Subsequent Events) which is available for use in fiscal 2014. We invest 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, 2013 was a deficiency of $798 thousand as compared to $2.1 million at May 31, 2012.

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.

DEVELOPMENT UPDATE

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 I 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.

Our 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 and immunotherapeutics. Our key programs are as follows:

LOR 253

LOR-253 represents a new class of anticancer agent, which we believe may offer a competitive advantage over conventional drugs. This drug candidate has shown selective and potent antitumor activity in preclinical investigations with a variety of human cancers, including colon cancer and non-small cell lung cancer, and has demonstrated an excellent therapeutic window due to its low toxicity. LOR-253 is a first-in-class small molecule that has been optimized to induce the novel tumor suppressor Krüppel-like factor 4 (KLF4). Decreased expression of KLF4 has been demonstrated in several cancer types including non-small cell lung and colon cancers. Consistent with the tumor suppressor activity of KLF4, it expression suppresses cancer cell proliferation, induces apoptosis and inhibits metastasis. In addition, gene expression analysis in tumors treated with LOR-253 was notable for rapid and sustained KLF4 gene expression. The first-in-human Phase I study of LOR-253 was initiated to investigate the maximum tolerated dose (MTD) or target-relevant dose, safety and preliminary indications of efficacy.

In July 2013, subsequent to the year end, we announced the results of the Phase 1 clinical trial of LOR-253. In this first-in-man, dose-escalation clinical study, LOR-253 demonstrated an excellent safety profile as well as encouraging signs of antitumor activity.

The design consisted of LOR-253 as a single agent in patients with advanced solid tumors resistant to multiple standard therapies. The study enrolled 27 patients, all of which had failed a median of 4 prior chemotherapies. Although this was primarily a dose-escalation safety study, efficacy and pharmacokinetics were also explored.

The clinical trial enrolled patients at 7 dose levels ranging from 20 to 229 mg/m2. Of the 27 patients enrolled, 17 were evaluable for efficacy. Of these 17 patients, 7 (41%) achieved stable disease by RECIST and this included patients with colorectal, lung, appendiceal, liver and uterine cancers. Dose related activity was demonstrated at the higher dose levels (176 and 229 mg/m2). At these two highest dose levels, 4 of 5 evaluable patients (80%) achieved sustained stable disease by RECIST ranging from 5.6 months to 8 months, representative of disease control. Of these, a patient with non-small cell lung cancer at the highest dose level additionally showed non-index tumor shrinkage.

The safety assessment indicated that LOR-253 was well tolerated at all dose levels. The dose escalation was not limited by toxicity. The most common adverse event was Grade 1 or 2 fatigue seen in 3 patients. There was one Grade 3 toxicity, asymptomatic low blood phosphate level that was reversible by supplementation. The pharmacokinetic profile was consistent with the predictive profile seen preclinically, and the elimination profile and half-life in patients were suggestive of a very rapid distribution phase and prolonged retention.

We intend to carry this program into Phase II development with the support of a partnership or, should we be able to secure adequate financing on our own.

IL 17E

IL-17E (also known as IL-25) is a recently identified cytokine that plays an important role in inflammation. Lorus scientists were the first to discover the anticancer properties of IL-17E against a range of solid tumors, including human melanoma, pancreatic, colon, lung, ovarian and breast tumor models with very low toxicity.

IL-17 E is highly potent and does not require further optimization before proceeding to the formal IND-enabling preclinical studies planned to support advancing to a Phase I clinical trial. Lorus has selected pancreatic cancer and malignant melanoma as the initial lead cancer indications for this agent. Pancreatic cancer is the fourth most common cause of cancer death in the US. It is a difficult-to-treat tumor type with an overall five-year survival rate of 6%, the lowest for any cancer. Melanoma is the fifth most common cancer in the US.

There is an urgent need for safe and effective therapies for both pancreatic cancer and malignant melanoma. A variety of cytokines are actively being developed as cancer therapies but often need to be further optimized to reduce toxicity or enhance efficacy. By contrast, IL-17E that already has an acceptable therapeutic index suitable for further development as a systemic therapy without the need for further optimization or modification.

Genentech License - In May 2012, Lorus entered into a global license with Genentech, a member of the Roche Group, in respect of certain patents owned by Genentech for IL-17E. This license will enable Lorus to develop IL-17E as a novel and exciting treatment for a large number of cancers. Lorus has patents pending for the use of IL-17E in cancer in the major world markets.

