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

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
FOR THE FISCAL YEAR ENDED MAY 31, 2006.

Or

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

Commission file number 001-32000

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 _____.

LORUS THERAPEUTICS INC.

(Exact Name of Registrant as Specified in Its Charter)

Canada
(Jurisdiction of Incorporation or Organization)

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

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

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

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

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

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

Common Shares, without par value at May 31, 2006: 174,693,797

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

Yes [ ] No [X]

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 [X]

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 [X] 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 [X] Non-accelerated filer [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [X] 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 [X]

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General

In this Annual Report on Form 20-F, all references to “Lorus”, the “Company”, “we”, “us” and “our” each refers to Lorus Therapeutics Inc. and its subsidiaries. References to this “Form 20-F” and this “Annual Report” mean references to this Annual Report on Form 20-F for the year ended May 31, 2006.

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

Special note regarding forward-looking statements

This annual report on Form 20-F may contain forward-looking statements within the meaning of Canadian and U.S. securities laws. Such statements include, but are not limited to, statements relating to:

- *our expectations regarding future financings;*
- *our plans to conduct clinical trials;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, preclinical and clinical studies and the regulatory approval process;*
- *our plans to obtain partners to assist in the further development of our product candidates; and*

- *our expectations with respect to existing and future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us or to us in respect of such arrangements, and*

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

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

- *our ability to obtain the substantial capital required to fund research and operations;*
- *our lack of product revenues and history of operating losses;*
- *our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;*
- *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;*
- *the progress of our clinical trials;*
- *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 and protect our intellectual property rights;*

- *our ability to protect our intellectual property rights and to not infringe on the intellectual property rights of others;*
- *our ability to comply with applicable governmental regulations and standards;*
- *development or commercialization of similar products by our competitors, many of which are more established and have greater financial resources than we do;*
- *commercialization limitations imposed by intellectual property rights owned or controlled by third parties;*
- *our business is subject to potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing may substantially dilute the interests of our shareholders;*
- *changing market conditions; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the United States Securities and Exchange Commission, and those which are discussed under Item 3.D. "Risk Factors".*

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this annual report on Form 20-F or, in the case of documents incorporated by reference herein, as of the date of such documents, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law. We cannot assure you that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables present our selected consolidated financial data. You should read these tables in conjunction with our audited consolidated financial statements and accompanying notes included in Item 17 of this annual report on Form 20-F and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 5 of this annual report on Form 20-F.

The financial data as at May 31, 2006, 2005, 2004, 2003 and 2002 and for the years ended May 31, 2006, 2005, 2004, 2003 and 2002 have been derived from, and are qualified in their entirety by reference to, our audited consolidated financial statements, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) and reconciled to United States Generally Accepted Accounting Principles (US GAAP) in note 17 to the consolidated financial statements.

The following table presents a summary of our consolidated statement of operations derived from our audited financial statements for the years ended May 31, 2006, 2005, 2004, 2003 and 2002.

Consolidated statements of operations data:
(In thousands, except per share data)

	Years Ended May 31,					
	20061	20051	20041	20031	20021	Period From Inception2
In accordance with Canadian GAAP						
Revenue	$ 26	$ 6	$ 608	$ 66	$ —	$ 706
Research and development	$10,237	$14,394	$26,785	$12,550	$ 8,659	$110,475
General and administrative	$ 4,334	$ 5,348	$ 4,915	$ 4,290	$ 4,867	$ 47,475
Operating expenses	$16,550	$21,782	$32,148	$17,855	$15,482	$173,610
Net loss	$17,909	$22,062	$30,301	$16,634	$13,487	$164,552
Basic and diluted loss per share	$ 0.10	$ 0.13	$ 0.18	$ 0.12	$ 0.09	
In accordance with US GAAP						
Net loss3	$16,388	$20,298	$30,301	$16,634	$13,487	
Basic and diluted loss per share	$ 0.09	$ 0.12	$ 0.18	$ 0.12	$ 0.09	

The following table presents a summary of our consolidated balance sheet as at May 31, 2006, 2005, 2004, 2003 and 2002.

Consolidated balance sheet data:

(In Thousands)	As at May 31,				
	20061	20051	20041	20031	20021
In accordance with Canadian GAAP					
Cash and cash equivalents	$ 2,692	$ 2,776	$ 1,071	$ 905	$ 1,165
Short-term investments	$ 5,627	$ 18,683	$ 25,657	$ 24,219	$ 36,657
Prepaid expenses and other assets	$ 515	$ 1,126	$ 1,697	$ 1,104	$ 1,195
Total assets	$ 11,461	$ 27,566	$ 34,424	$ 34,255	$ 47,572
Total debt	$ 14,017	$ 14,300	$ 5,825	$ 5,360	$ 3,432
Total shareholders' equity	$ (2,556)	$ 13,266	$ 28,599	$ 28,895	$ 44,140
Weighted average number of common shares outstanding	173,523	172,112	171,628	144,590	143,480
Dividends paid on common shares	—	—	—	—	—
In accordance with US GAAP3					
Total assets	$ 11,625	$ 27,838	$ 34,424	$ 34,255	$ 47,572
Total debt	$ 17,277	$ 18,040	$ 5,825	$ 5,360	$ 3,432
Total shareholders' equity	$ (5,652)	$ 9,798	$ 28,599	$ 28,895	$ 44,140

1 Changes in accounting polices:

(a) **Stock based compensation:** Effective June 1, 2004, the Company adopted the fair value method of accounting for stock options granted to employees on or after June 1, 2002 as required by the amended CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The change was adopted retroactively without restatement as permitted under the revised section.

Under the fair value method, the estimated fair value of stock options granted is recognized over the service period, that is the applicable vesting period, as stock compensation expense and a credit to stock options. When options granted on or after June 1, 2002 are exercised, the proceeds received and the related amounts in stock options are credited to share capital. When options granted prior to June 1, 2002 are exercised, the proceeds are credited to share capital. The impact to the financial statements arising from adoption of the fair value method was an increase to the deficit and stock option balances presented in shareholders equity of $2.8 million at June 1, 2004. We recorded stock based compensation expense under Canadian GAAP of $1.2 million for the year ended May 31, 2006 (2005 – $1.5 million, 2004 – nil).

(b) **Business combinations, goodwill and other intangibles:** Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in the GeneSense business combination, and until June 1, 2002, was amortized on a straight-line basis over three years. In August 2001, the CICA issued Handbook Sections 1581, "Business Combinations", and 3062, "Goodwill and Other Intangible Assets". The new standards required that the purchase method of accounting must be used for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. The new standards were substantially consistent with U.S. GAAP.

The Company adopted these new standards as of June 1, 2002 and the Company discontinued amortization of all existing goodwill. The Company also evaluated existing intangible assets, including estimates of remaining useful lives in accordance with the provisions of the standard.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company assessed whether goodwill was impaired as of June 1, 2002. The Company completed the transitional goodwill impairment assessment during the first quarter of 2003 and determined that no impairment existed at the date of adoption.

The Company recorded amortization of goodwill in the amount of $1.5 million for the year ended May 31, 2002.

2 Period from inception September 5, 1986 to May 31, 2006

3 The significant differences between the line items under Canadian GAAP and those as determined under U.S. GAAP arise primarily from:
There were no significant differences between Canadian and US GAAP during the years ended May 2002, 2003 and 2004.

2005:
Convertible debentures

Under Canadian GAAP, the conversion option embedded in the convertible debentures is presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option is not subject to bifurcation and is thus presented as a liability along with the balance of the convertible debentures. Under U.S. GAAP, Emerging Issues Task Force No.00-19 and APB Opinion No. 14, the fair value of warrants issued in connection with the convertible debentures financing would be recorded as a reduction to the proceeds from the issuance of convertible debentures, with the offset to additional paid-in capital. The warrants have been presented as a separate component of shareholders' equity for Canadian GAAP purposes. Under U.S. GAAP the Company has allocated the total proceeds received from the issuance of the convertible debentures to the debt and warrant portions based on their relative fair values. The fair value of the purchase warrants has been determined based on an option-pricing model. The resulting allocation based on relative fair values resulted in the allocation of $13.9 million to the debt instrument and $1.1 million to the purchase warrants. The financing fees totaling $1.1 million related to the issuance of the convertible debentures have been allocated pro rata between deferred financing charges of $964 thousand and against the purchase warrants of $97 thousand. This allocation resulted in the net amount allocated to the warrants of $1.0 million. The financing charges are being amortized over the five-year life of the convertible debentures agreement.

Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be their face value of $15.0 million.

To date, the Company has recognized $97,000 in accretion expense. This accretion expense has increased the value of the convertible debenture from $13.9 million to $14.0 million at May 31, 2005.

Stock options

Effective June 1, 2004, the Company adopted the fair value based method of accounting for employee stock options granted on or after June 1, 2002, retroactively without restatement as allowed under the transitional provisions of CICA Handbook Section 3870. As a result, the opening balances of deficit and stock options were increased by $2.8 million at June 1, 2004. During 2005, the Company recorded stock compensation expense of $1.5 million in the consolidated statement of operations, representing the amortization applicable to the current year at the estimated fair value of options granted since June 1, 2002; and an offsetting adjustment to stock options of $1.5 million in the consolidated balance sheets. No similar adjustments are required under U.S. GAAP as the Company has elected to continue measuring compensation expense, as permitted under SFAS No. 123, using the intrinsic value based method of accounting for stock options. Under this method, compensation is the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an employee must pay to acquire the stock. Election of this method requires pro-forma disclosure of compensation expense as if the fair value method has been applied for awards granted in fiscal periods after December 15, 1994.

The company grants Performance Based Stock Options as a compensation tool. Under Canadian GAAP, the fair value treatment of these options is consistent with all other employee stock options. Under US GAAP, the option is treated as a variable award and is revalued, using the intrinsic value method of accounting, at the end of each reporting period until the final measurement date. Due to the decline in our share price during the year, there was no expense recorded for US GAAP purposes.

2006:
Convertible debentures

Disclosure is consistent with 2005.

To date, the Company has recognized $407 thousand in accretion expense. This accretion expense has increased the value of the convertible debentures from $13.9 million to $14.3 million at May 31, 2006.

Stock options

Effective June 1, 2004, the Company adopted the fair value based method of accounting for employee stock options granted on or after June 1, 2002, retroactively without restatement as allowed under the transitional provisions of CICA Handbook Section 3870. As a result, the opening balances of deficit and stock options were increased by $2.8 million at June 1, 2004. During 2006, the Company recorded stock compensation expense in the consolidated financial statements, representing the amortization applicable to the current year at the estimated fair value of stock options granted since June 1, 2002.

During 2006, the Company recorded stock compensation expense of $1.2 million (2005 – $1.5 million) in the consolidated statement of operations, representing the amortization applicable to the current year at the estimated fair value of options granted since June 1, 2002; and an offsetting adjustment to stock options of $1.2 million in the consolidated balance sheets. No similar adjustments are required under U.S. GAAP as the Company has elected to continue measuring compensation expense, as permitted under SFAS No. 123, using the intrinsic value based method of accounting for stock options. Under this method, compensation is the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an employee must pay to acquire the stock. Election of this method requires pro-forma disclosure of compensation expense as if the fair value method has been applied for awards granted in fiscal periods after December 15, 1994.

The Company grants performance based stock options as a compensation tool. Under Canadian GAAP, the accounting treatment of these options is consistent with all other employee stock options. Under US GAAP, the option is treated as a variable award and is revalued, using the intrinsic value method of accounting, at the end of each reporting period until the final measurement date. At each reporting date, compensation cost is measured based on an estimate of the number of options that will vest considering the performance criteria and the difference between the market price of the underlying stock and the exercise price at such dates. The compensation cost is being recognized over the estimated performance period. For the year ended May 31, 2006 the Company recorded stock based compensation expense of $20 thousand under U.S. GAAP for performance based options.

During 2006, employees of the Company (excluding directors and officers) were given the opportunity to choose between keeping 100% of their existing options at the existing exercise price and forfeiting 50% of the options held in exchange for having the remaining 50% of the exercise price of the options re-priced to $0.30 per share. Employees holding 2,290,000 stock options opted for re-pricing their options, resulting in the amendment of the exercise price of 1,145,000 stock options and the forfeiture of 1,145,000 stock options. Under Canadian GAAP the accounting treatment of these options requires that any incremental value resulting from the amendment be determined and recognized over the remaining vesting period. Under US GAAP, the amended options are treated as a variable award and are revalued, using the intrinsic value method of accounting at the end of each reporting period until the date the options are exercised, forfeited or expired unexercised. The Company recorded stock-based compensation of $36 thousand under US GAAP related to these amended stock options.

Refer to note 17 of the consolidated financial statements in Item 17 for further details.

Exchange Rate Information

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

The following table sets out the exchange rates of CDN$ for 1 US$ for the following periods:

Period	Average Close	High	Low
October, 2006	1.1283	1.1415	1.1146
September, 2006	1.1165	1.1289	1.1035
August, 2006	1.1189	1.1373	1.104
July, 2006	1.1296	1.145	1.105
June, 2006	1.1139	1.129	1.0963
May, 2006	1.1093	1.1132	1.1055
Fiscal Year Ended May 31, 2006	1.1701	1.246	1.0948
Fiscal Year Ended May 31, 2005	1.2551	1.378	1.1746
Fiscal Year Ended May 31, 2004	1.3423	1.418	1.2683
Fiscal Year Ended May 31, 2003	1.5245	1.601	1.3438
Fiscal Year Ended May 31, 2002	1.5697	1.618	1.5069

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Before making an investment decision with respect to our common shares, you should carefully consider the following risk factors, in addition to the other information included or incorporated by reference in this annual report on Form 20-F. Additional risks not currently known by us or that we consider immaterial at the present time may also impair our business, financial condition, prospects or results of operations. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely be affected. In that case, the trading price of our common shares could decline and you may lose all or part of the money you paid to buy our common shares. The risks set out below are not the only we currently face; other risks may arise in the future.

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

We have not been profitable since our inception in 1986. We reported net losses of $17.9 million; $22.1 million and $30.3 million for the years ended May 31, 2006, 2005 and 2004, respectively. As of May 31, 2006, we had an accumulated deficit of $164.5 million.

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

Our current and anticipated operations, particularly our product development, requires substantial capital. We expect that our existing cash and cash equivalents, along with the funds available to us through the subscription agreements with High Tech and Technifund described elsewhere in this Annual Report, will sufficiently fund our current and planned operations through at least the next twelve months. However, our future capital needs will depend on many factors, including the extent to which we enter into collaboration agreements with respect to any of our proprietary product candidates, receive royalty and milestone payments from our possible collaborators and make progress in our internally funded research and development activities.

Our capital requirements will also depend on the magnitude and scope of these activities, our ability to maintain existing and establish new collaborations, the terms of those collaborations, the success of our collaborators in developing and marketing products under their respective collaborations with us, the success of our contract manufacturers in producing clinical and commercial supplies of our product candidates on a timely basis and in sufficient quantities to meet our requirements, competing technological and market developments, the time and cost of obtaining regulatory approvals, the extent to which we choose to commercialize our future products through our own sales and marketing capabilities, the cost of preparing, filing, prosecuting, maintaining and enforcing patent and other rights and our success in acquiring and integrating complementary products, technologies or companies. We do not have committed external sources of funding and we cannot assure you that we will be able to obtain additional funds on acceptable terms, if at all. If adequate funds are not available, we may be required to:

- engage in equity financings that would be dilutive to current shareholders;
- delay, 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 favorable to us than might otherwise be available.

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

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

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

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

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

None of our products has received regulatory approval for commercial use and sale in North America. We cannot market a pharmaceutical product in any jurisdiction until it has completed thorough preclinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of our products 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 ("HC") or the FDA may not ultimately approve our product candidates for commercial sale. Further, 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. Drugs in late stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. For example, positive results in early Phase I or Phase II clinical trials may not be repeated in larger Phase II or Phase III clinical trials. A number of companies in the pharmaceutical industry, including us, have suffered setbacks in advanced clinical trials, even after promising results in earlier clinical trials. The results of our Phase III clinical trial of Virulizin® did not meet the primary endpoint of the study despite promising preclinical and early stage clinical data. All of our potential drug candidates are prone to the risks of failure inherent in drug development.

Preparing, submitting and advancing applications for regulatory approval is complex, expensive and time intensive and entails significant uncertainty. The results of our completed preclinical studies and clinical trials may not be indicative of future clinical trial results. A commitment of substantial resources to conduct time-consuming research, preclinical studies and clinical trials will be required if we are to complete development of our products. Clinical trials of our products require that we identify and enrol a large number of patients with the illness under investigation. We may not be able to enrol a sufficient number of appropriate patients to complete our clinical trials in a timely manner particularly in smaller indications such as acute myeloid leukemia. If we experience difficulty in enrolling a sufficient number of patients to conduct our clinical trials, we may

need to delay or terminate ongoing clinical trials and will not accomplish objectives material to our success that could affect the price of our common shares. Delays in planned patient enrolment or lower than anticipated event rates in our current clinical trials or future clinical trials may result in increased costs, program delays, or both.

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

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 we receive approval to market any product from any regulatory authorities on the basis of successful clinical studies of that product, following the market introduction of that product we or others may discover safety and efficacy problems not observed in the clinical studies. In this respect, as a condition to granting approval to market any of our products or at any time after granting such approval, one or more regulatory authorities may require us to conduct further studies (referred to as "Phase IV studies") to determine the safety and efficacy of the product following market introduction. If such problems arise, one or more regulatory authorities may withdraw the approval for that product or we may otherwise voluntarily withdraw the product from the market.

Despite the time and resources expended by us, regulatory approval of drug candidates is never guaranteed. If any of our development programs are not successfully completed in a timely fashion, required regulatory approvals are not obtained in a timely fashion, or products for which approvals are obtained are not commercially successful or are ultimately found to not be safe or effective, our business could be seriously harmed.

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

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

Many of our competitors have drug products that have already been approved or are in development, and operate large, well-funded research and development programs in these fields. Many of our competitors have substantially greater financial and management resources, stronger intellectual property positions and greater manufacturing, marketing and sales capabilities, areas in which we have limited or no experience. In addition, many of our competitors have 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 HC, FDA and other regulatory approvals for product candidates sooner and may be more successful in manufacturing and marketing their products than we or our collaborators are. Existing and future products, therapies and technological approaches will compete directly with the products we seek to develop. Current and prospective competing products may provide greater therapeutic benefits for a specific problem or may offer easier delivery or comparable performance at a lower cost. Any product candidate that we develop and that obtains regulatory approval must then compete for market acceptance and market share. Our product candidates may not gain market acceptance among physicians, patients, healthcare payers and the medical community. Further, any products we develop may become obsolete before we recover any expenses we incurred in connection with the development of these products. As a result, we may never achieve profitability.

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

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

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

Patent protection

The patent positions of pharmaceutical and biotechnology companies are uncertain and involve complex legal and factual questions. The United States (U.S.) Patent and Trademark Office and many other patent offices in the world have not established a consistent policy regarding the breadth of claims that it will allow in biotechnology

patents. Further, allowable patentable subject matter and the scope of patent protection obtainable may differ as between jurisdictions. If a patent office allows broad claims, the number and cost of patent interference proceedings in the U.S. or analogous proceedings in other jurisdictions and the risk of infringement litigation may increase. If a patent office 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. In addition, the scope of the claims in a patent application can be significantly modified during prosecution before the patent is issued. Consequently, we cannot know whether our pending applications will result in the issuance of patents or, if any patents are issued, whether they will provide us with significant proprietary protection or will be circumvented, invalidated or found to be unenforceable. Until recently, patent applications in the U.S. were maintained in secrecy until the patents issued, and publication of discoveries in scientific or patent literature often lags behind actual discoveries. Patent applications filed in the United States after November 2000 generally will be published 18 months after the filing date unless the applicant certifies that the invention will not be the subject of a foreign patent application. In many other jurisdictions, such as Canada, patent applications are published 18 months from the priority date. We cannot assure you that, even if published, we will be aware of all such literature. Accordingly, we cannot be certain that the named inventors of our products and processes were the first to invent that product or process or that we were the first to file or pursue patent coverage for our inventions.

Enforcement of intellectual property rights

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. In addition, we cannot assure you that others will not design around our patented technology. Moreover, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, European opposition proceedings, or other analogous proceedings in other parts of the world to determine priority of invention and the validity of patent rights granted or applied for, which could result in substantial cost and delay, even if the eventual outcome is favorable to us. We cannot assure you that our pending patent

applications, if issued, would be held valid or enforceable. Additionally, many of our foreign patent applications have been published as part of the patent prosecution process in such countries.

