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, 2014.

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, 2014: 124,657,327

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 ☒

TABLE OF CONTENTS

GENERAL

On July 10, 2007 (the "**Arrangement Date**"), Lorus Therapeutics Inc. completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc. (now Global Summit Real Estate Inc.), formerly Lorus Therapeutics Inc. ("**Old Lorus**"), 6707157 Canada Inc. and Pinnacle International Lands, Inc. (the "**Arrangement**"). As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one common share ("**Common Share**") of Lorus 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, 2014.

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.*

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 our predecessor and its directors, officers and employees in respect of an arrangement completed in 2007;*
- *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;*
- *potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing, which 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 United States Securities and Exchange Commission ("**SEC**"), and those which are discussed under the heading "Risk Factors" in this document.*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this 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 has been derived from the Company's audited consolidated financial statements that are 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 our consolidated financial statements and related notes thereto.

Selected IFRS financial data for the year ended May 31, 2010 has 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, 2014, 2013, 2012 and 2011.

Consolidated statements of operations data

(In thousands, except per share data)	**May 31, 2014**	**May 31, 2013**	**May 31, 2012**	**May 31, 2011**
In accordance with IFRS				
Revenue	$ –	$ —	$ —	$ —
Research and development	$ 3,015	$ 3,317	$ 2,170	$ 2,518
General and administrative	$ 7,355	$ 2,272	$ 2,430	$ 2,420
Operating expenses	$ 10,370	$ 5,589	$ 4,600	$ 4,938
Finance expense	$ 259	$ 6	$ 20	$ 71
Finance income	$ (76)	$ (30)	$ (6)	$ (14)
Net loss	$ (10,553)	$ (5,565)	$ (4,614)	$ (4,995)
Basic and diluted loss per Common Share	$ (0.17)	$ (0.13)	$ (0.23)	$ (0.38)
Weighted average number of Common Shares outstanding	62,592	42,251	20,260	13,157

The following table presents a summary of our consolidated balance sheet as at May 31, 2014, 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,			
	2014	**2013**	**2012**	**2011**
In accordance with IFRS				
Cash and cash equivalents	**$ 19,367**	$ 653	$ 320	$ 911
Short-term investments	**$ 11,019**	$ –	$ –	$ –
Total assets	**$ 30,899**	$ 1,035	$ 668	$ 1,398
Total liabilities	**$ 2,460**	$ 1,816	$ 2,696	$ 1,159
Total shareholders' equity (deficit)	**$ 28,439**	$ (781)	$ (2,028)	$ 239
Number of Common Shares outstanding	**124,658**	42,251	21,228	18,988
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**
Fiscal Year Ended May 31, 2014	1.0662
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

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

Period	**High**	**Low**
June 2014	$ 1.0646	$ 1.0962
May 2014	$ 1.0814	$ 1.1007
April 2014	$ 1.0857	$ 1.1054
March 2014	$ 1.0955	$ 1.1279
February 2014	$ 1.0939	$ 1.1195
January 2014	$ 1.0974	$ 1.0909

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. In the past five years, none of our potential products has obtained regulatory approval for commercial use and sale in any country and 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 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 $10.6 million and $5.6 million for the fiscal years ended May 31, 2014 and 2013, respectively, and as of May 31, 2014, we had an accumulated deficit of $211 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.

In the past five years 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 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 biotechnical and pharmaceutical industries, 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 the biotechnical and pharmaceutical fields;

- substantially greater financial, technical 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 competitors' 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 products 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.

In addition, U.S. patent laws may change which could prevent or limit us from filing patent applications or patent claims in the United States to protect our products and/or technologies or limit the exclusivity periods that are available to patent holders for U.S. patents. For example, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law in 2011 and includes a number of significant changes to U.S. patent law. These include changes to transition from a "first-to-invent" system to a "first-to-file" system and to the way issued patents are challenged. These changes may favor larger and more established companies that have more resources to devote to patent application filing and prosecution. It is not clear what, if any, impact the Leahy-Smith Act will ultimately have on the cost of prosecuting our patent applications in the United States, our ability to obtain patents in the United States based on our discoveries and our ability to enforce or defend our U.S. issued patents.

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 result in costly litigation and otherwise 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 Company'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 Company's development activities progress towards the commercialization of product candidates, our liability coverage may not be adequate, and the Company may not be able to obtain adequate product liability insurance coverage at a reasonable cost, if at all. Even if the Company 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 Company'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 Company. 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 Company's commercial success depends, in part, on maintaining and defending patent rights related to products that the Company may market in the future. Since the Company 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 Company 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 Company would. Consequently, the resulting patent protection, if any, may not be as strong or comprehensive, which could have a material adverse effect on the Company.

Extensive Government Regulation

Government regulation is a significant factor in the development, production and marketing of the Company'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 Company'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 Company'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 is likely to 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 by 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.

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, 2014, 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 has two subsidiaries: NuChem Pharmaceuticals Inc. ("**NuChem**"), a company incorporated under the laws of Ontario, Canada, and Lorus Therapeutics U.S. Inc. ("**Lorus USA**"), a company incorporated under the laws of Delaware, USA. Lorus owns 80% of the issued and outstanding voting share capital of NuChem and 100% of the issued and outstanding voting share capital of Lorus USA. NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. Lorus USA was incorporated in April 2014 and did not have any activity during the year ended May 31, 2014.

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.

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**").

The following table sets forth various product conditions in our pipeline and their respective stages of development.

Drug	Indication	Partners	Discovery	Pre-Clinical	Phase I	Phase II
LOR-253 *(KLF4 Activator)*	Solid Tumors	--				
	Relapsed / Refractory Hematologic Malignancies	--				
IL-17E[1] *(Immunomodulator)*	Oncology	Genentech[2]				
LOR-500[1] *(MELK Inhibitor)*	Oncology	--				
Small Molecule Program	Various	Eli Lilly / Elanco[3]				

[1] Not currently in development as Lorus is primarily focussing on developing LOR-253 at the present time.

[2] Global IP license; Lorus owns rights in oncology.

[3] Exclusive rights to license for veterinary applications.

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**").

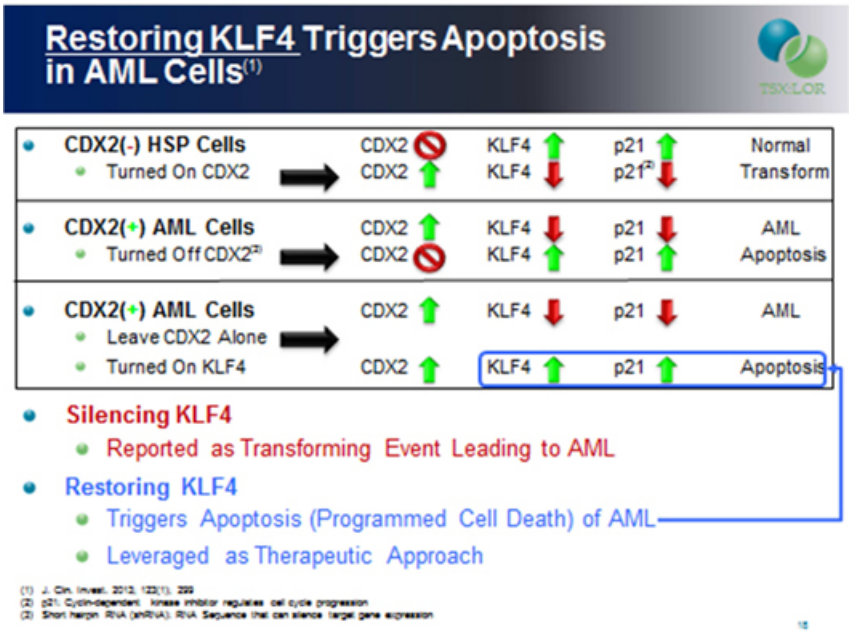
Krüppel-Like Factor 4 & CDX2

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 materially expressed in the bone marrow and blood cells of normal adults, was observed to be active in the malignant cells in a majority of patients with AML. It was subsequently noted that a screen of other genes affected by the expression of the Cdx2 Gene, and its protein product ("**CDX2 Protein**"), identified the Klf4 Gene as significantly impacted. It was proposed that CDX2 Protein affects 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 DNA base sequence remains unaltered, the transcriptional machinery around 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

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. Therefore, this CDX2 Protein-KLF4 Protein signature was speculated by Faber et. al. to be a potential trigger for AML. Separately, 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*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 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 I (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 (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 the Phase I clinical study of LOR-253 in patients with various solid tumors, and in that study we observed evidence of anti-tumor activity as a single agent at doses that were safe and well tolerated. Our plans are to advance LOR-253 to a Phase Ib clinical study in relapsed / refractory hematologic malignancies, including patients with AML, MDS, multiple myeloma and various lymphomas, based upon the common underlying, leukemia-causing profile of Klf4 Gene suppression. The development of LOR-253 currently represents the primary focus of Lorus.

On July 28, 2014, subsequent to our year end Lorus announced that the Food and Drug Administration had completed its review and cleared the Corporation's Investigational New Drug application of LOR-253 for the treatment of hematologic malignancies including AML, MDS, lymphomas and multiple myeloma.

Clearance of the IND allows Lorus to initiate a Phase 1b, multi-center, open-label, clinical study of LOR-253 in patients with relapsed or refractory hematologic malignancies. The Phase 1b trial will evaluate safety, tolerability, pharmacokinetics, pharmacodynamic responses and efficacy of LOR-253 as a single agent. The trial is expected to enroll 45-60 patients as part of a dose-escalation program and two separate disease-specific single-agent expansion cohorts.

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 other hematologic malignancies.

Lorus is currently developing and validating a companion diagnostic for LOR-253. The diagnostics will be designed to 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 I data with LOR-253 in patients with solid tumors and 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, prostate 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 therapeutically activating the Klf4 Gene.

In January 2011, Lorus announced the first patient enrolment in a Phase I dose-escalation study for LOR-253 in patients with advanced or metastatic solid tumors who are unresponsive to conventional therapy or for which no effective therapy is available. The study was initially being conducted at Memorial Sloan-Kettering Cancer Center in New York and later added MD Anderson Cancer Center in Houston as a second site. Objectives of the study included determination or characterization of the safety profile, maximum tolerated dose, and antitumor activity of LOR-253, as well as pharmacokinetics and a recommended Phase II dose for subsequent clinical trials.

In June 2012, Lorus announced the addition of MD Anderson Cancer Center as a second site in the then ongoing LOR-253 Phase I clinical trial, under the direction of Dr. Jennifer Wheler as the principal investigator. In addition, Lorus announced that the study had successfully completed the accelerated drug dose escalation stage (Stage 1), with further escalation under way in the non-accelerated dose escalation stage (Stage 2) for the purpose of determining the maximal tolerated dose level and recommended Phase II dose. The addition of a second site expanded patient availability for enrollment.

In January 2013, Lorus announced that Phase I clinical study of LOR-253 has successfully escalated to the target dose level based on predicted and observed clinical effects without limitation by toxicity. The success of this study allowed Lorus to initiate a biomarker clinical investigation to further explore the effects of the drug at relevant doses determined in the clinical trial.

In April 2013, Lorus announced the presentation of preclinical data at the 2013 Annual Meeting of the American Association for Cancer Research ("**AACR**"), held in Washington, DC from April 6, 2013 through April 10, 2013. The poster presentation titled "Utilization of KLF4 as a pharmacodynamic biomarker for in vivo anticancer activity of a novel small molecule drug LOR-253" covered data from preclinical studies on anticancer activity and tumor biomarker analysis for LOR-253 in animal models of human NSCLC. The studies demonstrate that LOR-253 has antitumor activity with a dose-response effect in NSCLC that is associated with a dose dependent increase of the KLF4 gene.

In July 2013, Lorus announced the results of the Phase 1 clinical trial of LOR-253. In this first-in-man, dose-escalation clinical study, LOR-253 demonstrated a favourable safety profile, as well as encouraging signs of antitumor activity. The design of this trial 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 four prior chemotherapies. Although this was primarily a dose-escalation safety study, efficacy and pharmacokinetics were also explored.

The clinical trial enrolled patients at seven dose levels ranging from 20 to 229 mg/m2. Of the 27 patients enrolled, 17 were evaluable for efficacy. Of these 17 patients, seven (41%) achieved stable disease by Response Evaluation Criteria In Solid Tumors ("**RECIST**"). 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, four of five 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 demonstrated non-index tumor shrinkage.

The safety assessment indicated that LOR-253 was well tolerated at all dose levels tested in this trial. The dose escalation was not limited by toxicity. The most common adverse event was Grade 1 or 2 fatigue seen in three patients. There was one Grade 3 toxicity, asymptomatic low blood phosphate level that was reversible by supplementation with phosphates. 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.

Small Molecular 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.

LOR-500

This 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 cancer 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 compounds targeting MELK have been identified. Cancer associated kinases as drug targets are a very active area for research and development globally and kinase inhibitors are some of the best selling drugs in oncology, which include Imatinib, Sunitinib, Sorafenib and Erlotinib, whose annual global sales amount to billions. Much of the current focus is on the development of selective kinase inhibitors that hit specific targets in cancer cells and cause less toxicity associated with off-target effect. Lorus believes that the LOR-500 program can produce one of the first selective MELK inhibitor in development for cancer treatment and the market potential for this novel drug could exceed $1 billion annually.

LOR-500 is not currently in development as we are primarily focusing on LOR-253 at the present time.

Immunotherapy

IL-17E (also known as IL-25) is a recently identified cytokine that plays an important role in Th2 type immune response. 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-17E is potent and does not require further optimization before proceeding to the formal Investigational New Drug ("**IND**") enabling preclinical studies planned to support advancing to a Phase I clinical trial.

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. Through this license, Genentech granted to Lorus the rights to develop IL-17E as a treatment for a large number of cancers on a global basis.

In June 2012, the Canadian Intellectual Property Office issued Lorus' patent for IL-17E which protects the use of IL-17E to treat cancer, including many different solid tumors such as colon, breast, ovarian, pancreatic, and lung cancers as well as melanoma, until 2026.

In August 2012, the National Research Council of Canada Industrial Research Assistance Program ("**NRC-IRAP**") awarded funding to Lorus to support development of IL-17E for cancer therapy. The $50,000 non-repayable contribution from NRC-IRAP was used for a pilot development project to manufacture IL-17E, which was carried out by researchers at the National Research Council who have extensive experience in the development, recovery and purification of recombinant proteins and peptides produced by different expression systems.

In December 2012, Lorus presented new data at the 2012 American Association for Cancer Research ("**AACR**") Tumor Immunology: Multidisciplinary Science Driving Basic and Clinical Advances Conference. The presentation provided an overview of recent preclinical studies conducted by Lorus to assess the anticancer activity and safety of IL-17E. The studies show that IL-17E significantly inhibits the growth of colon and melanoma cancers in animal models, with no apparent signs of toxicity. The animal models used provide both a more complete assessment of the safety of IL-17E, and confirmation of the efficacy of IL-17E in animal models at safe doses. This is essential information for Lorus' strategy to bring IL-17E into clinical studies to treat human cancers.

In January 2013, the United States Patent and Trademark Office issued Lorus the U.S. patent protecting methods of treating cancer with IL-17E, both alone and in combination with anticancer therapy drugs including gemcitabine, paclitaxel, docetaxel, erlotinib, cisplatin, and bevacizumab. The patent covers the treatment of a wide range of cancers, including breast, lung, colon, pancreatic, gastric and ovarian tumors, as well as melanoma. Patents with similar protection for IL-17E are pending in Canada and Europe.

IL-17E is not currently being developed by Lorus as we are primarily focusing on LOR-253 at the present time.

BUSINESS OF THE COMPANY

Strategic Review Process

On September 12, 2013, the Company formed a special committee composed of independent directors to review strategic alternatives available to the Company and secure the long-term financial and operational sustainability of the Company with a view to enhance shareholder value (the "**Special Committee**"). 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 Company's Senior Vice President of Medical Affairs. Additionally, on October 29, 2013, Brian Druker, M.D. was appointed as the Chair of the Company's newly formed Scientific Advisory Board.

Changes in Management

On October 28, 2013, William G. Rice, Ph.D., was appointed as Chief Executive Officer and Chairman of the Board while Dr. Aiping Young continued as President and Chief Operating Officer of the Company until she departed the Company on March 18, 2014. Lorus also appointed Daniel D. Von Hoff, M.D., to serve as a special advisor to fulfill the functions of the Company'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 Company in the United States. On April 10, 2014, Dr. Rice was additionally appointed as President of the Company.

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

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

Financial Strategy

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

April 2014 Public Offering

In April 2014, we completed a public offering in Canada and a simultaneous private placement in the United States of Common Shares. Lorus issued 56,500,000 Common Shares at a purchase price of $0.50 per Common Share including 6,500,000 Common Shares pursuant to the partial exercise of an over-allotment option, for aggregate gross proceeds of $28,250,000. The total costs associated with the transaction were approximately $2,665,914 which includes a cash commission of $1,977,500 based on 7% of the gross proceeds received as part of the offering.

Mr. Sheldon Inwentash and his joint actors ("**Mr. Inwentash**"), a related party of Lorus by virtue of exercising control or direction over more than 10% of the Common Shares of Lorus, participated in this offering and acquired an aggregate of 1,300,000 Common Shares.

December 2013 Public Offering

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 from this offering.

The total costs associated with the transaction were approximately $999,440 which includes a cash commission of $420,090 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 $303,992 using the Black Scholes model. 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. 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 1,820,000 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 $125,612 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 $45,599 using the Black Scholes model. 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 the closing of the over-allotment option exercise.

Fiscal 2014 Warrant Exercises

During the year ended May 31, 2014, 10,419,246 Common Share purchase warrants were exercised for proceeds of $4,457,886.

Warrants exercised during the year ended May 31, 2014:

(in thousands)	Number		Proceeds
August 2011 warrants (i)	3,920	$	1,764
June 2012 private placement warrants (ii)	4,911	$	2,210
June 2012 broker warrants (iii)	1,238	$	396
June 2013 private placement warrants (iv)	350	$	88
Total	10,419	$	4,458

Summary of outstanding warrants:

(in thousands)	2014	2013
August 2011 warrants (i)	1,166	5,086
August 2011 broker warrants (i)	–	194
June 2012 private placement warrants (ii)	16,952	20,625
June 2012 broker warrants (iii)	–	1,238
June 2013 private placement warrants (iv)	568	–
December 2013 broker warrants (v)	878	–
Number of warrants outstanding, end of year	19,564	27,143

(i) August 2011 warrants are exercisable into Common Share of Lorus at a price per share of $0.45 and expire in August 2016. During the year ended May 31, 2014, 3.9 million warrants were exercised. In August 2013, 194 thousand broker warrants associated with this transaction expired unexercised.

(ii) June 2012 warrants are exercisable into Common Shares of Lorus at a price per share of $0.45 and expired on June 8, 2014. During the year 4.911 million were exercised. Subsequent to the year end in June an additional 14.7 million warrants were exercised with the remaining 2.2 million expiring unexercised.

(iii) June 2012 broker warrants were exercisable into Common Shares of Lorus at a price per share of $0.32 per unit. Each unit was comprised of 1 Common Share of Lorus and 1 Common Share purchase warrant exercisable at a price per share of $0.45 and expire on June 8, 2014. In May 2014 the broker warrants were exercised and an additional 1.238 million Common Share purchase warrants were issued.

(iv) June 2013 private placement warrants are exercisable into Common Shares of Lorus at a price per share of $0.25 and expire in June 2015.

(v) December 2013 broker warrants are exercisable into Common Shares of Lorus at a price per share of $0.55 and expire in December 2015.

June 2013 Promissory Notes and Warrants

In June 2013, we completed a private placement of units at a price of $1,000 per unit, for aggregate gross proceeds of $918,000. Each unit consisted of (i) a $1,000 principal amount of unsecured promissory note and (ii) 1,000 Common Share purchase warrants. The promissory notes bore interest at a rate of 10% per annum, payable monthly and were due June 19, 2014. Each warrant entitled the holder to purchase 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. Directors and officers (including Dr. Aiping Young, Dr. Jim Wright and Dr. Mark Vincent) acquired an aggregate of $68,000 of the promissory notes. Mr. Inwentash acquired $100,000 of the promissory notes. These notes and any interest accrued thereon were repaid in full in April 2014.

September 2013 Convertible Promissory Notes

In September 2013, we 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 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. Mr. Inwentash acquired $150,000 of the promissory notes.

September 2013 Loans payable

In September 2013, we entered into loan agreements for proceeds of $150,000. The loan agreements were unsecured, bore interest at a rate of 10% per annum payable quarterly and were due September 30, 2015. We repaid the loans and all accrued and unpaid interest thereon on April 25, 2014.

June 2012 Private Placement

In June 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 $6,600,000. Each warrant was exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45. We paid a cash finder's fee of $396,000 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 was exercisable into units consisting of 1,237,500 Common Shares and 1,237,500 warrants.

August 2011 Unit Offering

In August 2011, we closed a public offering for gross proceeds of $2,193,600 whereby we issued 5,484,000 Common Shares and 5,677,515 warrants including 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. 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 exercise price, 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.

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, 2015. 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.

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.

Deferred Share Unit Plan

As at May 31, 2014, no deferred share units under the deferred share unit plan of the Corporation (the **DSU Plan**") were outstanding (May 31, 2013 – 780,000). 780,000 Common Shares of the Company were issued in April 2014 in satisfaction of the outstanding deferred share unit liability. The shares issued had a fair value of $444,000.