Cancer Research UK Clinical Trial and Option Agreement -–In November 2012, Lorus partnered with Cancer Research UK to develop IL-17E through a Phase I clinical trial. Cancer Research UK, through its Clinical Development Partnerships (CDP) program, is to fund and complete the preclinical studies, non-clinical toxicology studies and the Phase I clinical study in solid tumors. At the end of the first two development stages (the preclinical studies stage and the non-clinical toxicology studies stage) there will be a 'go/no go decision' whereby Cancer Research UK may decide not to further the development of the program. CDP is a joint initiative between Cancer Research UK's Drug Development Office and Cancer Research Technology, Cancer Research UK's commercial arm, to develop promising anticancer agents through preclinical development and early clinical trials

LOR 500

The LOR-500 program aims to discover and develop potent, first-in-class small molecule inhibitors of maternal embryonic leucine zipper kinase (MELK). MELK plays an important role in cancer cell cycle, signaling pathways, and stem cells. MELK is highly expressed in several cancer types and its expression correlates with poor prognosis in glioma and breast cancer. These findings provide strong support that selective targeting of MELK may be an effective cancer treatment strategy. Several lead compounds targeting MELK have been identified and the lead optimization is currently underway.

OTHER PROGRAMS

In April 2013 Lorus announced that it has entered into a research and license option agreement with Elanco, the animal health division of Eli Lilly and Company, to investigate some of Lorus' compounds for veterinary medicine.

According to the agreement, Elanco will fund the research program and has been granted an exclusive option to license the worldwide rights for selected compounds for veterinary use; the terms of which will be negotiated when the option is exercised by Elanco. Lorus retains the rights to develop and commercialize these compounds for human use.

FINANCING ACTIVITIES

JUNE 2012 PRIVATE PLACEMENT

On June 8, 2012 we completed a private placement of 20,625,000 units at a subscription price of $0.32 per unit and each unit consisted of one common share and one common share purchase warrant for gross proceeds to Lorus of $6.6 million.

Each warrant is exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45. If after one year the closing price of the common shares on the Toronto Stock Exchange ("TSX") equals or exceeds $0.90 for twenty consecutive days, then we may send the warrant holders written notice and issue a news release announcing an accelerated exercise date and then the Warrants shall only be exercisable for a period of 30 days the notice.

We paid a cash finder's fee of $396 thousand based on 6% of the gross proceeds of the private placement and 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 FINANCING

On August 15, 2011 we closed a public offering of units for gross proceeds of $2.2 million whereby we issued 5.5 million common shares and 5.5 million warrants.

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. If on any date the 10-day volume weighted average trading price of the common shares on the TSX equals or exceeds 200% of the $0.45, then upon sending the holders of warrants written notice of 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 of notice.

In connection with the offering, Mr. Abramson, one of our directors, 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 of Lorus having an aggregate subscription price equal to the difference if any, between (a) the sum of (i) the gross proceeds realized by us in the offering and (ii) the gross proceeds received by us in respect of all financings completed by us from the date of the final short-form prospectus to November 30, 2011 and (b) $4.0 million.

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

PROMISSORY NOTES PAYABLE

Pursuant to the commitment letter (described under 'Unit Financing') provided by Mr. Abramson, we issued a grid promissory note to Mr. Abramson that allowed us to borrow funds up to $1.8 million in November 2011. The funds could be borrowed at a rate of up to $300 thousand per month, incurred interest at a rate of 10% per year and were due and payable in full on November 28, 2012. The promissory note was subject to certain covenants which, if breached, could result in the promissory note becoming payable on demand.

At May 31, 2012 $900 thousand had been drawn under the promissory note and on June 27, 2012, the note and all accrued interest was repaid. At May 31, 2012 there was $20 thousand in interest was accrued and unpaid.

Please see 'Subsequent Events' section for further discussion on the June 2013 promissory notes.

WARRANT EXERCISES AND EXPIRY

During the year ended May 31, 2013, 398 thousand warrants related to the August 2011 unit offering were exercised for proceeds of $180 thousand. The fair value related to these warrants was $43 thousand and transferred from warrants to share capital.

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.

WARRANT REPRICING

On November 29, 2011 shareholders of Lorus (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 TSX five days prior to approval plus a 10% premium. The revised warrant exercise price is $0.28. We 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. The additional increase was accounted for by an increase in the warrant equity balance and a corresponding reduction in contributed surplus. There were 4.2 million warrants which were amended and of those 3.6 million were held by Mr. Abramson, one of our directors.