Trademark protection

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

Trade secrets

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

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

Our success also depends on avoiding infringement of the proprietary technologies of others. In particular, there may be certain issued patents and patent applications claiming subject matter that we or our collaborators may be required to license in order to research, develop or commercialize at least some of our product candidates, including Virulizin®, GTI-2040, GTI-2501 and small molecules. In addition, third-parties may assert infringement

or other intellectual property claims against us based on our patents or other intellectual property rights. An adverse outcome in these proceedings could subject us to significant liabilities to third-parties, require disputed rights to be licensed from third-parties or require us to cease or modify our use of the technology. If we are required to license such technology, we cannot assure you that a license under such patents and patent applications will be available on acceptable terms or at all. Further, we may incur substantial costs defending ourselves in lawsuits against charges of patent infringement or other unlawful use of another's proprietary technology.

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

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

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

We do not have manufacturing facilities to produce supplies of Virulizin®, GTI-2040, GTI-2501, small molecule or any of our other product candidates to support clinical trials or commercial launch of these products, if they are approved. We are dependent on third parties for manufacturing and storage of our product candidates. If we are unable to contract for a sufficient supply of our product candidates on acceptable terms, or if we encounter delays or difficulties in the manufacturing process or our relationships with our manufacturers, we may not have sufficient product to conduct or complete our clinical trials or support preparations for the commercial launch of our product candidates, if approved.

Dependence on contract manufacturers for commercial production involves a number of risks, many of which are outside our control. These risks include potential delays in transferring technology, and the inability of our contract manufacturer to scale production on a timely basis, to manufacture commercial quantities at reasonable costs, to comply with cGMP and to implement procedures that result in the production of drugs that meet our specifications and regulatory requirements.

Our reliance on contract manufacturers exposes us to additional risks, including:

- there may be delays in scale-up to quantities needed for clinical trials and commercial launch or failure to manufacture such quantities to our specifications, or to deliver such quantities on the dates we require;
- our current and future manufacturers are subject to ongoing, periodic, unannounced inspection by the FDA and corresponding Canadian and international regulatory authorities for compliance with strictly enforced cGMP regulations and similar standards, and we do not have control over our contract manufacturers' compliance with these regulations and standards;
- our current and future manufacturers may not be able to comply with applicable regulatory requirements, which would prohibit them from manufacturing products for us;
- if we need to change to other commercial manufacturing contractors, the FDA and comparable foreign regulators must approve these contractors prior to our use, which would require new testing and compliance inspections, and the new manufacturers would have to be educated in, or themselves develop substantially equivalent processes necessary for the production or our products; and

- our manufacturers might not be able to fulfill our commercial needs, which would require us to seek new manufacturing arrangements and may result in substantial delays in meeting market demand.

Any of these factors could cause us to delay or suspend clinical trials, regulatory submission, required approvals or commercialization of our products under development, entail higher costs and result in our being unable to effectively commercialize our products. We do not currently intend to manufacture any of our product candidates, although we may choose to do so in the future. If we decide to manufacture our products, we would be subject to the regulatory risks and requirements described above. We would also be subject to similar risks regarding delays or difficulties encountered in manufacturing our pharmaceutical products and we would require additional facilities and substantial additional capital. We cannot assure you that we would be able to manufacture any of our products successfully in accordance with regulatory requirements and in a cost effective manner.

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

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

We have limited sales, marketing and distribution experience.

We have very limited experience in the sales, marketing and distribution of pharmaceutical products. There can be no assurance that we will be able to establish sales, marketing, and distribution capabilities or make arrangements with our collaborators, licensees or others to perform such activities or that such efforts will be successful. If we decide to market any of our products directly, we must either acquire or internally develop a marketing and sales force with technical expertise and with supporting distribution capabilities. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of our management and key personnel and have a negative impact on our product development efforts. If we contract with third-parties for the sales and marketing of our products, our revenues will be dependent on the efforts of these third-parties, whose efforts may not be successful. If we fail to establish successful marketing and sales capabilities or to make arrangements with third-parties, our business, financial condition and results of operations will be materially adversely affected.

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

Our investments are held to maturity and have staggered maturities to minimize interest rate risk. There can be no assurance that interest income fluctuations will not have an adverse impact on our financial condition. We maintain all our accounts in Canadian dollars, but a portion of our expenditures are in foreign currencies. We do not currently engage in hedging our foreign currency requirements to reduce exchange rate risk.

Because of the uncertainty of pharmaceutical pricing, reimbursement and healthcare reform measures, if any of our product candidates are approved for sale to the public, we may be unable to sell our products profitably.

The availability of reimbursement by governmental and other third-party payers affects the market for any pharmaceutical product. These third-party payers continually attempt to contain or reduce the costs of healthcare. There have been a number of legislative and regulatory proposals to change the healthcare system and further proposals are likely. Significant uncertainty exists with respect to the reimbursement status of newly approved healthcare products. In addition, third-party payers are increasingly challenging the price and cost effectiveness of medical products and services. We might not be able to sell our products profitably or recoup the value of our investment in product development if reimbursement is unavailable or limited in scope.

Risks Related To Our Common Shares and Convertible Debentures

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

You should consider an investment in our common shares as risky and invest only if you can withstand a significant loss and wide fluctuations in the market value of your investment. We receive only limited attention by securities analysts and frequently experience an imbalance between supply and demand for our common shares. The market price of our common shares has been highly volatile and is likely to continue to be volatile. Factors affecting our common share price include:

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

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

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

Our cash flow may not be sufficient to cover interest payments on our secured convertible debentures or to repay the debentures at maturity.

Our ability to make interest payments, if required to be paid in cash, and to repay at maturity or refinance our prime rate +1% convertible debentures due in 2009 will depend on our ability to generate sufficient cash or refinance them. We have never generated positive annual cash flow from our operating activities, and we may not generate or sustain positive cash flows from operations in the future. Our ability to generate sufficient cash flow will depend on our ability, or the ability of our strategic partners, to successfully develop and obtain regulatory approval for new products and to successfully market these products, as well as the results of our research and development efforts and other factors, including general economic, financial, competitive, legislative and regulatory conditions, many of which are outside of our control.

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

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

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

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

Item 4. Information on the Company

A. History and development of the Company

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

The address of the Company's head and registered office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7. Our corporate website is www.lorusthera.com. The contents of the website are specifically not included in this 20-F by reference.

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

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

We are a life sciences company focused on the research and development of effective anticancer development stage therapies with high safety. We believe that we have established a diverse anticancer product pipeline, with products in various stages of development ranging from pre-clinical compounds to multiple ongoing Phase II clinical trials. A growing intellectual property portfolio supports this product pipeline.

Our commercial success is dependent upon several factors, including establishing the efficacy and safety of our products in clinical trials, obtaining the necessary regulatory approvals to enable us to market any products that may be approved and maintaining sufficient levels of funding through public and/or private financing.

We have product candidates in three classes of anticancer therapies: (i) immunotherapy, based on macrophage-stimulating biological response modifiers; (ii) antisense therapies, based on synthetic segments of DNA designed to bind to the messenger RNA (mRNA) that is responsible for the production of proteins over-expressed in cancer cells; and (iii) small molecule therapies based on anti-angiogenic, anti-proliferative and anti-metastatic agents. In addition, we have a number of anticancer technologies in the research and pre-clinical stages of development, including tumour suppressor gene therapy, siRNA and U-Sense technology.

Over the past three years, we have focused on advancing our product candidates through pre-clinical and clinical testing. You should be aware that it can cost millions of dollars and take many years before a product candidate may be approved for therapeutic use in humans. In addition, a product candidate may not meet the end points of any Phase I, Phase II or Phase III clinical trial. See Item 3.D. "Risk Factors".

Immunotherapy

Lorus' immunotherapy product candidates are Virulizin® and IL-17E.

Virulizin®

In 2002, we initiated a phase III clinical trial of Virulizin® for patients with locally advanced or metastatic pancreatic cancer who had not previously received systemic chemotherapy. In July of 2005, we announced the completion of the study and in October 2005, we announced that the results of the trial indicated that the overall survival rate of patients who were treated with Virulizin® plus gemcitabine (a standard chemotherapy drug) was not statistically significant when compared to those patients in the study who were given gemcitabine plus a placebo. We are currently seeking partners to continue the clinical development of Virulizin®. See " — Clinical Development" and "Business of the Company — Immunotherapy".

IL-17E

We have recently discovered a new lead drug candidate, IL-17E, which belongs to a larger family of cytokines. In experiments with mice, IL-17E has demonstrated significant antitumour activity against a variety of human tumours, including melanoma, pancreatic, colon, lung and ovarian tumours. We believe that these preliminary animal results support our further investigation of the potential clinical applications of IL-17E.

Antisense

We have two lead antisense products, GTI-2040 and GTI-2501, and other antisense molecules in pre-clinical development.

GTI-2040

Seven of the eight clinical studies initiated for GTI-2040 have been conducted in conjunction with the United States National Cancer Institute ("NCI") and the remaining study was conducted by Lorus. We have initiated, are conducting or have conducted Phase II clinical trials of GTI-2040 in patients with refractory or relapsed acute myeloid leukemia, metastatic breast cancer, non-small cell lung cancer, solid tumours, advanced unresectable colon cancer, hormone refractory prostate cancer, advanced, end-stage renal cell cancer, and high grade myelodysplastic syndrome and acute myeloid leukemia.

GTI-2501

Our other antisense therapy, GTI-2501, is currently in a Phase II clinical trial for the treatment of hormone refractory prostate cancer at the Toronto Sunnybrook Regional Cancer Centre, following the successful conclusion of a Phase I clinical trial in the United States. See " — Clinical Development" and "Business of the Company — Antisense".

Other

We have entered into a collaboration agreement in respect of our antisense therapy, GTI-2601 and have other antisense molecules in pre-clinical development. See "Business of the Company — Antisense".

Small Molecule

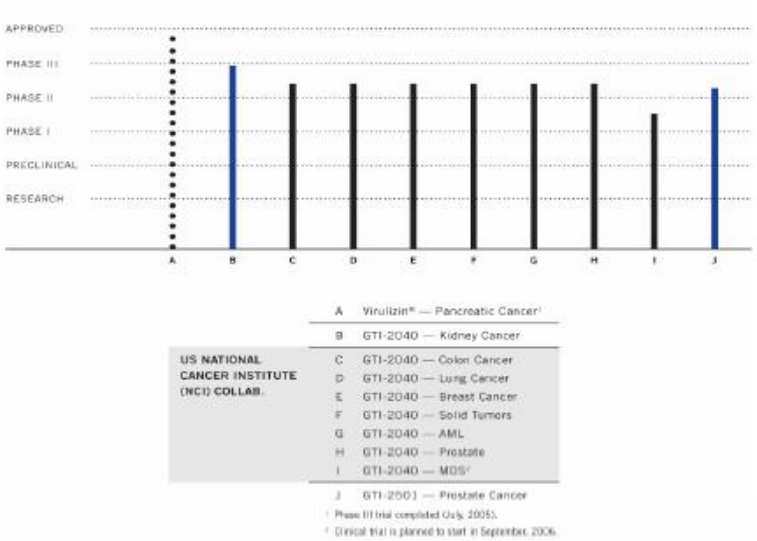
Our small molecule program is in the pre-clinical stage. See "— Clinical Development" and "Business of the Company — Small Molecule Therapies".

Clinical Development

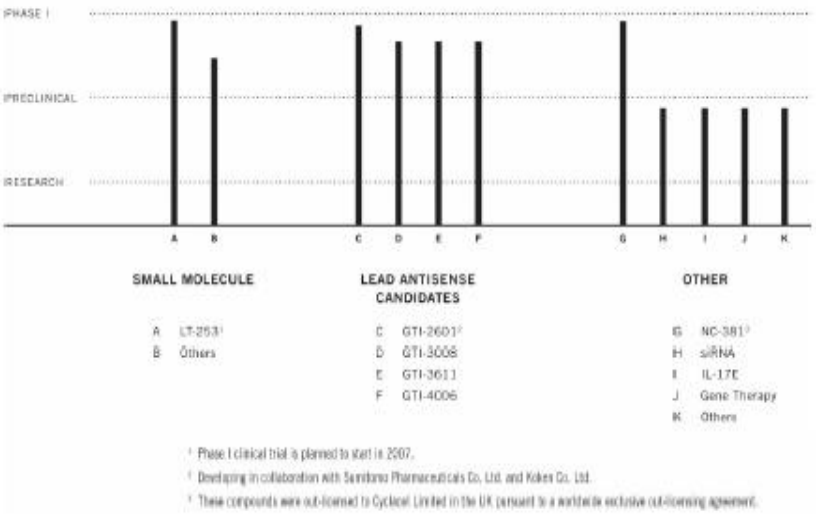
The chart below illustrates our current view of the clinical development stage of each of our products. This chart reflects the current regulatory approval process for biopharmaceuticals in Canada and the United States (with

the exception of Virulizin® for malignant melanoma, which is approved for use in the private market in Mexico). See "Regulatory Requirements" for a description of the regulatory approval process in Canada and the United States. These qualitative estimates of the progress of our products are intended solely for illustrative purposes and the information contained herein is qualified in its entirety by the information appearing elsewhere or incorporated by reference in this annual report.

CLINICAL DEVELOPMENT PIPELINE



PRECLINICAL DEVELOPMENT PIPELINE



Capital Expenditures

N/A

Capital Commitments

N/A

B. Business Overview

Overview

Chemotherapeutic drugs have been the predominant medical treatment option for cancer, particularly metastatic cancer, for the past 30 years. More recently, a range of novel cancer drugs have been developed that are efficacious while improving patient quality of life. Unlike chemotherapies, which are typically based on chemical synthesis, these new drugs may be of biological origin, based on naturally occurring molecules, proteins or genetic material. While chemotherapy drugs are relatively non-specific and, as a result, toxic to normal cells, these biological agents specifically target individual molecules or genes that are involved in disease and are therefore preferentially toxic to tumour cells. The increased specificity of these drugs may result in fewer and milder side effects, meaning that, in theory, larger and therefore, more effective doses can be administered.

We believe that the future of cancer treatment and management lies in drugs that are effective, safe and have minimal side effects leading to improved quality of life for patients. Many of the drugs currently approved for the treatment and management of cancer are toxic, resulting in severe side effects that limit dosing and efficacy. We believe that a product development plan based on effective and safe drugs would have broad applications in cancer treatment. Lorus' strategy is to continue the development of our product pipeline using several therapeutic approaches. Each therapeutic approach is dependent on different technologies, which we believe mitigates the

development risks associated with a single technology platform. In developing and evaluating our products, we evaluate the merits of each product candidate throughout the clinical trial process and consider commercialization opportunities.

Immunotherapy

Introduction

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

Virulizin®

Virulizin®, Lorus' immunotherapeutic drug, has been shown in pre-clinical studies to be an immunotherapy that stimulates monocytes and macrophages to infiltrate tumour tissue and attack tumour cells. Monocytes and macrophages are types of white blood cells that are key players in the immune response to foreign pathogens and tumour cells. When macrophages and monocytes are activated, they produce proteins called cytokines that have the ability to kill tumour cells directly. Our studies indicate that Virulizin® stimulates the release of tumour necrosis factor (TNF-alpha), one type of cytokine, in immune cells to induce apoptosis (programmed cell death) of tumour cells. Our studies also indicate that Virulizin® produces fewer negative side effects than commonly used chemotherapy agents likely because the drug works by stimulating the immune system to attack the cancer, rather than directly killing cancerous cells.

Clinical Development Program

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

Clinical Trial Results

In October 2005, we released the results of the Phase III clinical trial evaluating Virulizin® for the treatment of pancreatic cancer. The primary end points of the study were not met. For the efficacy evaluable population, the study showed that the addition of Virulizin® to gemcitabine resulted in a median overall survival of 6.8 months and a one-year survival rate of 27.2%, compared to 6.0 months and 16.8% for placebo plus gemcitabine. In the intent to treat population the median overall survival rates were 6.3 months for Virulizin® plus gemcitabine (one year survival rate of 25.9%) compared to 6.0 months for placebo plus gemcitabine (one year survival rate of 17.6%). While comparison of the median overall survival times did not reach statistical significance, exploratory analysis did show promising trends in specific patient populations.

We are currently seeking partners to continue the clinical development of Virulizin® in these patient specific populations.

Orphan Drug

Lorus received Orphan Drug designation from the FDA in February 2001 for Virulizin® in the treatment of pancreatic cancer. Orphan drug status is awarded to drugs used in the treatment of a disease that afflicts less than

200,000 patients annually in the United States to encourage research and testing. This status means that the FDA will help to facilitate the drug's development process by providing financial incentives and granting seven years of market exclusivity in the United States (independent of patent protection) upon approval of the drug in the United States. In June 2005, we announced that Virulizin® was granted Orphan Drug status in the European Union for pancreatic cancer.

IL-17E

Lorus has recently discovered a new lead drug candidate, IL-17E, which belongs to a larger family of cytokines. In experiments with mice, IL-17E has demonstrated significant antitumour activity against a variety of human tumours, including melanoma, pancreatic, colon, lung and ovarian tumours. Lorus believes that these preliminary animal results support its further investigation of the potential clinical applications of IL-17E.

Antisense

Introduction

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

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

We have developed a number of antisense drugs, of which our lead products are GTI-2040 and GTI-2501. These products target the two components of ribonucleotide reductase ("RNR"). RNR is a highly regulated, cell cycle-controlled protein required for DNA synthesis and repair. RNR is made up of two components, R1 and R2, encoded by different genes. RNR is essential for the formation of deoxyribonucleotides, which are the building blocks of DNA. Since RNR activity is highly elevated in tumour cell populations and is associated with tumour cell proliferation, we have developed antisense molecules specific for the mRNA of the R1 (GTI-2501) or the R2 (GTI-2040) components of RNR. Furthermore, the R2 component also appears to be a signal molecule in cancer cells and its elevation is believed to modify a biochemical pathway that can increase the malignant properties of tumour cells. Consequently, reducing the expression of the RNR components in a tumour cell with antisense drugs is expected to have antitumour effects.

GTI-2040

Our lead antisense therapy is GTI-2040, an antisense drug that targets the R2 component of RNR and has exhibited antitumour properties against over a dozen different human cancers in standard mouse models, including chemotherapy resistant tumours. We have recently completed a Phase II clinical trial of GTI-2040 for advanced or metastatic renal cell carcinoma. We have also commenced a multiple Phase II clinical trial program in cooperation with the NCI, for the study of GTI-2040 for the treatment of acute myeloid leukemia ("AML"), breast cancer, lung cancer, colon cancer, prostate cancer and a series of solid tumours.

Pre-clinical Testing

Formal pre-clinical development of GTI-2040, including manufacturing and toxicology studies, was initiated in mid-1998. Pre-clinical studies, including GLP toxicology studies in standard animal models, have demonstrated that GTI-2040 is well tolerated at concentrations that exceed commensurate therapeutic doses in humans.

Clinical Development

Our clinical development for GTI-2040 has been done in conjunction with the NCI, which pays for the cost of all clinical trials. See "— Agreements — Collaboration Agreements — National Cancer Institute". To date, we have initiated seven clinical trials with the NCI for GTI-2040 in patients with AML, metastic breast cancer, non-small all lung cancer, solid tumours, unresectable colon cancer, hormone refractory prostate cancer, and high grade myelodysplastic syndrome ("MDS") and AML. These indications were selected based on the most promising results from our preclinical studies. In addition, Lorus conducted a study for GTI-2040 for the treatment of patients with renal cell cancer. Upon receipt of the clinical data from the ongoing NCI clinical trials, we will analyze and make decisions regarding the strategic direction of our antisense portfolio. We continue to search for partnerships for the future development of GTI-2040.

In September 2005, Lorus announced a steering committee assessment of progress in the six ongoing U.S. NCI-sponsored clinical studies of GTI-2040. The committee concluded that all six studies continue to progress without unacceptable toxicity. Combination chemotherapies under study include docetaxel, capecitabine, oxaliplatin, cytarabine, and gemcitabine.

Acute Myeloid Leukemia

In July 2003, we announced the FDA's approval of the NCI-sponsored IND application for a clinical trial of GTI-2040 in combination with cytarabine, in patients with refractory or relapsed acute myeloid leukemia. Cytarabine is the current established drug for treating AML patients.

In December 2005, we announced interim data from the NCI-sponsored trial of GTI-2040 in acute myeloid leukemia. The data presented showed complete responses in 44% of patients 60 years of age or younger. Patients in this trial had either failed to respond to prior therapy or had rapidly relapsed and as such had a low expectation of response to subsequent treatment (10-20%). Complete responses in the clinical trial directly correlated with down regulation of R2, the intracellular target of GTI-2040, demonstrating drug specificity and providing strong evidence for an antisense mechanism of action. Toxicities for the combination were comparable to those expected for cytarabine alone and were non dose-limiting. This study is ongoing.