Intellectual Property and Protection of Confidential Information and Technology

We believe that our issued patents and pending applications are important in establishing and maintaining a competitive position with respect to our products and technology.

Small Molecule

We have been issued 18 patents and have 12 pending patents worldwide for our in-house small molecules. These patents cover LOR-253 composition of matter and methods of treating different cancers with LOR-253, including solid tumors and leukemia. Composition of matter patents expire in 2028 in the United States and 2026 in other countries. Our patents also include several compounds that are similar to LOR-253, which provide protection from competitors seeking to develop anticancer products that are related in chemical structure to LOR-253.

Immunotherapy

We have two issued patents and one pending patent for our IL-17E immunotherapy program. The patents, which expire in 2026, cover methods of treating cancer with IL-17E. Specific cancers listed in the patents include colon, breast, ovarian, cervical, lung gastric and prostate tumors. Lorus has entered into a license agreement with Genentech, which provides Lorus the right to use Genentech's IL-17E composition of matter patent for anticancer uses, as described above under License Agreements.

Other Therapies

We have 13 issued patents and one pending patent worldwide for our DNA-based therapeutics. These patents include composition of matter for the ribonucleotide reductase-targeted therapy LOR-2040 and methods of treating acute myeloid leukemia with this compound. Patents for composition of matter expire in 2017 and in 2024 for anticancer methods.

Risks Relating to Intellectual Property

Our pending patent applications may not result in issued patents and our 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 at May 31, 2014, we employed 19 full-time persons and three part-time persons 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 of directors have the ability to acquire an ownership interest in the Company through Lorus' stock option and alternative 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.

We entered into a sub-lease agreement for three offices and secretarial space, located at 4401 Eastgate Mall, San Diego, California which occupies approximately 800 square feet. This leased premise is used for administrative purposes only. This lease expires December 31, 2014

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 has two subsidiaries: NuChem Pharmaceuticals Inc. ("**NuChem**"), a company incorporated under the laws of Ontario, Canada, and Lorus Therapeutics U.S. Inc. ("**Lorus USA**"), a company incorporated under the laws of Delaware, USA. Lorus owns 80% of the issued and outstanding voting share capital of NuChem and 100% of the issued and outstanding voting share capital of Lorus USA. NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. Lorus USA was incorporated in April 2014 and did not have any activity during the year ended May 31, 2014.

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, plant and equipment.***

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

We entered into a sub-lease agreement for three offices and secretarial space, located at 4401 Eastgate Mall, San Diego, California which occupies approximately 800 square feet. This leased premise is used for administrative purposes only. This lease expires December 31, 2014

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

A. ***Operating results.***

Please see our Management's Discussion and Analysis for the fiscal year ended May 31, 2014 in Exhibit 15.1, which is incorporated herein by reference.

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

Please see our Management's Discussion and Analysis for the fiscal year ended May 31, 2014 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, 2014, we had 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	$ 154	$ 149	$ 5	$ —	$ —

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, 2015, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

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 $50,000, which we believe to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2014. There have been no claims on this indemnification to date.

G. **Safe Harbor**

Please see "Forward Looking Statements" beginning on page 1 above.

Item 6. **Directors, Senior Management and Employees**

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

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

Each director has been elected or appointed to serve until the next annual meeting or until a successor is elected or appointed. We have an Audit Committee, a Corporate Governance and Nominating Committee and a Compensation Committee, the members of each such committee are shown below.

As at May 31, 2014, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over, approximately 316,387 Common Shares or approximately 0.25% of our outstanding Common Shares.

Name and Province/State and Country of Residence	**Position**	**Director or Officer Since**
Directors:		
Dr. Denis Burger[1][2] Oregon, United States	Director	September 2007
Dr. Brad Thompson[3] Alberta, Canada	Director	June 2013
Dr. Brian Underdown[1][2] Ontario, Canada	Director	December 2013
Dr. Mark Vincent[3] Ontario, Canada	Director	September 2007
Warren Whitehead[1] Ontario, Canada	Director	April 2011
Dr. Jim Wright[2] Ontario, Canada	Director	October 1999
Dr. William Rice California, USA	Chairman	October 2013
Officers:		
Dr. William Rice California, USA	President and Chief Executive Officer	October 2013
Gregory Chow California, USA	Senior Vice President and Chief Financial Officer	November 2013
Avanish Vellanki California, USA	Senior Vice President and Chief Business Officer	November 2013

(1) Member of Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Corporate Governance and Nominating Committee.

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

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 received his Ph.D. from Emory University Department of Biochemistry. He also serves as the Chairman of 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 Professor in the Faculties of Science and Medicine at the University of Manitoba and Professor in the Faculty of Medicine at the University of Toronto prior to 2005.

Mr. Warren Whitehead: Mr. Whitehead is a CPA (CMA) 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 the Chairman 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. Mr. Chow received his MBA in Finance from The Wharton School at the University of Pennsylvania, and his BA in Business Economics with an emphasis in Accounting from the University of California, Santa Barbara.

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. Mr. Vellanki holds a BA from Carleton College, an MBS in Biochemistry from the University of Minnesota and MBA from the Carlson School of Management at the University of Minnesota.

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 ($)	Share-based awards ($)	Option-based awards[2] ($)	Non-equity incentive plan compensation		Pension value ($)	All other compensation[11] ($)	Total compensation ($)
					Annual incentive plans[10] ($)	Long-term incentive plans ($)			
Dr. William G. Rice[3]	2014	266,806(12)	N/A	1,246,742	454,750[12]	Nil	N/A	26,839[12]	1,995,137
Chairman, President and Chief Executive Officer	2013	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-
Dr. Aiping Young[4][5][6]	2014	289,971	N/A[1]	Nil	Nil	Nil	N/A	1,087,929	1,377,900
Former President and Chief Operating Officer	2013	352,937	N/A	443,100	128,416	Nil	N/A	Nil	924,453
	2012	349,334	304,200[1]	49,500	Nil	Nil	N/A	Nil	703,034
Mr. Gregory K. Chow[7]	2014	125,925[12]	N/A	690,625	370,381[12]	Nil	N/A	19,234[12]	1,206,165
Senior Vice President and Chief Financial Officer	2013	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-
Ms. Elizabeth Williams[8]	2014	80,837	N/A	71,925	27,537	Nil	N/A	Nil	180,299
Director of Finance	2013	69,659	N/A	42,200	9,535	Nil	N/A	Nil	121,194
	2012	68,923	N/A	27,238	Nil	Nil	N/A	Nil	96,161
Mr. Avanish Vellanki[9]	2014	125,925[12]	N/A	690,625	370,381[12]	Nil	N/A	19,234[12]	1,206,165
Senior Vice President and Chief Business Officer	2013	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-
Dr. Yoon Lee	2014	141,105	N/A	71,925	42,906	Nil	N/A	Nil	255,936
Vice President Research	2013	139,546	N/A	63,300	26,484	Nil	N/A	Nil	229,330
	2012	138,071	N/A	27,983	Nil	Nil	N/A	Nil	166,054

(1) During the year ended May 31, 2012, 780,000 deferred share units were issued to Dr. Aiping Young. The fair value of these deferred share units is marked to market and during the fiscal year ended May 31, 2014 the fair value had increased from $171,600 at May 31, 2013 to $444,600 as at April 30, 2014 resulting in an increase in value of $273,000 during the fiscal year ended May 31, 2014. The 780,000 deferred share units were redeemed by Dr. Young in consideration for 780,000 Shares on April 30, 2014.

(2) In determining the fair value of these option-based awards, the Black-Scholes valuation methodology was used with the following assumptions: (i) expected life of five years; (ii) volatility of between 125 and 135%; (iii) risk free interest rate of between 1 and 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.

(3) Dr. Rice was named Chairman of the Board and Chief Executive Officer of the Corporation on October 28, 2013 and President of the Corporation on April 10, 2014.

(4) 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 Corporation on March 18, 2014.

(5) Dr. Young did not receive any compensation for her role as a director of the Corporation. Dr. Young did not stand for re-election at the annual general and special meeting of the shareholders of the Corporation held on March 27, 2014.

(6) Pursuant to the provisions of Dr. Young's termination agreement, 525,000 unvested options vested as of April 22, 2014, and the total 1,325,000 vested options held by Dr. Young as of April 22, 2014 will expire on March 18, 2015.

(7) Mr. Chow was named Chief Financial Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

(8) Ms. Williams acted as Chief Financial Officer until December 2, 2013. Ms. Williams is employed on a part-time basis.

(9) Mr. Vellanki was named Chief Business Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

(10) During the year one-time bonuses were paid to NEO's upon the completion of key financing milestones. These amounts were approved by the Board and have been included in the Annual Incentive Plan column.

(11) Other compensation for Dr. Rice, Mr. Chow and Mr. Vellanki relates to consulting fees paid to NEO's for services provided prior to employment. Other compensation paid to Dr. Young was pursuant to the provisions of Dr. Young's termination agreement.

(12) Dr. William G. Rice, Mr. Gregory K. Chow and Mr. Avanish Vellanki are paid in US dollars. Amounts are shown in Canadian dollars translated from US dollars based on the exchange rates prevailing on the date of the transaction. The average exchange rate was $1USD = $1.07CDN.

Name and Principal Position	Fiscal Year	Salary ($)	Cash Bonus[1][7] ($)	Other Annual Compensation ($)	Securities Under Options/SARs Granted (#)	All Other Compensation[8] ($)
Dr. William G. Rice[2] Chairman, President and Chief Executive Officer	2014	266,806[9]	454,750[9]	Nil	2,950,000	26,839[9]
	2013	-	-	Nil	-	-
	2012	-	-	Nil	-	-
Dr. Aiping Young [3][5][6] Former President and Chief Operating Officer	2014	289,971	Nil	Nil	Nil	1,377,900
	2013	352,937	128,416	Nil	1,060,000	Nil
	2012	349,334	Nil	Nil	275,000	304,200
Mr. Gregory K. Chow[4] Senior Vice President and Chief Financial Officer	2014	125,925[9]	370,381[9]	Nil	1,275,000	19,234[9]
	2013	-	-	Nil	-	-
	2012	-	-	Nil	-	-
Ms. Elizabeth Williams Director of Finance, Acting Chief Financial Officer[5]	2014	80,837	27,537	Nil	175,000	Nil
	2013	69,659	9,535	Nil	100,000	Nil
	2012	68,923	Nil	Nil	162,000	Nil
Mr. Avanish Vellanki[6] Senior Vice President and Chief Business Officer	2014	25,925[9]	370,381[9]	Nil	1,275,000	19,234[9]
	2013	-	-	Nil	-	-
	2012	-	-	Nil	-	-
Dr. Yoon Lee Vice President Research	2014	141,105	42,906	Nil	175,000	Nil
	2013	139,546	26,484	Nil	150,000	Nil
	2012	138,071	Nil	Nil	167,000	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, 2014 were paid in the year ended May 31, 2015.

(2) Dr. Rice was named Chairman of the Board and Chief Executive Officer of the Corporation on October 28, 2013 and President of the Corporation on April 10, 2014.

(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 Corporation on March 18, 2014.

(4) Mr. Chow was named Chief Financial Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

(5) Ms. Williams acted as Chief Financial Officer until December 2, 2013. Ms. Williams is employed on a part-time basis.

(6) Mr. Vellanki was named Chief Business Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

(7) During the year one-time bonuses were paid to NEO's upon the completion of key financing milestones. These amounts were approved by the Board and have been included in the Cash Bonus column.

(8) Other compensation for Dr. Rice, Mr. Chow and Mr. Vellanki relates to consulting fees paid to NEO's for services provided prior to employment. Other compensation paid to Dr. Young was pursuant to the provisions of Dr. Young's termination agreement.

(9) Dr. William G. Rice, Mr. Gregory K. Chow and Mr. Avanish Vellanki are paid in US dollars. Amounts are shown in Canadian dollars translated from US dollars based on the exchange rates prevailing on the date of the transaction. The average exchange rate was $1USD = $1.07CDN.

Directors' Compensation

The following table details the compensation received by each director for the fiscal year ended May 31, 2014:

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]	12,500	Nil	Nil	Nil	N/A	Nil	12,500
Dr. Denis Burger	45,758	Nil	12,330	Nil	N/A	Nil	58,088
Dr. Bradley Thompson[3]	23,750	Nil	18,495	Nil	N/A	Nil	42,245
Dr. Brian Underdown[4]	25,250	Nil	12,330	Nil	N/A	Nil	37,580
Dr. Mark Vincent	31,000	Nil	12,330	Nil	N/A	Nil	43,330
Mr. Warren Whitehead	40,000	Nil	12,330	Nil	N/A	Nil	52,330
Dr. Jim Wright[5]	207,500	Nil	115,080	Nil	N/A	Nil	322,580

Dr. Rice did not receive any compensation for his role as a director of the Corporation.

(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 125%; (iii) risk free interest rate of 1.5%; 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.

(3) Dr. Thompson joined the Board on June 27, 2013.

(4) Dr. Underdown joined the Board on December 10, 2013.

(5) Dr. Jim Wright was granted 250,000 stock options with a fair value of $102,750 on April 10, 2014 which were subsequently cancelled on May 15, 2014 in exchange for a cash payment of $125,000 as compensation for his role as Chairman of the Board and of the Special Committee (as defined below)

During the fiscal year ended May 31, 2014, each director who was not an officer of the Corporation was entitled to receive 15,000 share options and, at his election, Common Shares, deferred share units and/or cash compensation for attendance at the Board committee meetings. In addition, as directors had not received an option grant for the fiscal year 2014, each director received an additional grant of 15,000 options. Compensation for each director consisted of an annual fee of $15,000 and $1,500 per Board meeting attended (the Chair had previously received $4,500 to chair a Board meeting). Members of the Audit Committee received an annual fee of $8,000 (the Chair of the Audit Committee 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 receive $500 for meetings held via conference call. 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.

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, 2014 or 2013.

Management Contracts

The employment agreements of Dr. Rice, Mr. Chow and Mr. Vellanki provide that if their employment is terminated by the Corporation other than for cause, each of Dr. Rice, Mr. Chow and Mr. Vellanki shall be entitled 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 US$480,000, Mr. Chow's current annual base salary represents US$315,000 and Mr. Vellanki's current annual base salary represents US$315,000), plus an amount equal to the average bonus remuneration received from the Corporation 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 of Dr. Rice, Mr. Chow and Mr. Vellanki provide that certain payments related to health benefits will continue to be made for a period of 12 months following termination of their employment. The employment agreement of Dr. Lee provides that if his employment is terminated by the Corporation other than for cause, Dr. Lee shall be entitled to a notice period equal to 4 months plus one additional month for each year of employment, to a maximum of 12 months. The employment agreement of Ms. Williams provides that if her employment is terminated by the Corporation other than for cause, Ms. Williams shall be entitled to the greater of one month and the applicable notice entitlement under employment legislation in the event of termination.

If the employment agreements are terminated by the Corporation other than for cause, then all unexercised share options then held by each are governed by the terms of the Share Option Plan.

The employment agreements of Mr. Chow and Mr. Vellanki provide that, in the event their employment with the Corporation is terminated within three months immediately preceding or 12 months immediately following the consummation of a change of control, each of Mr. Chow and Mr. Vellanki would be eligible, subject to certain conditions, to receive a payment equivalent to 18 months of their annual base salaries at the time of termination, plus an amount equal to 150% of the average bonus remuneration received from the Corporation 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 agreements of Dr. Rice, Dr. Lee and Ms. Williams do not include change of control provisions.

The following table sets out the amount that would have been payable to each Named Executive Officer had there been a change of control of the Corporation on May 31, 2014 and the severance payment that would have been payable to each Named Executive Officer had the Corporation terminated employment of the Named Executive Officer without cause on May 31, 2014:

Name	Termination Without Cause	Change of Control
Dr. William G. Rice	US$582,000(1)	Nil
Mr. Gregory K. Chow	US$375,000(1)	US$532,500(2)
Ms. Elizabeth Williams	$ 106,000(3)	Nil
Mr. Avanish Vellanki	US$375,000(1)	US$532,500(2)
Dr. Yoon Lee	$ 160,000(4)	Nil

(1) This amount represents 12 months of annual base salary at the time of termination, plus an amount equal to the average bonus remuneration received from the Corporation 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.
(2) This amount represents 18 months of annual base salary at the time of termination, plus an amount equal to 150% of the average bonus remuneration received from the Corporation 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.
(3) This amount represents the applicable notice entitlement under employment legislation in the event of termination.
(4) This amount represents 12 months of annual base salary at the time of termination.

Dr. Aiping Young received severance payments of $1.1 million in connection with the termination of her employment which occurred on March 18, 2014. On April 30, 2014, the Company issued 780,000 Shares of Lorus in settlement of the 780,000 outstanding DSU's held by Dr. Young. In addition, as part of Dr. Young's severance, 525,000 unvested options vested as of March 19, 2014, and the total 1,325,000 vested options held by Dr. Young as of April 22, 2014 will expire on March 18, 2015.

Equity Compensation Plans

The following table sets forth certain details as at the end of the fiscal year ended May 31, 2014 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	15,167,496	10.9%	$ 0.54	5,731,171	4.1%	20,898,667	15%

Share Option Plan

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. The maximum total number of Shares available for issuance from treasury under the Share Option Plan, together with the DSU Plan, the ACP and any other security based compensation arrangement is 15% of the Corporation's issued and outstanding 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 Shares reserved for issuance collectively under the Plans may not exceed 15% of the Corporation's issued and outstanding Shares at any given time.

Under the Share Option Plan, options may be granted to any executive officer, employee, subsidiary of an executive officer or employee, or consultant or consultant entity ("**Eligible Persons**"). 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 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 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 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 of the Corporation.

If an option holder is terminated without cause, resigns or retires, each option 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.

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

There have been no Shares issued under the ACP Plan during the year ending May 31, 2014. Since May 31, 2014, there have been no 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 Shares issuable under the ACP Plan, or to amend the provisions regarding Shareholder approval.

Deferred Share Units Plan

The Corporation adopted the DSU Plan on April 17, 2000 (amended on November 29, 2012 and March 27, 2014) which provides that participating directors and senior officers ("**DSU Participants**") may elect to receive either a portion or all of the remuneration to be received 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, including (a): in the case of a director, without limitation, (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, without limitation, 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 Shares, being the closing price of the 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 has 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 Plan and the ACP Plan, shall not exceed 15% of the Corporation's issued and outstanding Common Shares at any given time.

During the period from June 1, 2013 to May 31, 2014, 780,000 deferred share units were outstanding under the DSU Plan. In April 2014 the outstanding DSU obligation was satisfied through the issuance of 780,000 Common Shares. Since May 31, 2014, 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**"), the purpose of which is to assist the Corporation in retaining the services of its employees, securing and retaining the services of new employees and providing 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 on the stock market 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, 2014, under the ESPP, Named Executive Officers, as a group, and employees did not purchase any Common Shares pursuant to the ESPP. Since May 31, 2014, there have been no Common Shares purchased pursuant to the ESPP.

Option Grants During Fiscal Year 2014

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, 2014:

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. William G. Rice[1]	425,000	6.2%	$ 0.29	$ 0.29	October 27, 2023
Chairman, President and	781,633	11.4%	$ 0.61	$ 0.61	December 10, 2023
Chief Executive Officer	63,367	0.9%	$ 0.58	$ 0.58	January 29, 2024
	1,680,000	24.4%	$ 0.50	$ 0.485	April 10, 2024
Dr. Aiping Young [2]	Nil	Nil	Nil	Nil	Nil
Former President and Chief Operating Officer					
Mr. Gregory K. Chow[3]	425,000	6.2%	$ 0.78	$ 0.78	November 4, 2013
Senior Vice President and	425,000	6.2%	$ 0.61	$ 0.61	December 10, 2023
Chief Financial Officer	425,000	6.2%	$ 0.50	$ 0.485	April 20, 2024
Ms. Elizabeth Williams[4]					
Director of Finance	175,000	2.5%	$ 0.50	$ 0.485	April 20, 2024
Mr. Avanish Vellanki[5]	425,000	6.2%	$ 0.78	$ 0.78	November 4, 2013
Senior Vice President and	425,000	6.2%	$ 0.61	$ 0.61	December 10, 2023
Chief Business Officer	425,000	6.2%	$ 0.50	$ 0.485	April 20, 2024
Dr. Yoon Lee					
Vice President Research	175,000	2.5%	$ 0.50	$ 0.485	April 20, 2024

(1) Dr. Rice was named Chairman of the Board and Chief Executive Officer of the Corporation on October 28, 2013 and President of the Corporation on April 10, 2014.

(2) 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 Corporation on March 18, 2014.

(3) Mr. Chow was named Chief Financial Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

(4) Ms. Williams acted as Chief Financial Officer until December 2, 2013. Ms. Williams is employed on a part-time basis.

(5) Mr. Vellanki was named Chief Business Officer on December 2, 2013 and Senior Vice President on April 10, 2014.