RESULTS OF OPERATIONS

Our net loss and comprehensive loss for the year ended May 31, 2013 increased to $5.6 million ($0.13 per share) compared to $4.6 million ($0.23 per share) for the year ended May 31, 2012. The increase in net loss and comprehensive loss for the year ended May 31, 2013 compared with the prior year is due to increased research and development costs of $1.1 million resulting from increased activity on the LOR-500 and IL-17E programs as well as the need to manufacture additional quantities of LOR-253 in order to complete the ongoing clinical work.

We utilized cash of $5.1 million in our operating activities in the year ended May 31, 2013 compared with $3.3 million in the prior year. The increase in the current year is the result of higher spending combined minimal changes in the accounts payable and accrued liabilities balances while the prior year had lower spending and increased accounts payable and accrued liabilities balances.

At May 31, 2013, we had cash and cash equivalents of $653 thousand compared to $320 thousand at May 31, 2012. Subsequent to year end we completed a private placement raising $893 thousand in gross proceeds which will be available for use in Fiscal 2014.

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, 2013 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)*	**2013**	2012	2011
REVENUE	**$ —**	$ —	$ —
EXPENSES			
Research and development	**3,317**	2,170	2,518
General and administrative	**2,272**	2,430	2,420
Operating expenses	**5,589**	4,600	4,938
Finance expense	**6**	20	71
Finance income	**(30)**	(6)	(14)
Net finance expense (income)	**(24)**	14	57
Net loss and total comprehensive loss for the year	**5,565**	4,614	4,995
Basic and diluted loss per common share	**$ 0.13**	$ 0.23	$ 0.38
Weighted average number of common shares outstanding used in the calculation of:			
Basic and diluted loss per share	**42,251**	20,260	13,157
Total Assets	**$ 1,035**	$ 668	$ 1,398
Total Long-term liabilities	**$ —**	$ —	$ —

Research and Development

Research and development expenses totaled $3.3 million in the year ended May 31, 2013 compared to $2.2 million during the prior year. Research and development expenses consist of the following:

	2013	2012
Program costs (see below)	**$ 3,126**	1,900
Deferred share unit costs	**(40)**	91
Stock based compensation	**198**	146
Depreciation of equipment	**33**	33
	$ 3,317	2,170

Program costs by program:

	2013	2012
Small molecule program	**$ 2,701**	1,900
Immunotherapy	**425**	—
	$ 3,126	1,900

Research and development expenditures have increased by $1.1 million in the current year due primarily to increased program costs of $1.2 million. The increase in program costs has been slightly offset by a recovery in deferred share unit expense compared with an expense in the prior year. The deferred share unit liability is marked to market each quarter and due to a reduction in our share price during the year this has resulted in a recovery rather than an expense.

Program costs have increased in the current year compared with the prior year due to the following factors:

- Increased spending on our IL-17E program for which we initiated work in the current fiscal year. During the year we completed some pre-clinical testing in house and developed an expression system in order to prepare for GMP manufacturing.
- Increased spending on our LOR-253 program in the current year in order to manufacture additional quantities of LOR-253 needed to complete ongoing clinical work as well as increased clinical trial costs as the trial had a greater number of patients under enrollment in the current year.
- Increased spending on our LOR-500 program as we escalated development efforts in fiscal 2013 including additional staff, and outsourced efforts on the lead optimization process.

In addition stock based compensation costs were higher in the current year due to options issued to a greater number of employees.

General and Administrative

General and administrative expenses totaled $2.3 million for the year ended May 31, 2013 compared to $2.4 million in the prior year. General and administrative expenses consisted of the following:

		2013	2012
General and administrative excluding salaries	**$**	**1,368**	1,240
Salaries		**675**	605
Deferred share unit costs		**(92)**	213
Stock based compensation		**316**	361
Depreciation of equipment		**5**	11
	$	**2,272**	2,430

General and administrative expenses excluding salaries increased in the current year due to higher corporate legal costs associated with licensing activities and higher investor relations costs as we increased our investor relations efforts. These increases were offset by lower patent costs primarily due to timing.

Salary costs increased in the current year due primarily to a small headcount increase and an accrual reversal in the year ended May 31, 2012 related to the 2011 bonus which was not paid out compared with no such reversal in the current year.