Metastatic Breast Cancer

In August 2003, we announced that the FDA had approved the NCI's IND to begin a Phase II clinical trial to investigate GTI-2040 as a treatment for metastatic breast cancer in combination with capecitabine. This study is ongoing.

Non-Small Cell Lung Cancer

In September 2003, we received approval from HC for initiation of a clinical trial of GTI-2040 in combination with docetaxel for the treatment of advanced non-small cell lung cancer, as part of a Phase II clinical program of GTI-2040 in collaboration with the NCI. Interim results from this study were announced in May 2005. Our interim results showed that the toxicity profile was determined to be acceptable for the specific combination therapy and the observed level of disease stabilizations was encouraging given the advanced stage of the disease in this subset of patients. This study is ongoing.

Solid Tumours

In February 2004, we announced the initiation of a Phase II clinical trial examining the use of GTI-2040 in combination with gemcitabine in patients with solid tumours. In June 2005, results from the trial were published. The trial was intended to identify the recommended dose of GTI-2040 and its toxicity profile. At the recommended dose GTI-2040 demonstrated a manageable toxicity profile and was generally well tolerated when given as a single agent. This study is ongoing.

Unresectable Colon Cancer

In May 2004, we announced the initiation of a Phase II clinical trial examining GTI-2040 in combination with oxaliplatin and capecitabine in the treatment of advanced unresectable colon cancer. This study is ongoing.

Hormone Refractory Prostate Cancer

In November 2004, we announced the initiation of a Phase II clinical trial examining GTI-2040 in combination with docetaxel and prednisone in hormone refractory prostate cancer. In November 2005, we announced interim data from this trial. The data showed that along with an acceptable tolerability profile, nine of 22 PSA evaluable patients demonstrated a PSA response (reductions of greater than 50%). PSA is overproduced in prostate cancer cells and is commonly used to assess disease progression and response.

Advanced Renal Cell Cancer

In April 2005, we announced completion of a Phase II clinical trial of GTI-2040 in combination with capecitabine, in patients with advanced, end-stage renal cell cancer in the United States. This trial was a single-arm pilot study examining the safety and efficacy of GTI-2040 used in combination with the anticancer agent capecitabine. The majority of patients had failed two or more prior therapies before entering the study, exhibited extensive metastases, and were representative of a population with very poor prognostic outcome in renal cell cancer. All 33 patients entering this study had advanced disease with multiple metastatic sites, with or without prior removal of the primary kidney tumour. However, more than half (52%) of the patients on the recommended dose exhibited disease stabilization or better, including one confirmed partial response. GTI-2040 was well tolerated when combined with a cytotoxic agent with expected adverse events. Lorus is actively searching for partnerships to assist with the further development of GTI-2040 for the treatment of renal cell cancer.

High Grade Myelodysplastic Syndrome and AML

In June 2006, we announced a plan for a new clinical investigation of GTI-2040 as a single agent in patients with high grade myelodysplastic syndrome (MDS) and acute myeloid leukemia (AML) sponsored by the NCI.

Orphan Drug Status

On March 12, 2003, the FDA awarded Orphan Drug Status to GTI-2040 for the treatment of renal cell carcinoma.

In May 2005, Lorus received Orphan Drug designation from the FDA for GTI-2040 in the treatment of AML.

Our other antisense therapy is GTI-2501.

Pre-clinical Testing

GTI-2501 has demonstrated antitumour activity in a wide range of human cancers in standard mouse models including human breast, kidney and prostate cancers. Pre-clinical studies have demonstrated that GTI-2501 is well tolerated in standard animal models at concentrations that exceed commensurate therapeutic doses in humans.

Clinical Development Program

GLP-toxicology studies for GTI-2501 were completed in November 2000 and approval of an IND was received from the FDA in February 2001. This Phase I dose-escalating study at the University of Chicago Medical Centre was designed to establish the recommended clinical Phase II dose as well as look at the safety profile of GTI-2501. A total of 34 patients with solid tumours or lymphoma were enrolled and have been evaluated following clinical completion. In December 2003, we announced that a Phase II clinical trial for the treatment of hormone refractory prostate cancer (HRPC) had been initiated at the Toronto Sunnybrook Regional Cancer Centre, in which GTI-2501 is administered in combination with docetaxel. The combination of GTI-2501 and docetaxel in this clinical trial is being investigated in patients with asymptomatic or symptomatic HRPC where disease progression is uncontrolled. This represents the first clinical trial of GTI-2501 in Canada following the successful conclusion of the Phase I clinical trial in 2004 in the United States. We announced expansion of this ongoing HRPC trial to two additional sites in Canada in July 2004. The study is ongoing through 2006.

GTI-2601

On April 5, 2005 we announced that we had signed a collaboration agreement with one of Japan's leading pharmaceutical companies, Sumitomo Pharmaceuticals Co. Ltd. ("Sumitomo") and Koken Co. Ltd ("Koken") with respect to GTI-2601, our lead antisense compound targeting thioredoxin, a gene that is over-expressed in many tumour tissues and has been correlated with poor prognosis and chemotherapy resistance. Sumitomo and Koken have developed an advanced delivery system based on collagen combined with macromolecules. The collaboration agreement provides that Sumitomo and Koken will further develop their delivery technology to combine with GTI-2601, so that increased efficacy is provided with decreased doses of the antisense drug. This agreement provides that Lorus, Sumitomo and Koken will jointly own the compounds that result from this collaboration (Lorus will share the results of the collaboration with Sumitomo and Koken, 1:1). This collaboration continued in 2005 and into 2006.

Small Molecule Therapies

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

Low Molecular Weight Compounds

In August 2005, Lorus announced the selection of two leading small molecule compounds from a series of novel small molecules discovered by Lorus scientists that exhibit potent anticancer activity. The results of the further characterization of these compounds were presented in April 2006, including studies that showed that the main mechanism of action of these compounds involves the induction of the tumour suppressor Krüppel-like factor 4, which its down-regulation is believed to be critical in the development and progression of certain types of cancer

and comprise a novel anticancer mechanism of action. From these two compounds, LT-253 was selected as the lead compound for developments as a drug candidate for the treatment of colon carcinoma and non-small cell lung cancer, based on its potent *in vitro* and *in vivo* efficacy in xenograft models of human cancer, and on its safety profile. Manufacturing of a GMP product, formulation development as well as formal toxicology studies in different animal species with the aim of filing an IND application for the initiation of a Phase I clinical trial are in progress.

Other Technologies

We are currently assessing several new technologies for their potential as new drug candidates. They include technologies in areas of tumour suppressor gene therapy, siRNA molecules targeting RNR and U-sense compounds that we believe to have the potential to work using a unique mechanism of action to decrease the expression of cancer relevant genes.

Gene Therapy

Researchers at Lorus have developed a gene therapy product using the R1 gene of ribonucleotide reductase (which has been shown to act as a tumour suppressor gene) encoded in a modified adenoviral vector (rAd5-R1) for the potential treatment of patients with colon cancer. This project is in the pre-clinical phase of development.

siRNA

In 2003, Lorus began development of an anticancer therapeutic based on siRNA-mediated inhibition of R2 expression. Early screening experiments have identified lead siRNA's and preliminary *in vitro* and *in vivo* characterization of these molecules has yielded promising results.

U-sense

Lorus has a therapeutic platform based on short oligonucleotides that are identical to sequences in the untranslated regions of mRNA molecules. The binding of these oligonucleotides to factors (*i.e.*, proteins) that would otherwise bind to the mRNA has the potential to affect translation and/or stability of the mRNA and as a result alter expression of the protein product.

Agreements

Manufacturing Agreements

Bio Vectra dcl

In July 2004, we entered into negotiations with Diagnostics Chemicals Limited (doing business as BioVectra dcl) in Prince Edward Island for the commercial manufacture of Virulizin®, for which a contract was executed in October 2004. BioVectra has a cGMP facility capable of large-scale commercial production. In June 2005 Lorus announced

that BioVectra had successfully produced Virulizin® in both optimized clinical and commercial batch scales. The contract remains in force, although Bio Vectra is not currently performing any manufacturing of Virulizin®.

Licence Agreements

Ion Pharmaceuticals and Cyclacel

In December 1997, Lorus, through NuChem, acquired certain patent rights and a sublicense from Ion to develop and commercialize the anticancer applications of CLT and new chemical entities related to CLT (the "NuChem Analogs"). To July 2006, NuChem had made cash payments totalling US $500,000 to Ion. The balance is payable upon the achievement of certain milestones based on the commencement and completion of clinical trials related to the NuChem Analogs.

All research and development activities to be undertaken by NuChem are to be funded by us through subscriptions for non-participating preference shares of NuChem. As at May 31, 2006, we had provided a total of $6,079,000 of funding to NuChem.

In September 2003, Lorus, NuChem and Cyclacel Limited signed an exclusive worldwide license agreement for the development and commercialization of the NuChem Analogs. Under the terms of the agreement, Lorus received upfront fees of US $400,000 and will receive milestone payments which, assuming all milestones are achieved, will total approximately US $11.6 million for our pre-clinical compound NC 381, and similar milestone payments for each of any other compounds developed from the compound library. In addition to these payments, we will receive royalties based on product sales. Cyclacel is responsible for all future drug development costs.

University of Manitoba

The University of Manitoba (the "University"), Dr. Jim Wright, Dr. Aiping Young and Cancer Care entered into an exclusive license agreement (the "License Agreement") with GeneSense dated June 20, 1997 pursuant to which GeneSense was granted an exclusive worldwide license to certain patent rights with the right to sub-license. In consideration for the exclusive license to GeneSense of the patent rights, the University and Cancer Care are entitled to an aggregate of 1.67% of the net sales received by GeneSense from the sale of products or processes derived from the patent rights and 1.67% of all monies received by GeneSense from sub-licenses of the patent rights. GeneSense is solely responsible for the preparation, filing, prosecution and maintenance of all patent applications and patents included in the patent rights and all related expenses. Pursuant to the terms of the License Agreement, any and all improvements to any of the patent rights derived in whole or in part by GeneSense after the date of the License Agreement are not included within the scope of the License Agreement and do not trigger any payment of royalties.

Collaboration Agreements

National Cancer Institute

In February 2003, Lorus and the United States National Cancer Institute approved clinical protocols to conduct a series of clinical trials in a Phase II program to investigate the safety and efficacy of our lead antisense drug, GTI-2040 in breast cancer, colon cancer, non-small cell lung cancer, acute myeloid leukemia, prostate cancer, and in a range of solid tumours. Lorus and the NCI signed a formal clinical trial agreement (expiring in October 2007) in which the NCI financially sponsors the GTI-2040 clinical trials, while Lorus provides the clinical trial drug. All six trials were in progress as of May 31, 2006. In July 2006, we announced a seventh trial to be conducted with the NCI for GTI-2040 for the treatment of MDS and AML.

University of Toronto

In May 2004 we signed a collaboration agreement with the University of Toronto to provide a further development and delivery strategy for our novel low molecular weight compounds with anticancer and antibacterial activity. The collaboration agreement provided for payment by us to the University of Toronto of set fees and a percentage of net revenues derived from any intellectual property developed under the agreement if and when the intellectual property is commercialized. The work under this agreement has been completed.

Sumitomo and Koken

In April 2005, we signed a collaboration agreement with Sumitomo and Koken with respect to GTI-2601, our antisense compound targeting thioredoxin. Sumitomo and Koken have developed an advanced delivery system based on collagen complexed with macromolecules. The collaboration agreement provides that Sumitomo and Koken will further develop their delivery technology to complex with GTI-2601, so that increased efficacy is provided with decreased doses of the antisense drug. This agreement provides that Lorus, Sumitomo and Koken will jointly own the compounds that result from this collaboration (Lorus: Sumitomo and Koken, 1:1).

Other

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

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

Business Strategy

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

Our objective is to maximize the therapeutic value and potential commercial success of GTI-2040 and GTI-2501, and the small molecule platform. In the near term, we intend to pursue research and early clinical development with our own funds with respect to GTI-2040, GTI-2501 and the small molecule platform. In our efforts to obtain the greatest return on our investment in each drug candidate, we separately evaluate the merits of each candidate throughout the clinical trial process and consider commercialization opportunities when appropriate.

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

Public Offering

On June 11, 2003, Lorus raised net proceeds of $29.9 million by way of a public offering of 26,220,000 units at a price of $1.25 per unit, each unit consisting of one common share and one-half of one purchase warrant.

Secured Convertible Debentures

On October 6, 2004, we entered into a Subscription Agreement (the "Agreement") with The Erin Mills Investment Corporation ("TEMIC") to issue an aggregate of $15 million of secured convertible debentures (the "Debentures") issuable in three tranches of $5 million each, in each of October 2004, January 2005 and April 2005. The Debentures are secured by a first charge over all of the assets of the Company. All Debentures issued under the Agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime plus 1% until such time as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest will be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest are issued at a price equal to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment. The $15.0 million principal amount of Debentures is convertible at the holder's option at any time into our common shares with a conversion price per share of $1.00. With the issuance of each $5.0 million debenture, we issued to the debt holder 1,000,000 warrants with a term of five years to purchase our common shares at a price per share equal to $1.00.

Share Issuances

On July 13, 2006 we entered into an agreement with High Tech Beteiligungen GmbH & Co. KG ("High Tech") to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The subscription price represented a premium of 7.5% over the closing price of the common shares on the TSX on July 13, 2006. The transaction closed on August 30, 2006.

In connection with the closing, we also entered into a registration rights agreement with High Tech that provides, among other things, that High Tech will have a demand right to request, an aggregate number of five times, the registration or qualification of the Purchased Shares for resale in the United States and Canada, subject to certain restrictions. High Tech has also been granted piggy-back rights to enable it to sell the Purchased Shares in connection with a public offering of shares to Lorus, subject to certain exceptions. In addition, pursuant to the Share Purchase Agreement, High Tech has the right to nominate one nominee for election to the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board for as long as it owns shares.

In accordance with the terms of the Share Purchase Agreement, Lorus agreed not to issue any common shares or securities convertible into common shares, subject to certain limited exceptions, until July 31, 2007, at a price of less than $0.36 per common share. In addition, certain named executive officers of Lorus signed "lock-up" agreements whereby they agreed not to dispose of their common shares for a period of 30 days following the closing date, and for the 30 days immediately following such 30 day period, they agreed not to dispose greater than 50% of the aggregate number of common shares they hold as at the closing date.

On July 24, 2006 we entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on August 31 2006.

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, 2006, we employed 33 full-time persons and one part-time person in research and drug development and administration activities. Of our employees, nine hold Ph.D.s. To encourage a focus on achieving long-term performance, employees and members of the board of directors have the ability to acquire an ownership interest in the Company through Lorus' stock option plan and employees can participate in the employee share purchase plan, which was established in 2005.

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

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

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, 2008.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. There are many companies in both these industries that are focusing their efforts on activities similar to ours. Some of these are companies with established positions in the pharmaceutical industry and may have substantially more financial and technical resources, more extensive research and development capabilities, and greater marketing, distribution, production and human resources than us. In addition, we may face competition from other companies for opportunities to enter into collaborative agreements with biotechnology and

pharmaceutical companies and academic institutions. Many of these other companies are not solely focused on cancer, as is the mission of our drug development. We specialize in the development of drugs that we believe will manage cancer.

Products that may compete with our products include chemotherapeutic agents, monoclonal antibodies, antisense therapies and immunotherapies with novel mechanisms of action. These are drugs that are delivered by specific means and are targeting cancers with large disease populations. We also expect that we may experience competition from established and emerging pharmaceutical and biotechnology companies that have other forms of treatment for the cancers that we target. There are many drugs currently in development for the treatment of cancer that employ a number of novel approaches for attacking these cancers. Cancer is a complex disease with more than 100 indications requiring drugs for treatment. The drugs in competition with our product candidates have specific targets for attacking the disease, targets which are not necessarily the same as ours. These competitive drugs therefore could potentially also be used together in combination therapies with our drugs to manage the disease.

Government Regulation

Overview

Regulation by government authorities in Canada, the United States, Mexico 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 and establish cGMP and control over marketing activities before being allowed to market their products. The safety and efficacy of a new drug must be shown through clinical trials of the drug carried out in accordance with the mandatory procedures and standards established by regulatory agencies.

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

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

Canada

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

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

Provided HC does not reject a CTA submission, clinical trials can begin. Clinical trials for product candidates to treat cancer are generally carried out in three phases. Phase I involves studies to evaluate toxicity and ideal dose levels in humans. The new drug is administered to human patients who have met the clinical trial entry criteria to determine pharmacokinetics, human tolerance and prevalence of adverse side effects. Phases II and III involve therapeutic studies. In Phase II, efficacy, dosage, side effects and safety are established in a small number of patients who have the disease or disorder that the new drug is intended to treat. In Phase III, there are controlled clinical trials in which the drug candidate 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 drug candidate 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 drug candidate has value, the manufacturer submits a new drug submission ("NDS") application to HC for marketing approval. The NDS contains all information known about the drug candidate, including the results of pre-clinical testing and clinical trials. Information about a substance contained in an NDS includes its proper name, its chemical name, and details on its method of manufacturing and purification, and its biological, pharmacological and toxicological properties. The NDS also provides information about the dosage form of the new drug, including a quantitative listing of all ingredients used in its formulation, its method of manufacture, manufacturing facility information, packaging and labelling, the results of stability tests, and its diagnostic or therapeutic claims and side effects, as well as details of the clinical trials to support the safety and efficacy of the new drug. Furthermore, for biological products, an on-site evaluation is required prior to the issuance of a notice of compliance ("NOC"). All aspects of the NDS are critically reviewed by HC. If an NDS is found satisfactory, an NOC is issued permitting the new drug to be sold. In Canada an establishment license must be obtained prior to marketing the product.

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

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

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

The Canadian regulatory approval requirements for new drugs outlined above are similar to those of other major pharmaceutical markets. While the testing carried out in

Canada is often acceptable for the purposes of regulatory submissions in other countries, individual regulatory authorities may request supplementary testing

during their assessment of any submission. We cannot assure you that the clinical testing conducted under HC authorization or the approval of regulatory authorities of other countries will be accepted by regulatory authorities of such other countries outside of Canada.

United States

In the United States, the United States Food and Drug Administration ("FDA") controls the manufacture and sale of new drugs. New drugs require FDA approval of a marketing application (*e.g.*, an NDA or FDA application) prior to commercial sale. To obtain marketing approval, data from adequate and well-controlled clinical investigations, demonstrating to the FDA's satisfaction a new drug's safety and effectiveness for its intended use, are required. Such data are generated in studies conducted pursuant to an IND submission, similar to that required for a CTA in Canada. As in Canada, clinical studies are characterized as Phase I, Phase II and Phase III trials or a combination thereof. In a marketing application, the manufacturer must also demonstrate the identity, potency, quality and purity of the active ingredients of the new drug involved, and the stability of those ingredients. Further, the manufacturing facilities, equipment, processes and quality controls for the new drug must comply with the FDA's cGMP regulations for drugs or biological products both in a pre-licensing inspection before product licensing and in subsequent periodic inspections after licensing. In the case of a biological product, an establishment license must be obtained prior to marketing and batch releasing.

A five-year period of market exclusivity for a drug comprising a new chemical entity ("NCE") is available to an applicant that succeeds in obtaining FDA approval of an NCE, provided the active ingredient of the NCE has never before been approved in an NDA. During this exclusivity period, the FDA may not approve any abbreviated application filed by another sponsor for a generic version of the NCE. Further, a three-year period of market exclusivity for a new use or indication for a previously approved drug is available to an applicant that submits new clinical studies that are essential to support the new use or indication. During the latter period of exclusivity, the FDA may not approve an abbreviated application filed by another sponsor for a generic version of the product for that use or indication.

The FDA has "fast track" regulations intended to accelerate the approval process for the development, evaluation and marketing of new drugs used to diagnose or treat life-threatening and severely debilitating illnesses for which no satisfactory alternative therapies exist. "Fast track" designation affords early interaction with the FDA in terms of protocol design and permits, although it does not require, the FDA to issue marketing approval after completion of Phase II clinical trials (although the FDA will require subsequent clinical trials or even post-approval efficacy studies).

C. Organizational Structure

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

The address of the Company's head and registered office is 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7. Our corporate website is www.lorusthera.com. The contents of the website are specifically not included in this 20-F 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, 2008.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

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

A. Operating Results

The following discussion should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2006 and the accompanying notes (the "Financial Statements") set forth elsewhere in this report. The Financial Statements, and all financial information discussed below, have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant differences between Canadian and United States GAAP are identified in Note 17 to the Financial Statements. All amounts are expressed in Canadian dollars unless otherwise noted. In this Management's Discussion and Analysis, "Lorus", the "Company', "we", "us" and "our" each refers to Lorus Therapeutics Inc.