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, 2014:

	Option-based Awards				Share-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]**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share-based awards that have not vested ($)**	**Market or payout value of vested share-based awards not paid out or distributed ($)**
Dr. William G. Rice Chairman, President and Chief Executive Officer	425,000 781,633 63,367 1,680,000	0.290 0.610 0.580 0.500	Oct 27, 2023 Dec 10, 2023 Jan 29, 2024 Apr 10, 2024	68,000 Nil Nil Nil	Nil	Nil	Nil
Dr. Aiping Young [2] Former President and Chief Operating Officer	275,000 1,050,000	0.215 0.475	Nov 28, 2021 Aug 1, 2022	64,625 Nil	Nil	Nil	Nil
Mr. Gregory K. Chow Senior Vice President and Chief Financial Officer	425,000 425,000 425,000	0.78 0.610 0.500	Nov 4, 2023 Dec 10, 2023 Apr 10, 2024	Nil Nil Nil	Nil	Nil	Nil
Ms. Elizabeth Williams Director of Finance	85,000 62,000 100,000	0.215 0.18 0.475	Nov 28, 2021 March 8, 2022 Aug 1, 2022	19,975 16,740 Nil	Nil	Nil	Nil
Mr. Avanish Vellanki Senior Vice President and Chief Business Officer	425,000 425,000 425,000	0.78 0.610 0.500	Nov 4, 2023 Dec 10, 2023 Apr 10, 2024	Nil Nil Nil	Nil	Nil	Nil
Dr. Yoon Lee Vice President Research	100,000 67,000 150,000	0.215 0.18 0.475	Nov 28, 2021 March 8, 2022 Aug 1, 2022	23,500 18,090 Nil	Nil	Nil	Nil

(1) These amounts are calculated based on the difference between the market value of the securities underlying the options on May 31, 2014 at the end of the fiscal year ($0.45), and the exercise price of the options.

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

The 425,000 options granted to each of Mr. Gregory Chow and Mr. Avanish Vellanki on April 10, 2014 vest over 36 months from the date of the grant in 35 equal monthly instalments of 11,806 and a 36th instalment of 11,790.

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 ($)	Unexercised Options/SARs at May 31, 2014 (#) Exercisable/Unexercisable	Value of Unexercised in-the-Money Options/SARs at May 31, 2014 ($) Exercisable/Unexercisable
Dr. William G. Rice Chairman, President and Chief Executive Officer	Nil	Nil	425,000/2,525,000	68,000/nil
Dr. Aiping Young Former President and Chief Operating Officer	Nil	Nil	1,325,000/nil	64,625/nil
Mr. Gregory K. Chow Senior Vice President and Chief Financial Officer	Nil	Nil	636,806/638,194	nil/nil
Ms. Elizabeth Williams Director of Finance	Nil	Nil	206,500/215,500	32,530/4,185
Mr. Avanish Vellanki Senior Vice President and Chief Business Officer	Nil	Nil	636,806/638,194	nil/nil
Dr. Yoon Lee Vice President Research	Nil	Nil	255,250/229,250	35,305/4,523

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 key employment agreements.

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 2014 fiscal year were as follows:

Audit Committee	Denis Burger, Herbert Abramson (resigned December 2013), Brian Underdown (from December 2013) Warren Whitehead
Nominating and Corporate Governance Committee:	Herbert Abramson (resigned December 2013), Bradley Thompson (from March 2014), Mark Vincent
Compensation Committee:	Denis Burger, Brian Underdown (from March 2014) ,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. The Compensation Committee is currently comprised of independent Board members Dr. Burger, Dr. Underdown and Dr. Jim Wright. Dr. Wright is not standing for re-election at the Meeting as a member of the Board. Dr. Burger is chair of the Compensation Committee. The Compensation Committee met seven times during the period from June 1, 2013 until May 31, 2014.

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 share option plan (the "**Share Option Plan**"), the deferred share unit plan (the "**DSU Plan**") and the alternate compensation plan of the Corporation (the "**ACP Plan**" and, collectively with the Share Option Plan and the DSU Plan, 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.

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 motivate our executive officers to achieve specified performance objectives for fiscal 2014 and to reward them for their achievement in the event that those objectives are met. Each year, the compensation committee of 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, assuming these objectives are still relevant at the time of evaluation.

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, 2014, the annual cash bonuses ranged from 15% to 45% 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, 2014 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 Shares on the TSX on the last trading day prior to the date of grant. Options to purchase 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 granting of options to purchase Shares for Named Executive Officers is included in the Summary Compensation Table in the year that they are earned.

Performance Metrics

The performance of the Named Executive Officers for the 2014 fiscal year was measured with respect to the following objectives:

1) Obtain financial security through two financings;

2) Establish experienced management team;

3) Obtain analyst coverage;

4) Other corporate objectives.

Each of the above objectives is weighted at 65%, 5%, 20% and 10% respectively in relation to assessment of satisfaction of overall corporate objectives and determination of any general corporate bonuses. Based on these criteria the Board assigned an achievement of 95%. Incentive compensation related to the attainment of these objectives will be paid in fiscal 2015. Similar performance metrics will be established for the year ending May 31, 2015 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 charter of our audit committee is attached as Schedule A to our annual information form filed on a Form 6-K on July 17, 2014. 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 considered to be 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 CPA (CMA) and has served as the Chief Financial Officer of Arius Research Inc. and Labopharm Inc. Additionally, we believe that Mr. Underdown, 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, 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.Ds,, 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, 2014, with respect to our Named Executive Officers and also with respect to our executive officers and directors individually and as a group.

					Options to Purchase Common Shares		
	Number of Common Shares	Warrants[1]	Total Number of Common Shares Beneficially Owned	Percentage of Common Shares Outstanding(+)	Number of Underlying Common Shares (#)	Exercise Price (Range) ($)	Expiry Date (Range-Year)
Dr. William Rice	Nil	Nil	Nil	Nil	2,950,000	$0.29-$0.61	2023-2024
Mr. Gregory Chow	Nil	Nil	Nil	Nil	1,275,000	$0.50-$0.78	2023-2024
Mr. Avanish Vellanki	Nil	Nil	Nil	Nil	1,275,000	$0.50-$0.78	2023-2024
Ms. Elizabeth Williams	427	Nil	427	0.0%	422,000	$0.18-$0.50	2021-2024
Dr. Yoon Lee	Nil	Nil	Nil	Nil	484,500	$0.18-$0.50	2021-2024
Dr. Aiping Young	1,001,584	175,000	1,176,584	0.9%	1,325,000	$0.215-$0.475	2015
Dr. Jim A. Wright[3]	214,300	12,000	226,300	0.2%	700,000	$0.18-$0.50	2021-2024
Dr. Denis Burger	101,987	Nil	101,987	0.1%	160,000	$0.18-$0.50	2021-2024
Dr. Bradley Thompson	Nil	Nil	Nil	Nil	45,000	$0.50	2024
Dr. Brian Underdown[2]	Nil	Nil	Nil	Nil	30,000	$0.50	2024
Dr. Mark Vincent	Nil	6,000	6,000	0.00%	85,000	$0.18-0.50	2021-2024
Mr. Warren Whitehead	Nil	Nil	Nil	Nil	66,000	$0.18-$0.50	2021-2024
All directors and executive officers as a group	1,318,298	193,000	1,511,298	1.2%	8,817,500	$0.18-$0.78	2015-2024

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

(1) Warrants to purchase Common Shares were acquired pursuant to a unit offering completed in June 2013. Each warrant represents the right to acquire a Common Share at an exercise price of $0.25. These warrants will expire in June 2014. In addition Dr. Young has 125,000 warrants purchase Common Shares 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) Lumira Capital, of which Dr. Underdown is the managing director, holds 2,727,500 Shares.

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

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 68% of our ordinary Common Shares are held in Canada, and there are 76 record holders of our Common Shares in Canada and 13 record holders in the United States. 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]
Franklin Resources, Inc.	17,000,000[2]	12.2%
Mr. Sheldon Inwentash and Pinetree Capital	15,070,000[3]	10.8%
Cormorant Global Healthcare Master Fund LP	13,000,000[4]	9.3%
Herbert Abramson	8,993,041[2]	6.5%

(1) Based on 139,324,451 Common Shares outstanding as of July 29, 2014.

(2) On June 5, 2015 Franklin Resources Inc. filed an Alternative Monthly Report on SEDAR which indicated they held 17,000,000 of our Common Shares as of May 31, 2014.

(3) As reported on filings with SEDI, Mr. Sheldon Inwentash holds 7,420,000 Common Shares and Pinetree Capital holds 7,650,000 Common Shares 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.

(5) 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.

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.***

In June 2014, 14,667,124 warrants related to the June 2012 private placement at a price of $0.45 were exercised for proceeds of $6.6 million. The remaining 2.2 million warrants expired unexercised.

On June 16, 2014, 5,283,550 stock options were granted to officers of the Company at an exercise price of $0.475. The options vest over a three year term and have a contractual life of ten years.

On July 18, 2014, 1,690,000 stock options were granted to officers and employees of the Company at an exercise price of $0.435. The options vest over a three year term and have a contractual life of ten years.

These transactions will be accounted for in the first quarter of fiscal 2015.

On July 28, 2014, subsequent to our year end Lorus announced that the Food and Drug Administration had completed its review and cleared the Corporation's Investigational New Drug application of LOR-253 for the treatment of hematologic malignancies including AML, MDS, lymphomas and multiple myeloma.

Clearance of the IND allows Lorus to initiate a Phase 1b, multi-center, open-label, clinical study of LOR-253 in patients with relapsed or refractory hematologic malignancies. The Phase 1b trial will evaluate safety, tolerability, pharmacokinetics, pharmacodynamic responses and efficacy of LOR-253 as a single agent. The trial is expected to enroll 45-60 patients as part of a dose-escalation program and two separate disease-specific single-agent expansion cohorts.

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, 2014	1.04	0.17
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, 2014	1.04	0.17
Quarter ended May 31, 2014	0.77	0.43
Quarter ended February 28, 2014	0.88	0.49
Quarter ended November 30, 2013	1.04	0.18
Quarter ended August 31, 2013	0.24	0.17
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
Most recent six months:		
June 2014	0.53	0.43
May 2014	0.57	0.43
April 2014	0.59	0.48
March 2014	0.77	0.48
February 2014	0.88	0.59
January 2014	0.70	0.49

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 (Corporation Number: 6650309). 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 124,657,327 Common Shares issued and outstanding at May 31, 2014.

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.

As at July 29, 2014, the Company had 139,324,451 Common Shares issued and outstanding. In addition, as of July 29, 2014 there were 16,857,496 Common Shares issuable upon the exercise of outstanding stock options to purchase an equal number of Common Shares at a weighted average price per share of $0.52, 2,000,000 shares issuable upon the conversion of outstanding promissory notes and 2,612,620 Common Shares issuable upon the exercise of Common Share purchase warrants. Of these warrants 1,166,250 are priced at $0.45 and expire in August 2016, 568,000 are priced at $0.25 and expire in June 2015 and 878,370 are priced at $0.55 and expire in December 2015.

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. Lease of premises between the Company and 565991 Ontario Limited, dated July 27, 2001, as amended through March 31, 2015.
2. Executive Employment Agreement between the Company and Dr. William G. Rice, dated October 25, 2013.
3. Executive Employment Agreement between the Company and Gregory K. Chow, dated November 29, 2013.
4. Executive Employment Agreement between the Company and Avanish Vellanki, dated November 29, 2013.
5. Form of Warrant issued in connection with the June 2012 private placement.
6. Form of Promissory note and Warrant Agreement issued June 19, 2013.
7. Form of Promissory note issued September 26, 2013.
8. Underwriting Agreement dated November 22, 2013 in connection with the December 2013 public offering.
9. Underwriting Agreement dated March 27, 2014 in connection with the April 2014 public offering.

Please refer to “Financial Strategy” for further details on certain agreements referred to in numbers 5 through 9 above and to “Management Contracts” for further details on items 2 through 4 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, 2014. 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, 2015. 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, 2014 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 has two subsidiaries: NuChem Pharmaceuticals Inc. ("**NuChem**"), a company incorporated under the laws of Ontario, Canada, and Lorus Therapeutics U.S. Inc. ("**Lorus USA**"), a company incorporated under the laws of Delaware, USA. Lorus owns 80% of the issued and outstanding voting share capital of NuChem and 100% of the issued and outstanding voting share capital of Lorus USA. NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. Lorus USA was incorporated in April 2014 and did not have any activity during the year ended May 31, 2014.

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 as of May 31, 2014. 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, 2014, 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, 2014, 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, 2014. In management's opinion, our internal control over financial reporting is effective as at May 31, 2014. 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.

During the fiscal year ended May 31, 2014, the Company hired a Chief Financial Officer. The former acting Chief Financial Officer is continuing with the responsibilities as Director of Finance and the Chief Financial Officer provides an additional level of review over financial documents. Management believes that the addition of the Chief Financial Officer will strengthen the Company's internal controls over financial reporting on an ongoing basis.

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," within the meaning of applicable NASDAQ 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, 2014.

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, 2014 and 2013 are as follows:

	2014	2013
Audit Fees	$ 388,676	$ 192,830
Audit-Related Fees	$ –	$ -
Tax Fees	$ -	$ -
All Other Fees	$ -	$ -*
Total	$ 388,676	$ 192,830

*The classification of the 2013 numbers has been revised to reallocate $17,530 in fees from 'All Other Fees' to 'Audit Fees'.

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 and for any other professional services that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements.

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, 2014.

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

Upon successful satisfaction of the necessary listing criteria, we plan to list our Common Shares for trading on the NASDAQ Capital Market. Section 5615(a)(3) of the NASDAQ Marketplace Rules permits NASDAQ to grant exemptions to a foreign private issuer for the provisions of the Rule 5600 series and Rule 5250 (d). We are organized under the laws of Canada and our Common Shares are listed for trading on The Toronto Stock Exchange. We comply with the laws of Canada and rules and regulations of The Toronto Stock Exchange, including rules related to corporate governance practices. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to the NASDAQ Marketplace Rules is as follows:

Shareholder Meeting Quorum Requirement: The NASDAQ minimum quorum requirement for a shareholder meeting under Section 5620(c) of the NASDAQ Marketplace Rules is one-third of the outstanding shares of common stock. In addition, a company listed on NASDAQ is required to state a quorum requirement in their bylaws. Our quorum requirement is set forth in our corporate bylaws. A quorum for our shareholder meeting is two persons present or by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting and each entitled to vote at the meeting.

Compensation Committee Mandate: The NASDAQ will require compliance with the revised Rule 5605(d) for all companies following the company's first annual meeting occurring after January 15, 2014, or October 31, 2014, whichever is earlier. In our case this would be following our August 19, 2014 annual general and special meeting. The changes to the rule include requiring the mandate of the Compensation Committee to include accountability to external advisors. The Compensation Committee Mandate does not currently include such requirements.

The foregoing is consistent with the laws, customs and practices in Canada and the rules of The Toronto Stock Exchange.

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: July 30, 2014

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

Date: July 30, 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 Convertible Promissory note issued September 26, 2013.
2.27^	Agency Agreement dated November 22, 2014 in connection with the December 2013 public offering.
2.28^	Agency Agreement dated March 27, 2014 in connection with the April 2014 public offering.
4.1	Security Based Compensation Plans as amended March 27, 2014.
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^	2005 Amendment to July 27, 2001 Lease of Premises between the Company and 565991 Ontario Limited.
4.8.2^	2008 Amendment to July 27, 2001 Lease of Premises between the Company and 565991 Ontario Limited.
4.8.3^	2011 Amendment to July 27, 2001 Lease of Premises between the Company and 565991 Ontario Limited.
4.8.4^	2013 Amendment to July 27, 2001 Lease of Premises 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, 2014.
*	Incorporated by reference to File 0-32001, Form 6-K, filed with the SEC on November 19, 2007.
**	Incorporated by reference to File 000-19763, Form 20-F, filed with the SEC on December 16, 2002.
+	Incorporated by reference to File 1-32001, Form 6-K, filed with the SEC on September 4, 2007.
++	Incorporated by reference to File 0-19763, Registration Statement on Form 20-FR, filed with the SEC on March 4, 1992.
+++	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, filed with the SEC on November 29, 2007.
^	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, filed with the SEC on May 16, 2014.
^^	Confidential treatment has been obtained 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, filed with the SEC on September 27, 2012.
##	Incorporated by reference to File 1-32001, Form 20-F, Annual Report, filed with the SEC on November 30, 2009.
###	Incorporated by reference to File 1-32001, Form 20-F/A, Annual Report, filed with the SEC on January 11, 2013.

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 as issued by the International Accounting Standards Board, 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 Professional 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

Consolidated Financial Statements of

LORUS THERAPEUTICS INC.

Years ended May 31, 2014, 2013 and 2012

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

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

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 of May 31, 2014 and 2013, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended May 31, 2014, 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 referred to above present fairly, in all material respects, the consolidated financial position of Lorus Therapeutics Inc. as of May 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended May 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Chartered Professional Accountants, Licensed Public Accountants

July 29, 2014

Toronto, Canada

LORUS THERAPEUTICS INC.

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

	May 31, 2014	May 31, 2013
Assets		
Current assets:		
Cash and cash equivalents (note 4(a))	$ 19,367	$ 653
Short-term investments (note 4(b))	11,019	–
Prepaid expenses and other assets	495	365
Total current assets	30,881	1,018
Non-current assets:		
Equipment (note 5)	18	17
Total non-current assets	18	17
Total assets	$ 30,899	$ 1,035
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	$ 649	$ 713
Accrued liabilities (note 14)	1,283	1,103
Total current liabilities	1,932	1,816
Long term liabilities:		
Convertible promissory notes (note 7)	528	–
Total long term liabilities	528	–
Shareholders' equity (deficiency):		
Share capital (note 9):		
Common shares	212,938	174,522
Equity portion of convertible promissory notes (note 7)	88	–
Stock options (notes 9(e) and 10)	2,658	1,018
Contributed surplus (note 9(d))	21,410	21,217
Warrants (note 9(c))	1,857	2,421
Deficit	(210,512)	(199,959)
Total shareholders' equity (deficiency)	28,439	(781)
Total liabilities and shareholders' equity (deficiency)	$ 30,899	$ 1,035

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Warren Whitehead" Director

"Bradley Thompson" 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, 2014, 2013 and 2012

	2014	2013	2012
Revenue	$ –	$ –	$ –
Expenses:			
Research and development (notes 6 and 12)	3,015	3,317	2,170
General and administrative (note 12)	7,355	2,272	2,430
Operating expenses	10,370	5,589	4,600
Finance expense (note 11)	259	6	20
Finance income	(76)	(30)	(6)
Net finance (income) expense	183	(24)	14
Net loss and total comprehensive loss for the year	$ (10,553)	$ (5,565)	$ (4,614)
Basic and diluted loss per common share	$ (0.17)	$ (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	62,592	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, 2014, 2013 and 2012

	Share capital	Stock options	Warrants	Contributed surplus	Equity portion of debt	Deficit	Total
Balance, June 1, 2013	$ 174,522	$ 1,018	$ 2,421	$ 21,217	$ –	$ (199,959)	$ (781)
Issuance of common shares (note 9(b)(ii))	6,927	–	350	–	–	–	7,277
Issuance of common shares (note 9(b)(i))	25,584	–	–	–	–	–	25,584
Issuance of warrants (note 9(b)(iii))	–	–	75	–	–	–	75
Issuance of convertible notes (note 7)	–	–	–	–	88	–	88
Exercise of warrants (note 9(c))	5,422	–	(964)	–	–	–	4,458
Exercise of options and DSU's (note 9(g))	483	(18)	–	–	–	–	465
Expiry of warrants	–	–	(25)	25	–	–	–
Stock-based compensation (note 10)	–	1,826	–	–	–	–	1,826
Cancellation and forfeiture of stock options	–	(168)	–	168	–	–	–
Net loss for the year	–	–	–	–	–	(10,553)	(10,553)
Balance, May 31, 2014	$ 212,938	$ 2,658	$ 1,857	$ 21,410	$ 88	$ (210,512)	$ 28,439
Balance, June 1, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ –	$ (194,394)	$ (2,028)
Issuance of units (note 9(b)(iv))	4,263	–	1,855	–	–	–	6,118
Exercise of warrants (note 9(c))	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)

	Share capital	Stock options	Warrants	Contributed surplus	Equity portion of debt	Deficit	Total
Balance, June 1, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ –	$ (189,780)	$ 239
Issuance of units (note 9(b)(v))	1,214	–	609	–	–	–	1,823
Repricing of warrants (note 9(c))	–	–	239	(239)	–	–	–
Exercise of warrants (note 9(c))	35	–	(18)	–	–	–	17
Expiry of warrants (note 9(c))	–	–	(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, 2014, 2013 and 2012

	2014	2013	2012
Cash flows from operating activities:			
Net loss for the year	$ (10,553)	$ (5,565)	$ (4,614)
Items not involving cash:			
Stock-based compensation	1,826	514	507
Depreciation of equipment	21	38	44
Finance income	(76)	(30)	–
Finance expense	259	6	20
Other	1	–	–
Change in non-cash operating working capital (note 11)	(14)	(52)	732
Cash used in operating activities	(8,536)	(5,089)	(3,311)
Cash flows from financing activities:			
Issuance of common shares and warrants, net of issuance costs (note 9(b)(i),(ii) and (v))	32,861	6,118	1,823
Exercise of warrants, options and DSU's (note 9)	4,923	180	17
Issuance of convertible notes	600	–	–
Debt issuance costs	(40)	–	–
Issuance of promissory notes and loans	1,068	–	900
Repayment of promissory notes and loans	(1,068)	(900)	–
Interest paid on notes and loans	(129)	(6)	(20)
Cash provided by financing activities	38,215	5,392	2,720
Cash flows from investing activities:			
Acquisition of investments	(11,019)	–	–
Purchase of equipment	(22)	–	–
Interest received	76	30	–
Cash (used in) provided by investing activities	(10,965)	30	–
Increase (decrease) in cash and cash equivalents	18,714	333	(591)
Cash and cash equivalents, beginning of year	653	320	911
Cash and cash equivalents, end of year	$ 19,367	$ 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 subsidiaries as at May 31, 2014 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 15, 2014.