The recovery of deferred share unit costs results from the fact that the deferred share unit liability is marked to market each quarter and due to a reduction in our share price during the year this has resulted in a recovery rather than an expense in the current year.

Stock based compensation costs have decreased slightly in the current year due to a number of factors. Expenditures were high in the year ended May 31, 2012 due to the cancellation of certain options held by directors and officers which resulted in an acceleration of expense. While expenditures were higher in the year ended May 31, 2012, the CEO was issued deferred share units rather than stock options in the year. In the year ended May 31, 2013 the CEO was issued stock options which increased the stock option expense in the current year, but not sufficiently to offset the accelerated expense in the prior year.

Finance Expense

Finance expense totaled $6 thousand for the year ended May 31, 2013 compared with $20 thousand in the prior year. Finance expense incurred in both years relates to amounts drawn on the $1.8 million related party promissory note at a rate of 10% described above. The balance at May 31, 2012 of $900 thousand was repaid in June 2012.

Finance Income

Finance income totaled $30 thousand in the year ended May 31, 2013, compared to $6 thousand in the same period in the prior year. Finance income represents interest earned on our cash and cash equivalent balances and the increase in finance income during the current year is the result of a higher average cash and cash equivalents balance throughout the year ended May 31, 2013 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, 2013 was $5.6 million ($0.13 per share) compared to $4.6 million ($0.23 per share) in the year ended May 31, 2012. The increase in net loss and total comprehensive loss of $951 thousand in the year ended May 31, 2013 compared with the prior year is due primarily to an increase in research and development expenses of $1.1 million in the current year offset by lower general and administrative expenses of $158 thousand. The increase in research and development costs is due to increased program expenditures relating to initiating efforts on IL-17E, increased emphasis on accelerating LOR-500 development and the ongoing clinical trial and manufacturing costs of LOR-253. The lower general and administrative costs is due to reduction in the deferred share unit charges offset by higher legal and investor relations costs.

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 in the fiscal 2013 quarters increased over the same quarters in the prior year due to increased activity in each of our key programs. Expenditures were particularly low in the quarter ended May 31, 2012 due to investment tax credits earned as well as a hold on many activities as we awaited additional financing which was secured in June 2012.

The increased general and administrative costs in the quarter ended November 30, 2011 was due to stock option grants and cancellations during the quarter which resulted in higher than normal option expense. Increased spending in the three months ended November 30, 2012 was due to increase legal costs associated with licensing activities.

Cash used in operating activities fluctuates significantly due primarily to timing of payments and increases and decreases in the accounts payables and accrued liabilities balances. The lower use of cash in the quarter ended May 31, 2012 was due to delaying payments which resulted in an increase in accounts payable and accrued liabilities balances as we waited for the June 2012 private placement to close. A subsequent use of cash can be seen in the quarter ended August 31, 2012 as these balances were reduced. Again cash used in operating activities in the quarter ended May 31, 2013 was lower as we delayed making payments to suppliers until the June 2013 private placement was completed.

(Amounts in 000's except for per common share data)	Q4 May 31, 2013	Q3 Feb 28, 2013	Q2 Nov 30, 2012	Q1 Aug 31, 2012	Q4 May 31, 2012	Q3 Feb 29, 2012	Q2 Nov 30, 2011	Q1 Aug 31, 2011
Revenue	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Research and development expense	860	889	910	658	391	543	648	588
General and administrative expense	462	491	714	605	605	479	811	535
Net loss	(1,318)	(1,371)	(1,613)	(1,263)	(1,013)	(1,023)	(1,457)	(1,121)
Basic and diluted net loss per share	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.03)	$ (0.05)	$ (0.05)	$ (0.07)	$ (0.06)
Cash (used in) operating activities	$ (904)	$ (1,273)	$ (1,336)	$ (1,576)	$ (383)	$ (1,040)	$ (811)	$ (1,077)

FOURTH QUARTER 2013 AND 2012

Our net loss and comprehensive loss for the three months ended May 31, 2013 increased to $1.3 million compared with $1 million in the three months ended May 31, 2012. The increase in net loss is attributable to higher research and development expenses in the current year offset by lower general and administrative costs in the current year compared with the same period in the prior year.