Overview

Lorus Therapeutics Inc. is a life sciences company focused on the discovery, research and development of effective anticancer therapies with a high safety profile. Lorus has worked diligently to establish a diverse, marketable anticancer product pipeline, with products in various stages of development ranging from preclinical to multiple Phase II clinical trials. A growing intellectual property portfolio supports our diverse product pipeline.

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

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

Our net loss for 2006 totalled $17.9 million ($0.10 per share) compared to a net loss of $22.1 million ($0.13 per share) in 2005. Research and development expenses in 2006 decreased to $10.2 million from $14.4 million in 2005. The close of the Virulizin® Phase III clinical trial in 2006 as well as staff reductions resulting from the November 2005 corporate changes (described below) contributed to the decrease over 2005. We utilized cash of $13.1 million in our operating activities in 2006 compared with $18.7 million in 2005; the lower utilization is consistent with lower research and development activities and lower general and administrative expenses offset by lower interest income. At the end of 2006 we had cash and cash equivalents and short-term investments of $8.3 million compared to $21.5 million at the end of 2005.

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, 2006 which are prepared in accordance with Canadian GAAP.

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

	Years Ended May 31		
	2006	**2005**	**2004**
REVENUE	**$ 26**	**$ 6**	**$ 608**
EXPENSES			
Cost of sales	3	1	28
Research and development	10,237	14,394	26,785
General and administrative	4,334	5,348	4,915
Stock-based compensation	1,205	1,475	—
Depreciation and amortization	771	564	420
Operating expenses	16,550	21,782	32,148
Interest expense	882	300	—
Accretion in carrying value of secured convertible debentures	790	426	—
Amortization of deferred financing charges	87	84	—
Interest income	(374)	(524)	(1,239)
Loss for the period	**17,909**	**22,062**	**30,301**
Basic and diluted loss per common share	**$ 0.10**	**$ 0.13**	**$ 0.18**
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share	173,523	172,112	171,628
Total Assets	**$ 11,461**	**$ 27,566**	**$ 34,424**
Total Long-term liabilities	**$ 11,002**	**$ 10,212**	**$ —**

Accounting Policy Changes

Variable Interest Entities

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

Financial Instruments — Disclosure and Presentation

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

Accounting for Convertible Debt Instruments

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

Section 3831, Non-Monetary Transactions

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

Critical Accounting Policies

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

Drug Development Costs

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

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

Stock-Based Compensation

We have applied the fair value based method to expense stock options awarded since June 1, 2002 using the Black-Scholes option-pricing model as allowed under CICA Handbook Section 3870. The model estimates the fair value of fully transferable options, without vesting restrictions, which significantly differs from the stock option awards issued by Lorus. The model also requires four highly subjective assumptions including future stock price

volatility and expected time until exercise, which greatly affect the calculated values. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of stock options issued and the associated expense.

Valuation Allowance for Future Tax Assets

We have a net tax benefit resulting from non-capital losses carried forward, and scientific research and experimental development expenditures. In light of the recent net losses and uncertainty regarding our future ability to generate taxable income, management is of the opinion that it is not more likely than not that these tax assets will be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these income tax assets. Consequently, no future income tax assets or liabilities are recorded on the balance sheets. The generation of future taxable income could result in the recognition of some portion or all of these benefits, which could result in a material improvement in our results of operations through the recovery of future income taxes.

Valuation of Long Lived Assets

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

Recent Accounting Pronouncements Yet To Be Adopted — Canadian GAAP

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income, and Section 3251, Equity. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530.

Section 3855, Financial Instruments — Recognition and Measurement

CICA Handbook Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used to determine when a financial liability is considered to be extinguished.

Section 3865, Hedges

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional.

These three Sections are effective for fiscal years beginning on or after October 1, 2006. An entity adopting these Sections for a fiscal year beginning before October 1, 2006 must adopt all the Sections simultaneously.

Recent Accounting Pronouncements Yet To Be Adopted — US GAAP

In December 2004, the FASB revised SFAS No. 123 to require companies to recognize n the income statement the grant-date fair value of stock options and other equity based compensation issued to employees, but expressed no preference for a type of valuation model (SFAS 123R). The way an award is classified will affect the measurement of compensation cost. Liability-classified awards are re-measured to fair value at each balance sheet

date until the award is settled. Equity-classified awards are measured at grant-date fair value and the grant-date fair value is recognized over the requisite service period. Such awards are not subsequently re-measured.

In April 2005, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) to provide additional guidance regarding the application of SFAS 123R. SAB 107 permits registrants to choose an appropriate valuation technique or model to estimate the fair value of share options, assuming consistent application, and provides guidance for the development of assumptions used in the valuation process. Based upon SEC rules issued in April 2005, SFAS 123R is effective for fiscal years that begin after June 15, 2005 and will be adopted by the Company effective June 1, 2006. Additionally, SAB 107 discusses disclosures to be made under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in registrants' periodic reports. The Company has not yet determined the effect of this new standard on its consolidated financial position and results of operations.

In December 2004, FASB issued Financial Accounting Standard 153: Exchanges of Nonmonetary Assets as an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for years beginning after June 15, 2005. The Company has not entered into any non-monetary transactions and as such this section is not applicable.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154), which replaces APB No. 20, Accounting Change and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, on the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the adoption of this statement will not have a material effect on the Company's consolidated financial condition or results of operations.

Operating Results

Revenues

Revenues for the year increased to $26 thousand compared with 2005 revenue of $6 thousand which decreased compared with $608 thousand in 2004. The increase in revenue in 2006 is due to lab work performed by Lorus personnel on behalf of other companies. The decrease in 2005 compared with 2004 is the result of a licensing agreement Lorus entered into during 2004 with Cyclacel Ltd. in connection with the out licensing of our clotrimazole analog library of anticancer drug candidates. The agreement included an initial license fee of $546 thousand received in 2004 with the potential of additional license fees of up to U.S.$11.6 million that may be earned if Cyclacel achieves certain defined research and development milestones. We do not expect that any of these milestones will be achieved in the next 12 months. The balance of the revenue earned during 2004 relates to product and royalty revenues from the sale of Virulizin® to our distributor in the Mexican market, Mayne Pharma. As of July 31, 2005, our contract with Mayne Pharma to distribute Virulizin® in Mexico was terminated as a result of Mayne Pharma ceasing operations in Mexico and Brazil. We do not anticipate product revenue in fiscal 2007 from any of our other anticancer drugs currently under development.

Research and Development

Research and development expenses totalled $10.2 million in 2006 compared to $14.4 million in 2005 and $26.8 million in 2004. The decrease in spending compared with 2005 is due to the close of our Virulizin® Phase III clinical trial for the treatment of advanced pancreatic cancer in 2006 as well as a reduction in headcount in November 2005 as described under corporate changes. Although many expenditures related to the trial continued, as the results of the trial were compiled and analyzed and the trial was wound up, the costs were less in comparison

with the prior year when the trial was fully enrolled and underway. The significant decrease in expenditures in 2005 in comparison with 2004 is primarily the result of two factors. First, in 2004 the Phase III clinical trial of Virulizin® was progressing through a heavy enrolment period resulting in many up front costs, including personnel, drug manufacturing and testing, combination drug purchases and contract research organization costs. In 2005, the study and the associated costs wound down to the point of last patient visit in Q1 2006. Second, we incurred expenditures in 2004 related to the upfront manufacturing of GTI-2040 for the U.S. National Cancer Institute (NCI) sponsored Phase II clinical trials as well as GTI-2501 for our Phase I/II prostate trial. We have had, and continue to have, a sufficient drug supply on hand such that no additional costs were incurred during 2005 and 2006.

Of the total research and development expenditures incurred during the year, Virulizin® accounted for $6.2 million or 61% of the total spending. During the past year as we wound down the Phase III clinical trial we focused the majority of the Company's time and resources on Virulizin®.

General and Administrative

General and administrative expenses totalled $4.3 million in 2006 compared to $5.3 million in 2005 and $4.9 million in 2004. The decrease of $1.0 million during 2006 is due to reductions in headcount in November 2005 as described under corporate changes as well as lower legal, consulting and investor relations costs, the result of changes made to reduce our cash burn rate. The increase in expenditures in 2005 of $400 thousand compared with 2004 was primarily due to additional administrative personnel as we were preparing for commercialization in the event of successful Phase III clinical results.

Stock-Based Compensation

Stock- based compensation expense totalled $1.2 million in 2006 compared with $1.5 million in 2005 and nil in 2004. The decrease in stock-based compensation expense in 2006, despite an increase in the number of options issued is the result of reduced fair values on the stock options issued, due to a decline in our stock price, as well as a significant number of unvested options that were forfeited during the year, reducing the overall expense. During 2006, employees of the Company (excluding directors and officers) were given the opportunity to choose between keeping 100% of the options they held at the existing exercise prices or forfeiting 50% of the options held in exchange for having the remaining 50% of the exercise prices of the options re-priced to $0.30 per share. Employees holding 2,290,000 stock options opted for re-pricing their options, resulting in the amendment of the exercise price of 1,145,000 stock options and the forfeiture of 1,145,000 stock options during the quarter ended February 28, 2006. The 2005 expense represents the amortization of the estimated fair value of stock options granted since June 1, 2002 applicable to the current service period as well as a charge of $208 thousand recorded in the second quarter of 2005 representing the increase in value attributed to the shareholder approved amendment to the stock option plan to extend the contractual life of all options outstanding from five-years to ten-years.

Depreciation and Amortization

Depreciation and amortization expenses increased to $771 thousand in 2006 compared to $564 thousand in 2005 and $420 thousand in 2004. The increase in expense in 2006 compared with 2005 is due to a write-down of $250 thousand taken on certain furniture and equipment whose carrying value was deemed to be unrecoverable and in excess of the fair value of the underlying assets offset by a lower level of capital expenditures in 2006. The increase in expense in 2005 compared with 2004 is due to the acquisition of additional capital related to the scale up of our manufacturing process, as well as a write-down of $75 thousand taken on certain equipment whose carrying value was deemed to be unrecoverable and in excess of the estimated future undiscounted cash flows of the underlying assets.

Interest Expense

Non-cash interest expense was $882 thousand in 2006 compared with $300 thousand in 2005 and nil in 2004. These amounts represent interest at a rate of prime +1% on the $15 million convertible debentures. The increase in interest expense in 2006 compared with 2005 is a combination of higher interest rates due to increases in the prime rate, as well as the full amount of the debentures outstanding for the entire year, rather than part of the year as in 2005. In 2005, the interest accrued based on the cash advanced beginning October 6, 2004 when the first

tranche of $5 million was advanced through to May 31, 2005 when the entire $15 million had been advanced. All interest accrued on the debentures to date has been paid in common shares of the Company.

Accretion in Carrying Value of Secured Convertible Debentures

Accretion in the carrying value of the debentures amounted to $790 thousand in 2006 compared with $426 thousand in 2005 and nil in 2004. The accretion charges arise as under GAAP and the Company has allocated the proceeds from each tranche of the debentures to the debt and equity instruments issued on a relative fair value basis resulting in the $15.0 million debentures having an initial cumulative carrying value of $9.8 million as of their dates of issuance. Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be the face value of $15.0 million. The increase in expense in 2006 compared with 2005 is due to a full year of accretion in 2006 compared with a partial year in 2005.

Amortization of Deferred Financing Charges

Amortization of deferred financing charges totalled $87 thousand in 2006 compared with $84 thousand in 2005 and nil in 2004. The deferred financing charges relate to the convertible debenture transaction and will be amortized using the effective interest rate method over the five-year life of the debt commencing October 6, 2004.

Interest and Other Income

Interest income totalled $374 thousand in 2006 compared to $524 thousand in 2005 and $1.2 million in 2004. The decrease from 2005 to 2006 is due to a lower average cash and short-term investment balance in 2006 offset by higher interest rates during 2006. The decrease in 2005 compared with 2004 is the result of significantly lower cash and short-term investment balances in 2005 compared with 2004.

Loss for the Year

Net loss for the year decreased to $17.9 million or $0.10 per share in 2006 compared to $22.1 million or $0.13 per share in 2005 and $30.3 million or $0.18 per share in 2004. The decrease in net loss in 2006 compared with 2005 is due to lower research and development costs resulting from the close of our Virulizin® Phase III clinical trial as well as staff reductions due to corporate changes, lower general and administrative costs due to staff reductions and lower legal, consulting and investor relations charges off set by lower interest income due to reduced cash and short term investment balances as well as higher non-cash interest, accretion and depreciation and amortization expense. The decrease in net loss in 2005 compared with 2004 is primarily due to lower research and development costs resulting from the wind down of the Phase III Virulizin® clinical trial, as well as no GTI-2040 or GTI-2501 drug production in 2005, offset by lower interest revenue, and non-cash expenses associated with stock based compensation expense, and non-cash charges related to the convertible debentures including accretion, interest and amortization of deferred financing charges.

Corporate Changes

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

Quarterly Results of Operations

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

Research and development expenses have decreased throughout 2006 in comparison with the same quarter in the prior year. This reduction is due to the close of our Phase III Virulizin® clinical trial as well as corporate changes in November 2005 to reduce headcount.

General and administrative expenses increased for the quarter ended November 30, 2005 due to severance charges recorded during the quarter resulting from the termination of personnel in the November 2005 corporate changes. Expenditures have continued to decline since Q2 2006 due to reduced headcount as well as reduced consulting, patent costs and investor relation costs.

Net loss decreased in Q3 and Q4 of 2006 as the result of reduced research and development and general and administrative expenditures. During the quarter ended May 31, 2006, research and development expenditures were significantly lower than prior periods as minimal clinical, regulatory and compliance costs related to Virulizin were incurred vs. prior quarters when work associated with the Phase III clinical trial will still ongoing. General and administrative expenses decreased during the three months ended May 31, 2006 compared with prior quarters due to headcount reductions (in November 2005) as well as lower legal and corporate communication costs associated with budget cutbacks.

Research and development expenditures decreased in the quarter ended May 31, 2005 compared with prior quarters due to lower clinical trial costs associated with the

Virulizin Phase III clinical trial as it wound down to last patient visit in July 2005. General and administrative expenditures decreased slightly during the three month period ended May 31, 2005 compared with prior periods due to lower consulting costs.

	Fiscal 2006 Quarter Ended				Fiscal 2005 Quarter Ended			
(Amounts in 000's except for per common share data)	May 31, 2006	Feb. 28, 2006	Nov. 30, 2005	Aug. 31, 2005	May 31, 2005	Feb. 28, 2005	Nov. 30, 2004	Aug. 31, 2004
Revenue	$ 14	$ 5	$ 6	$ 1	$ —	$ 3	$ 1	$ 2
Research and development	1,353	2,296	2,631	3,957	2,332	3,175	3,838	5,049
General and administrative	730	909	1,619	1,076	1,506	1,484	1,333	1,025
Net loss	(2,970)	(4,095)	(5,102)	(5,742)	(4,598)	(5,274)	(5,945)	(6,245)
Basic and diluted net loss per share	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.04)
Cash used in operating activities	$(1,940)	$(3,956)	$(2,360)	$(4,809)	$(3,789)	$(4,106)	$(4,966)	$(5,860)

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information required to be publicly disclosed by a public company is gathered and communicated to management, including the certifying officers, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of May 31, 2006, the certifying officers and other members of management evaluated the effectiveness of our disclosure controls and procedures (as this term is defined in the rules adopted by Canadian

securities regulatory authorities and the United States Securities and Exchange Commission). This evaluation included a review of our existing disclosure and insider trading policy, compliance with regard to that policy, the disclosure controls currently in place surrounding our interim and annual financial statements, MD&A and other required documents and discussions with management surrounding the process of communicating material information to management and in turn the certifying officers and all procedures taking into consideration the size of the company and the number of employees. Based on the evaluation described above, the certifying officers have concluded that, as of May 31, 2006, the disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose on a continuous basis in annual and interim filings and other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required.

Outstanding Share Data

As at September 30, 2006, the number of issued and outstanding common shares of the Company was 209,625,949. In addition, there were 3,000,000 warrants to purchase 3,000,000 common shares of the Company and 12,665,000 stock options outstanding that can be exercised into an equal number of common shares. The convertible debentures are convertible into 15,000,000 common shares of the Company.

B. Liquidity and capital resources

Since its inception, Lorus has financed its operations and technology acquisitions primarily from equity and debt financing, the exercise of warrants and stock options, and interest income on funds held for future investment. We expect to continue to finance the GTI-2501 Phase II clinical trial and the development of our small molecule program from internal resources until their anticipated completion. The ongoing costs of the six GTI-2040 Phase II clinical trials will continue to be borne by the US NCI with Lorus continuing to be responsible for any additional GTI-2040 manufacturing costs.

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

Our current level of cash and short-term investments and the additional funds available upon the successful closing of the subscription agreements (described below) are sufficient to execute our current planned expenditures for the next twelve months.

Operating Cash Requirements

Lorus utilized cash in operating activities of $13.1 million in 2006 compared with $18.7 million in 2005 and $28.1 million in 2004. The decrease in cash used in operating activities in 2006 is due to lower research and development and general and administrative expenses, as described above, offset by lower interest income. The significant decrease in cash used in operating activities in 2005 compared with 2004 is due to lower research and development expenses, offset by lower interest income.

Cash Position

At May 31, 2006, Lorus had cash and cash equivalents and short-term investments totalling $8.3 million compared to $21.5 million at the end of 2005. The Company invests in highly rated and liquid debt instruments.

Investment decisions are made in accordance with an established investment policy administered by senior management and overseen by the Board of Directors. Working capital (representing primarily cash and cash equivalents and short term investments) at May 31, 2006 was $5.8 million as compared to $18.5 million at May 31, 2005. As discussed below, subsequent to year-end, we entered into subscription agreements to raise gross proceeds of $12.2 million through the issuance of 33.8 million common shares of Lorus. Cash and short-term investments will therefore increase by $12.2 million in gross proceeds.

We do not expect to generate positive cash flow from operations in the next several years due to additional research and development costs, including costs related to drug discovery, preclinical testing, clinical trials, manufacturing costs and operating expenses associated with supporting these activities. Negative cash flow will continue until such time, if ever, that we receive regulatory approval to commercialize any of our products under development and revenue from any such products exceeds expenses.

We may seek to access the public or private equity markets from time to time, even if we do not have an immediate need for additional capital at that time. We intend to use our resources to fund our existing drug development programs and develop new programs from our portfolio of preclinical research technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the progress of the Company's research and drug development programs, the results of preclinical and clinical trials, the timing of regulatory submissions and approvals, the impact of any internally developed, licensed or acquired technologies, our ability to find suitable partnership agreements to assist financially with future development, the impact from technological advances, determinations as to the commercial potential of the Company's compounds and the timing and development status of competitive products.

Financing

On July 13, 2006 we entered into an agreement with High Tech Beteiligungen GmbH & Co. KG ("High Tech") to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The subscription price represented a premium of 7.5% over the closing price of the common shares on the TSX on July 13, 2006. The transaction closed on August 30, 2006. In connection with the closing, we also entered into a registration rights agreement with High Tech that provides, among other things, that High Tech will have a demand right to request, an aggregate number of five times, the registration or qualification of the Purchased Shares for resale in the United States and Canada, subject to certain restrictions. High Tech has also been granted piggy-back rights to enable it to sell the Purchased Shares in connection with a public offering of shares to Lorus, subject to certain exceptions. In addition, pursuant to the Share Purchase Agreement, High Tech will have the right to nominate one nominee on the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board for as long as it owns shares.

In accordance with the terms of the Share Purchase Agreement, Lorus agreed not to issue any common shares or securities convertible into common shares, subject to certain limited exceptions, until July 31, 2007, at a price of less than $0.36 per common share. In addition, certain named executive officers of Lorus signed "lock-up" agreements whereby they agreed not to dispose of their common shares for a period of 30 days following the closing date, and for the 30 days immediately following such 30 day period, they agreed not to dispose greater than 50% of the aggregate number of common shares they hold as at the closing date.

On July 24, 2006 we entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on August 31 2006.