(b) Functional and presentation currency:

The functional and presentation currency of the Company is the Canadian dollar.

(c) 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.

2. Basis of presentation (continued):

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 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 has deductible temporary differences which would create a deferred tax asset. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences 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 and prior year research and development expenses. These tax pools relate to entities that have a history of losses, have varying expiry dates, and may not be used to offset taxable income. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. The generation of future taxable income could result in the recognition of some portion or all of the remaining benefits, which could result in an improvement in the Company's results of operations through the recovery of future income taxes.

2. Basis of presentation (continued):

(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 its 80% owned subsidiary, NuChem and its 100% owned subsidiary Lorus Therapeutics Inc. USA ("Lorus USA"). NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. Lorus USA was incorporated in April 2014 and did not have any activity during the year ended May 31, 2014. 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 subsidiaries 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.

3. Significant accounting policies (continued):

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

(d) Financial assets and liabilities:

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

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

Financial assets	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Financial liabilities	**Classification**	**Measurement**
Accounts payable, accrued liabilities and convertible promissory notes payable	Other liabilities	Amortized cost

The Company considers unrestricted cash on hand 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.

3. Significant accounting policies (continued):

- 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, 2014 and 2013 which include cash and cash equivalents and short term investments are classified as a Level 1 measurement.

(e) Equipment:

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Company records depreciation at rates that charge operations with the cost of the assets over their estimated useful lives on a straight-line basis as follows:

Furniture and equipment	3 - 5 years

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

(f) Research and development:

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

3. Significant accounting policies (continued):

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.

(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 if the grant is made during the trading day or the closing trading price on the day of grant if the grant is issued after markets have closed. 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. 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.

For units issued under this plan, the Company records an expense and a liability equal to the market value of the shares issued. The accumulated liability is adjusted for market fluctuations on a quarterly basis.

There are currently no shares allotted for issuance under this plan (May 31, 2013 – 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 finance 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 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) 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, requires entities to group items within other comprehensive income that may be reclassified to net income separately from those that will not be reclassified. The adoption of this standard did not have a material impact on the Company's financial statements.

3. Significant accounting policies (continued):

(n) Recent accounting pronouncements:

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

IFRS 9, Financial Instruments, was issued in November 2009. It addresses classification and measurement of financial assets and financial liabilities. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). In February 2014, a tentative decision established the mandatory effective application of IFRS 9 for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 9 and does not intend to early adopt IFRS 9 in its financial statements.

4. Capital disclosures:

The Company's objectives when managing capital are to:

- 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.

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, 2013.

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash of $2.3 million (May 31, 2013 - $144 thousand) and funds deposited into high interest savings accounts totalling $17.1 million (May 31, 2013 - $509 thousand). The current interest rate earned on these deposits is between 1.2% and 1.25% (May 31, 2013 – 1.25%).

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

4. Capital disclosures (continued):

(b) Short term investments:

As at May 31, 2014, short term investments consist of guaranteed investment certificates with Canadian financial institutions having high credit ratings. Short-term investments include eleven investments with maturity dates from April 22, 2015 to May 8, 2016, bearing an interest rate from 1.56% to 1.85% per annum.

There were no short term investments outstanding as of May 31, 2013.

5. Equipment:

May 31, 2014	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,936	$ 2,918	$ 18

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

6. Research and development programs:

The Company has product candidates in two classes of anti-cancer therapies:

- small molecule therapies based on anti-proliferative and anti-metastatic properties that act at novel cancer specific targets; and
- immunotherapy, based on stimulating anti-cancer properties of the immune system and by direct tumour cell killing.

(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 in acute myeloid leukemia (AML), myelodysplastic syndromes (MDS) and other hematologic malignancies.

(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. The Company is not currently developing IL-17E

Program costs by product class are as follows:

	2014	2013	2012
Small molecule program	$ 2,199	$ 2,701	$ 1,900
Immunotherapy	88	425	-
	$ 2,287	$ 3,126	$ 1,900

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

7. 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 thousand 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 then 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.

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

7. Convertible promissory notes and loans payable (continued):

The promissory notes are a compound financial 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 conversion feature. The residual value of $88 thousand was allocated to the conversion feature.

Subsequent to initial recognition, the promissory notes are being accounted for at amortized cost using the effective interest rate method. The Company incurred costs associated with the financing of $17 thousand. These costs along with the adjustment for the conversion feature are being accreted using the effective interest rate method over the 24 month life of the notes.

	2014	2013
Promissory Notes	**$** 600	$ –
Less: Equity component of notes	(88)	–
Less: Issue costs	(17)	–
	495	–
Accretion in carrying amount of notes	33	–
Balance, end of period	**$** 528	$ –

b) Loans payable

In September 2013 the Company entered into loan agreements for proceeds of $150 thousand. The loans were unsecured, bore interest at a rate of 10% per annum payable quarterly and were due September 30, 2015. The Company repaid the loans and all accrued and unpaid interest thereon on April 25, 2014.

(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, 2014	May 31, 2013
Financial assets:		
Cash and cash equivalents, consisting of high interest savings account, measured at amortized cost	$ 19,367	$ 653
Short term investments, consisting of guaranteed investment certificates, measured at amortized cost.	11,019	-
Financial liabilities:		
Accounts payable, measured at amortized cost	649	713
Accrued liabilities, measured at amortized cost	1,283	1,103
Convertible promissory notes, measured at amortized cost	528	-

At May 31, 2014, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature, with the exception of the convertible promissory notes. The fair value of the convertible promissory notes has been determined to be substantially the same as the carrying amount based on management's assessment of market conditions which have not changed substantially since the issuance of the notes.

(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 associated with 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, 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 with the exception of the convertible promissory notes which are due in September 2015.

(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 the 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, 2014, U.S. dollar denominated accounts payable and accrued liabilities amounted to $769 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 and comprehensive loss for the year of $77 thousand (May 31, 2013 - $45 thousand). The Company does not have any forward exchange contracts to hedge this risk.

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	15,686	$ 168,787	4,170	$ 1,032
Issuance of units (b)(v)	5,484	1,214	5,678	609
Warrant repricing	–	–	–	239
Exercise of warrants	58	35	(59)	(18)
Expiry of warrants	–	–	(4,111)	(1,253)
Balance, May 31, 2012	21,228	$ 170,036	5,678	$ 609
Issuance of units (b)(iv)	20,625	4,263	20,625	1,720
Issuance of finders warrants (b)(iv)	–	–	1,238	135
Exercise of warrants (c)	398	223	(398)	(43)
Balance, May 31, 2013	42,251	$ 174,522	27,143	$ 2,421
Expiry of broker warrants	–	–	(194)	(25)
Issuance of warrants (b)(iii)	–	–	918	75
Warrant exercises	10,419	5,422	(10,419)	(964)
Finders warrants (b)(iv)	–	–	1,238	–
Option exercises	68	39	–	–
December equity offering and overallotment (b)(ii)	14,640	6,927	878	350
April equity offering and overallotment (b)(i)	56,500	25,584	–	–
DSU exercise	780	444	–	–
Balance, May 31, 2014	**124,658**	**$ 212,938**	**19,564**	**$ 1,857**

(b) Equity issuances:

(i) April 2014 Public Equity Offering and Overallotment

In April 2014, the Company completed a public offering of common shares. The Company issued 50,000,000 common shares at a purchase price of $0.50 per common share and an additional 6,500,000 common shares upon the partial exercise of the over-allotment option for aggregate gross proceeds of $28.3 million. The total costs associated with the transaction were approximately $2.7 million which includes a cash commission of $2.0 million based on 7% of the gross proceeds received as part of the offering.

9. Share capital (continued):

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 this offering and acquired an aggregate of 1.3 million common shares.

(ii) December Public Equity Offering and Overallotment

In December 2013, Lorus completed a public offering of common shares. Lorus issued 12,730,000 common shares at a price of $0.55 per common share and an additional 1,909,500 common shares upon the exercise of the overallotment option for aggregate gross proceeds of $8.1 million.

The total costs associated with the transaction were approximately $1.1 million which include a cash commission of $483 thousand based on 6% of the gross proceeds received as part of the offering, and the issuance of 878,370 broker warrants with an estimated fair value of $350 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. 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.

(iii) June 2013 Private Placement
In June 2013 the Company completed a private placement of units ("Units" in this section) at a price of $1 thousand per unit, for aggregate gross proceeds of $918 thousand.

Each Unit consisted of (i) a $1 thousand principal amount of unsecured promissory note and (ii) 1,000 common share purchase warrants. The promissory notes bore interest at a rate of 10% per annum, payable monthly and were due June 19, 2014. Each warrant entitled 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.

9. Share capital (continued):

The Units contained a liability component and an equity component represented by the warrants to purchase common shares. The fair value of the liability component of $843 thousand 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 of $75 thousand was allocated to the warrants. The Company incurred costs associated with the financing of $23 thousand. These costs were amortized using the effective interest rate method over the 12 month life of the notes.

These notes and any interest accrued thereon were repaid in full in April 2014.

(iv) 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 $6.6 million. Each warrant was exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45 (the "Warrants"). Any unexercised warrants expired on June 8, 2014.

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 was exercisable into Units consisting of 1,237,500 common shares and 1,237,500 Warrants. In May 2014, the finder's Warrants were exercised which results in an additional 1,237,500 warrants for exercise.

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 was 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 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.

(v) August 2011 Unit Offering:

On August 15, 2011 the Company closed an offering of units consisting of 1 common share and 1 common share purchase warrant (exerciseable for five years at a price of $0.45) at a price per unit of $0.40 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

9. Share capital (continued):

In connection with the offering, Mr. Abramson, a former 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. 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. The broker warrants expired unexercised in August 2013. The Company 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.

(c) Warrants:

Warrants exercised during the year ended May 31, 2014:

(in thousands)	Number	Proceeds
August 2011 warrants (i)	3,920	$ 1,764
June 2012 private placement warrants (ii)	4,911	2,210
June 2012 broker warrants (iii)	1,238	396
June 2013 private placement warrants (iv)	350	88
Total	10,419	$ 4,458

In addition to the cash proceeds received the original fair value related to these warrants of $964 thousand was transferred from warrants to share capital. This resulted in a total amount of $5.4 million credited to share capital.

Warrants exercised during the year ended May 31, 2013:

(in thousands)	Number	Proceeds
August 2011 warrants (i)	398	$ 180
Total	398	$ 180

In addition to the cash proceeds received the original fair value related to these warrants of $43 thousand was transferred from warrants to share capital. This resulted in a total amount of $223 thousand credited to share capital.

9. Share capital (continued):

Warrants exercised during the year ended May 31, 2012:

(in thousands)	Number	Proceeds
November 2010 warrants	59	$ 17
Total	59	$ 17

The warrants issued in November 2010 and for which the price was amended in November 2011 (repricing described below), 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.

Summary of outstanding warrants:

(in thousands)	2014	2013
August 2011 warrants (i)	1,166	5,086
August 2011 broker warrants (i)	–	194
June 2012 private placement warrants (ii)	16,952	20,625
June 2012 broker warrants (iii)	–	1,238
June 2013 private placement warrants (iv)	568	–
December 2013 broker warrants (v)	878	–
Number of warrants outstanding, end of year	19,564	27,143

(i) August 2011 warrants are exercisable into common share of Lorus at a price per share of $0.45 and expiring in August 2016. During the year ended May 31, 2014, 3.9 million warrants were exercised. In August 2013, 194 thousand broker warrants associated with this transaction expired unexercised.

(ii) June 2012 warrants are exercisable into common shares of Lorus at a price per share of $0.45 and expired on June 8, 2014. During the year 4.911 million were exercised. Subsequent to the year end in June an additional 14.7 million warrants were exercised with the remaining 2.2 million expiring unexercised.

(iii) June 2012 broker warrants were exercisable into common shares of Lorus at a price per share of $0.32 per unit. Each unit was comprised of 1 common share of Lorus and 1 common share purchase warrant exercisable at a price per share of $0.45 and expiring on June 8, 2014. In May 2014 the broker warrants were exercised and an additional 1.238 million common share purchase warrants were issued.

(iv) June 2013 private placement warrants are exercisable into common shares of Lorus at a price per share of $0.25 and expiring in June 2015.

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

9. Share capital (continued):

(v) December 2013 broker warrants are exercisable into common shares of Lorus at a price per share of $0.55 and expiring in December 2015.

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.

(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.

	2014	2013	2012
Balance, beginning of year	$ 21,217	$ 21,186	$ 18,988
Expiry of broker warrants (c)	25	–	1,253
Forfeiture of stock options	65	31	150
Warrant repricing	–	–	(239)
Cancellation of stock options	103	–	1,034
Balance, end of year	$ 21,410	$ 21,217	$ 21,186

(e) Continuity of stock options:

	2014	2013	2012
Balance, beginning of year	$ 1,018	$ 535	$ 1,212
Stock option expense	1,826	514	507
Exercise of stock options	(18)	–	–
Forfeiture of stock options	(65)	(31)	(150)
Cancellation of stock options	(103)	–	(1,034)
Balance, end of year	$ 2,658	$ 1,018	535

9. Share capital (continued):

(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, 2014 of 62.592 million, 42.251 million as of May 31, 2013 and 20.260 million as of May 31, 2012, calculated as follows:

(in thousands)	2014	2013	2012
Issued common shares, beginning of year	42,251	21,228	15,685
Effect of April 2014 public offering (note 9(b)(i))	9,417	–	–
Effect of December 2013 public offering (note 9(b)(ii))	7,161	–	–
Effect of Warrant exercises (note 9(c))	3,611	398	5
Effect of option and DSU exercises	152	–	–
Effect of private placement (note 9(b)(iv))	–	20,625	–
Effect of August 2011 unit offering (note 9(b)(v)	–	–	4,570
Issued weighted average common shares, end of year	62,592	42,251	20,260

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, 2014, nil deferred share units are outstanding (May 31, 2013 – 780,000). 780,000 common shares of the Company were issued in April 2014 in satisfaction of the outstanding deferred share unit liability. The shares issued had a fair value of $444 thousand.

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 18,698,000 options, rights and other entitlements as at May 31, 2014. Options are granted at the fair market value of the common shares on the closing market date immediately preceding the date of the grant.

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

10. Stock-based compensation (continued):

Options vest at various rates (immediate to three years) and have a term of 10 years. Stock option transactions for the three years ended May 31, 2014 are summarized as follows:

Option numbers are in (000's)

	2014		2013	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	3,359	$ 0.46	1,612	$ 0.44
Granted	6,878	0.55	1,780	0.48
Exercised	(68)	0.31	–	–
Forfeited	(35)	1.85	(33)	0.54
Cancelled	(250)	0.50	–	–
Outstanding, end of year	9,884	0.52	3,359	0.46

Option numbers are in (000's)

	2012	
	Options	Weighted average exercise price
Outstanding, beginning of year	1,186	$ 1.58
Granted	1,538	0.21
Forfeited	(29)	6.03
Cancelled	(1,083)	1.21
Outstanding, end of year	1,612	0.44

The following table summarizes information about stock options outstanding at May 31, 2014:

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	1,466	7.6	$ 0.21	1,418	$ 0.21
$0.23 - $ 0.48	2,324	8.5	0.43	2,119	0.42
$0.49 - $ 0.60	3,333	9.8	0.50	181	0.50
$0.61 - $ 9.90	2,761	9.4	0.78	1,529	0.92
	9,884	9.0	0.52	5,247	0.51

(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:

	2014	2013	2012
Exercise price	$ 0.29-0.78	$ 0.475	$ 0.18-0.215
Grant date share price	$ 0.29-0.78	$ 0.475	$ 0.18-0.215
Risk-free interest rate	1.5%-3.0%	3.0%	1.5%
Expected dividend yield	–	–	–
Expected volatility	125%-135%	135%	`123%-125%
Expected life of options	5 years	5 years	5 years
Weighted average fair value of options granted or modified during the year	$ 0.55	$ 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, 2014 consisted of 1,820,500 options which vested immediately, 850,000 options that vested 50% upon issuance and 25% on each of the next two anniversaries and 3,320,000 options which vest 50%, 25% and 25% on each of the next three anniversaries, 850,000 options which vest in equal installments over 36 months and 37,500 options which vest in October 2014.

Stock options granted by the Company during the year ended May 31, 2013 had 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 CEO of 1,050,000 vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015. Upon the departure of the former CEO in March 2014 the vesting of these options was accelerated and they are fully vested as of May 31, 2014. Options granted to certain members of management totaled 325,000 and vested 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 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 former President and COO 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

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

10. Stock-based compensation (continued):

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.

11. Additional cash flow disclosures:

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

	2014	2013	2012
Prepaid expenses and other assets	$ (130)	$ (72)	$ 95
Accounts payable	(64)	391	107
Accrued liabilities	180	(371)	530
	$ (14)	$ (52)	$ 732

During the year ended May 31, 2014 the Company paid $75 thousand in interest expense on the $918 thousand promissory notes as described in note 9(b)(iii). These notes and all unpaid interest were repaid in April 2014. The interest accrued at a rate of 10% per annum. In addition the Company incurred interest in the year ended May 31, 2014 on the loan agreements and convertible promissory notes described in note 7 of $51 thousand of which $14 thousand was accrued and unpaid at May 31, 2014. The interest accrues at a rate of 10% per annum and is paid quarterly. The loan agreements and all interest accrued thereon were repaid in April 2014. 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 in December 2013.

During the year ended May 31, 2013, the Company incurred $6 thousand in interest expense on a $900 thousand promissory note due to a former Director. The interest was paid at a rate of 10%.

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

12. Other expenses:

Components of research and development expenses:

	2014	2013	2012
Program costs (note 6)	$ 2,287	$ 3,126	$ 1,900
Severance cost for former President and COO	326	–	–
Deferred share unit costs	90	(40)	91
Stock-based compensation	296	198	146
Depreciation of equipment	16	33	33
	$ 3,015	$ 3,317	$ 2,170

Components of general and administrative expenses:

	2014	2013	2012
General and administrative excluding salaries	$ 2,658	$ 1,368	$ 1,240
Salaries	2,217	675	605
Severance cost of former President and COO	762	–	–
Deferred share unit costs	183	(92)	213
Stock-based compensation	1,530	316	361
Depreciation of equipment	5	5	11
	$ 7,355	$ 2,272	$ 2,430

13. Related party transactions:

See also notes 7 and 9 for related party transactions.

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

Compensation of key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Company's activities as a whole. The Company has determined that key management personnel consists of the members of the Board of Directors along with the officers of the Company. For the year ended May 31, 2014 the officers were the Chairman, President and Chief Executive Officer, the Chief Financial Officer and the Chief Business Officer as well as the Director of Finance, the Vice President of Research and the former

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

13. Related party transactions (continued):

President and Chief Operating Officer. For the years ended May 31, 2013 and 2012 the officers were the former President and Chief Operating Officer, the Director of Finance and the Vice President of Research.

Officer compensation:

	2014	2013	2012
Salaries and short-term employee benefits	$ 2,357	$ 727	$ 567
Severance payment to the former COO	1,088	–	–
Deferred share units	273	(132)	304
Stock-based compensation	1,475	358	343
	$ 5,193	$ 953	$ 1,214

Director compensation:

	2014	2013	2012
Directors' fees	$ 386	$ 180	$ 186
Stock-based compensation	179	73	131
	$ 565	$ 253	$ 317

Included in accounts payable and accrued liabilities is $268 thousand (May 31, 2013 - $126 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.

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	$ 149	$ 5	$ nil	$ 154

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 the fiscal years ended May 31, 2015 or 2016, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

(c) Guarantees:

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

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

14. Commitments, contingencies and guarantees (continued):

(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 $50 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2014. There have been no claims on this indemnification to date.

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% (2013 - 26.5%) are as follows:

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

15. Income taxes (continued):

	2014	2013	2012
Loss before income taxes	$ (10,553)	$ (5,565)	$ (4,614)
Statutory Canadian corporate tax rate	26.5%	26.5%	27.4%
Anticipated tax recovery	$ (2,797)	$ (1,475)	$ (1,264)
Non-deductible permanent differences	599	138	141
Change in deferred tax benefits deemed not probable to be recovered	2,839	1,553	1,963
Change in substantively enacted tax rates	–	–	(627)
Undeducted financing costs	(730)	(235)	–
Other	89	19	(213)
	$ –	$ –	

The Company has undeducted research and development expenditures, totalling $23.3 million that can be carried forward indefinitely. In addition, the Company has non-capital loss carryforwards of $25.3 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
2034	7,513
	$ 25,252

(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:

	2014	2013
Net operating losses carried forward	$ 6,692	$ 4,701
Research and development expenditures	6,185	5,731
Equipment book over tax depreciation	450	448
Intangible asset	3,097	3,097
Undeducted financing costs	890	235
Ontario harmonization tax credit	–	287
Ontario Research and Development Tax Credit	395	327
Cumulative eligible capital	358	358
Other	–	44
Unrecognized deferred tax asset	$ 18,067	$ 15,228

16. Subsequent events:

In June 2014, 14.7 million warrants related to the June 2012 private placement at a price of $0.45 were exercised for proceeds of $6.6 million. The remaining 2.2 million warrants expired unexercised.