Research and development expenses increased to $860 thousand in the three months ended May 31, 2013 compared with $391 thousand in the three months ended May 31, 2012. The increase is due to:

- Manufacturing costs associated with LOR-253
- Clinical trial costs related to the LOR-253 Phase I clinical trial which was nearing completion in the fourth quarter of 2013 resulting in higher costs
- Increased spending in the current year on the LOR-500 program including additional headcount and outsourced costs
- Increased spending on the IL-17E program which was initiated in fiscal 2013.

General and administrative expenditures decreased to $462 thousand in the three months ended May 31, 2013 compared with $605 thousand in the three months ended May 31, 2012. This is the result of DSU's issued in the fourth quarter of 2012 which resulted in additional general and administrative expense of $213 thousand (compared with a recovery of $25 thousand in the three months ended May 31, 2013) which was offset by a reduction in the bonus accrual in the prior year.

Cash used in operating activities in the three months ended May 31, 2013 increased to $904 thousand compared with $400 thousand in the three months ended May 31, 2012. The reduced level of cash used in the three months ended May 31, 2012 was due to cash conservation efforts which significantly reduced payments to suppliers in the quarter resulting in increased accounts payable and accrued liabilities balances.

SUBSEQUENT EVENTS

On June 19, 2013 we completed a private placement of units at a price of $1,000 per unit, for aggregate gross proceeds of $893,000. Each unit consisted of (i) a $1,000 principal amount of unsecured promissory notes; and (ii) 1,000 common share purchase warrants. The promissory notes bear interest at a rate of 10% per annum, payable monthly and are due June 19, 2014. Each warrant entitles the holder thereof to acquire one common share of Lorus at a price per common share equal to $0.25 at any time until June 19, 2015. Certain related parties participated in the transaction including Dr. Aiping Young our President and CEO and two Directors, Dr. Wright and Dr. Vincent for combined proceeds of $68 thousand. Trapeze Capital Corporation ("Trapeze") also participated in the transaction for proceeds of $250 thousand. Mr. Abramson, a director of the Company, is a co-founder, Chairman and portfolio manager at Trapeze.

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.

Please refer to the 'Liquidity and Capital Resources' section above for a discussion of our use of the Going Concern estimate.

(a) 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.

(b) 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.

(c) 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 PRONOUNCEMENTS NOT YET ADOPTED

See note 3 (m): Recent Accounting Pronouncements, to the Financial Statements for a discussion about recent accounting pronouncements not yet adopted.

RELATED PARTY TRANSACTIONS

See 'Promissory Notes Payable', 'Unit Financing', and 'Subsequent Events' 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.

See note 13 to the Financial Statements for disclosures of key management personnel compensation and directors compensation.

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	152	137	nil	289

The Company's current facility lease expires in March 2015.

We hold a non-exclusive license from Genentech Inc. to certain patent rights to develop and sub-license a certain polypeptide. We do not expect to make any milestone or royalty payments under this agreement in fiscal years ended May 31, 2014 or 2015, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

Lorus 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 $1.5 million. Of this amount, $740 thousand has been paid and $253 thousand has been accrued at May 31, 2013 (2012 - $439 thousand paid and $70 thousand accrued). The payments will be based on services performed and amounts may be higher or lower based on actual services performed.

On November 27, 2012 we announced that we had entered into a collaboration agreement with Cancer Research UK for the future development of our immunotherapy IL-17E. Under this collaboration agreement we have committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. It is expected that this will result in costs of approximately $4 million over a two year period. We have not yet entered into any contracts related to the drug manufacturing.

As at May 31, 2013, we have not entered into any off- balance sheet arrangements.

Indemnification
On July 10, 2007, we completed a plan of arrangement and corporate reorganization. As part of the arrangement, we agreed to indemnify the other party 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 the arrangement.

We have recorded a liability of $75 thousand, which we believe to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2013. There have been no claims on this indemnification to date.

FINANCIAL INSTRUMENTS

(a) Financial instruments

We have classified our financial instruments as follows:

	As at May 31, 2013	As at May 31, 2012
Financial assets		
Cash and cash equivalents, consisting of guaranteed investment certificates, held for trading, measured at fair value through loss or profit	**$ 653**	$ 320
Financial liabilities		
Accounts payable, measured at amortized cost	**713**	322
Accrued liabilities, measured at amortized cost	**1,103**	1,474
Promissory note payable, measured at amortized cost	**—**	900

At May 31, 2013, 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

We have exposure to credit risk, liquidity risk and market risk. Our Board of Directors has the overall responsibility for the oversight of these risks and reviews the our 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 us if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from our cash and cash equivalents. The carrying amount of the financial assets represents the maximum credit exposure.