On October 6, 2004, we entered into an agreement to raise aggregate net proceeds of $13.9 million through the issuance of secured convertible debentures and warrants. The debentures are secured by a first charge over all of the assets of the Company. We received $4.4 million on October 6, 2004 (representing a $5.0 million debenture less an investor fee representing 4% of the $15.0 million to be received under the agreement), and $5.0 million on each of January 14 and April 15, 2005. All debentures issued under this agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime +1% until such time as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time, interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest will be payable in

cash or common shares at the option of the debenture holder. Common shares issued in payment of interest will be issued at a price equal to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment. For the year ended May 31, 2006, the Company has issued 2,153,000 common shares in settlement of $882 thousand in interest. For the year ended May 31, 2005 the Company issued 421,000 common shares in settlement of $300 thousand in interest.

The $15.0 million principal amount of debentures is convertible at the holder's option at any time into common shares of the Company with a conversion price per share of $1.00.

The Company issued to the debt holder 3,000,000 warrants expiring October 6, 2009 to buy common shares of the Company at a price per share equal to $1.00.

In addition, in 2005, Lorus issued common shares on the exercise of stock options for proceeds of $112 thousand.

On June 11, 2003, Lorus raised net proceeds of $29.9 million by way of a public offering of 26,220,000 units at a price of $1.25 per unit, each unit consisting of one common share and one-half of one purchase warrant. In 2004, Lorus issued common shares on the exercise of stock options for proceeds of $171 thousand.

Use of Proceeds

In our prospectus dated June 3, 2003, we indicated that the proceeds to be received from that financing would be used as follows: $12 million for the product development of our immunotherapy platform, $11 million for the product development of our antisense platform and $2 million for preclinical and discovery programs. It was anticipated that the balance of funding would be used for working capital and general purposes. Since the date of the prospectus, we have incurred $38.0 million in research and development expenses on our immunotherapy platform, $11.6 million on our antisense platform, and $1.8 million on preclinical and discovery programs. The additional spending on our immunotherapy platform was funded through cash and short term investments held by the Company prior to the 2003 offering, as well as the October 6, 2004 $15.0 million convertible debenture financing, and is the direct result of the expansion of the Virulizin® Phase III clinical trial. The spending anticipated in the 2003 prospectus on our antisense platform and preclinical and discovery programs was to be incurred over a number of years, including 2004, 2005 and 2006. We have sufficient funds available at the end of 2006 to fund the remaining $200 thousand to be spent on preclinical and discovery programs.

Subsequent Events

On July 13, 2006 we entered into an agreement with HighTech Beteiligungen GmbH & Co. KG ("HighTech") to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The subscription price represented a premium of 7.5% over the closing price of the common shares on the Toronto Stock Exchange on July 13, 2006. The transaction closed on August 30, 2006. In connection with the transaction, HighTech received demand registration rights that will enable HighTech to request the registration or qualification of the common shares for resale in the United States and Canada, subject to certain restrictions. These demand registration rights will expire on June

30, 2012. In addition, HighTech has the right to nominate one nominee to the board of directors of Lorus or, if it does not have a nominee, it will have the right to appoint an observer to the board. Upon completion of the transaction, HighTech will hold approximately 14% of the issued and outstanding common shares of Lorus Therapeutics Inc.

On July 24, 2006 Lorus entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on August 31, 2006.

On September 19, 2006 the Company announced that Dr. Jim A Wright would step down as the President and Chief Executive Officer of Lorus effective September 21, 2006. The departure of Dr. Wright resulted in a liability based on a mutual separation agreement executed subsequent to the quarter end of approximately $500 thousand. The amount is expected to be paid by the end of the third quarter 2007.

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

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

D. Trend information

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

E. Off-balance sheet arrangements

As at May 31, 2006, we have not entered into any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations

As at May 2006, we had contractual obligations requiring annual payments as follows:

(Amounts in 000s)	Less than 1 year	1-3 years	4-5 years	5+ years	Total
Operating leases	139	126	—	—	265
Convertible Debentures[1]	—	—	15,000	—	15,000
Total	**139**	**126**	**15,000**	**—**	**15,265**

[1] The convertible debentures as described above may be converted into common shares of Lorus at a conversion price of $1.00 per share. In the event that the holder does not convert the debentures, Lorus has an obligation to repay the $15.0 million in cash.

Reference Information

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 Nominating and Corporate Governance Committee, a Compensation Committee and an Environment, Health and Safety Committee; the members of each such committee are shown below. As at May 31, 2006, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control over 4,631,000 or approximately 2.7% of our common shares.

Name, Province/State and Country of Residence	Position	Director or Officer Since
J. KEVIN BUCHI(1) (3) Pennsylvania, United States	Director	December 2002
DONALD W. PATERSON(1)(3) Ontario, Canada	Director	July 1991
ALAN STEIGROD(2) Florida, United States	Director	May 2001
GRAHAM STRACHAN(1)(3)(4) Ontario, Canada	Chairman, Director	May 2001

DR. JIM WRIGHT Ontario, Canada	Former President and Chief Executive Officer, Director	October 1999
GEORG LUDWIG(2) Eschen, Liechtenstein	Director	September 2006
DR. MICHAEL MOORE(2) Surrey, United Kingdom	Director	September 2006
DR. AIPING YOUNG(4) Ontario, Canada	President and Chief Executive Officer, Director	October 1999
ELIZABETH WILLIAMS Ontario, Canada	Director of Finance and Acting Chief Financial Officer	November 2005

(1) Member of Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

(4) Member of Environment, Health and Safety Committee.

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

J. Kevin Buchi: Mr. Buchi is executive vice president and chief financial officer of Cephalon, Inc., an international biopharmaceutical company. Mr. Buchi is responsible for finance, accounting, manufacturing and information systems and has been involved in raising significant financing for Cephalon. He is a certified public accountant and has received a master's degree in management from the J.L. Kellogg Graduate School of Management at Northwestern University.

Donald W. Paterson: Mr. Paterson is President of Cavandale Corporation, a corporation principally engaged in providing strategic corporate consulting to emerging growth companies within the technology industry.

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

Graham Strachan: From 2002 to the present, Mr. Strachan has been the President of GLS Business Development Inc., a life-science consulting firm located in Etobicoke, Ontario. From 1986 to 2002, Mr. Strachan was the President and Chief Executive Officer of Allelix Biopharmaceuticals Inc.

Georg Ludwig: Mr. Ludwig is the Managing Director of ConPharm Anstalt, a consulting and management company specializing in life sciences funds. Prior to January 2005, Mr. Ludwig was a Managing Director at HighTech Private Equity, a leading European venture capital fund focused exclusively on providing financial support for the development of innovative products based on applied technologies and life sciences.

Dr. Michael Moore: Dr. Moore is currently the Chief Executive Officer of Piramed Limited, a UK-based biopharmaceutical company with a focus on novel classes of small molecule, anti-inflammatory and anti-tumour agents. Prior to joining Piramed in August 2003, Dr. Moore held several progressive positions in the biopharmaceutical industry (1988-2003), culminating in the position of Chief Scientific Officer and Research Director at Xenova Group plc.

Dr. Jim Wright: Dr. Wright stepped down as Lorus' President and CEO effective September 21, 2006 and continues to serve as a Director. Dr. Wright co-founded GeneSense in 1996, and served as its President, Chief Scientific Officer and a director before becoming our President and Chief Scientific Officer in October 1999 on our acquisition of GeneSense. Dr. Wright served as the Company's CEO since October 2001.

Dr. Aiping Young: Dr. Young was appointed President and CEO effective September 21, 2006 and as a Director on October 6, 2006. Prior to her appointment, Dr. Young had been our Chief Operating Officer since

November 20, 2003 and was a cofounder with Dr. Wright of GeneSense Technologies Inc. Dr. Young previously held the position of Senior Vice President, Research and Development and Chief Technical Officer at Lorus.

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

The following table outlines other public company directorships of our directors:

Board Member	Company
Jim A. Wright	—
Graham Strachan	Amorfix Biotechnologies Inc. Ibex Technologies Inc.
J. Kevin Buchi	Encysive Pharmaceuticals Celator Pharmaceuticals

Donald Peterson	ANGOSS Software Corporation NewGrowth Inc. Homeserve Technologies Inc. Utility Corporation
Alan Steigrod	Sepracor Inc. Poniard Pharmaceuticals Inc.
Michael Moore	—
George Ludwig	—

B. Compensation

Summary of Executive Compensation

The following table provides a summary of compensation earned during each of the last three fiscal years by our Chief Executive Officer, our Chief Financial Officer (or acting Chief Financial Officer) and for the next three most highly compensated executive officers (the "named executive officers"). The figures are in Canadian dollars.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation ($)
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options/ SARs Granted (#)(1)	
DR. JIM A. WRIGHT(4)	2006	345,442	53,000	Nil	947,500	Nil
Former President and Chief	2005	313,586	95,760	Nil	228,000	Nil
Executive Officer	2004	285,000	102,600	Nil	570,000	Nil
DR. AIPING YOUNG(4)	2006	259,692	32,000	Nil	1,194,144	Nil
President and Chief	2005	222,697	46,125	Nil	250,000	Nil
Executive Officer	2004	197,945	45,390	Nil	225,000	Nil

MS. ELIZABETH WILLIAMS(2)	2006	88,631	7,000	Nil	228,035	Nil
Director of Finance, Acting	2005	84,163	7,990	Nil	52,388	Nil
Chief Financial Officer	2004	Nil	Nil	Nil	Nil	Nil
MR. PAUL VAN DAMME(3)	2006	110,813	11,000	Nil	Nil	74,633
Former Chief Financial	2005	152,654	35,030	Nil	202,500	37,000
Officer	2004	Nil	Nil	Nil	Nil	Nil

(1) Options granted are net of forfeitures.

(2) Ms. Williams started with Lorus on June 14, 2004; hence, there are no amounts relating to Ms. Williams' compensation for 2004.

(3) Mr. Van Damme started with Lorus on September 7, 2004; hence, there are no amounts relating to Mr. Van Damme's compensation for 2004. Mr. Van Damme resigned from his position on November 9, 2005. The amount of "All Other Compensation" relates to a lump sum amount paid pursuant to our separation agreement with Mr. Van Damme.

(4) On September 21, 2006 Dr. Wright stepped down as Lorus' President and Chief Executive Officer and was replaced by Dr. Aiping Young, the Company's Chief Operating Officer. The 2006 compensation amounts relate to Dr. Wright's performance as the Company's President and Chief Operating Officer and Dr. Young's performance as the Company's Chief Operating Officer.

Directors' Compensation

During the fiscal year ended May 31, 2006, each director who was not an officer of the Company or a representative of a shareholder, was entitled to receive 50,000 stock options (the Chair received 100,000) and, at his election, common shares, deferred share units and/or cash compensation for attendance at the board of directors of the Company (the "Board") committee meetings. Compensation consisted of an annual fee of $15,000 (the Chair received $35,000) and $1,500 per Board meeting attended ($4,500 to the Chair of a Board meeting). Members of the Audit Committee received an annual fee of $8,000 (the Chair received $10,000). Members of the Compensation Committee received an annual fee of $5,000, and members of the Nominating and Corporate Governance Committee and the Environment, Health and Safety Committee received annual fees of $4,000 (the Chair of each of the three committees received $5,000).

In September 2005, stock options to purchase 300,000 common shares at a price of $0.68 per share expiring September 13, 2015 were granted, in aggregate, to our directors. These options vested 50% upon issuance and the remaining 50% will vest after one year. In addition, the Company reimbursed the directors for expenses incurred in attending meetings of the Board and committees of the Board.

Directors are entitled to participate in our Deferred Share Unit Plan. See "Equity Compensation Plans—Directors and Officers' Deferred Share Unit Plan".

Management Contracts

Under the employment agreement with Dr. Jim A. Wright dated October 29, 1999, as amended, Dr. Wright's position was President and Chief Executive Officer of the Company for an annual salary of $327,600. If within 24 months of a change of control of Lorus, Dr. Wright's employment was terminated without cause or if his responsibilities were reduced, then he was entitled to receive the equivalent of two years' of his basic salary, two years of his annual bonus (based on the average of the bonus granted to him in the three preceding years), and two years of benefits. If Dr. Wright's employment is terminated without cause and not subsequent to a change of control of Lorus, Dr. Wright was entitled to 18 months' salary and benefits and 18 months' of pro-rated annual bonus (and he was required to mitigate his loss after the first 12 months and account to Lorus for any severance payment beyond the first 12 months). The employment agreement provided that the Company may at any time assign the Chief Executive Officer to perform other functions that are consistent with his skills, experience and position within the Company. Dr. Wright reported directly to the Board. The bonus and options allocation of the President and Chief Executive Officer was determined by the Board and was awarded based 100% on achievement of corporate objectives.

In September 2006 the Company entered into a mutual separation agreement with Dr. Jim Wright. This agreement provided 18 months of severance to Dr. Wright.

Under the employment agreement with Dr. Aiping Young dated September 21, 2006, Dr. Young's position is President and Chief Executive Officer of the Company for an annual salary of $300,000. This agreement provides for a notice period equal to 18 months in the event of termination without cause or a resignation due to change in role as a result of a change in control of the Company. The employment agreement provides that the Company may at any time assign the President and Chief Executive Officer to perform other functions that are consistent with her skills, experience and position within the Company. Dr. Young reports to the Board of Directors. The bonus and options allocation of the President and Chief Executive Officer is as recommended by the Board of Directors and is awarded based 100% on achievement of corporate objectives. The agreement also provides for certain option grants including a one time grant of 1 million options vesting immediately, 1 million options of which the vesting is contingent upon certain events as well as an annual option grant of 500,000 options vesting upon the achievement of corporate objectives.

Under the employment agreement with Ms. Elizabeth Williams dated May 31, 2004, Ms. Williams' position is Director of Finance and Controller of the Company for an annual salary of $89,000. This agreement provides for a notice period equal to the greater of one month and the applicable notice entitlement under employment legislation in the event of termination. Ms. Williams reports to the Chief Executive Officer. The bonus and options allocation of the Director of Finance is as recommended by the Chief Executive Officer.

Vacation allocation on a calendar year basis for each Named Executive Officer is four weeks of paid vacation, pro rated to reflect a period of employment less than a full calendar year. Salary and bonus amounts for each of the Named Executive Officers for the fiscal year 2006 were as set out in the above Summary Compensation Table.

The following table sets forth certain details as at the end of the last fiscal year ended May 31, 2006 with respect to compensation plans pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	# of Common Shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	# of Common Shares remaining available for future issuance under the equity compensation plans
Plans approved by Shareholders(1)	10,300,000	$ 0.70	7,832,390
Plans not approved by Shareholders	—	—	—
Total	**10,300,000**	**$ 0.70**	**7,832,390**

(1) This includes options granted and reserved for issuance pursuant to our amended 1993 Stock Option Plan, amended 2003 Stock Option Plan and our Alternate Compensation Plan.

Equity Compensation Plans

Stock Option Plans

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

On January 1, 2005, the TSX amended its rules (the "TSX Rules") to provide that, among other things, the maximum number of shares issuable under a stock option plan of a TSX issuer may be a rolling number based on a

fixed percentage of the number of outstanding shares of such issuer from time to time. Previously, the TSX Rules required a stock option plan to have a fixed number of shares issuable thereunder. The amended TSX Rules require that a stock option plan with a rolling maximum be approved by the shareholders of an issuer every three years.

At our last annual meeting held on September 13, 2005, shareholders of the Company approved an amendment to the Stock Option Plans to provide that the number of shares available for issue is a rolling rate of 15% of the issued common shares of the Company. This amendment increased the number of options issuable under the Stock Option plans from 20,582,081 to 25,921,000. Shareholders also approved amendments to remove all prior limits on grants of options and issuance of common shares to any one individual and for individual insiders under the 1993 Stock Option Plan and 5% limits for individual insiders under the 2003 Stock Option Plan, and to replace such limits with the 10% limit for insiders as a group as provided under the amended TSX Rules.

The Stock Option Plans enables us to grant share options to employees, directors, and individuals in special contract relationships. The number of common shares reserved issuable pursuant to the Stock Option Plans is currently at a maximum of 25,921,000 common shares, amounting to 14.8 per cent of the common shares outstanding as of May 31, 2006. Of this amount a total of 7,832,390 options to acquire common shares are at May 31, 2006, outstanding under the Stock Option Plans. This amounts to 4.8 per cent of the common shares outstanding.

Our Board, within certain limitations, determines the terms, conditions and limitations of options granted under the Stock Option Plans. Under the Stock Option Plans, (a)

the number of common shares reserved for insiders, at any time, under all share compensation arrangements, cannot exceed 10 per cent of issued and outstanding common shares and (b) the number of common shares issued to any one insider, within any one year period, under all share compensation arrangements, cannot exceed 10 per cent of issued and outstanding common shares and (c) the number of common shares reserved for issuance under all share compensation arrangements may not exceed 5 per cent of issued and outstanding common shares. The Stock Option Plans may be amended by our Board for the proper administration of such plan, subject to regulatory approval, if required. The exercise price per common share is determined by the Board but shall not be less than the closing price of the Common shares on the TSX on the day prior to the day on which the option is granted. The Board fixes the term of each option when the option is granted, but may not be greater than 10 years from the date on which the option is granted. In general, the right of an optionee to exercise an option commences on the first anniversary date of the option grant and the optionee is entitled to purchase, on a cumulative basis, 50 per cent after the first year and 25 per cent of the optioned common shares in each of the next two years. However, in certain circumstances, options are granted entitling an optionee to purchase 100 per cent of the common shares earlier than the general pattern. In the event that our relationship with an optionee terminates, the provisions of the Stock Option Plans specify the applicable period for exercising options dependent upon the event giving rise to the termination and the position of the optionee with Lorus. Entitlement to unvested options ceases immediately upon termination of employment and entitlement to vested options ceases three months after employment is terminated. The Board is entitled to provide exceptions to this termination as deemed appropriate. For all optionees, entitlement continues for nine months in the event of death. The ability of an optionee to exercise an option under the Stock Option Plans may be accelerated in the event of a change of control of Lorus. The exercise price per Common Share is payable in full on the date of exercise. Options granted under the Stock Option Plans are not assignable.

During the period June 1 to May 31, 2006, options to purchase 6,721,000 common shares were granted under the Stock Option Plans at exercise prices between $0.26 and $0.78 per Common Share. During the year ended May 31, 2006, we granted options to employees, other than executive officers of the Company, to purchase 2,912,706 common shares, being 43.3% of the total incentive stock options granted during the year to employees and executive officers.

Performance Based Compensation Plans

Executive officers of the Company are eligible to participate in a performance related compensation plan (the "**Compensation Plan**"). The Compensation Plan provides for potential annual cash bonus payments and annual granting of options to purchase common shares under our 2003 Stock Option Plan. The potential annual cash bonus and annual granting of options to each executive officer are conditional upon the achievement by the Company and each executive officer of predetermined objectives reviewed by the Compensation Committee and approved by the Board. See "Compensation Committee" and "Report on Executive Compensation".

Directors and Officers' Alternate Compensation Plan

The Directors' and Officers' Alternate Compensation Plan was terminated by resolution of the Board, effective September 13, 2005.

Employee Share Purchase Plan

In November 2004, the Board adopted the Employee Share Purchase Plan ("ESPP"), effective January 1, 2005. For the year ended May 31, 2006, a total of 293,000 common shares had been purchased by employees and executive officers under the ESPP at prices per share between $0.2295 and $0.578 per Common Share. During fiscal 2006, under the ESPP, executive officers as a group purchased 90,000 common shares at a weighted average purchase price of $0.31 per Common Share and employees, excluding executive officers, as a group purchased 203,000 common shares at an average exercise price of $0.29 per Common Share.

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

Deferred Profit Sharing Plan

We have a Deferred Profit Sharing Plan ("DPSP") matching program which is available to all employees. The DPSP matching program provides 100% matching of employee contributions into each employee's Group RRSP account up to a maximum of 3% of the employee's gross earnings. We began making contributions to the employees' Group Retirement Savings Plan in fiscal 1998. Beginning February 2001, our contributions have been paid into an employer-sponsored DPSP.

Directors' and Officers' Deferred Share Unit Plan

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

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

The Deferred Share Unit Plan is administered by the Board (in consultation with the Compensation Committee) and, subject to regulatory requirements, may be amended by the Board without shareholder approval. When a participating director ceases to hold the position of director and is no longer otherwise employed by us, the

participating director receives either (a) a lump sum cash payment equal to the number of deferred share units held multiplied by the then fair market value of the common shares on the date of termination, or (b) the number of common shares that can be acquired in the open market with the amount described in (a), either case being subject to withholding for income tax. The Board may terminate the Deferred Share Unit Plan any time before or after any allotment or accrediting of deferred share units thereunder.