On June 16, 2014 5.3 million stock options were granted to officers of the Company at an exercise price of $0.475. The options vest over a three year term and have a contractual life of ten years.

On July 18, 2014, 1,690,000 stock options were granted to officers and employees of the Company at an exercise price of $0.435. The options vest over a three year term and have a contractual life of ten years.

These transactions will be accounted for in the first quarter of fiscal 2015.

Exhibit 4.1.a

LORUS THERAPEUTICS INC.

SHARE OPTION PLAN

Amended as of March 27, 2014

TABLE OF CONTENTS

LORUS THERAPEUTICS INC.
SHARE OPTION PLAN

ARTICLE 1.
INTERPRETATION

1.1. Purpose of the Plan

The purpose of this Plan is to advance the interests of the Company by increasing its ability to attract, retain and reward Eligible Persons who are involved in the development of the Company by providing those Eligible Persons with an opportunity to acquire an ownership interest in the Company and aligning further the interests of those Eligible Persons with the interests of the Company's securityholders.

1.2. Definitions

In this Plan and its Schedules, the terms set out in Schedule 1.2 (Definitions) will have the meanings given to those terms in that schedule.

1.3. Schedules

The following are the schedules attached to this Plan:

Schedule 1.2	-	Definitions
Schedule 2.2.5	-	Regulations
Schedule 4.6	-	Form of Option Agreement
Schedule 5.1	-	Exercise Form

1.4. Headings and Table of Contents

The inclusion of headings and a table of contents in this Plan is for convenience of reference only and will not affect the construction or interpretation of the Plan.

1.5. Gender and Number

In this Plan, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

1.6. Currency

Except where otherwise expressly provided, all amounts in this Plan are stated and will be paid in Canadian currency.

1.7. Invalidity of Provisions

Each of the provisions contained in this Plan is distinct and severable and a declaration of invalidity or unenforceability of any provision or part by a court of competent jurisdiction will not affect the validity or enforceability of any other provision of the Plan. To the extent permitted by applicable law, the Company and all Participants waive any provision of law which renders any provision of this Plan invalid or unenforceable in any respect.

1.8. Entire Agreement

This Plan and each Option Agreement constitutes the entire agreement between the parties pertaining to the subject matter of those documents. There are no warranties, conditions, or representations (including any that may be implied by statute) and there are no agreements in connection with the subject matter except as specifically set out or referred to in those documents.

1.9. Governing Law

This Plan will be governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable in Ontario.

1.10. Effective Date

This Plan is effective as of October 9, 2003 and as amended on March 27, 2014.

ARTICLE 2.
Administration

2.1. Administration by the Board of Directors

This Plan will be administered by the board of directors of the Company or a committee of the board of directors duly appointed for this purpose by the board of directors and consisting of not less than 2 directors. If a committee is appointed for this purpose, all references to the term **"Board"** will be deemed to be references to the committee.

2.2. Authority of the Board of Directors

Subject to this Plan, the Board has the authority to:

2.2.1. grant Options to Eligible Persons;

2.2.2. determine the terms of Option grants, including any limitations, restrictions and conditions upon those grants, which terms may differ by grant and by Participant;

2.2.3. issue Shares upon the exercise of Options;

2.2.4. effect any repurchase of Shares, Options or other rights contemplated by this Plan;

2.2.5. interpret this Plan and adopt, amend or rescind any administrative guideline and other rule or Regulation relating to this Plan as it may from time to time consider advisable, subject to the Law; and

2.2.6. make all other determinations and take all other actions in connection with the implementation and administration of this Plan as it may consider necessary or advisable.

The Board's guidelines, rules, Regulations, interpretations and determinations will be final and binding upon the Company and all Participants and their legal representatives. No member of the Board will be liable for any act or omission (whether or not negligent) taken or omitted in good faith, or for the exercise of an authority or discretion granted in connection with the Plan to the Board, or for the acts or omission of any other members of the Board.

2.3. Grants by CEO

The Chief Executive Officer of the Company is authorized to grant Options from time to time to Eligible Persons between meetings of the Board, subject to the ratification and approval of those grants by the Board at the next meeting of the Board; provided those grants are made in accordance with (1) the terms of the Plan and (2) any guidelines set out by the Board. The exercise price of Options granted in this manner will in all cases be established on the date of grant by the Chief Executive Officer, in accordance with section 4.4.

2.4. Shares Subject to the Plan

2.4.1. The maximum total number of Shares available for issuance from treasury from time to time upon the exercise of Options granted under the Plan and any other Security Based Compensation Arrangement is 15% of the number of issued and outstanding Shares of the Company and the number of Options shall increase or decrease as the number of issued and outstanding Shares of the Company changes. Any Share subject to an Option that, for any reason, has been cancelled or terminated without having been exercised under the Plan, will again be available for issuance under this Plan. Any exercise of Options will make new grants available under the Plan, provided that the maximum number of Shares reserved for issuance pursuant to the Plan and any other Security Based Compensation Arrangement does not exceed 15% of the number of Shares then issued and outstanding.

2.4.2. No fractional Shares may be issued or purchased under the Plan and the Board will determine the manner in which any fractional Shares or rights to acquire fractional Shares are to be addressed.

2.5. Compliance with Law

2.5.1. The Company is not obligated by this Plan or any grant under it to, and will not, take any action required, permitted or otherwise contemplated by this Plan except in accordance with Law. The Board may postpone or adjust any exercise of any Option or the issue of any Shares under this Plan or refrain from taking any action or exercising any right required, permitted or contemplated by the Plan as the Board in its discretion may deem necessary in order to permit the Company to ensure that this Plan and the issuance of Shares under it comply with Law.

2.5.2. If the Shares are listed on a Stock Market, the Company will have no obligation to issue any Shares under this Plan unless the Shares have been duly listed, upon official notice of issuance, on that Stock Market.

2.5.3. If Law prevents the exercise of an Option or the issue of a Share, the Board may, in addition to the rights referred to in this Plan, choose to address the economic value of a Participant's rights in whatever manner it deems to be reasonable in the circumstances, and action taken by the Company in consequence of that determination will be deemed to have satisfied the Company's obligations as they would otherwise have existed.

2.5.4. The Company will comply with all reporting obligations required by Law.

ARTICLE 3.
FAIR VALUE

3.1. Definition

"Fair Value" for the purposes of this Plan will be equal to the weighted average of the trading prices of the Shares on the Stock Market for the five trading days ending on the last trading date preceding the date on which the calculation of Fair Value is to be made, provided that:

3.1.1. "Fair Value" for the purpose of determining the exercise price of all Options under section 4.4 will be equal to the closing market price of the Shares on the Stock Market on the last full trading day before the grant of the Options. If there is no trading on that date, the exercise price will be the average of the bid and ask on the Stock Market on the last trading date preceding the date of the grant.

ARTICLE 4.
GRANT OF OPTIONS

4.1. Grants

The Board may grant Options to Eligible Persons. An Eligible Person may receive Options on more than one occasion under this Plan and may receive differing Options on any one occasion.

4.2. Participation Voluntary

The participation of an Eligible Person in the Plan and the purchase of Shares by a Participant upon exercise of an Option is voluntary, and neither the participation nor any purchase will have any effect, positively or negatively, on the employment or continuing employment of an Eligible Person or Participant who is an Employee, the appointment or continuing appointment of an Eligible Person or Participant who is an Executive or the engagement or continuing engagement of an Eligible Person or Participant who is a Consultant or Consultant Entity.

4.3. General Terms of the Option

4.3.1. In respect of each Option, the Board will determine the Eligible Person who will receive the Option, the number of Shares subject to the Option, the expiration date of the Option, the extent to which each Option is exercisable from time to time during the term of the Option and other terms and conditions relating to each Option.

4.3.2. If not otherwise determined by the Board, an Option will vest as to 50% on the first annual anniversary of the date of grant of the Option and an additional 25% on the second and third annual anniversaries after the date of the grant of the Option.

4.4. Option Exercise Price

The Board will, in accordance with Law, establish the exercise price of an Option when each Option is granted equal to the Fair Value of the Shares as of the date of grant.

4.5. Exercise Period of Option

4.5.1. Maximum Period. Options granted must be exercised no later than 10 years after the date of grant (or within any lesser period that the applicable grant, this Plan, Regulations or any Law may require). No Option may be exercised after its stated expiration.

4.5.2. Notwithstanding anything contained herein or in any Option Agreement, 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 trading restriction imposed by the Corporation, the expiry date for the Option will be the last day of the 10-day period.

4.5.3. Termination.

4.5.3.1. If a Participant ceases to be an Eligible Person as a result of:

4.5.3.1.1. the termination of the Participant's appointment, employment or engagement by the Company (and/or its Affiliates) without Cause,

4.5.3.1.2. the resignation of the Participant, or

4.5.3.1.3. the retirement of the Participant,

each Option held by the Participant, to the extent which it has vested on or prior to the Termination Date in accordance with the Option Agreement and this Plan, will cease to be exercisable 3 months after the Termination Date unless it expires sooner or unless otherwise determined by the Board.

4.5.3.2. If a Participant ceases to be an Eligible Person as a result of the termination of the Participant's appointment, employment or engagement by the Company (and/or its Affiliates) because of Cause, each Option held by the Participant, to the extent which it has vested and not expired on or prior to the Termination Date in accordance with the Option Agreement and this Plan, will cease to be exercisable immediately upon the Company's (and/or an Affiliate's) giving of notice of termination, unless otherwise determined by the Board.

4.5.3.3. Effective the Termination Date, any portion of an Option that has not vested on or prior to the Termination Date will expire without any further rights under the Plan.

4.5.4. Death or Disability. If a Participant ceases to be an Eligible Person as a result of the Participant's death or Disability, each Option held by the Participant, to the extent which it has vested and not expired on or prior to the date of the Participant's death or Disability in accordance with the Option Agreement and this Plan, will cease to be exercisable 9 months after the Termination Date unless otherwise determined by the Board. Any portion of a Participant's Option that has not vested on or prior to the date of the Participant's death or Disability will no longer be exercisable.

4.6. Option Agreements

Each Option must be confirmed, and will be governed, by an Option Agreement signed by the Company and by the Participant, substantially in the form attached as Schedule 4.6 (Form of Option Agreement).

4.7. Prohibition on Transfer of Options

Options are personal to the Participant. No Participant may deal with an Option or any interest in it or Transfer an Option except in accordance with this Plan. A purported Transfer of an Option in violation of this Plan will not be valid and the Company will not issue any Share upon the attempted exercise of that Option. Subject to Law, the Board may establish rules, Regulations and procedures permitting the Transfer of Options in circumstances and on terms determined by the Board. If Options have been granted to a Participant's Subsidiary or a Consultant's Consultant Entity and the related Subsidiary ceases to be a Subsidiary or the related Consultant Entity ceases to so qualify, then the Participant will be deemed to have Transferred any Option held by that entity to the entity, and that Transfer will be subject to the requirements and sanctions set out in this section. Notwithstanding anything to the contrary in the Plan, Options cannot be Transferred other than by will or the laws of descent and distribution and will be exercisable during a Participant's lifetime only by the Participant.

ARTICLE 5.
EXERCISE OF OPTIONS

5.1. Method of Exercise of Option

A Participant may exercise all or a portion of an Option by delivering to the Company, to the address and person set out in section 10.1, a completed exercise form in the form attached as Schedule 5.1 (Exercise Form) and, if exercised under section 5.2, accompanied by payment of the exercise price multiplied by the number of Shares to be purchased.

5.2. Payment of Option Price

The purchase price of each Share purchased under an Option must be paid in full at the time of exercise by bank draft, certified cheque or in any other manner permitted by the Board and by Law. Upon receipt of payment in full, but subject to this Plan, the number of Shares in respect of which the Option is exercised will be issued as fully paid and non-assessable.

5.3. Withholding of Tax

5.3.1. If the Company determines that under the requirements of taxation Law it is obliged to withhold for remittance to a taxing authority any amount upon exercise of an Option or the sale of Shares acquired on exercise of an Option, the Company may, prior to and as a condition of issuing the Shares or at any other later date, (1) require the Participant exercising the Option to pay to the Company, in addition to and in the same manner as the exercise price for the Shares, (2) withhold from any other amounts payable by the Company to the Participant or (3) transfer from the Participant to the Company Shares issuable upon exercise of the Option having a Fair Value equal to, any amount that the Company is obliged to remit to that taxing authority in respect of the exercise of the Option or the sale of the Shares acquired on exercise of the Option. Any additional payment will, in any event, be due no later than the date as of which any amount with respect to the Option exercised must be included in the gross income of the Participant for tax purposes.

5.3.2. Promptly after a Participant sells any Shares acquired on exercise of an Option, the Participant will notify the Company in writing of the date and terms of the sale and will provide all other information regarding the sale as the Company may reasonably require.

ARTICLE 6.
SHARES

6.1. Shareholder Rights

A Participant will not have any rights as a shareholder of the Company with respect to any Shares subject to an Option until that Participant has exercised the Option and the Company has issued Shares in accordance with the Plan.

ARTICLE 7.
REORGANIZATIONS AND ADJUSTMENTS

7.1. Reorganization or Sale of the Company

If there is:

7.1.1. a Combination,

7.1.2. the sale, lease, transfer or other disposition of all or substantially all of the assets of the Company, or

7.1.3. a reorganization or liquidation of the Company,

the Board, or the board of directors of any entity assuming the obligations of the Company, having regard to its fiduciary duties and the best interests of the Company, will, as to unexercised Options, upon written notice to Participants, provide that: (a) all unvested Options of Executives will vest immediately; (b) all unexercised Options (both vested and unvested) will terminate immediately prior to the consummation of the merger, consolidation, acquisition, reorganization, liquidation, sale or transfer unless those Options which have vested are exercised by respective Participants within 30 days following the date of the notice.

7.2. Substitute Options upon Acquisition by the Company

The Company may grant Options under the Plan in substitution for options held by directors, officers or employees of or consultants to another entity who become Eligible Persons as a result of a merger or consolidation of the other entity with the Company or an Affiliate, or as a result of the acquisition by the Company of property or securities of the other entity. The Company may direct that substitute Options be granted on any terms and conditions that the Board considers appropriate in the circumstances, subject to Law.

7.3. Capital Adjustments

If there is any change in the outstanding Shares by reason of a share dividend or split, recapitalization, consolidation, combination or exchange of shares, special dividend or other fundamental corporate change, other than the issuance of Shares by the Company for consideration, the Board will, subject to Law, make a substitution or adjustment in

7.3.1. the exercise price of any unexercised Options;

7.3.2. the maximum number and/or class of securities of the Company reserved for issuance under this Plan; or

7.3.3. the number and/or class of securities of the Company subject to unexercised Options previously granted,

as the Board determines is appropriate in the circumstances.

ARTICLE 8.
Employment and Compensation

8.1. No Special Employment Rights

Nothing contained in the Plan or in any Option will confer upon any Participant any right with respect to the continuation of the Participant's appointment, employment or engagement by the Company or interfere in any way with the right of the Company at any time to terminate or change any terms of that appointment, employment or engagement including any increase or decrease in the compensation of the Participant.

8.2. Other Employee Benefits

The amount of any compensation deemed to be received by a Participant as a result of the exercise of an Option or the sale of Shares received upon an exercise of an Option will not constitute compensation for the purpose of determining any other employee benefits of that Participant, including benefits under any bonus, pension, profit-sharing, life insurance or salary continuation plan, except as otherwise specifically determined by the Board.

8.3. Non-Exclusivity

Nothing contained in this Plan will prevent the Board from adopting other or additional compensation arrangements for the benefit of any Participant or other Eligible Person, subject to Law.

ARTICLE 9.
Amendments

9.1. Amendment or Termination Without Consent

9.1.1. The Board reserves the right, in its sole discretion, to amend, suspend or terminate the Plan or any portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of shareholders. Any amendment to any provision of the Plan will be subject to any required regulatory or shareholder approval. Notwithstanding the foregoing, the Company will be required to obtain the approval of the shareholders of the Company for any amendment related to:

9.1.1.1. the maximum number of Shares reserved for issuance under the Plan (and under any other security based compensation arrangements of the Company);

9.1.1.2. a reduction in the exercise price for Options held by Insiders; and

9.1.1.3. an extension to the term of Options held by Insiders.

9.1.2. If this Plan is terminated, the provisions of this Plan, the Regulations and any administrative guidelines and other rules adopted by the Board and in force when this Plan is terminated will continue in effect as long as any Option, or any right under an Option, remains outstanding. However, notwithstanding the termination of this Plan, the Board may make any amendments to this Plan, or to any outstanding Option, that it would be entitled to make if this Plan were still in effect.

9.2. Amendment With Individual Consent

With the consent of the affected Participant, the Board may amend any outstanding Option in any manner to the extent that the Board would have had the initial authority to grant the Option as so modified or amended, including to change the date or the price at which an Option becomes exercisable, subject to Law.

ARTICLE 10.
GENERAL MATTERS

10.1. Notices

Any notice or other communication required or permitted to be given under this Plan will be in writing and will be given by prepaid first-class mail, by electronic mail or by hand-delivery as provided below. Any notice or other communication, if mailed by prepaid first-class mail at any time other than during a general discontinuance of postal service due to strike, lockout or otherwise, will be deemed to have been received on the fourth Business Day after the post-marked date, or if sent by electronic mail, will be deemed to have been received on the Business Day following the sending, or if delivered by hand will be deemed to have been received on the day on which it is delivered to the applicable address noted below either to the individual designated below 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 will be addressed, if to the Company, to the head office of the Company, attention: Corporate Secretary and, if to a Participant, at the last address which appears on the records of the Company.

10.2. Submission to Jurisdiction

The Company and each Participant irrevocably submit to the non-exclusive jurisdiction of the courts of Ontario in respect of all matters relating to this Plan and any Option Agreement.

10.3. Language of Plan

The parties to this Plan have expressly agreed that this Plan and related documents be drawn in the English language. Les parties aux présentes ont expressément convenu que le présent plan et tous les documents y afférents soient rédigés en langue anglaise.

10.4. Further Assurances

Each Participant will promptly do, make, execute or deliver, or cause to be done, made, executed or delivered, all further acts, documents and things as the Company may reasonably require from time to time for the purpose of giving effect to this Plan and will use reasonable efforts and take all steps as may be reasonably within the Participant's power to implement to their full extent the provisions of this Plan.

SCHEDULE 1.2

Definitions

1. **"Affiliate"** has the meaning given to that term in National instrument 45-106.

2. **"Associate"** has the meaning given to that term in the*Securities Act* (Ontario).

3. **Black Out Period"** means any period during which a policy of the Company prevents an Insider from trading in the Shares.

4. **"Board"** means the board of directors of the Company or a committee of the board of directors appointed to administer the Plan.

5. **"Business Day"** means any day, other than Saturday, Sunday or any statutory holiday in the Province of Ontario.

6. **"Cause"**, in respect of a Participant, either

   6.1. has the meaning given to that term in any written employment or consulting agreement between the Company or an Affiliate and the Participant or in any written employment policy or manual of the Company or an Affiliate applicable to the Participant, or

   6.2. if there is no written definition of this term applicable to the Participant, means (1) the wilful failure of the Participant to properly carry out the Participant's duties and responsibilities or to adhere to the polices of the Company or its Affiliates after notice by the Company (or an Affiliate) of the failure to do so and an opportunity for the Participant to correct the failure within a reasonable period from the date of receipt of that notice, (2) fraud, theft, dishonesty or wilful misconduct by, or the gross incompetence of, the Participant involving the property, business or affairs of the Company or its Affiliates or the carrying out of the Participant's duties, as determined in good faith by the Company and (3) any other conduct that would constitute cause as that term is interpreted by the courts of the Province of Ontario from time to time.

7. **"Combination"** means any acquisition of the Company by means of any transaction or series of related transactions, including any consolidation, merger, amalgamation or similar form of corporate reorganization, (1) in which the outstanding shares of the Company are exchanged for securities or other consideration issued, delivered or caused to be issued or delivered, by the acquiring Person, its subsidiary or other Person and (2) under which the holders of the outstanding voting securities of the Company immediately prior to the transaction fail to hold, directly or indirectly, equity securities representing a majority of the voting power of the Company or surviving entity or its parent immediately following the transaction in substantially the same proportions as their ownership of the voting power of the equity securities of the Company immediately prior to the transaction.

8. **"Company"** means Lorus Therapeutics Inc., and includes any successor company.

9. **"Consultant"** has the meaning given to that term in National Instrument 45-106 and excludes an individual whose services are in connection with the offer or sale or securities of the Company in a capital raising transaction.

10. **"Consultant Entity"** means, for an individual Consultant, a company of which the individual Consultant is an employee or shareholder or a partnership of which the individual Consultant is an employee or partner.

11. **"Control"** (or "Controlled") has the meaning given to that term in National instrument 45-106.

12. **"Disability"**, in respect of a Participant, either

    12.1. has the meaning given to that term in any written employment or consulting agreement between the Company or an Affiliate and the Participant or in any written employment policy or manual of the Company or an Affiliate applicable to the Participant, or

    12.2. if there is no written definition of this term applicable to the Participant, means, subject to applicable human rights law, the mental or physical state of the Participant resulting in the Participant being 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 Company, to fulfil the Participant's obligations to the Company or an Affiliate for any consecutive 180-day period or for any period of 180 days (whether or not consecutive) in any consecutive 365-day period.