We manage credit risk for our cash and cash equivalents by maintaining minimum standards of R1-low or A-low investments and we invest 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 we will not be able to meet its financial obligations as they come due. To the extent that we do not believe we have sufficient liquidity to meet our current obligations, the Board considers securing additional funds through equity, debt or partnering transactions. We manage our liquidity risk by continuously monitoring forecasts and actual cash flows. All of our financial liabilities are due within the current operating period. There is currently substantial doubt about our ability to continue as a going concern as outlined under ‘Liquidity and Capital Resources’ above.

(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 our income or the value of our financial instruments.

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

Financial instruments potentially exposing us to foreign exchange risk consist principally of accounts payable and accrued liabilities. We hold minimal amounts of U.S. dollar denominated cash, purchasing on an as-needed basis to cover U.S. dollar denominated payments. At May 31, 2013, U.S. dollar denominated accounts payable and accrued liabilities amounted to $448 thousand (May 31, 2012 - $148 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 $45 thousand (May 31, 2012 - $15 thousand). We do not have any forward exchange contracts to hedge this risk.

We have issued deferred share units and have determined that these units represent a cash liability as it is expected that they will be settled in cash. The value of these units is tied to our share price and as such is subject to significant variation as our stock price is highly volatile. As at May 31, 2013 we had issued 780,000 (May 31, 2012 – 780,000) deferred share units and at May 31, 2013 that represents a cash liability of $172 thousand (May 31, 2012 - $304 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of our share price would result in an increase or decrease in loss for the year and comprehensive loss of $17 thousand (May 31, 2012 - $30 thousand).

We do not invest in equity instruments of other corporations.

(c) Capital management

Our primary objective when managing capital is to ensure that we have sufficient cash resources to fund our development and commercialization activities and to maintain our ongoing operations. To secure the additional capital necessary to pursue these plans, we may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

We include cash and cash equivalents and short-term deposits in the definition of capital.

We are 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, 2013.

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 has recently completed a Phase I clinical trial. Additional funding or a partnership will 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 $5.6 million, and $4.6 million and for the years ended May 31, 2013 and 2012, respectively, and as of May 31, 2013, we had an accumulated deficit of $200 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 and we may not be able to continue to develop our product candidates. In particular LOR-253 will likely require a partnership for further development as Phase II clinical trials require significant amounts of funding to complete and such funding may not be available to us by way of equity financing.

Our business depends on licensing agreements, which may require us to meet obligations that are not favourable for our business or we may be unable to meet these obligations which could result in the termination of these licensing agreements.

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.

We have entered into a clinical trial and option agreement with Cancer Research UK for our product candidate IL 17E which requires us to provide GMP manufactured IL 17Eto them for use in toxicology and clinical studies. We currently do not have the financial ability to complete the manufacturing of the required IL 17E as we believe it would require approximately $4 million to complete the work. If we are unable to provide the IL 17E when it is required by Cancer Research UK it could result in a breach of the agreement, which could further result in the termination of the agreement.

Our agreement with Cancer Research UK has ‘go/no go decisions’ at two points in the development program; one at the end of the preclinical program and one at the end of the non-clinical toxicology studies. Lorus can not assure that Cancer Research UK will decide to move forward with the development program at either of these points in time and this could result in the termination of the agreement.

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 has recently completed the Phase I stage of development and our product candidates IL-17E and LOR-500 are 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 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.

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.

DISCLOSURE CONTROLS AND INTERNAL CONTROL 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 control 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 control over financial reporting during 2013 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

As at May 31, 2013, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures and operation of its internal control 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.

UPDATED SHARE INFORMATION

As at July 11, 2013, the Company had 42.3 million common shares issued and outstanding. In addition, as of August 11, 2013, there were 3.4 million common shares issuable upon the exercise of outstanding stock options and a total of 28 million common shares issuable upon the exercise of common share purchase warrants. Of these warrants 5.3 million are priced at $0.45 and expire in August 2016, 22 million are priced at $0.45 and expire in June 2014 and 918 thousand are priced at $0.25 and expire in June 2015.

ADDITIONAL INFORMATION

Additional information relating to Lorus, including Lorus' 2013 annual information form and other disclosure documents, is available on SEDAR at www.sedar.com.