Option Grants During Fiscal Year 2006

The following tables set forth the options granted to and exercised by each of the Named Executive Officers during the year ended May 31, 2006:

Option/SAR Grants During the Most Recently Completed Financial Year

Name and Principal Position	Securities Under Options/SARs Granted (#)(1)	% 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. JIM A. WRIGHT(5)	300,000(2)	2.08	0.78	0.78	July 19, 2015
Former President and Chief	807,500(3)	12.01	0.30	0.30	Oct. 10, 2010 to
Executive Officer					July 19, 2015
DR. AIPING YOUNG(5)	208,333(2)	3.10	0.78	0.78	July 19, 2015
President and Chief	75,000(4)	1.12	0.78	0.78	July 19, 2015
Executive Officer	50,000	0.74	0.26	0.26	Nov. 30, 2015
	50,000	0.74	0.30	0.30	Jan. 5, 2016
	200,000(2)	2.98	0.30	0.30	Jan. 5, 2016
	610,811(3)	9.09	0.30	0.30	Oct. 10, 2010 to July 19, 2015
MS. ELIZABETH WILLIAMS	54,487(4)	0.81	0.78	0.78	July 19, 2015
Director of Finance, Acting	50,000	0.74	0.26	0.26	Nov. 30, 2015
Chief Financial Officer	50,000	0.74	0.30	0.30	Jan. 5, 2016
	20,000	0.30	0.30	0.30	Jan. 5, 2016
	53,548(3)	0.80	0.30	0.30	July 20, 2014 to July 19, 2015
MR. PAUL VAN DAMME	Nil	Nil	Nil	Nil	Nil
Former Chief Financial Officer					

(1) Options granted are net of forfeitures.

(2) These options are incentive options granted to certain Named Executive Officers to purchase common shares. The options vest immediately upon the attainment of specific undertakings; failing to achieve the undertakings will result in forfeiture on the specified deadline.

(3) These options were granted as an incentive to senior management. Options granted represented 50% of the options held by the individual prior to January 6, 2006.

(4) These options were granted on July 20, 2005 in respect of corporate and personal performance during the year ended May 31, 2006. The options vest on the basis of 50% on the first anniversary and 25% on the second and third anniversaries of the date of granting.

(5) On September 21, 2006 Dr. Wright stepped down as Lorus' President and Chief Executive Officer and was replaced by Dr. Aiping Young, the Company's Chief Operating Officer. The 2006 option amounts relate to Dr.

Wrights performance as the Company's President and Chief Operating Officer and Dr. Young's performance as the Company's Chief Operating Officer.

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 ($)	Unexercised Options/SARs at May 31, 2006 (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options/SARs at May 31, 2006 ($) Exercisable/ Unexercisable
DR. JIM A. WRIGHT	Nil	Nil	2,310,000/112,500	38,500/1,875
Former President and Chief Executive Officer				
DR. AIPING YOUNG	Nil	Nil	1,644,941/487,500	29,228/19,812
President and Chief Executive Officer				
MS. ELIZABETH WILLIAMS	Nil	Nil	39,921/241,022	655/10,817
Acting Chief Financial Officer				
MR. PAUL VAN DAMME	Nil	Nil	Nil	Nil
Former Chief Financial Officer				

C. Board Practices

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

Committees of the Board of Directors

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

The members of these committees are as follows:

Audit Committee:	J. Kevin Buchi, Donald W. Paterson and Graham Strachan
Compensation Committee:	Alan Steigrod, Georg Ludwig and Michael Moore
Nominating and Corporate Governance Committee:	Donald W. Paterson, Graham Strachan and J. Kevin Buchi
Environment, Health and Safety Committee:	Graham Strachan and Dr. Aiping Young

Compensation Committee.

Our board of directors, upon the advice of the Compensation Committee, determines executive compensation. During the period from September 13, 2005 to June 30, 2006 the Compensation Committee was comprised of three independent directors, Mr. Buchi, Mr. Strachan and Mr. Steigrod. Mr. Steigrod is the Chair of the Compensation Committee. The Compensation Committee met three times during the above period.

Compensation Committee Mandate

The Compensation Committee's mandate is to review, and advise the board of directors on, the recruitment, appointment, performance, compensation, benefits and termination of executive officers. The Compensation Committee also administers and reviews procedures and policies with respect to our stock option plan, employee benefit programs, pay equity and employment equity. The philosophy of the Compensation Committee regarding executive officer compensation is to reward performance and to provide a total compensation package that will attract and retain qualified, motivated and achievement oriented executive officers.

The Compensation Committee attempts to create compensation arrangements that will align the interests of our executive officers and our shareholders. The key components of executive officer compensation are base salary, potential annual cash bonuses and annual participation in the stock option plan.

Audit Committee.

Pursuant to Canadian securities laws, our board of directors has determined that Messrs. Buchi, Paterson and Strachan are financially literate, as all have experience in reviewing and analysing the financial reports and ascertaining the financial position of a corporation. Mr. Buchi is a certified public accountant and holds the position of Chief Financial Officer in a public pharmaceutical company. Pursuant to United States securities laws, Mr. Buchi is also an audit committee "financial expert". Mr. Paterson, in his position as President of Cavandale Corporation, is educated and experienced in reading and analyzing financial statements. Mr. Strachan has experience reading and analysing financial statements both as President of his own life science consulting firm and in a prior position as President, Chief Executive Officer and a director of a biopharmaceutical company. Additionally, we believe that all three members of the audit committee qualify as "independent" as that term is defined in the relevant Canadian and United States securities laws and stock exchange rules relating to the composition of the audit committee.

Audit Committee Mandate

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

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

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

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

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

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

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

D. Employees

As at May 31, 2006, we employed 33 full-time persons and one part-time person in research and drug development and administration activities. Of our employees, nine

hold Ph.D.s. To encourage a focus on achieving long-term performance, employees and members of the board of directors have the ability to acquire an ownership

interest in the Company through Lorus' stock option plan and employees can participate in the employee share purchase plan, which was established in 2005.

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

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

E. Share Ownership

The following table sets forth information regarding beneficial ownership of our common shares as of November 17, 2006, by our officers and directors individually and as a group.

	Number of Shares Beneficially Owned	Percentage of Shares Outstanding
Jim A. Wright	4,428,521	2.12%
Aiping H. Young	14,340	0.00%
Elizabeth Williams	6,852	0.00%
Michael Moore	Nil	0.00%
Georg Ludwig*	29,090,000	13.92%
Donald Paterson	125,260	0.06%
Graham Strachan	10,000	0.00%
Alan Steigrod	Nil	0.00%
Kevin Buchi	50,000	0.02%
All directors and executive officers as a group (seven persons)	33,724,973	16.14%

* Mr. Ludwig is affiliated with HighTech in his capacity as managing director.

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

On July 13, 2006, Lorus entered into a share purchase agreement with High Tech Beteiligungen GmbH & Co. KG ("High Tech") to issue 28.8 million common shares at $0.36 per share for gross proceeds of $10.4 million. The transaction closed on August 30, 2006. As of November 17, 2006 based solely on 13-G and 13-D reports filed with the Securities and Exchange Commission, High Tech holds approximately 14% of the issued and outstanding common shares of Lorus.

On July 24, 2006 Lorus entered into a share purchase agreement with Technifund Inc. ("Technifund") to issue, on a private placement basis, 5,000,000 common shares at $0.36 for gross proceeds of $1,800,000. The transaction closed on August 31, 2006. As of November 17, 2006 based solely on 13-G and 13-D reports filed with the Securities and Exchange Commission, Technifund holds approximately 7% of the issued and outstanding common shares of Lorus.

B. Related Party Transactions

See Item 7.A.

In 2006, we did not enter into any transactions with related parties. In order to effectively execute our business strategy, we expect to continue outsourcing various functions to the expertise of third-parties such as contract manufacturing organizations, contract research organizations, and other research organizations. These relationships are with non-related third-parties and occur at arm's length and on normal commercial terms.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Financial Statements and Other Financial Information

See Item 17.

B. Significant Changes

None.

Item 9. The Offer and Listing

A. Offer and Listing details

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

Price Range of Common Stock and Trading Markets

Our common shares are currently listed on the TSX under the symbol "LOR" and on the AMEX under the symbol "LRP". The following table sets out the price ranges and trading volumes of our common shares on the TSX and Amex for the periods indicated:

	American Stock Exchange/Amex (US$)		Toronto Stock Exchange/TSX (CDN$)	
Five most recent full fiscal years:	**High**	**Low**	**High**	**Low**
Year ended May 31, 2006	0.79	0.19	0.92	0.22
Year ended May 31, 2005	0.70	0.45	0.94	0.57
Year ended May 31, 2004	1.09	0.60	1.47	0.83
Year ended May 31, 2003	1.40	0.18	2.04	0.31
Year ended May 31, 2002	1.16	0.41	1.80	0.63
Year ended May 31, 2006	0.79	0.19	0.92	0.22
Quarter ended May 31, 2006	0.36	0.30	0.42	0.34
Quarter ended February 28, 2006	0.42	0.19	0.49	0.22
Quarter ended November 30, 2005	0.79	0.22	0.92	0.25
Quarter ended August 31, 2005	0.68	0.55	0.84	0.60
Year ended May 31, 2005	0.70	0.45	0.94	0.57
Quarter ended May 31, 2005	0.68	0.55	0.94	0.58
Quarter ended February 28, 2005	0.70	0.46	0.88	0.66
Quarter ended November 30, 2004	0.69	0.55	0.86	0.57
Quarter ended August 31, 2004	0.69	0.45	0.82	0.67

October 2006	0.27	0.20	0.30	0.23
September 2006	0.31	0.25	0.34	0.28
August 2006	0.34	0.26	0.39	0.30
July 2006	0.32	0.23	0.38	0.28
June 2006	0.33	0.28	0.37	0.31
May 2006	0.35	0.30	0.38	0.34

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

Description of Securities

Our authorized share capital consists of an unlimited number of common shares, without par value.

As of May 31, 2006, 175,262,548 common shares were issued and outstanding. In addition, as of May 31, 2006 there were 13,470,000 common shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of $0.48 per share, 4,662,390 common shares reserved for future grant or issuance under our stock option plan and 3,000,000 common shares issuable upon the exercise of outstanding warrants at a weighted-average exercise price of $1.00 per share.

B. Articles of Incorporation and By-laws

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

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

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

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

- limitations on share ownership;
- provisions of the Articles or by-laws that would have the effect of delaying, deferring or preventing a change of control of our company;
- by-law provisions that govern the ownership threshold above which stockholder ownership must be disclosed; and
- conditions imposed by the Articles or by-laws governing changes in capital, but Alberta law requires any changes to the terms of share capital be approved by 66b% of the shares represented by proxy or in person at a stockholders' meeting convened for that purpose at which a quorum exists.

Common Stock

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

Holders of outstanding shares of common stock 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 stock are entitled to receive, pro rata, our net assets available after provision has been made for the preferential rights of the holders of preferred stock. Holders of outstanding common stock have no pre-emptive, conversion or redemption rights. All of the issued and outstanding shares of common stock are, and all unissued shares of common stock, when offered and sold will be, duly authorized, validly issued, fully paid and non-assessable. To the extent that additional shares of common stock may be issued in the future, the relative interests of the then existing stockholders may be diluted. There were 175,262,548 common shares issued and outstanding at May 31, 2006.

Convertible Debentures

On October 6, 2004, we entered into an agreement to raise aggregate net proceeds of $13.9 million through the issuance of secured convertible debentures and warrants. The debentures are secured by a first charge over all of the assets of the Company. We received $4.4 million on October 6, 2004 (representing a $5.0 million debenture less an investor fee representing 4% of the $15.0 million to be received under the agreement), and $5.0 million on each of January 14 and April 15, 2005. All debentures issued under this agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime +1% until such time as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time, interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest will be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest will be issued at a price equal

to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment. For the year ended May 31, 2006, the Company has issued 2,153,000 common shares in settlement of $882 thousand in interest. For the year ended May 31, 2005 the Company issued 421,000 common shares in settlement of $300 thousand in interest.

The $15.0 million principal amount of debentures is convertible at the holder's option at any time into common shares of the Company with a conversion price per share of $1.00.

The Company issued to the debt holder 3,000,000 warrants expiring October 6, 2009 to buy common shares of the Company at a price per share equal to $1.00.

Shares Eligible for Future Sale

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

At May 31, 2006 there were 10,300,000 options outstanding under the plan to purchase an equal number of shares of common stock. The outstanding options are exercisable at a weighted average price per share of $0.70.

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

The Company has entered into material contracts that are other than in the ordinary course of business during the previous two years, as follows:

Please refer to Item 4 — Business Overview — Business Strategy, for details of the share purchase agreements entered into with each of High Tech and Technifund. Please refer to Item 4 — Business Overview — Business Strategy — Secured Convertible Debentures, for details of the subscription agreement, debentures and warrants entered into with TEMIC.

Other than the agreements described in the preceding paragraph, we have not, during our financial year ending May 31, 2006, entered into any material contracts other than contracts in the ordinary course of business. The Company is not a party to any other material contracts entered into since January 1, 2002 and still in effect.

D. Exchange Controls

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

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

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

E. Taxation

U.S. Federal Income Tax Consequences

The following is a summary of the anticipated material U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of common shares of the Company ("Common Shares").

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

Scope of this Disclosure

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations (whether final, temporary, or proposed), published rulings of the Internal Revenue Service ("IRS"), published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "Canada-U.S. Tax Convention"), and U.S. court decisions that are applicable and, in each case, as in

effect and available, as of the date of this Annual Report. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

U.S. Holders

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Common Shares that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the U.S., (b) a corporation, or any other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S. or any state in the U.S., including the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

Non-U.S. Holders

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of Common Shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to non-U.S. Holders. Accordingly, a non-U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any tax treaties) of the acquisition, ownership, and disposition of Common Shares.

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

This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to U.S. Holders that are subject to special provisions under the Code, including

the following U.S. Holders: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a "functional currency" other than the U.S. dollar; (e) U.S. Holders that are liable for the alternative minimum tax under the Code; (f) U.S. Holders that own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code; or (i) U.S. Holders that own, directly or indirectly, 10% or more, by voting power or value, of the outstanding shares of the Company. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own financial advisor, legal counsel or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

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

Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, or foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. state and local, U.S. federal estate and gift, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares. (See "Taxation—Canadian Taxation" below).

U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares

Distributions on Common Shares

General Taxation of Distributions

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See more detailed discussion at "Disposition of Common Shares" below).

Reduced Tax Rates for Certain Dividends

For taxable years beginning after December 31, 2002 and before January 1, 2011, a dividend paid by the Company generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) the Company is a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on Common Shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the "ex-dividend date" (i.e., the first date that a purchaser of such Common Shares will not be entitled to receive such dividend).

The Company generally will be a "qualified foreign corporation" under Section 1(h)(11) of the Code (a "QFC") if (a) the Company is incorporated in a possession of the U.S., (b) the Company is eligible for the benefits

of the Canada-U.S. Tax Convention, or (c) the Common Shares are readily tradable on an established securities market in the U.S. However, even if the Company satisfies one or more of such requirements, the Company will not be treated as a QFC if the Company is a "passive foreign investment company" (as defined below) for the taxable year during which the Company pays a dividend or for the preceding taxable year. In 2003, the U.S. Department of the Treasury (the "Treasury") and the IRS announced that they

intended to issue Treasury Regulations providing procedures for a foreign corporation to certify that it is a QFC. Although these Treasury Regulations were not issued in 2004, the Treasury and the IRS have confirmed their intention to issue these Treasury Regulations. It is expected that these Treasury Regulations will obligate persons required to file information returns to report a distribution with respect to a foreign security issued by a foreign corporation as a dividend from a QFC if the foreign corporation has, among other things, certified under penalties of perjury that the foreign corporation was not a "passive foreign investment company" for the taxable year during which the foreign corporation paid the dividend or for the preceding taxable year.

As discussed below, the Company does not believe that it was a "passive foreign investment company" for the taxable year ended December 31, 2005, and does not expect that it will be a "passive foreign investment company" for the taxable year ending December 31, 2006. (See more detailed discussion at "Additional Rules that May Apply to U.S. Holders" below). However, there can be no assurance that the IRS will not challenge the determination made by the Company concerning its "passive foreign investment company" status or that the Company will not be a "passive foreign investment company" for the current or any future taxable year. Accordingly, although the Company expects that it may be a QFC, there can be no assurances that the IRS will not challenge the determination made by the Company concerning its QFC status, that the Company will be a QFC for the current or any future taxable year, or that the Company will be able to certify that it is a QFC in accordance with the certification procedures issued by the Treasury and the IRS.

If the Company is not a QFC, a dividend paid by the Company to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). The dividend rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the dividend rules.

Distributions Paid in Foreign Currency

The amount of a distribution paid to a U.S. Holder in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

Dividends Received Deduction

Dividends paid on the Common Shares generally will not be eligible for the "dividends received deduction." The availability of the dividends received deduction is subject to complex limitations that are beyond the scope of this discussion, and a U.S. Holder that is a corporation should consult its own financial advisor, legal counsel, or accountant regarding the dividends received deduction.

Disposition of Common Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in the Common Shares sold or otherwise disposed of. Any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the Common Shares are held for more than one year. Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Common Shares generally will be treated as "U.S. source" for purposes of applying the U.S. foreign tax credit rules. (See more detailed discussion at "Foreign Tax Credit" below).

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses and net capital losses are subject to complex limitations under the Code. For a U.S. Holder that is an individual, estate, or trust, capital losses may be used to offset capital gains and up to U.S.$3,000 of ordinary income. An unused capital loss of a U.S. Holder that is an individual, estate, or trust generally may be carried forward to subsequent taxable years, until such net capital loss is exhausted. For a U.S. Holder that is a corporation, capital losses may be used to offset capital gains, and an unused capital loss generally may be carried back three years and carried forward five years from the year in which such net capital loss is recognized.

Foreign Tax Credit

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

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." In addition, this limitation is calculated separately with respect to specific categories of income (including "passive income," "high withholding tax interest," "financial services income," "general income," and certain other categories of income). Dividends paid by the Company generally will constitute "foreign source" income and generally will be categorized as "passive income" or, in the case of certain U.S. Holders, "financial services income." However, for taxable years beginning after December 31, 2006, the foreign tax credit limitation categories are reduced to "passive category income" and "general category income" (and the other categories of income, including "financial services income," are eliminated). The foreign tax credit rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the foreign tax credit rules.

Information Reporting; Backup Withholding Tax

Payments made within the U.S., or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from certain sales or other taxable dispositions of, Common Shares generally will be subject to information reporting and backup withholding tax, at the rate of 28%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, U.S. Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the information reporting and backup withholding tax rules.

Additional Rules that May Apply to U.S. Holders

If the Company is a "controlled foreign corporation" or a "passive foreign investment company" (each as defined below), the preceding sections of this summary may not describe the U.S. federal income tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares.

Controlled Foreign Corporation

The Company generally will be a "controlled foreign corporation" under Section 957 of the Code (a "CFC") if more than 50% of the total voting power or the total value of the outstanding shares of the Company is owned, directly or indirectly, by citizens or residents of the U.S., domestic partnerships, domestic corporations, domestic estates, or domestic trusts (each as defined in Section 7701(a)(30) of the Code), each of which own, directly or indirectly, 10% or more of the total voting power of the outstanding shares of the Company (a "10% Shareholder").

If the Company is a CFC, a 10% Shareholder generally will be subject to current U.S. federal income tax with respect to (a) such 10% Shareholder's pro rata share of the "subpart F income" (as defined in Section 952 of the Code) of the Company and (b) such 10% Shareholder's pro rata share of the earnings of the Company invested in "United States property" (as defined in Section 956 of the Code). In addition, under Section 1248 of the Code, any gain recognized on the sale or other taxable disposition of Common Shares by a U.S. Holder that was a 10% Shareholder at any time during the five-year period ending with such sale or other taxable disposition generally will be treated as a dividend to the extent of the "earnings and profits" of the Company that are attributable to such Common Shares. If the Company is both a CFC and a "passive foreign investment company" (as defined below), the Company generally will be treated as a CFC (and not as a "passive foreign investment company") with respect to any 10% Shareholder.

The Company does not believe that it has previously been, or currently is, a CFC. However, there can be no assurance that the Company will not be a CFC for the current or any future taxable year.