13. **"Eligible Person"**, subject to the Regulations and to Law, means (1) any Executive or Employee (including any of those persons who are on a leave of absence authorized by the board of directors of the Company or of any Affiliate), (2) any Subsidiary of an Executive or Employee, (3) any Consultant or Consultant Entity or (4) any RRSP or RRIF established by or for an Executive, Employee or Consultant or under which the Executive, Employee or Consultant is a beneficiary.

14. **"Employee"** means, for an issuer, an employee of the issuer or of an affiliated entity of the issuer, other than an executive of the issuer.

15. **"Executive"** means, for an issuer, an issuer-officer or an issuer-director.

16. **"Fair Value"** has the meaning given to that term in section 3.1.

17. **"including"** means including without limitation.

18. **"Insider"** has the meaning given to the term "insider" in the TSX Rules.

19. **"Law"** means all applicable law including all applicable securities laws and the rules applicable to any stock exchange or quotation system on which the Shares are listed or quoted or on which the Company wishes to list or quote its shares (including any required prior regulatory approval or shareholder consent).

20. **"National Instrument 45-106"** means National Instrument 45-106 – Prospectus and Registration Exemptions, as that instrument may be amended, renumbered or reclassified from time to time, and any successor to that instrument.

21. **"Option"** means a right granted to an Eligible Person to purchase Shares on the terms of this Plan.

22. **"Option Agreement"** means an agreement signed by the Company and by a Participant with respect to a granted Option, as contemplated by section 4.6.

23. **"Participant"** means an Eligible Person to whom an Option has been granted, and, as appropriate with respect to each individual Participant (including in calculating holdings of a Participant or addressing termination of a Participant), also includes an RRSP, RRIF, Subsidiary or Consultant Entity related to that Participant.

24. **"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.

25. **"Plan"** means this Share Option Plan of the Company and all schedules attached to this Plan, in each case as they may be amended or supplemented from time to time, and unless otherwise indicated, references to Articles, sections and Schedules are to the specified Articles, sections and Schedules in this Plan.

26. **"Regulations"** means the regulations set out in Schedule 2.2.5 (Regulations) made under this Plan, as they may be amended from time to time in accordance with the Plan.

27. **"RRIF"** means a registered retirement income fund.

28. **"RRSP"** means a registered retirement savings plan.

29. **"Security Based Compensation Arrangement"** has the meaning given to the term "security based compensation arrangement" in Section 613(b) of the TSX Rules.

30. **"Share"** means a common share of the Company and includes any class of securities into which the common shares of the Company as a whole class may be subsequently reclassified, converted or exchanged.

31. **"Stock Market"** means each stock exchange or quotation system on which the Shares are listed or quoted and, in respect of any calculation or determination to be made under this Plan, means one which is selected by the Board for the purposes of the calculation or determination, generally on the basis of volume of trading or other measure as to the accuracy of the trading history. If the Shares are listed on the TSX, then "Stock Market" will mean the TSX for the purpose of any calculation or determination, unless the trading volume of the Shares is materially higher on another stock exchange or quotation system.

32. **"Subsidiary"** has the meaning given to that term in *Business Corporation Act* (Ontario).

33. **"Termination Date"** means the date on which a Participant ceases to be an Eligible Person in accordance with the Plan.

34. **"Transfer"** includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, hypothecate, charge, pledge, encumbrance, grant of security interest or other arrangement by which possession, legal title, beneficial ownership or the right to receive proceeds or benefits of or from the subject matter passes from one Person to another, or to the same Person in a different capacity, whether or not voluntary and whether or not for value, and any agreement to effect any of the foregoing, and the words **"Transferred"**, **"Transferring"** and similar words have corresponding meanings.

35. **"TSX"** means the Toronto Stock Exchange.

36. **"TSX Rules"** means the rules of the Toronto Stock Exchange Company Manual relating to changes in the capital structure of listed companies in connection with security based compensation arrangements (currently section 613), as those rules may be amended, renumbered or reclassified from time to time, or any successors.

SCHEDULE 2.2.5

Regulations

1. Subject to the Law and upon notice to the Company, a Participant may Transfer Options, or Shares received under the exercise of Options, to any RRSP or RRIF established by or for the Participant or under which the Participant is a beneficiary. Upon death of a Participant, the Participant's Option(s) will become part of the Participant's estate, and any right of the Participant may be exercised by the former Participant's legal representatives, provided the legal representatives comply with all obligations of the former Participant.

2. A Participant who is an Executive or Employee will cease to be an Eligible Person on the earliest of:

   2.1. the end of the notice period, if the Company gives the Participant notice of termination of appointment and/or employment or the Participant gives the Company notice of resignation and the Participant continues to hold the appointment and/or work during the notice period,

   2.2. the date on which the Company gives the Participant notice of termination of appointment and/or employment (with or without Cause), if the Participant does not continue to hold the appointment and/or work during the notice period, and, for greater certainty, will not include any period of statutory or common law notice or severance,

   2.3. the date on which the Participant gives the Company notice of resignation, if the Participant does not continue to hold the appointment and/or work during the notice period,

   2.4. the date of the Participant's retirement,

   2.5. the date of the Participant's death,

   2.6. the date of the Participant's Disability,

   2.7. the date on which the Participant otherwise fails to meet the criteria set out under the definition of an Eligible Person, and

   2.8. in any other case, the actual date on which both the Participant and the Company had actual notice that the Participant's appointment and/or employment would cease on a particular date.

   For greater certainty, the above dates will apply whether or not the Participant receives any payment in lieu of notice. For greater certainty, if, as a result of one or more of the events listed above, a Participant no longer qualifies or will no longer qualify as an Eligible Person in one category but will remain an Eligible Person under another category, then the Participant will remain an Eligible Person.

3. The date of a Participant's Disability will be the last day of the applicable period during which the Participant is unable to fulfil the Participant's obligations to the Company.

4. A Participant who is a Consultant will cease to be an Eligible Person on the earliest of:

   4.1 the completion or substantial performance of the Consultant's engagement in accordance with the terms of the written contract,

   4.2 the expiration of the Consultant's written contract,

   4.3 the notice of termination by the Company of the contract whether with or without Cause, or

   4.4 the services of any key individual referred to in the Consultant Entity's contract no longer being available to the Company as required under the contract.

5. If the legal representative of a Participant who has died or has a Disability purports to exercise any Options of the Participant, the Company will have no obligation to issue the Shares until evidence satisfactory to the Company has been provided that the legal representative is entitled to exercise the Options.

SCHEDULE 4.6

Form of Option Agreement

LORUS THERAPEUTICS INC.
SHARE OPTION PLAN

■{DATE}

PERSONAL & CONFIDENTIAL

■{NAME}
■{ADDRESS}

Dear ■{NAME}:

Grant of Option

I am very pleased to advise you that the Board of Directors of Lorus Therapeutics Inc. (the "Company") has granted to you an option (the "Option") to purchase common shares (the "Shares") of the Company. This Option was granted on the basis set out in this letter, and is subject to the Share Option Plan of the Company (the "Plan"), a copy of which is enclosed. This letter and the Plan are referred to collectively as the "Option Documents". All capitalized terms not otherwise defined in this letter have the meanings given to them in the Plan.

Date of grant of Option: _____

The total number of Shares subject to this Option is: _____

The exercise price of this Option is: $ _____

Vesting of Options

Your Options will "vest" or become exercisable

in accordance with the table set out below. Provided that you are an Eligible Person and have been an Eligible Person throughout the time period set out in Column 1, the number of Options set out in Column 2 will vest at 11:59 p.m. on the last day of that time period. The number of Options you may exercise at any time (prior to the expiry date set out below) will be equal to the total number of Options which have vested, less any Options which you have exercised or which have expired in accordance with the Option Documents.

Column 1			Column 2
Time Period			Number of Options vesting following that time period
_____	to	_____	_____
_____	to	_____	_____
_____	to	_____	_____

■[OTHER CONDITIONS APPLICABLE TO VESTING, SUCH AS ATTAINING CERTAIN PERFORMANCE GOALS]

Expiry of Option

Subject to earlier expiration in accordance with the Option Documents, your rights to purchase Shares under this Option will expire at 11:59 p.m. on:

_____

Exercise of Option

This Option may be exercised in whole or in part in respect of the vested portion of the Option at any time prior to expiry of the Option by delivery of written notice in a form attached to the Plan to the address and person set out in the Plan by exercising all or part of the vested portion of the Option for a number of Shares specified to be purchased and enclosing payment by bank draft or certified cheque of the total purchase price of the Shares.

This Option may not be exercised or surrendered in respect of amounts of less than 100 Shares in the case of any one exercise unless that exercise would exhaust the Option.

Tax Consequences

Receiving a grant of an Option, exercising an Option and selling Shares received upon exercise of an Option may all result in tax consequences, which will differ depending on your jurisdiction of residence. The Company may impose requirements in relation to your exercise of an Option or subsequent sale of Shares issued upon exercise of an Option, to ensure compliance with taxation laws related to withholdings and remittances. You are strongly urged to consult your tax advisor as to the various tax consequences.

Options and Your Service to the Company

Nothing in the Option Documents will affect the right of the Company to terminate your services, responsibilities or duties to the Company and its Affiliates at any time for any reason. Regardless of the reason for your termination, your rights to exercise this Option will be restricted to those rights which have vested and not expired on or prior to your Termination Date and, in any claim for wrongful dismissal, no consideration will be given to any Options that might have vested during an appropriate notice period, all as described in the Plan. As set out the Plan, your participation in the Plan and any purchase of Shares upon exercise of an Option is voluntary, and neither the participation nor any purchase will have any effect, positively or negatively, on your appointment, employment or engagement by the Company.

No Transfers

This Option is personal to you alone and may not be sold or Transferred in any way, except as described in the Plan.

Decisions of Board Binding

All decisions made by the Board of Directors with regard to any questions arising in connection with the Option Documents, whether of interpretation or otherwise, will be final and binding on all parties.

Acceptance of Option

Please indicate acceptance of this agreement by signing where indicated below on the enclosed copy of this letter and returning the signed copies to the Company to the attention of Corporate Secretary.

By signing and delivering this agreement, you are acknowledging receipt of copies of the Plan and having been provided with an opportunity to consider the Plan and to seek independent legal advice with respect to them, and are agreeing to be bound by all terms of this letter and the Plan.

Yours truly,

LORUS THERAPEUTICS INC.

By: _____

I have read and agree to be bound by this letter and the Plan.

Signature: _____

Name (print): _____

Address: _____

_____

Date: _____

Witness Signature: _____

Witness Name print): _____

SCHEDULE 5.1

Exercise Form

LORUS THERAPEUTICS INC.
SHARE OPTION PLAN

SHARE OPTION
EXERCISE AND SUBSCRIPTION FORM

TO: Lorus Therapeutics Inc. (the "Company")
2 Meridian Road
Toronto, Ontario
M9W 4Z7
Attention: Corporate Secretary

RE: Share Option Exercise under the Share Option Plan of the Company

---

Under an option agreement dated _____ , I was granted an option (the "Option") to purchase a total of _____ Shares. At this date, a portion of the Option has vested entitling me to purchase _____ Shares, of which I have already purchased _____ Shares in total under one or more prior exercise and subscription forms.

I give notice that I wish to:

☐ under section 5.1 of the Plan, exercise the vested portion of my Option to purchase _____ Shares at the price of $ _____ per Share, and I hereby subscribe for that number of Shares at that price, enclose payment for those Shares in full by bank draft or certified cheque in the total amount of $ _____ and direct that

☐ a certificate representing the subscribed Shares be delivered to me at the address set out below;

☐ a certificate representing the subscribed Shares be delivered to me at my office; or

☐ the subscribed Shares be deposited directly into my broker account (see account details below), and I hereby authorize Computershare Trust Company of Canada, or such other registrar and transfer agent as the Company may appoint from time to time;

or

· I am resident at the address set out below; and

· I have received copies of the Plan and the Option Agreement and am agreeing to be bound by all terms of those agreements.

All capitalized terms used in this exercise and subscription form and not otherwise defined have the meanings given to them in the Plan.

Signature: _____

Name (print): _____

Address: _____

_____

Date: _____

Broker account details: _____

_____

Exhibit 4.1.b

LORUS THERAPEUTICS INC.

2009 ALTERNATE COMPENSATION PLAN
(as amended on October 12, 2012 and on March 27, 2014)

ARTICLE 1
PURPOSE AND INTERPRETATION

1.1 Purpose

The purpose of this Plan is to advance the interests of Lorus by (i) encouraging its Plan Participants to acquire Shares thereby increasing the proprietary interests of such persons in Lorus and aligning the interests of such persons with the interests of Lorus' shareholders generally; and (ii) preserving Lorus' resources while meeting Lorus' obligations to Directors and Senior Management Employees.

1.2 Administration

(a) The Board or a Committee of the Board duly appointed for this purpose by the Board and consisting of not less than 2 Directors will administer this Plan. If a Committee is appointed for this purpose, all references to the term "Board" will be deemed to be references to the Committee.

(b) Subject to the limitations of this Plan, the Board in its sole and absolute discretion, but subject to applicable corporate securities and tax law requirements, has the authority:

(1) to grant Shares to Plan Participants under the Plan;

(2) to determine the terms, including the limitations, restrictions and conditions, if any, upon such grants;

(3) to interpret this Plan and to adopt, amend and rescind such administrative guidelines and other rules and regulations relating to this Plan as it may from time to time deem advisable, subject to required prior approval by any applicable regulatory authority; and

(4) to make all other determinations and to take all other actions in connection with the implementation and administration of this Plan as it may deem necessary or advisable. The Board's guidelines, rules, regulations, interpretations and determinations will be conclusive and binding upon all parties.

(c) The Board has the authority to appoint a Plan Administrator to administer the Plan and provide periodic updates and summaries to the Board.

1.3 Interpretation

For the purposes herein, the following terms have the meanings ascribed thereto as follows:

(a) **"Board of Directors"** or **"Board"** means the board of Directors of Lorus;

(b) **"Committee"** means a committee of the Board of Lorus;

(c) **"Shares"** means the common shares in the capital of Lorus;

(d) **"Director"** means a person who is elected or appointed as a director of Lorus from time to time;

(e) **"Lorus"** means Lorus Therapeutics Inc.;

(f) **"Management Director"** means a Director of Lorus who is also a Senior Management Employee;

(g) **"Non-Management Director"** means a Director who is not otherwise an officer or employee of Lorus;

(h) **"Options"** means an option to purchase securities of Lorus issued by Lorus from treasury;

(i) **"Plan"** means this incentive compensation plan;

(j) **"Plan Administrator"** means the Director of Finance or other such employee of Lorus having the authority of the Board to administer the Plan and received "Notice of Intention to Receive Shares in lieu of Cash" or "Notice to Receive Shares from the Plan" and cause to be issued such shares;

(k) **"Plan Participant"** means a Director or Senior Management Employee of Lorus;

(l) **"Remuneration"** means amounts paid to Plan Participants defined in paragraph 2.2 Plan Participants' Remuneration that is not an Option;

(m) **"Senior Management Employee"** means an employee of Lorus who is an officer of Lorus, holds the title "Director" as is currently defined in Lorus' job descriptions or determined at the discretion of Lorus' President and Chief Executive Officer;

(n) **"Security Based Compensation Arrangement**" has the meaning given to that term in Section 613 (b) of the TSX Rules; and

(o) **"TSX Rules**" means the rules of the Toronto Stock Exchange, as those rules may be amended, renumbered, or reclassified from time to time, or any successors.

Words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine.

This Plan is to be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

1.4 Shares Available for Issuance
The maximum number of Shares available to be issued under the Plan when combined with all other Security Based Compensation Arrangements is 15% of Lorus' issued and outstanding Shares at any given time.

ARTICLE 2

ALTERNATE COMPENSATION PLAN

2.1 Voluntary Plan Participation
Participation in the Plan is voluntary at the option of the Director or Senior Management Employee and, should they become a Plan Participant, the amount of Remuneration to be received in Shares in lieu of cash is solely at their discretion.

2.2 Plan Participants' Remuneration
The Compensation Committee of the Board has approved remuneration for each Non-Management Director whereby each Non-Management Director receives an annual retainer and fees for providing services on a quarterly or per-meeting basis that is paid in cash and is granted Options to purchase Shares. Non-Management Directors also receive reimbursement for any out-of-pocket travel expenses incurred in order to attend meetings and may, with Board approval, provide consulting services for a fee to Lorus from time-to-time. Management Directors of Lorus are not currently entitled to compensation for attending meetings of the Board or Committees. Senior Management Employees are remunerated through a combination of salary, performance-based Options and an annual bonus.

2.3 Issuance of Shares
The Plan Participants may elect to receive up to 100% of their Remuneration in Shares in lieu of cash compensation.

2.4 Calculation of Number of Shares to be Issued
The number of Shares to be issued in lieu of cash compensation shall be determined based on the following

Remuneration to be received in Shares in lieu of cash divided by the closing weighted average Share price for the five (5) trading days prior to payment date.

The payment date shall be the later of: (a) the date prescribed in the Notice to Receive Shares in Lieu of Cash, as defined below, and (b) the day following any blackout or quiet period as defined the Lorus' Disclosure and Trading Policy or subject to any trading restrictions there under.

2.5 Notice to Receive Shares in Lieu of Cash Remuneration
Plan Participants may at anytime provide notice to the Plan Administrator of their intention to receive some or all of their Remuneration in Shares. Such notice as provided in Appendix A and may provide for a one-time or ongoing receipt of Remuneration in Shares. An ongoing receipt shall define the frequency and amount of Remuneration to be received in Shares and may be revoked by the Plan Participant at any time by providing written notice to the Plan Administrator.

2.6 Notice to Withdraw Shares
Plan Participants may at anytime provide notice of their desire to receive some or all of their Shares accumulated under the Plan upon providing written notice to the Plan Administrator. Such notice as provided in Appendix B. Upon receipt of notice, the Plan Administrator shall provide such shares on the latter of five (5) business days following receipt of notice or the date specified in the notice.

2.7 First Trade of Shares
Shares received by Plan Participants under the Plan shall be subject to blackout, quite period or trading restrictions as defined in Lorus' Disclosure and Trading Policy and subject to any hold or other restricted periods set out in securities and other legislation.

2.8 Fluctuation in Share Price
No amount will be paid to, or in respect of, a Plan Participant under the Plan to compensate for a downward fluctuation in the price of the Shares nor will any other form of benefit be conferred upon, or in respect of, a Plan Participant for such purposes.

ARTICLE 3
GENERAL AND ADMINISTRATION

3.1 Non-Exclusivity
Nothing contained herein will prevent the Board from adopting other or additional compensation arrangements for the benefit of any Director or Senior Management Employee of Lorus, subject to any required regulatory or shareholder approval.

3.2 Cessation of Entitlement under the Plan
Upon ceasing to become a Director or Senior Management Employee such Plan Participant will no longer be eligible to receive Shares under this Plan and any amounts owing to such Director shall be paid without reference to the Plan.

3.3 Amendment and Termination

(a) The Board may, at any time and from time to time, amend, suspend or terminate the 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.

(b) Notwithstanding the provisions of Section 3.3(a), the Board may not, without the approval of the shareholders of the Corporation, make amendments to the Plan for any of the following purposes:

(i) to increase the maximum number of Shares issuable under the Plan; or

(ii) to amend the provisions of this Section 3.3(b).

3.4 Shares Reserved for Issuance

The maximum total number of Shares available for issuance from treasury under the Plan and any other Security Based Compensation Arrangement is 15% of the Corporation's issued and outstanding Shares at any given time.

3.5 Compliance with Legislation; Governing Law
The obligation of Lorus to issue and deliver Shares in accordance with this Alternative Compensation Plan is subject to applicable securities law, stock exchange or market on which the Shares trade, any trading black-out periods prescribed by Lorus and the receipt of any approvals that may be required from any regulator or market having jurisdiction over the securities of Lorus. If Shares cannot be issued by Lorus hereunder for any reason whatsoever, the obligation of Lorus to issue such Shares shall be suspended until such time as it is practicable for Lorus to issue such Shares. The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario.

3.6 Effective Date
This Plan will become effective immediately upon approval of the Board, subject to any required regulatory and shareholder approval.

3.7 Record Keeping
The Plan Administrator shall maintain a register in which shall be recorded:

(a) the name and address of each Plan Participant; and
(b) the number of Shares issued to all Plan Participants in this Plan.

A summary of the transactions under the Plan shall be provided to the Board at each quarterly meeting of the Board and the Board shall, confirm, ratify and approve the issuance of such shares at each meeting.

APPENDIX A
LORUS THERAPEUTICS INC.
2009 ALTERNATE COMPENSATION PLAN

NOTICE TO RECEIVE SHARES IN LIEU OF CASH REMUNERATION

TO: Lorus Therapeutics Inc. (the "Corporation")
2 Meridian Road
Toronto, Ontario
M9W 4Z7
Attention: Plan Administrator

RE: Notice to receives Share in lieu of cash Remuneration

I, hereby, give notice that I wish to participate in the 2009 Alternate Compensation Plan (the "Plan") as follows:

1. One-time receipt of Shares in lieu of cash:

   In accordance with the Plan, I would like to receive the following Remuneration amount in Shares of the Corporation:

Remuneration Type:	Amount of Remuneration	Expected payment date	Amount in lieu of cash ($ or %)

   OR

2. Ongoing receipt of Shares in lieu of cash

   In accordance with the Plan, I would like to receive the following the following Remuneration amounts in Shares of the Corporation:

Remuneration Type:	Amount of Remuneration	Expected payment dates/frequency	Amount in lieu of cash ($ or %)

I am resident at the address set out below; I have received a copy of the Plan; I confirm that I am eligible under the Plan and am agreeing to be bound by all terms of those agreements. I understand that I may revoke my ongoing receipt of Shares in lieu of cash at any time.

All capitalized terms used in this exercise and subscription form and not otherwise defined have the meanings given to them in the Plan.

Signature: _____

Name (print): _____

Address: _____

_____

Date: _____

APPENDIX B
LORUS THERAPEUTICS INC.
2009 ALTERNATE COMPENSATION PLAN

NOTICE TO WITHDRAW SHARES

TO: Lorus Therapeutics Inc. (the "Corporation")
2 Meridian Road
Toronto, Ontario
M9W 4Z7
Attention: Plan Administrator

RE: Notice to withdraw Share from the Alternate Compensation Plan

I, hereby, give notice that I wish to withdraw Share to which I am entitled under the 2009 Alternate Compensation Plan (the "Plan") as follows:

In accordance with the Plan, I would like to receive the following Remuneration amount in Shares of the Corporation:

Number of Shares to withdraw (All or specify an amount)	Requested Receipt Date (If not immediate)

I am resident at the address set out below; I have received a copy of the Plan; I confirm that I am eligible under the Plan and am bound by all terms of those agreements. I understand that my receipt of Shares and ability to trade such shares are subject to the terms of the Corporation's Disclosure and Trading Policy.

Article I. All capitalized terms used in this exercise and subscription form and not otherwise defined have the meanings given to them in the Plan.

Signature: _____

Name (print): _____

Address: _____

_____

Date: _____

Article II.

Share delivery instructions:

_____

Exhibit 4.1.c

LORUS THERAPEUTICS INC.

Deferred Share Unit Plan

April 17, 2000
(as amended November 29, 2012 and March 27, 2014)

LORUS THERAPEUTICS INC.

Deferred Share Unit Plan

Table of Contents

SECTION 1.
GENERAL PROVISIONS

1.1. Purpose

The purpose of the Deferred Share Unit Plan of Lorus Therapeutics Inc. is to promote a greater alignment of interests between the directors and senior officers of the Corporation and the shareholders of the Corporation.

1.2. Definitions

As used in this Plan, the following terms have the following respective meanings:

(a) "ACP" means the Lorus Therapeutics Inc. Alternate Compensation Plan as amended from time to time;

(b) "Board" means the Board of Directors of the Corporation;

(c) "Committee" means the Compensation Committee of the Board, or any other person or group designated by the Board as the Committee for the purposes of the Plan;

(d) "Corporation" means Lorus Therapeutics Inc.;

(e) "Deferred Share Unit" means a right granted by the Corporation to a Participant to receive, on a deferred payment basis, a Share or the cash equivalent of a Share on the terms contained in the Plan;

(f) "Election Date" means the date on which a Participant files an election with the Secretary of the Corporation pursuant to section 2.2;

(g) "Eligible Remuneration" means all amounts payable in cash or Shares (subject to election otherwise under this Plan) to a Participant by the Corporation or a Subsidiary of the Corporation in respect of the services provided to the Corporation or Subsidiary by the Participant in any calendar year, including (a): in the case of a director, without limitation, (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 Participant as a reimbursement for expenses incurred in attending meetings; and (b): in the case of a senior officer, without limitation, 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.

(h) "Fair Market Value" on any day (the "relevant day") means the closing price per Share on the TSX on the most recent day preceding the relevant day on which Shares are traded on the TSX provided that such preceding day shall not be more than five days prior to the relevant day. If the preceding day is more than five days prior to the relevant day, or if the Shares are not listed on the TSX, the Fair Market Value will be the value established by the Committee based on the price per Share on any other public exchange on which the Shares are listed, or if the Shares are not listed on any public exchange, by the Committee based on the fair value of the Shares;

(i) "Filing Date" has the meaning given to that term in section 2.8.1.1;

(j) "Final Payment" has the meaning given to that term in section 2.8.1.2;

(k) "Participant" means any director, or senior officer of the Corporation or any Subsidiary of the Corporation identified by the Committee as being eligible to participate in the Plan on the applicable Election Date;

(l) "Plan" means the Lorus Deferred Share Unit Plan, as amended from time to time;

(m) "Share" means a Common Share of the Corporation;

(n) "Share Option Plan" means the share option plan of the Corporation as amended from time to time;

(o) "Subsidiary" has the meaning given to that term in the *Business Corporations Act* (Ontario);

(p) "Terminated Service" means that the Participant has retired, resigned or has been terminated without cause from all positions with the Corporation and any Subsidiary of the Corporation as an officer, executive, employee and director, or has, as a result of disability, otherwise ceased to hold any and all positions with the Corporation and any Subsidiaries. For greater certainty, the death of a Participant or termination with cause from any position with the Corporation and any Subsidiary of the Corporation does not constitute Terminated Service;

(q) "Trustee" means a trustee of a trust or custodial account established by the Corporation for the purpose of purchasing Shares pursuant to section 2.8.1.4;

(r) "TSX" means The Toronto Stock Exchange; and

(s) "TSX Rules" means the rules of the Toronto Stock Exchange manual, as those rules may be amended from time to time or any successors.

1.3. Effective Date

The Plan will be effective as of April 17, 2000.

1.4. Administration

1.4.1. The Committee will, in its sole and absolute discretion, but subject to applicable corporate, securities and tax law requirements: (i) interpret and administer the Plan, (ii) establish, amend and rescind any rules and regulations relating to the Plan, and (iii) make any other determinations that the Committee deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems, in its sole and absolute discretion, necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan will be final, conclusive and binding on all parties concerned. All expenses of administration of the Plan will be borne by the Corporation including any reasonable brokerage fees relating to the purchase of Shares under the Plan.

1.4.2. The maximum total number of Shares available for issuance from treasury under the Plan, the Share Option Plan, the ACP and any other security based compensation arrangements is 15% of the Corporation's issued and outstanding Shares at any given time.

SECTION 2.
AWARDS UNDER THE PLAN

2.1. Payment and Deferral of Eligible Remuneration

Subject to any rules, approvals and conditions that the Committee may impose, a Participant may, with the consent of the Committee from time to time, elect to receive Eligible Remuneration, in whole or in part, in the form of Deferred Share Units.

2.2. Method of Electing

2.2.1. To elect a form or forms of payment of Eligible Remuneration for the period from June 1, 1999 to May 31, 2000 pursuant to the Plan, a Participant will, no later than May 5, 2000, complete and deliver to the Secretary of the Corporation a written election in the form prescribed by the Secretary.

2.2.2. To elect a form or forms of payment of Eligible Remuneration for any subsequent fiscal year during which the Plan is in effect and in respect of which the Eligible Remuneration will become payable, a Participant shall no later than ten days before the end of a fiscal year complete and deliver to the Secretary of the Corporation a written election for the immediately following fiscal year in the form attached as Appendix A hereto subject to any changes in such form made by the Committee from time to time.

2.2.3. The Participant's written election will designate the percentage of each item of the Eligible Remuneration for the applicable fiscal year that the Participant elects to receive in the form of Deferred Share Units and the percentage that the Participant elects to receive in Shares and/or cash.

2.2.4. In the absence of a designation to the contrary, subject to the approval of the Committee, the Participant's election for the latest fiscal year with respect to those percentages will continue to apply to all subsequent Eligible Remuneration payments until the Participant submits another written election in accordance with this section.

2.2.5. A Participant will file only one election in respect of the Eligible Remuneration payable in respect of any fiscal year and the election will be irrevocable for that year. If no election is filed by a Participant, and no prior election remains effective, the Participant will be deemed to have elected to be paid other than in Deferred Share Units all Eligible Remuneration payable to that Participant for the applicable fiscal year.

2.3. Payment of Eligible Remuneration

Eligible Remuneration will be paid in Shares or cash, or up to a percentage of such Eligible Remuneration as is established by the Committee, credited as Deferred Share Units, as elected by the Participant, on a periodic instalment basis as established by the Committee.

2.4. Deferred Share Units

Where a Participant has elected and is entitled to receive Deferred Share Units, such Deferred Share Units will be credited to an account maintained for the Participant by the Corporation. The number of Deferred Share Units (including fractional Deferred Share Units, computed to three digits) to be credited on each of the dates established by the Committee pursuant to section 2.3 will be determined by dividing the amount of the Eligible Remuneration that is to be paid in the form of Deferred Share Units on that date by the Fair Market Value per Share on that date.

2.5. Dividend Equivalents

On any date on which a dividend is paid on Shares, a Participant's account will be credited with the number of Deferred Share Units (including fractional Deferred Share Units, computed to three digits) calculated by (i) multiplying the amount of the dividend per Share by the aggregate number of Deferred Share Units that were credited to the Participant's account as of the record date for payment of the dividend, and (ii) dividing the amount obtained in (i) by the Fair Market Value per Share on the date on which the dividend is paid.

2.6. Participant's Account

A written confirmation of the balance in each Participant's account will be sent by the Corporation to the Participant upon request of the Participant.

2.7. Adjustments and Reorganizations

In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off or other distribution (other than normal cash dividends) of Corporation assets to shareholders, or any other change in the capital of the Corporation affecting Shares, the Committee, in its discretion, will make, with respect to the number of Deferred Share Units outstanding under the Plan, any proportionate adjustments as it considers appropriate to reflect that change.

2.8. Cessation of Service

2.8.1. Termination of Service

2.8.1.1. A Participant who has Terminated Service may redeem the Deferred Share Units credited to the Participant's account by filing with the Secretary of the Corporation a notice of redemption of the Deferred Share Units in the prescribed form on or before March 15 of the first calendar year commencing after the date the Participant Terminated Service. If the Participant fails to file a notice of redemption of the Deferred Share Units on or before that date, the Participant will be deemed to have filed with the Secretary of the Corporation a notice of redemption on that date. The date on which a notice of redemption is filed or deemed to be filed with the Secretary of the Corporation is the "Filing Date".

2.8.1.2. The notice of redemption filed by the Participant will specify that the Participant wishes to receive either: (i) a lump sum cash payment (net of any applicable withholdings) equal to the number of Deferred Share Units credited to the Participant's account as of the Filing Date multiplied by the Fair Market Value per Share on the Filing Date (the "Final Payment"); or (ii) that number of Shares that is equal to the number of Deferred Share Units credited to the Participant's account as of the Filing Date. The Participant may request on the notice of redemption that the Participant receive a percentage of the Final Payment in cash and the remaining percentage of the Final Payment in Shares, in either case in accordance with the preceding sentence as appropriately amended. If a notice of redemption is deemed to be filed or the notice of redemption filed does not request receipt of cash or Shares, the Participant will be deemed to have requested to receive the entire Final Payment in cash.

2.8.1.3 The requests of a Participant referred to in paragraph 2.8.1.2 above are subject to the approval of the Committee, and the Committee will determine, in its sole discretion, what portion of the Final Payment is to be paid to the Participant in cash and what portion is to be paid in Shares. The Committee will further determine whether payment in Shares will be made by the issuance of Shares from treasury or through the Corporation contributing all or a Portion of the Final Payment to a Trustee to be used by the Trustee to purchase Shares on the TSX.

2.8.1.4 Within seven days following the Filing Date, the Corporation will if the Participant is to receive all or a portion of the Final Payment in cash, make that payment to the Participant in cash. Within ten (10) business days following the Filing Date, if the Participant is to receive Shares, the Corporation may, at its discretion, elect to issue Shares from treasury equal to the number of Deferred Share Units credited to the Participant's account as of the relevant redemption date or contribute all or the appropriate portion of the Final Payment to the Trustee and require the Trustee to use that amount as soon as practicable thereafter to purchase Shares on the TSX and deliver those Shares to the Participant. An amount that would otherwise give rise to fractional Shares will be paid in cash.

2.8.1.5 For greater certainty, if a Participant who would otherwise receive Shares is a citizen or resident of a country other than Canada, the Corporation has the right, in its sole discretion, to pay entirely in cash the Final Payment, should the Corporation determine that the regulatory or other requirements of the applicable foreign jurisdiction associated with the purchase of Shares are too onerous to it or the Participant.

2.8.2. Death of Participant. In the event of the death of a Participant, the Corporation will make Final Payment, within ninety days after the Participant's death, through either: (i) a lump sum cash payment; (ii) an issuance of Shares from treasury or (iii) a combination of a lump cash payment and issuance of Shares, to or for the benefit of the legal representative of the Participant. The Committee will determine, in its sole discretion, what portion of the Final Payment is to be paid to the Participant in cash and what portion is to be paid in Shares. The lump sum cash payment will equal the number of Deferred Share Units credited to the Participant's account on the date of payment multiplied by the Fair Market Value per Share determined as of the date that is five days before the date of payment. The Shares issued from treasury will equal the number of Deferred Share Units credited to the Participant's account as of the date of payment.

2.8.3. Death of Participant after Termination of Service. If a Participant dies after the Participant has Terminated Service but before filing a notice of redemption with the Secretary of the Corporation, section 2.8.2 will apply provided that, in no event will payment or the issuance of Shares be made later than December 31 of the first calendar year commencing after the Participant has Terminated Service.

2.8.4. Termination With Cause. A Participant who has been terminated with cause may not redeem the Deferred Share Units held by that Participant and those Deferred Share Units so held will be deemed cancelled as of the date of termination of the Participant.

SECTION 3.
GENERAL

3.1. Transferability of Awards

Rights respecting Deferred Share Units will not be transferable or assignable other than by will or by the laws of descent and distribution.

3.2. No Right to Service

Neither participation in the Plan nor any action under the Plan will be construed to give any Participant a right to be retained in the service of the Corporation.

3.3. Unfunded Plan

Unless otherwise determined by the Committee, the Plan will be unfunded. To the extent any individual holds any rights by virtue of an election under the Plan, those rights will be no greater than the rights of an unsecured general creditor of the Corporation.

3.4. Applicable Trading Policies

The Committee and each Participant will ensure that all actions taken and decisions made by the Committee or a Participant, as the case may be, pursuant to the Plan comply with any applicable securities regulation and policies of the Corporation relating to insider trading or "black-out" periods.

3.5. Successors and Assigns

The Plan will be binding on all successors and assigns of the Corporation and a Participant, including without limitation, the estate of that Participant and the legal representative of that estate, or any receiver or trustee in bankruptcy or representative of the Corporation's or the Participant's creditors.

3.6. Plan Amendment

3.6.1. Subject to section 3.6.2, the Board may amend the 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 Participant or unless required by law, adversely affect the rights of a Participant with respect to Deferred Share Units that have been credited to the account of the Participant at the time of such amendment to the Plan.

3.6.2. Notwithstanding section 3.6.1, the Board must obtain shareholder approval for the following amendments to the Plan:

(a) an increase to the maximum number of securities reserved for issuance under the Plan or any other security based compensation arrangement; and

(b) amendments to this section 3.6.

3.7. Plan Termination

The Board may terminate the Plan at any time, but no termination will, without the consent of a Participant or unless required by law, adversely affect the rights of the Participant with respect to Deferred Share Units that have been credited to the account of the Participant at the time of such termination of the Plan.

3.8. Governing Law

The Plan and all matters to which reference is made in the Plan will be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

Exhibit 8.1

LIST OF SUBSIDIARIES

Name	**Jurisdiction**
Lorus Therapeutics U.S. Inc.	Delaware
Nuchem Pharmaceuticals Inc.	Canada

Exhibit 12.1

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, 2014;

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: July 30, 2014

/s/ William G. Rice
William G. Rice
Chairman, President and Chief Executive Officer

Exhibit 12.2

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, 2014;

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: July 30, 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, 2014, 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: July 30, 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, 2014, 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: July 30, 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, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

July 29, 2014

This management's discussion and analysis of Lorus Therapeutics Inc. ("Lorus", the "Company", "we", "our", "us" and similar expressions) should be read in conjunction with the Company's annual audited financial statements for the year ended May 31, 2014, and the annual information form of the Company for the year ended May 31, 2014 which can be found on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This management's 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 preclinical programs;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, preclinical and clinical studies and the regulatory approval process;*
- *our plans, 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 our predecessor and its directors, officers and employees in respect of an arrangement completed in 2007;*
- *our ability to find 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;*
- *potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing, which 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 United States Securities and Exchange Commission ("SEC"), and those which are discussed under the heading "Risk Factors" in this document.*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this management's 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.

DEVELOPMENT UPDATE

STRATEGIC REVIEW PROCESS

On September 12, 2013, the Company formed a special committee composed of independent directors to review strategic alternatives available to the Company and secure the long-term financial and operational sustainability of the Company with a view to enhance shareholder value (the "Special Committee"). 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 Company's Senior Vice President of Medical Affairs. Additionally, on October 29, 2013, Lorus announced the addition of Brian Druker, M.D. as the Chair of the Company's newly formed Scientific Advisory Board.

CHANGES IN MANAGEMENT

On October 28, 2013, William G. Rice, Ph.D., was appointed as Chief Executive Officer and Chairman of the Board while Dr. Aiping Young continued as President and Chief Operating Officer of the Company until she departed the Company on March 18, 2014. Lorus also appointed Daniel D. Von Hoff, M.D., to serve as a special advisor to fulfill the functions of the Company'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 Company in the United States. On April 10, 2014, Dr. Rice was additionally appointed as President of the Company.

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

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

PROGRAM UPDATES

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").

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 anti-proliferative and anti-metastatic activity across a multitude of cell lines. In vitro studies conducted at Lorus have demonstrated significant potency 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, have demonstrated that LOR-253 led to significant elevation of the Krüppel-like factor 4 protein (the "KLF4 Protein"), 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 the Phase I clinical study of LOR-253 in patients with various solid tumors, and in that study we observed evidence of anti-tumor activity as a single agent at doses that were safe and well tolerated. Our plans are to advance LOR-253 to a Phase 1b 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 protein CDX2 (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 low red 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 has 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. In the future, 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.

Small Molecular 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.

FINANCING ACTIVITIES

EQUITY FINANCING'S

April 2014

In April 2014, we completed a public offering of common shares. Lorus issued 56,500,000 common shares at a purchase price of $0.50 per common share, including 6,500,000 common shares pursuant to the partial exercise of the over-allotment option, for aggregate gross proceeds of $28.3 million. The total costs associated with the transaction were approximately $2.7 million which includes a cash commission of $2.0 million based on 7% of the gross proceeds received as part of the offering.

Mr. Sheldon Inwentash and his joint actors ("Mr. Inwentash") a related party of Lorus by virtue of exercising control or direction over more than 10% of the common shares of Lorus participated in this offering and acquired an aggregate of 1.3 million common shares.

December 2013

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 $7.0 million as part of such offering.

The total costs associated with the transaction were approximately $999 thousand which includes 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 using the Black Scholes model. 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. 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 1,820,000 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 $1.0 million. 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. 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 the closing of the over-allotment option exercise.

WARRANT EXERCISES

During the year ended May 31, 2014, 10,419,246 warrants (May 31, 2013 – 398 thousand, May 31, 2012 – 59 thousand) were exercised for proceeds of $4.5 million (May 31, 2013 – $180 thousand, May 31, 2012 - $17 thousand).

Warrants exercised during the year ended May 31, 2014:

(in thousands)	Number		Proceeds
August 2011 warrants (i)	3,920	$	1,764
June 2012 private placement warrants (ii)	4,911	$	2,210
June 2012 broker warrants (iii)	1,238	$	396
June 2013 private placement warrants (iv)	350	$	88
Total	10,419	$	4,458

Summary of outstanding warrants:

(in thousands)	2014	2013
August 2011 warrants (i)	1,166	5,086
August 2011 broker warrants (i)	-	194
June 2012 private placement warrants (ii)	16,952	20,625
June 2012 broker warrants (iii)	-	1,238
June 2013 private placement warrants (iv)	568	-
December 2013 broker warrants (v)	878	-
Number of warrants outstanding, end of year	19,564	27,143

(i) August 2011 warrants are exercisable into common share of Lorus at a price per share of $0.45 and expire in August 2016. During the year ended May 31, 2014, 3.9 million warrants were exercised. In August 2013, 194 thousand broker warrants associated with this transaction expired unexercised.

(ii) June 2012 warrants are exercisable into common shares of Lorus at a price per share of $0.45 and expired on June 8, 2014. During the year 4.911 million were exercised. Subsequent to the year end in June an additional 14.7 million warrants were exercised with the remaining 2.2 million expiring unexercised.

(iii) June 2012 broker warrants were exercisable into common shares of Lorus at a price per share of $0.32 per unit. Each unit was comprised of 1 common share of Lorus and 1 common share purchase warrant exercisable at a price per share of $0.45 and expire on June 8, 2014. In May 2014 the broker warrants were exercised and an additional 1.238 million common share purchase warrants were issued.

(iv) June 2013 private placement warrants are exercisable into common shares of Lorus at a price per share of $0.25 and expiring in June 2015.