Passive Foreign Investment Company

The Company generally will be a "passive foreign investment company" under Section 1297 of the Code (a "PFIC") if, for a taxable year, (a) 75% or more of the gross income of the Company for such taxable year is passive income or (b) on average 50% or more of the assets held by the Company either produce passive income or are held for the production of passive income, based on the fair market value of such assets (or on the adjusted tax basis of such assets, if the Company is not publicly traded and either is a "controlled foreign corporation" or makes an election). "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. However, for transactions entered into on or before December 31, 2004, gains arising from the sale of commodities generally are excluded from passive income if (a) a foreign corporation holds the commodities directly (and not through an agent or independent contractor) as inventory or similar property or as dealer property, (b) such foreign corporation incurs substantial expenses related to the production, processing, transportation, handling, or storage of the commodities, and (c) gross receipts from sales of commodities that satisfy the requirements of clauses (a) and (b) constitute at least 85% of the total gross receipts of such foreign corporation. For transactions entered into after December 31, 2004, gains arising from the sale of commodities generally are excluded from passive income if substantially all of a foreign corporation's commodities are (a) stock in trade of such foreign corporation or other property of a kind which would properly be included in inventory of such foreign corporation, or property held by such foreign corporation primarily for sale to customers in the ordinary course of business, (b) property used in the trade or business of such foreign corporation that would be subject to the allowance for depreciation under Section 167 of the Code, or (c) supplies of a type regularly used or consumed by such foreign corporation in the ordinary course of its trade or business.

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

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of Common Shares will depend on whether such U.S. Holder makes an election to treat

the Company as a "qualified electing fund" or "QEF" under Section 1295 of the Code (a "QEF Election") or a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of Common Shares, and any "excess distribution" (as defined in Section 1291(b) of the Code) paid on the Common Shares, must be rateably allocated to each day in a Non-Electing U.S. Holder's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such Non-Electing U.S. Holder's holding period for the Common Shares generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

A U.S. Holder that makes a QEF Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, a U.S. Holder that makes a QEF Election generally will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the "net capital gain" of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) and the "ordinary earnings" of the Company, which will be taxed as ordinary income to such U.S. Holder. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each taxable year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company.

A U.S. Holder that makes a Mark-to-Market Election generally will not be subject to the rules of Section 1291 of the Code discussed above. A U.S. Holder may make a Mark-to-Market Election only if the Common Shares are "marketable stock" (as defined in Section 1296(e) of the Code). A U.S. Holder that makes a Mark-to-Market Election will include in gross income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. Holder's tax basis in such Common Shares. A U.S. Holder that makes a Mark-to-Market Election will, subject to certain limitations, be allowed a deduction in an amount equal to the excess, if any, of (a) such U.S. Holder's adjusted tax basis in the Common Shares over (b) the fair market value of such Common Shares as of the close of such taxable year.

The Company does not believe that it was a PFIC for the taxable year ended December 31, 2005, and does not expect that it will be a PFIC for the taxable year ending December 31, 2006. However, the determination of whether the Company was, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to various interpretations. In addition, whether the Company will be a PFIC for the taxable year ending December 31, 2006 and each subsequent taxable year depends on the assets and income of the Company over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this Annual Report. Accordingly, there can be no assurance that the IRS will not challenge the determination made by the Company concerning its PFIC status or that the Company will not be a PFIC for the current or any future taxable year.

The PFIC rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

Canadian Taxation

The following summary fairly describes, as of the date hereof, the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "ITA") generally applicable to an owner of Common Shares who is not and has not been or deemed to be resident in Canada for purposes of the ITA at any time while such Holder holds the Common Shares, is a resident of the U.S. for purposes of the Canada-U.S. Tax Convention, and who, for purposes of the ITA, at all relevant times: holds the Common Shares as capital property; does not have a "permanent establishment" or "fixed base" in Canada, as defined in the Canada-U.S. Tax Convention; does not use or hold (and is not deemed to use or hold) the Common Shares in carrying on a business in Canada for purposes of the ITA; and deals at arm's length and is not affiliated with the Company within the meaning of the ITA (a "Holder"). The Common Shares will generally constitute capital property to a Holder unless such Holder holds such

Common Shares in the course of carrying on a business of trading or dealing in securities or has acquired such Common Shares in a transaction or transactions considered to be an adventure in the nature of trade.

This summary is not applicable to a Holder an interest in which is a "tax shelter investment" as defined in the ITA, to a Holder who is a "financial institution" for purposes of the "mark-to-market" rules contained in the ITA, or to a Holder who is a "specified financial institution" for the purposes of the ITA. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the ITA, the regulations thereunder (the "Regulations"), the Canada-U.S. Tax Convention, all specific proposed amendments to the ITA or the Regulations publicly announced by or on behalf of the Canadian Minister of Finance prior to the date hereof, (the "Specific Proposals") and the Company's understanding of the current published administrative and assessing practices of the Canada Revenue Agency (the "CRA"). This summary assumes the Specific Proposals will be enacted as proposed but no assurance can be given that this will be the case and this summary does not otherwise take into account or anticipate any changes in administrative practice or in law, whether by way of judicial, governmental or legislative decision or action, nor does it take into account any income tax laws or considerations of any province or territory of Canada or any jurisdiction other than Canada, which may differ from the Canadian federal income tax consequences described in this document.

This summary is of a general nature only, is not exhaustive of all possible tax considerations applicable to an investor, and is not intended to be relied on as legal or tax advice or representations to any particular investor. Consequently, investors are urged to seek independent tax advice in respect of their particular circumstances and the consequences to them of the acquisition, ownership or disposition of Common Shares having regard to their particular circumstances.

Dividends

Under the Canada-U.S. Tax Convention, dividends paid or credited, or deemed to be paid or credited, on the Common Shares to a Holder generally will be subject to Canadian withholding tax at the rate of 15% of the gross amount of those dividends. If a Holder is a company within the meaning of the Canada-U.S. Tax Convention and owns 10% or more of the Company's voting stock, the rate is reduced from 15% to 5%.

Under the Canada-U.S. Tax Convention, dividends paid to religious, scientific, literary, educational or charitable organizations or certain pension, retirement or employee benefit organizations that have complied with administrative procedures specified by the CRA are exempt from the aforementioned Canadian withholding tax so long as such organization is resident in and exempt from tax in the U.S. Such exemption does not apply to the extent the dividends are received in connection with a trade or business carried on by such Holder or where the Company is related to such Holder.

Disposition of Common Shares

A Holder will only be subject to taxation in Canada under the ITA on capital gains realized by the Holder on a disposition or deemed disposition of the Common Shares if such shares constitute "taxable Canadian property" within the meaning of the ITA at the time of the disposition or deemed disposition and the Holder is not afforded relief under the Canada-U.S. Tax Convention. In general, the Common Shares will not be "taxable Canadian property" to a Holder if, at the time of their disposition, they are listed on a stock exchange that is prescribed in the Regulations (which includes the American Stock Exchange), unless:

- at any time within the 60-month period immediately preceding the disposition or deemed disposition, the Holder, persons not dealing at arm's length with the Holder, or the Holder together with such non-arm's length persons, owned 25% or more of the issued shares of any class or series of the Company's capital stock;
- the Holder was formerly resident in Canada and, upon ceasing to be a Canadian resident, elected under the ITA to have the Common Shares deemed to be "taxable Canadian property"; or
- the Holder's Common Shares were acquired in a tax deferred exchange in consideration for property that was itself "taxable Canadian property."

If a Holder's Common Shares are "taxable Canadian property," such Holder will recognize a capital gain (or a capital loss) for the taxation year during which the Holder disposes, or is deemed to have disposed of, the Common Shares. Such capital gain (or capital loss) will be equal to the amount by which the proceeds of disposition exceed (or are less than) the Holder's adjusted cost base of such Common Shares and any reasonable costs of making the disposition. One-half of any such capital gain (a "taxable capital gain") must be included in income in computing the Holder's income and one half of any such capital loss (an "allowable capital loss") is generally deductible by the Holder from taxable capital gains arising in the year of disposition. To the extent a Holder has insufficient taxable capital gains in the current taxation year against which to apply an allowable capital loss, the deficiency will constitute a net capital loss for the current taxation year and may generally be carried back to any of the three preceding taxation years or carried forward to any future taxation year, to the extent and under the circumstances described in the ITA.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

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

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

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

I. Subsidiary Information

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

Item 11. Qualitative and Quantitative Disclosures about Market Risk

Refer to notes 13 and 15 of the consolidated financial statements in Item 17.

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) Evaluation of disclosure controls and procedures

As of the end of Lorus' fiscal year ended May 31, 2006, an evaluation of the effectiveness of Lorus' "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), was carried out by Lorus' management with the participation of the principal executive officer and principal financial officer. Based upon on that evaluation, Lorus' principal executive officer and principal financial have concluded that as of the end of that fiscal year, Lorus' disclosure controls and procedures are effective to ensure that information required to be disclosed by Lorus in reports that it files or submits 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 Lorus' management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while Lorus' principal executive officer and principal financial officer believe that Lorus' disclosure controls and procedures provide a reasonable

level of assurance that they are effective, they do not expect that Lorus' 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

Not applicable.

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

Not applicable.

(d) Changes in internal controls

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

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that J. Kevin Buchi, a director of the Company and the Chairman of the Audit Committee, possesses the attributes required of an "audit committee financial expert," and is "independent," under applicable AMEX rules.

Item 16B. Code of Ethics

We have adopted a Code of Ethics, which applies to all of our officers, directors, employees and consultants. The Code of Ethics is publicly available on our website at www.lorusthera.com. A copy of the Code of Ethics is also available upon written request from our Director of Finance at our offices located at 2 Meridian Road, Toronto, Ontario M9W 4Z7. There were no amendments to, or waivers granted under, the Code of Ethics during our fiscal year ended May 31, 2006.

Item 16C. Principal Accountant Fees and Services

KPMG LLP has served as our principal independent auditors since October 1994. The total fees billed for professional services by KPMG LLP (our external auditors) for the years ended May 31, 2006 and 2005 are as follows:

	2006	2005
Audit Fees	$198,500	$167,326
Audit-Related Fees	—	—
Tax Fees	$ 13,100	$ 24,400
All Other Fees	—	—
Total	$211,600	$191,726

Audit fees consist of the fees paid with respect to the audit of our consolidated annual financial statements, quarterly reviews and accounting assistance. Tax fees relate to assistance provided with respect to proposed financing transactions and review of tax returns.

Pre-Approval Policies and Procedures

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

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

No services were provided by KPMG LLP under a *de minimus* exemption for our fiscal year ended May 31, 2006.

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

Not applicable.

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

Not applicable.

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

We have responded to Item 17 in lieu of responding to this Item.

Item 19. Exhibits

Number	Exhibit
1.1 *	Articles of Amalgamation
1.2 *	By-laws of the Registrant
1.3 **	Articles of Amendment, dated August 25, 1992, regarding name change of Company to Imutec Corporation
1.4 ***	Articles of Amendment, dated November 27, 1996, regarding name change of Company to Imutec Pharma Inc.
1.5 ****	Articles of Amendment dated November 19, 1998, regarding name change of Company to Lorus Therapeutics Inc.
1.6	Certificate of Continuance dated October 1, 2005
2.1	Share Purchase Agreement dated as of July 13, 2006 between Lorus and High Tech Beteiligungen GmbH & Co. KG (“High Tech”)
2.2	Registration Rights Agreement dated as of August 30, 2006 between Lorus and High Tech
2.3	Share Purchase Agreement dated as of July 24, 2006 between Lorus and Technifund Inc.
2.4 *****	Subscription Agreement entered into with The Erin Mills Investment Corporation dated October 6, 2004
2.5	Convertible Secured Debentures issued to The Erin Mills Investment Corporation on April 15, 2005, January 14, 2005 and October 6, 2004
4.1	Stock Option Plan
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.
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
*	Incorporated by reference to File 0-19763, Registration Statement on Form 20-FR, dated March 4, 1992.
**	Incorporated by reference to File 0-19763, Annual Report on Form 20-F, dated September 28, 1992.
***	Incorporated by reference to File 0-19763, Annual Report on Form 20-F, dated November 18, 1998.
****	Incorporated by reference to File 0-1963, Annual Report on Form 20-F dated November 30, 1999.
*****	Incorporated by reference to File 1-32001, Form 6-K dated February 10, 2005.

13.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

Signatures

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

LORUS THERAPEUTICS INC.

By: /s/ Aiping H. Young

Name: Aiping H. Young
Title: President and Chief Executive Officer
Date: November 21, 2006

By: /s/ Elizabeth Williams

Name: Elizabeth Williams
Title: Director of Finance and Acting Chief Financial Officer
Date: November 21, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

/s/ Aiping H. Young	/s/ Elizabeth Williams
Aiping H. Young President and Chief Executive Officer	Elizabeth Williams Director of Finance (Acting Chief Financial Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Lorus Therapeutics Inc.

We have audited the consolidated balance sheets of Lorus Therapeutics Inc. (the "Company") as at May 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended May 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2006 in accordance with Canadian generally accepted accounting principles.

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

As discussed in note 3 to the financial statements, the Company adopted new accounting policies related to the consolidation of variable interest entities, financial instruments — disclosure and presentation as a liability of certain obligations that may be settled at the Company's option in cash or the equivalent value by a variable number of the Company's own equity instruments, accounting for convertible debt instruments and accounting for non-monetary transactions.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 17 to the consolidated financial statements.

We did not audit the consolidated financial statements of loss and deficit and cash flows for the period from inception on September 6, 1986 to May 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States).

/s/ KPMG LLP

Chartered Accountants
Toronto, Canada

November 17, 2006

Lorus Therapeutics Inc.

Consolidated Balance Sheets

(amounts in Canadian 000's)	As at May 31, 2006	As at May 31, 2005
ASSETS		
Current		
Cash and cash equivalents	**$ 2,692**	$ 2,776
Short-term investments (note 5)	**5,627**	18,683
Prepaid expenses and other assets	**515**	1,126
	8,834	22,585
Long-term		
Fixed assets (note 6)	**885**	1,581
Deferred financing charges (note 13)	**481**	568
Goodwill	**606**	606
Acquired patents and licenses (note 7)	**655**	2,226
	2,627	4,981
	$ 11,461	$ 27,566
LIABILITIES		
Current		
Accounts payable	**$ 555**	$ 1,069
Accrued liabilities	**2,460**	3,019
	3,015	4,088
Long-term		
Secured convertible debentures (note 13)	**11,002**	10,212
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (note 8)		
Common shares	**145,001**	144,119
Equity portion of secured convertible debentures (note 13)	**3,814**	3,814
Stock options (note 8 (c))	**4,525**	4,252
Contributed surplus (note 8 (b))	**7,665**	6,733
Warrants	**991**	991
Deficit accumulated during development stage	**(164,552)**	(146,643)
	(2,556)	13,266
	$ 11,461	$ 27,566

See accompanying notes to audited consolidated financial statements
Basis of Presentation (note 1)
Commitments and Guarantees (note 14)
Canada and United States Accounting Policy Differences (note 17)
Subsequent Events (note 19)

Lorus Therapeutics Inc.

Consolidated Statements of Loss and Deficit

(amounts in Canadian 000's except for per common share data)	Years Ended May 31

	2006	2005	2004	Period from inception Sept. 5, 1986 to May 31, 2006
REVENUE	**$ 26**	$ 6	$ 608	$ 706
EXPENSES				
Cost of sales	**3**	1	28	87
Research and development (note 11)	**10,237**	14,394	26,785	110,475
General and administrative	**4,334**	5,348	4,915	47,475
Stock-based compensation (note 9)	**1,205**	1,475	—	6,750
Depreciation and amortization (note 6)	**771**	564	420	8,823
Operating expenses	**16,550**	21,782	32,148	173,610
Interest expense (note 13)	**882**	300	—	1,182
Accretion in carrying value of secured convertible debentures (note 13)	**790**	426	—	1,216
Amortization of deferred financing charges	**87**	84	—	171
Interest income	**(374)**	(524)	(1,239)	(10,921)
Loss for the period	**17,909**	22,062	30,301	164,552
Deficit, beginning of period	**146,643**	121,804	91,503	—
Impact of change in accounting for stock options	**—**	2,777	—	—
Deficit, beginning of period (as restated)	**146,643**	124,581	91,503	—
Deficit, end of period	**$164,552**	$146,643	$121,804	$164,552
Basic and diluted loss per common share	**$ 0.10**	$ 0.13	$ 0.18	
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share	**173,523**	**172,112**	**171,628**	

Lorus Therapeutics Inc.

Consolidated Statements of Cash Flows

(amounts in Canadian 000's)

	Years Ended May 31			
	2006	2005	2004	Period from inception Sept. 5, 1986 to May 31, 2006
OPERATING ACTIVITIES				
Loss for the period	**$(17,909)**	$(22,062)	$(30,301)	$(164,552)
Add items not requiring a current outlay of cash:				
Stock-based compensation (note 9)	**1,205**	1,475	—	6,750
Interest expense (note 13)	**882**	300	—	1,182
Accretion in carrying value of secured convertible debentures (note 13)	**790**	426	—	1,216
Amortization of deferred financing charges (note 13)	**87**	84	—	171
Depreciation and amortization (note 6)	**2,342**	2,260	2,123	20,729
Other	**—**	(38)	245	707
Net change in non-cash working capital balances related to operations (note 12)	**(462)**	(1,166)	(129)	1,592
Cash used in operating activities	**(13,065)**	(18,721)	(28,062)	(132,205)
INVESTING ACTIVITIES				
Maturity (purchase) of short-term investments, net	**13,056**	6,974	(1,438)	(5,627)
Business acquisition, net of cash received	**—**	—	—	(539)
Acquired patents and licenses	**—**	—	—	(715)
Additions to fixed assets	**(75)**	(599)	(383)	(6,049)
Cash proceeds on sale of fixed assets	**—**	—	—	348
Cash provided by (used in) investing activities	**12,981**	6,375	(1,821)	(12,582)
FINANCING ACTIVITIES				
Issuance of debentures, net	**—**	12,948	—	12,948
Issuance of warrants, net	**—**	991	4,537	37,405
Issuance of common shares	**—**	112	25,512	97,371
Additions to deferred financing charges	**—**	—	—	(245)
Cash provided by financing activities	**—**	14,051	30,049	147,479
(Decrease) increase in cash and cash equivalents during the period	**(84)**	1,705	166	2,692
Cash and cash equivalents, beginning of period	**2,776**	1,071	905	—
Cash and cash equivalents, end of period	**$ 2,692**	$ 2,776	$ 1,071	$ 2,692

See accompanying notes to audited consolidated financial statements

1. ***Basis of presentation***

Lorus Therapeutics Inc. ("Lorus" or "the Company") is a biopharmaceutical company specializing in the research and development of pharmaceutical products and technologies for the management of cancer. With products in various stages of evaluation, from pre-clinical through to Phase II trials, Lorus develops therapeutics that seek to manage cancer with efficacious low-toxicity compounds that improve patients' quality of life.

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

However, Management believes that the Company's current level of cash and short-term investments and the additional funds available upon the successful closing of the subscription agreements described in note 19 will be sufficient to execute the Company's current planned expenditures for the next twelve months.

2. ***Significant accounting policies***

Principles of consolidation

The consolidated financial statements include the accounts of Lorus, its 80% owned subsidiary, NuChem Pharmaceuticals Inc. ("NuChem"), and its wholly owned subsidiary, GeneSense Technologies Inc. ("GeneSense") which are all located in Canada. The results of operations for acquisitions are included in these consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated on consolidation.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and comply, in all material respects, with accounting principles generally accepted in the United States, except as disclosed in note 17, "Canada and United States Accounting Policy Differences."

Revenue Recognition

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

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

License fees are comprised of initial fees and milestone payments derived from a worldwide exclusive license agreement. Non-refundable license fees are recognized when the Company has no further involvement or obligation to perform under the arrangement, the fee is fixed and determinable and collection of the amount is deemed probable. Future non-refundable milestone payments receivable upon the achievement of third party performance are recognized upon the achievement of specified milestones

when the milestone payment is substantive in nature, achievement of the milestone was not reasonably assured at the inception of the agreement and the Company has no further significant involvement or obligation to perform under the arrangement.

The Company earned royalties from its distributor during the years ended May 31, 2005 and 2004. Royalties from the distribution agreement are recognized when the amounts are reasonably determinable and collection is reasonably assured. In 2006 the distribution agreement was terminated and no royalties were earned during the year ended May 31, 2006.

Cash Equivalents

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

Short-Term Investments

Lorus invests in high quality fixed income government and corporate instruments with low credit risk.

Short-term investments, which consist of fixed income securities with a maturity of more than three months, are recorded at their accreted value as they are held to maturity instruments. All investments held at year end approximate fair value, mature within one year and are denominated in Canadian dollars.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation and amortization. The Company records depreciation and amortization at rates which are expected to charge operations with the cost of the assets over their estimated useful lives as follows:

Furniture and equipment	straight line over three to five years
Leasehold improvements	straight line over the lease term

Research and Development

Research costs are charged to expense as incurred. Development costs, including the cost of drugs for use in clinical trials, are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. No development costs have been deferred to date.