(v) December 2013 broker warrants are exercisable into common shares of Lorus at a price per share of $0.55 and expiring in December 2015.

PROMISSORY NOTES AND WARRANTS

In June 2013, we completed a private placement of units at a price of $1 thousand per unit, for aggregate gross proceeds of $918 thousand.

Each unit consisted of (i) a $1 thousand principal amount of unsecured promissory note and (ii) 1,000 common share purchase warrants. The promissory notes bore interest at a rate of 10% per annum, payable monthly and were due June 19, 2014. Each warrant entitled the holder to purchase 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. 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 Mr. Abramson, a former director of Lorus acquired $250 thousand of the promissory notes and Mr. Inwentash acquired $100 thousand of the promissory notes.

The units contained 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 Lorus for similar promissory notes with no warrants. The residual value was allocated to the warrants. The Company incurred costs associated with the financing of $23 thousand. These costs were amortized using the effective interest rate method over the 12 month life of the notes.

The notes and interest accrued thereon were repaid in full in April 2014.

CONVERTIBLE PROMISSORY NOTES

In September 2013, we 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 financial 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 Lorus for similar promissory notes with no conversion. The residual value of $88 thousand was allocated to the conversion feature. Subsequent to initial recognition, the notes are being accounted for at amortized cost using the effective interest rate method.

Lorus incurred costs associated with the financing of $17 thousand. These costs along with the adjustment for the conversion feature are being accreted using the effective interest rate method over the 24 month life of the notes.

	May 31, 2014	May 31, 2013
Promissory Notes	$ **600**	$ —
Less: Equity component of notes	**(88)**	—
Less: Issue costs	**(17)**	—
	495	—
Accretion in carrying value of notes	**33**	—
Balance, end of period	$ **528**	$ —

LOANS PAYABLE
In September 2013 we entered into loan agreements for proceeds of $150 thousand. The loans were unsecured, bore interest at a rate of 10% per annum payable quarterly and were due September 30, 2015. We repaid the loans and all accrued and unpaid interest thereon on April 25, 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 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 was exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45.

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 was exercisable into units consisting of 1,237,500 common shares and 1,237,500 warrants.

AUGUST 2011 UNIT OFFERING
On August 15, 2011 the Company closed an offering of units consisting of 1 common share and 1 common share purchase warrant (exercisable for five years at a price of $0.45) at a price per unit of $0.40 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.

In connection with the offering, Mr. Abramson, a former 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. 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. The broker warrants expired unexercised in August 2013. The Company 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.

WARRANT EXPIRY AND REPRICING
In the year ended May 31, 2014, broker warrants with a carrying amount of $25 thousand expired unexercised. The impact of the expiry was a reclassification of the amount from Warrants to Contributed Surplus.

The warrants issued in November 2010 and for which the price was amended in November 2011 (repricing described below), 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Lorus 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 currently do not earn any 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.

CASH POSITION

At May 31, 2014, we had cash and cash equivalents and short term investments of $30.4 million compared to $653 thousand at May 31, 2013. We generally invest our cash in excess of current operations requirements in highly rated and liquid instruments. Investment decisions are made in accordance with an established investment policy administered by senior management and overseen by the Board. As at May 31, 2014 our cash was invested in cash of $2.3 million (May 31, 2013 - $144 thousand) and funds deposited into High Interest Savings Accounts totaling $17.1 million (May 31, 2013 –$509 thousand). Working capital (representing primarily cash, cash equivalents and short term investments other current assets less current liabilities) at May 31, 2014 was $28.9 million (May 31, 2013 – negative $798 thousand).

We do not expect to generate positive cash flow from operations for the foreseeable future 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. It is expected that negative cash flow will continue until such time, if ever, that we receive regulatory approval to commercialize any of our products under development and/or royalty or milestone revenue from any such products exceeds expenses.

RESULTS OF OPERATIONS

Our net loss and comprehensive loss for the year ended May 31, 2014 increased to $10.6 million ($0.17 per share) compared to $5.6 million ($0.13 per share) for the year ended May 31, 2013. The increase in net loss and comprehensive loss for the year ended May 31, 2014 compared with the prior year is due to increased general and administrative costs of $5.1 million associated with the hiring of three new executives, increased stock based compensation expense, severance costs of $1.1 million paid to the former President and COO as well as increased legal, patent, travel, Board and consulting costs associated with a significant increase in corporate activity.

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 $8.5 million in our operating activities in the year ended May 31, 2014 compared with $5.1 million in the prior year. The increase in the current year is the result of higher due to an increased net loss associated with adding new members of management, severance payments to the former President and COO and generally increased levels of corporate activity.

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 fiscal 2013 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, 2014, we had cash and cash equivalents and short term investments of $30.4 million compared to $653 thousand at May 31, 2013.

SELECTED ANNUAL FINANCIAL DATA

The following selected consolidated financial data have been derived from, and should be read in conjunction with, the accompanying audited consolidated financial statements for the year ended May 31, 2014 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)	**2014**	2013	2012
REVENUE	**$ —**	$ —	$ —
EXPENSES			
Research and development	**3,015**	3,317	2,170
General and administrative	**7,355**	2,272	2,430
Operating expenses	**10,370**	5,589	4,600
Finance expense	**259**	6	20
Finance income	**(76)**	(30)	(6)
Net finance expense (income)	**183**	(24)	14
Net loss and total comprehensive loss for the year	**10,553**	5,565	4,614
Basic and diluted loss per common share	**$ 0.17**	$ 0.13	$ 0.23
Weighted average number of common shares outstanding used in the calculation of:			
Basic and diluted loss per share	**62,592**	42,251	20,260
Total Assets	**$ 30,899**	$ 1,035	$ 668
Total Long-term liabilities	**$ 528**	$ —	$ —

Research and Development

Research and development expenses totaled $3.0 million in the year ended May 31, 2014 compared to $3.3 million during the year ended May 31, 2013 and $2.2 million during the year ended May 31, 2012. Research and development expenses consist of the following:

	2014	2013	2012
Program costs (see below)	**$ 2,287**	$ 3,126	$ 1,900
Severance cost for former President and COO	**326**	-	-
Deferred share unit costs	**90**	(40)	91
Stock-based compensation	**296**	198	146
Depreciation of equipment	**16**	33	33
	$ 3,015	$ 3,317	$ 2,170

Program costs by program:

	2014	2013	2012
Small molecule program	**$ 2,199**	$ 2,701	$ 1,900
Immunotherapy	**88**	425	-
	$ 2,287	$ 3,126	$ 1,900

Research and development expenditures have decreased by $302 thousand in the year ended May 31, 2014 to $3.0 million compared with $3.3 million in the year ended May 31, 2013. The reduced spending is primarily the result of lower program costs.

Spending on the LOR-253 program was reduced in the current year as a Phase I trial in patients with advanced solid tumors has been completed and further clinical development and expenditures were paused while the appropriate strategic and clinical direction for the drug candidate was determined and additional financing was secured. In addition, further spending on the IL-17E program was also paused during that period. We expect a significant increase in spending on the LOR-253 program in fiscal 2015 as we anticipate commencing clinical trials.

The severance cost for our former President and COO was paid in full in April 2014. The total severance amount of $1.1 million was allocated between general and administrative ($762 thousand) and research and development ($326 thousand). There are no ongoing obligations related to the severance payment. The allocation was based upon the time spent by the former President and COO on research and development vs. general and administrative activities.

Deferred share unit costs increased in the year ended May 31, 2014 due to an increase in the share price of Lorus and the associated fair value of the units. A recovery of deferred share unit costs was recorded in the year ended May 31, 2013, which resulted from a reduction in our share price during the year. In April 2014, 780,000 common shares of Lorus were issued in payment of the outstanding DSU liability with a fair value of $445 thousand. There were no outstanding DSU's as of May 31, 2014.

Stock based compensation costs were higher in the year ended May 31, 2014 compared with the prior year due to grants issued to new consultants and Scientific Advisory Board members.

Research and development expenditures increased by $1.1 million in the year ended May 31, 2013 compared with the year ended May 31, 2012 primarily due to increased program costs of $1.2 million. The increase in program costs was slightly offset by a recovery in deferred share unit expense compared with an expense in the year ended May 31, 2012. The deferred share unit liability is marked to market each quarter and due to a reduction in our share price during the year ended May 31, 2013 this has resulted in a recovery rather than an expense.

Program costs have increased in the year ended May 31, 2013 compared with the year ended May 31, 2012 due to the following factors:

- Increased spending on our IL-17E program for which we initiated work in the year ended May 31, 2013. During the year ended May 31, 2013 we completed some pre-clinical testing in house and developed an expression system in order to prepare for GMP manufacturing which has subsequently been placed on hold.
- Increased spending on our LOR-253 program in order to manufacture additional quantities of LOR-253 needed to complete the Phase 1 solid tumour clinical work as well as increased clinical trial costs as the trial had a greater number of patients under enrollment in the year ended May 31, 2013.
- 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 year ended May 31, 2013 compared with the year ended May 31, 2012 due to options issued to a greater number of employees.

General and Administrative

General and administrative expenses totaled $7.4 million for the year ended May 31, 2014 compared to $2.3 million in the year ended May 31, 2013 and $2.4 million in the year ended May 31, 2012. General and administrative expenses consisted of the following:

	2014	2013	2012
General and administrative excluding salaries	**$ 2,658**	$ 1,368	$ 1,240
Salaries	**2,217**	675	605
Severance cost of former President and COO	**762**	-	-
Deferred share unit costs	**183**	(92)	213
Stock-based compensation	**1,530**	316	361
Depreciation of equipment	**5**	5	11
	$ 7,355	$ 2,272	$ 2,430

General and administrative expenses excluding salaries increased in the year ended May 31, 2014 compared with the year ended May 31, 2013 due to increased travel, consulting and corporate legal costs associated with the change in strategic direction, additional members of management and generally increased corporate and financing activities. In addition there were increased costs for both director fees primarily due to the strategic review and patent costs due to new patents filed and a review of our existing patent portfolio.

Salary charges in the year ended May 31, 2014 increased over the prior year period due to costs associated with the appointment of additional members of management and bonuses granted on the date of employment as well as upon the closing of the December 2013 and April 2014 equity offerings as described above.

The severance cost for our former President and COO was paid in full in April 2014 and the details are described under 'Research and Development' above.

Deferred share unit costs increased as described under 'Research and Development' above.

Stock based compensation expense was significantly higher in the year ended May 31, 2014 compared with the year ended May 31, 2013 due to option grants to new members of management, some of which vested immediately resulting in the entire fair value of the options being recognized in the current year compared with fewer option grants in the prior year periods which vested over a longer period of time. In addition stock options were granted in April 2014 to directors, officers and employees following the close of the equity financing described above.

General and administrative expenses excluding salaries increased in the year ended May 31, 2013 compared with the year ended May 31, 2012 due to higher corporate legal costs associated with licensing activities and higher investor relations costs as investor relations efforts were increased. These increases were offset by lower patent costs primarily due to timing.

Salary costs increased in the year ended May 31, 2013 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 year ended May 31, 2013.

The recovery of deferred share unit costs in the year ended May 31, 2013 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 ended May 31, 2013 this has resulted in a recovery rather than an expense.

Stock based compensation costs have decreased slightly in the year ended May 31, 2013 compared with the year ended May 31, 2012 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 former President and COO was issued deferred share units rather than stock options in the year. In the year ended May 31, 2013 the former President and COO 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 $259 thousand for the year ended May 31, 2014 compared with $6 thousand in the year ended May 31, 2013 and $20 thousand in the year ended May 31, 2012. Finance expense incurred in the year ended May 31, 2014 relates to the 10% promissory notes issued in June 2013 described above and repaid in April 2014 as well as the 10% convertible promissory notes and non-convertible promissory notes issued in September 2013 described above. The non-convertible promissory notes were repaid in April 2014. Finance expense incurred in the years ended May 31, 2013 and 2012 relates to interest accrued at a rate of 10% on the related party promissory notes repaid in June 2012. There were no interest-bearing liabilities outstanding at May 31, 2013.

Finance Income

Finance income totaled $76 thousand in the year ended May 31, 2014, compared to $30 thousand in the year ended May 31, 2013 and $6 thousand in the year ended May 31, 2012. Finance income represents interest earned on our cash and cash equivalent and short term investment balances and the increase in finance income during the year ended May 31, 2014 compared with the prior two years is the result of a higher average cash and cash equivalents balance throughout the year ended May 31, 2014 compared with the prior years.

Net loss and total comprehensive loss for the year

Our net loss and total comprehensive loss for the year ended May 31, 2014 was $10.6 million ($0.17 per share) compared to $5.6 million ($0.13 per share) in the year ended May 31, 2013. The increase in net loss and total comprehensive loss of $5.0 million in the year ended May 31, 2014 compared with the prior year is due primarily to an increase in general and administrative expenses of $5.1 million in the current year offset by lower research and development expenses of $302 thousand.

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.

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 2014 quarters are lower compared with the same quarters in the prior year due to reduced activity on the LOR-253 clinical program as it was completed in early 2014 and we focused on the strategic review and securing additional cash resources. In the fourth quarter of 2014 expenditures increased due to the allocation of severance costs related to the former President and COO to research and development of $326 thousand. It is expected that research and development costs will increase in fiscal 2015.

The increased general and administrative costs in the quarter ended November 30, 2013 is due to stock option grants during the quarter which vested immediately and resulted in higher than normal stock based compensation expense. In addition costs associated with hiring three new executives during the quarter increased salary related costs. In the three months ended February 28, 2014 general and administrative expenses were higher due to additional members of management, bonuses and increased travel, consulting and legal costs. General and administrative expenses were lower in the quarters of August 31, 2013, May 31, 2013 and February 28, 2013 due to the reduction of previously recorded Deferred Share Unit ("DSU") expense. The DSU was 'marked to market' and as our share price declined during the last three quarters so did the associated liability resulting in a reduction of expense.

The increase in general and administrative expense in the three months ended May 31, 2014 is due to severance costs associated with the former President and COO ($762 thousand), bonus costs, and increased Board, consulting and legal fees associated with activities during the quarter.

Cash used in operating activities fluctuates significantly due primarily to losses and the timing of payments and increases and decreases in the accounts payables and accrued liabilities balances. Cash used in operating activities in the quarters ended May 31, 2013 and August 31, 2013 were lower as we delayed making payments to suppliers in order to conserve cash resources.

(Amounts in 000's except for per common share data)	Q4 May 31, 2014	Q3 Feb 28, 2014	Q2 Nov 30, 2013	Q1 Aug 31, 2013	Q4 May 31, 2013	Q3 Feb 28, 2013	Q2 Nov 30, 2012	Q1 Aug 31, 2012
(unaudited)								
Revenue	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Research and development expense	1,012	597	791	615	860	889	910	658
General and administrative expense	3,195	1,771	1,938	451	462	491	714	605
Net loss	(4,221)	(2,433)	(2,798)	(1,101)	(1,318)	(1,371)	(1,613)	(1,263)
Basic and diluted net loss per share	$ (0.04)	$ (0.04)	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.03)
Cash (used in) operating activities	$ (3,928)	$ (2,191)	$ (1,484)	$ (933)	$ (904)	$ (1,273)	$ (1,336)	$ (1,576)

FOURTH QUARTER 2014 AND 2013 (UNAUDITED)

Our net loss and comprehensive loss for the three months ended May 31, 2014 increased to $4.2 million compared with $1.3 million in the three months ended May 31, 2013. The increase in net loss is primarily attributable to increased general and administrative costs of $2.7 million in the three months ended May 31, 2014 compared with the prior year.

General and administrative expenses increased to $3.2 million in the three months ended May 31, 2014 compared with $462 thousand in the three months ended May 31, 2013. The increase is due to:

- Severance payments to the former President and CEO of $1.1 million of which $762 thousand were allocated to general and administrative expenses;
- Increased stock based compensation expense of $323 thousand related to stock options granted in the fourth quarter;
- Increased salary, benefit and travel costs associated with three new members of management; and
- Increased legal, patent, Board and consulting costs associated with increased levels of corporate activity.

Cash used in operating activities in the three months ended May 31, 2014 increased to $3.9 million compared with $904 thousand in the three months ended May 31, 2013 which is primarily due to the increased loss in the current three month period.

SUBSEQUENT EVENTS

In June 2014, 14,667,124 warrants related to the June 2012 private placement at a price of $0.45 were exercised for proceeds of $6.6 million. The remaining 2.2 million warrants expired unexercised.

On June 16, 2014, 5,283,550 stock options were granted to officers of the Company at an exercise price of $0.475. The options vest over a three year term and have a contractual life of ten years.

On July 18, 2014, 1,690,000 stock options were granted to officers and employees of the Company at an exercise price of $0.435. The options vest over a three year term and have a contractual life of ten years.

These transactions will be accounted for in the first quarter of fiscal 2015.

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 policies are described in note 3 of the Financial Statements.

(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 has deductible temporary differences which would create a deferred tax asset. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences 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 and prior year research and development expenses. 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
IFRS 9, Financial Instruments ("IFRS 9"):
IFRS 9, Financial Instruments, was issued in November 2009. It addresses classification and measurement of financial assets and financial liabilities. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). In February 2014, a tentative decision established the mandatory effective application of IFRS 9 for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 9 and does not intend to early adopt IFRS 9 in its financial statements.

RELATED PARTY TRANSACTIONS

See 'Financing Activities' 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, 2014, 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	149	5	nil	154

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 years ended May 31, 2014 or 2015, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

As at May 31, 2014, 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 $50 thousand, which we believe to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2014. 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, 2014	As at May 31, 2013
Financial assets		
Cash and cash equivalents, consisting of high interest savings accounts, measured at amortized cost	**$ 19,367**	$ 653
Short term investments, consisting of guaranteed investment certificates, measured at amortized cost	**11,019**	-
Financial liabilities		
Accounts payable, measured at amortized cost	**649**	713
Accrued liabilities, measured at amortized cost	**1,283**	1,103
Convertible promissory note, measured at amortized cost	**528**	-

At May 31, 2014, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature, with the exception of the convertible promissory notes. The fair value of the convertible promissory notes has been determined to be substantially the same as the carrying amount based on management's assessment of market conditions which have not changed substantially since the issuance of the notes.

(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 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 our 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 with the exception of the convertible promissory notes which are due in September 2015.

(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, 2014, U.S. dollar denominated accounts payable and accrued liabilities amounted to $769 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 $77 thousand (May 31, 2013 - $45 thousand). We do not have any forward exchange contracts to hedge this risk.

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, 2014.

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.

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 the most recently filed 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. In the past five years, none of our potential products has obtained regulatory approval for commercial use and sale in any country and 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 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 $10.6 million and $5.6 million for the fiscal years ended May 31, 2014 and 2013, respectively, and as of May 31, 2014, we had an accumulated deficit of $211 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, license 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.

In the past five years 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 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 biotechnical and pharmaceutical industries, 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 the biotechnical and pharmaceutical fields;

- substantially greater financial, technical 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 products 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.

In addition, U.S. patent laws may change which could prevent or limit us from filing patent applications or patent claims in the United States to protect our products and/or technologies or limit the exclusivity periods that are available to patent holders for U.S. patents. For example, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law in 2011 and includes a number of significant changes to U.S. patent law. These include changes to transition from a “first-to-invent” system to a “first-to-file” system and to the way issued patents are challenged. These changes may favor larger and more established companies that have more resources to devote to patent application filing and prosecution. It is not clear what, if any, impact the Leahy-Smith Act will ultimately have on the cost of prosecuting our patent applications in the United States, our ability to obtain patents in the United States based on our discoveries and our ability to enforce or defend our U.S. issued patents.

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 Company'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 Company's development activities progress towards the commercialization of product candidates, our liability coverage may not be adequate, and the Company may not be able to obtain adequate product liability insurance coverage at a reasonable cost, if at all. Even if the Company 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 Company'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 Company. 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 Company's commercial success depends, in part, on maintaining and defending patent rights related to products that the Company may market in the future. Since the Company 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 Company 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 Company would. Consequently, the resulting patent protection, if any, may not be as strong or comprehensive, which could have a material adverse effect on the Company.

Extensive Government Regulation

Government regulation is a significant factor in the development, production and marketing of the Company'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 Company'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 Company'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 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 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 by 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 ("TSX"). However, there can be no assurance that an active trading market in our common shares on the TSX 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. 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. 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 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.

During the year ended May 31, 2014 the Company hired a Chief Financial Officer. The former acting Chief Financial Officer is continuing with the responsibilities as Director of Finance and the Chief Financial Officer provides an additional level of review over financial documents. Management believes that the addition of the Chief Financial Officer will strengthen the Company's internal controls over financial reporting on an ongoing basis.

As at May 31, 2014, the Company's management has assessed the effectiveness of our internal control over financial reporting and disclosure controls and procedures using the Committee of Sponsoring Organizations of the Treadway Commission's 1992 framework. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these controls and procedures are effective.

UPDATED SHARE INFORMATION

As at July 29, 2014, the Company had 139,324,451 common shares issued and outstanding. In addition, as of July 29, 2014 there were 16,857,496 common shares issuable upon the exercise of outstanding stock options, 2,000,000 shares issuable upon the conversion of outstanding promissory notes and 2,612,620 common shares issuable upon the exercise of common share purchase warrants. Of these warrants 1,166,250 are priced at $0.45 and expire in August 2016, 568,000 are priced at $0.25 and expire in June 2015 and 878,370 are priced at $0.55 and expire in December 2015.