Goodwill and Acquired Patents and Licenses

Intangible assets with finite lives acquired in a business combination or other transaction are amortized over their estimated useful lives which have been assessed as seven years.

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

The Company capitalized the cost of acquired patent and license assets on the acquisitions of GeneSense and the NuChem compounds. The nature of this asset is such that it is categorized as an intangible asset with a finite life. The carrying value of acquired research and development assets does not necessarily reflect its present or future value. The amount recoverable is dependent upon the continued advancement of the drugs through research, clinical trials and ultimately to commercialization. It is not possible to predict the outcome of future research and development programs.

The Company has identified no impairment relating to goodwill and intangible assets for 2006 and 2005.

Impairment of Long-Lived Assets

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

Stock-Based Compensation

The Company has a stock-based compensation plan described in note 9. Prior to June 1, 2004, stock based awards were accounted for using the intrinsic method with the exception of options with contingent vesting criteria for which the settlement method was used. On June 1, 2004, the Company adopted the fair value method of accounting for stock-based awards to employees, officers and directors granted or modified after June 1, 2004. This method requires the Company to expense, over the vesting period, the fair value of all employee stock-based awards granted or modified since June 1, 2002. The Company applied this change retroactively, without restatement of prior periods. The impact to the financial statements arising from adoption of the fair value method was an increase to the deficit and stock option balances presented in shareholders' equity (deficiency) of $2.8 million at June 1, 2004. Stock options and warrants awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received. Consideration paid on the exercise of stock options and warrants is credited to capital stock. The fair value of performance-based options is recognized over the estimated period to achievement of performance conditions. Fair value is determined using the Black-Scholes option pricing model.

The Company has a deferred share unit plan that provides directors the option of receiving payment for their services in the form of share units rather than common shares or cash. Share units entitle the director to elect to receive, on termination of their services to the Company, an equivalent number of common shares, or the cash equivalent of the market value of the common shares at that future date. Lorus records an expense and a liability equal to the market value of the shares issued. The accumulated liability is adjusted for market fluctuations on a quarterly basis.

Shares issued under the Alternate Compensation Plan are accounted for using the fair value of the common shares on the day they are granted.

Investment Tax Credits

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized.

Income Taxes

Income taxes are reported using the asset and liability method. Under this method, future tax assets and liabilities are recorded for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating loss and research and development expenditure carry forwards. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. A valuation allowance is recorded for the portion of the future tax assets where the realization of any value is uncertain for which management has deemed to be 100% of the assets available.

Loss Per Share

Basic net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted net loss per common share is calculated by dividing the net loss by the sum of the weighted average number of common shares outstanding and the dilutive

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

Deferred Financing Charges

Deferred financing charges, comprised primarily of legal costs, represent costs related to the issuance of the Company's convertible debentures. Deferred financing charges are amortized using the effective interest rate method over the five year term of the convertible debentures.

Segmented Information

The Company is organized and operates as one operating segment, the research, development, and commercialization of pharmaceuticals. Substantially all of the Company's identifiable assets as at May 31, 2006 and 2005 are located in Canada.

Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at rates prevailing on the transaction dates. Monetary assets and liabilities are translated into Canadian dollars at the rates on the balance sheet dates. Gains or losses resulting from these transactions are accounted for in the loss for the period and are not significant.

Use of Estimates

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

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The Company has estimated the useful lives of all depreciable assets and the recoverability of property and equipment and acquired technology using estimates of future cash flows and other measures of fair values. Significant changes in the assumptions with respect to future business plans could result in impairment of property and equipment or acquired technology.

Recent Canadian Accounting Pronouncements Not Yet Adopted

Comprehensive Income and Equity—In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income, and Section 3251, Equity. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530.

Section 3855, Financial Instruments — Recognition and Measurement— Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used to determine when a financial liability is considered to be extinguished.

Section 3865, Hedges— Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional.

These three Sections are effective for fiscal years beginning on or after October 1, 2006. An entity adopting these Sections for a fiscal year beginning before October 1, 2006 must adopt all the Sections simultaneously.

We have not yet determined the impact, if any, of the adoption of these standards on our results from operations or financial position.

3. ***Changes in accounting policy***

These new accounting policies were adopted during the year ended May 31, 2006. For the new accounting policies adopted during the year ended May 31, 2005, refer to note 2 under the heading 'Stock-based compensation'. There were no new accounting policies adopted during the year ended May 31, 2004.

Variable interest entities

Effective June 1, 2005, the Company adopted the recommendations of CICA Handbook

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

Financial instruments — disclosure and presentation

Effective June 1, 2005, the Company adopted the amended recommendations of CICA

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

Accounting for convertible debt instruments

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

Section 3831, Non-monetary transactions

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

expected by the reporting entity. The Company has not entered into any non-monetary transactions and as such this section is not applicable.

4. ***Corporate changes***

In November 2005, as a means to conserve cash and refocus operations, the Company scaled back some activities related to the Virulizin® technology and implemented a workforce reduction of approximately 39% or 22 employees.

In accordance with EIC 134 — Accounting for Severance and Termination Benefits, during the period ended November 30, 2005 the Company recorded severance compensation expense for former employees of $557 thousand. Of this expense, $468 thousand is presented in the income statement as general and administrative expense and $89 thousand as research and development expense. Accounts payable and accrued liabilities at May 31, 2006 include severance and compensation expense liabilities relating to the Company's November 2005 corporate changes of $154 thousand that are expected to be paid by December 2006.

5. ***Short term investments***

As at May 31 *(amounts in 000's)*

	2006			
	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Fixed income government investments	**$2,838**	**$ —**	**$2,838**	**3.55–3.64%**
Corporate instruments	**2,789**	**—**	**2,789**	**3.46–3.87%**
Balance	**$5,627**	**$ —**	**$5,627**	

	2005			
	Less than one year maturities	Greater than one year maturities	Total	Yield to maturity
Fixed income government investments	$ 3,229	$ —	$ 3,229	2.37%
Corporate instruments	15,454	—	15,454	1.95–2.71%
Balance	$18,683	$ —	$18,683	

At May 31, 2006 and 2005, the carrying values of short term investments approximate their quoted market values. Short term investments held at May 31, 2006 have varying maturities from one to six months (2005 — one to six months).

6. ***Fixed assets***

As at May 31 (amounts in 000's)

	2006		
	Cost	Accumulated Amortization	Carrying Value
Furniture and equipment	**$2,650**	**$ 2,136**	**$514**
Leasehold improvements	**908**	**537**	**371**
Balance	**$3,558**	**$ 2,673**	**$885**

	2005		
	Cost	Accumulated Amortization	Carrying Value
Furniture and equipment	$2,575	$ 1,517	$1,058
Leasehold improvements	908	385	$ 523
Balance	$3,483	$ 1,902	$1,581

During the year ended May 31, 2005, a write-down of $75,000 was taken on certain furniture and equipment whose carrying value was deemed to be unrecoverable and in excess of the estimated future undiscounted cash flows expected from the use and residual value of the underlying assets. The impairment charge was reported in the consolidated statements of loss and deficit in depreciation and amortization.

During the year ended May 31, 2006, a write-down of $250,000 was taken on certain furniture and equipment whose carrying value was deemed to be unrecoverable and in excess of the estimated fair value of the residual value of the underlying assets. The impairment charge was reported in the consolidated statements of loss and deficit in depreciation and amortization.

7. ***Acquired patents and Licenses***

As at May 31 (amounts in 000's)	2006	2005
Cost	**$ 12,228**	$ 12,228
Accumulated amortization	**(11,573)**	(10,002)
Balance	**$ 655**	$ 2,226

Amortization of $1.6 million (2005—$1.7 million, 2004—$1.7 million) has been included in the research and development expense reported in the consolidated statements of loss and deficit.

8. ***Share capital***

(a) Continuity of Common Shares and Warrants

(amounts and units in 000's)	Common Shares		Warrants	
	Number	Amount	Number	Amount
Balance at May 31, 2003	145,285	$119,438	—	$ —
Share issuance	26,220	24,121	13,110	4,325
Exercise of stock options	289	171	—	—
Other	—	(60)	—	—
Balance at May 31, 2004	171,794	143,670	13,110	4,325
Interest payment (note 13)	421	300	—	—
Issuance under ACP (note 8 (d))	50	37		
Exercise of stock options	276	112	—	—
Convertible debentures (note 13)	—	—	3,000	991
Warrants expired unexercised (note 8 (e))	—	—	(13,110)	(4,325)
Balance at May 31, 2005	172,541	$144,119	3,000	$ 991
Interest payment (note 13)	**2,153**	**882**	**—**	**—**
Balance at May 31, 2006	**174,694**	**$145,001**	**3,000**	**$ 991**

(b) Contributed Surplus

As at May 31 (amounts in 000's)	2006	2005	2004
Beginning of year	**$6,733**	$1,003	$1,003
Forfeiture of stock options	**932**	—	—
Expiry of warrants (note 8 e)	**—**	4,325	—
Expiry of compensation options (note 8 e)	**—**	1,405	—
End of year	**$7,665**	$6,733	$1,003

(c) Continuity of Stock Options

As at May 31 *(amounts in 000's)*	2006	2005	2004

Beginning of the year	**$4,252**	$2,777	$—
Stock option expense	**1,205**	1,475	—
Forfeiture of stock options	**(932)**	—	—
End of year	**$4,525**	$4,252	$—

(d) Alternate Compensation Plans ("ACP")

In 2000, the Company established a compensation plan for directors and officers, which allows the Company, in certain circumstances, to issue common shares to pay directors' fees or performance bonuses of officers in lieu of cash. The number of common shares reserved for issuance under this plan is 2,500,000. Since inception, 121,000 shares have been issued under this plan. For the year ended May 31, 2006, no shares were issued under this plan (2005 — 50,000, 2004 — nil).

The Company also established a deferred share unit plan that provides directors the option of receiving payment for their services in the form of share units rather than common shares or cash. Share units entitle the director to elect to receive, on termination of their services to the Company, an equivalent number of common shares, or the cash equivalent of the market value of the common shares at that future date. The

share units are granted based on the market value of the common shares on the date of issue. As at May 31, 2006, 168,581 deferred share units have been issued (2005 — 99,708, 2004 — 68,183), with a cash value of $64 thousand (2005 — $71 thousand, 2004 — $57 thousand) being recorded in accrued liabilities.

(e) Share Issuance

On June 11, 2003, the Company raised gross proceeds of $32.8 million by way of a public offering of 26,220,000 units at a price of $1.25 per unit. Each unit consists of one common share and one-half of one purchase warrant. Each whole warrant entitled the holder to purchase a common share at a price of $1.75 at any time on or before December 10, 2004. In addition, the Company issued 1,835,400 compensation options with a fair value of $1.5 million for services in connection with the completion of the offering. Each compensation option entitled the holder to acquire one unit for $1.27 at any time on or before December 10, 2004. The Company incurred expenses of $4.4 million for the issuance, which include the non-cash charge of $1.5 million being the fair value of the compensation option. The Company allocated $4.3 million of the net proceeds to the warrants, $1.4 million to the compensation option and $24.1 million to share capital.

On December 10, 2004 the warrants and options described above expired without being exercised. The expiry of these warrants and options had no impact on earnings or the net balance of shareholders' equity.

(f) Employee share purchase plan ("ESPP")

The Company's ESPP was established January 1, 2005. The purpose of the ESPP is to assist the Company in retaining the services of its employees, to secure and retain the services of new employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. The ESPP provides a means by which employees of the Company and its affiliates may purchase common stock of the company at a discount through accumulated payroll deductions. Generally, each offering is of three months' duration with purchases occurring every month. Participants may authorize payroll deductions of up to 15% of their base compensation for the purchase of common stock under the ESPP. For the year ended May 31, 2006, a total of 293,000 (2005 — 106,000) common shares has been purchased under the ESPP, and Lorus has recognized an expense of $46 thousand (2005—$16 thousand) related to this plan in the year-end financial statements.

9. ***Stock-Based Compensation***

(a) Stock Option Plan

Under the Company's stock option plan, options may be granted to directors, officers, employees and consultants of the Company to purchase up to 25,920,797 common shares. Options are granted at the fair market value of the common shares on the date immediately preceding the date of the grant. Options vest at various rates (immediate to three years) and have a term of ten years. Stock option transactions for the three years ended May 31, 2006 are summarized as follows:

	2006		2005		2004	
	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price
Outstanding at beginning of year	**8,035**	**$0.96**	6,372	$1.05	5,378	$1.05
Granted	**6,721**	**$0.58**	3,173	$0.77	2,629	$1.16
Exercised	**—**	**—**	(276)	$0.40	(289)	$0.59
Forfeited	**(4,456)**	**$0.83**	(1,234)	$1.05	(1,346)	$1.29
Outstanding at end of year	**10,300**	**$0.70**	8,035	$0.96	6,372	$1.05
Exercisable at end of year	**6,714**	**$0.79**	4,728	$1.04	3,542	$1.01

The following table summarizes information about stock options outstanding at May 31, 2006:

Range of exercise prices	Options outstanding			Options exercisable	
	Options Outstanding (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable (000's)	Weighted average exercise price
$0.26 to $0.49	3,945	7.79	$ 0.30	1,956	$0.31
$0.50 to $0.99	4,487	7.63	$ 0.76	3,002	$0.73
$1.00 to $1.99	1,580	6.90	$ 1.23	1,468	$1.23
$2.00 to $2.50	288	4.38	$ 2.46	288	$2.46
	10,300	7.44	$ 0.70	6,714	$0.79

For the year ended May 31, 2006 stock-based compensation expense of $1.2 million (2005 – $1.5 million) was recognized, representing the amortization applicable to the current period of the estimated fair value of options granted since June 1, 2002.

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

For the year ended May 31, 2005 additional stock based compensation expense of $208 thousand was recorded due to the shareholder approved amendment of the 1993 Stock Option Plan to extend the life of

options from 5 years to 10 years. This additional expense represented the incremental value conveyed to holders of the options as a result of extending the life of the options.

For the year ended May 31, 2006, stock option expense of $1.2 million was allocated $300 thousand to research and development and $900 thousand to general and administrative expense.

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

	2006	2005	2004
Risk-free interest rate	2.25-4.00%	2.25-3.00%	2.25-3.05%
Expected dividend yield	0%	0%	0%
Expected volatility	70-81%	70-90%	89%
Expected life of options	2.5–5 years	1–5 years	5 years
Weighted average fair value of options options granted or modified in the year	$ 0.33	$ 0.54	$ 0.74

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

(b) Pro forma information—Stock-based compensation

In periods prior to June 1, 2002, the Company recognized no compensation expense when stock options were granted to employees.

For the year ended May 31, 2006, the pro forma compensation charge for stock options granted prior to June 1, 2002 was nil (2005 – $27,000, 2004 – $551,000). These amounts have no impact on loss per share figures.

10. ***Income Taxes***

Income tax recoveries attributable to losses from operations differ from the amounts computed by applying the combined Canadian federal and provincial income tax rates to pre-tax income from operations primarily as a result of the provision of a valuation allowance on net future income tax benefits.

Significant components of the Company's future tax assets are as follows:

As at May 31 (amounts in 000's)	2006	2005
Non-capital loss carry forwards	**$ 25,174**	$ 23,081
Research and development expenditures	**22,089**	20,436
Book over tax depreciation	**1,995**	1,529
Other	**738**	1,089
Future tax assets	**49,996**	46,135
Valuation allowance	**(49,996)**	(46,135)

	$ —	$ —

In assessing the realizable benefit from future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. Due to the Company's stage of development and operations, and uncertainties related to the industry in which the Company operates, the tax benefit of the above amounts has been completely offset by a valuation allowance.

The Company has undeducted research and development expenditures, totalling $63.1 million for federal purposes and $58.1 million for provincial purposes and these can be carried forward indefinitely. In addition the Company has non-capital loss carry forwards of $69.1 million for federal purposes and $70.1 million for provincial purposes. To the extent that the non-capital loss carry forwards are not used, they expire as follows:

Year of expiry (amounts in 000's)	**Non-capital losses**
2007	$ 4,626
2008	4,985
2009	6,658
2010	8,660
2011	1,131
2012	—
2013	—
2014	20,126
2015	13,340
2016	9,565
	$ 69,091

Income Tax Rate Reconciliation

(amounts in 000's)	**2006**	**2005**
Recovery of income taxes based on statutory rates	**$(6,469)**	$(7,971)
Expiry of losses	**1,252**	780
Change in valuation allowance	**3,861**	6,124
Non deductible accretion and stock-based compensation expense	**721**	687
Change in enacted tax rates	**—**	—
Other	**635**	380
	$ —	$ —

Subsequent to year-end, federal legislation was enacted to reduce tax rates applicable to future periods and extend the loss carry forward period. Had this legislation been enacted prior to year-end the value of the future tax assets and the corresponding valuation allowance would have decreased to $45.5 million. In addition, the losses currently expiring in 2016 would expire in 2026.

11. ***Research and Development Programs***

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

(a) Immunotherapy

This clinical approach stimulates the body's natural defenses against cancer. The Company's lead immunotherapeutic drug Virulizin® completed a global Phase III clinical trial for the treatment of pancreatic cancer during 2005.

(b) Antisense

Antisense drugs are genetic molecules that inhibit the production of disease-causing proteins. GTI-2040 and GTI-2501, the Company's lead antisense drugs, have shown preclinical activity across a broad range of cancers and are currently in various phase I/II clinical trials.

(c) Small Molecules

Anticancer activity was discovered with an antifungal agent Clotrimazole ("CLT"). Based on the structural feature found to be responsible for the anticancer effect of CLT,

chemical analogues of CLT have been designed and tested. Our library of clotrimazole analogues has been licensed to Cyclacel Limited, as described in note 16.

Lorus scientists discovered novel low molecular weight compounds with anticancer and anti-bacterial activity in pre-clinical investigations. Of particular interest were compounds that inhibit the growth of human tumour cell lines, including hepatocellular carcinoma, pancreatic carcinoma, ovarian carcinoma, breast adenocarcinoma and metastatic melanoma.

In addition to the above, Lorus has a number of other technologies under pre-clinical development, including a tumour suppressor or gene therapy approach to inhibiting the growth of tumours.

	Years Ended May 31			
Research and Development *(amounts in 000's)*	**2006**	**2005**	**2004**	**Period from inception Sept. 5, 1986 to May 31, 2006**
Immunotherapy				
Expensed	**$ 6,202**	$11,891	$19,944	$ 74,958
Acquired	**—**	—	—	—
Antisense				
Expensed	**2,550**	2,384	6,666	29,809
Acquired	**—**	—	—	11,000
Small Molecules				
Expensed	**1,485**	119	175	5,708
Acquired	**—**	—	—	1,228
Total expensed	**$10,237**	$14,394	$26,785	$110,475
Total acquired	**$ —**	$ —	$ —	$ 12,228

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

12. ***Supplementary cash flow information***

Changes in non-cash working capital balances for each of the periods ended are summarized as follows:

Years ended May 31 *(amounts in 000's)*	**2006**	**2005**	**2004**	**Period from inception Sept. 5, 1986 to May 31, 2006**
(Increase) decrease				
Prepaid expenses and other assets	**$ 611**	$ 571	$ (593)	$ 61
Increase (decrease)				
Accounts payable	**(514)**	(1,360)	1,111	(689)
Accrued liabilities	**(559)**	(377)	(647)	2,220
	$(462)	$(1,166)	$ (129)	$ 1,592

During the year ended May 31, 2006, the Company received interest of $627 thousand (2005 – $679 thousand, 2004 — $1.2 million).

13. ***Convertible debentures***

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

The Company received $4.4 million on October 6, 2004 (representing a $5.0 million debenture less an investor fee representing 4% of the $15.0 million to be received under the Agreement), and $5.0 million on each of January 14 and April 15, 2005. All debentures issued under this Agreement are due on October 6, 2009 and are subject to interest payable monthly at a rate of prime + 1% until such time as the Company's share price reaches $1.75 for 60 consecutive trading days, at which time, interest will no longer be charged. Interest is payable in common shares of Lorus until Lorus' shares trade at a price of $1.00 or more after which interest will be payable in cash or common shares at the option of the debenture holder. Common shares issued in payment of interest will be issued at a price equal to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment. For the year ended May 31, 2006, the Company has issued 2,153,000 (2005 – 421 thousand) shares in settlement of $882 thousand (2005 – $300 thousand) in interest.

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

With the issuance of each $5.0 million debenture, the Company issued to the debt holder from escrow 1 million purchase warrants expiring October 6, 2009 to buy common shares of the Company at a price per share equal to $1.00.

The convertible debentures contain both a liability and an equity element, represented by the conversion option, and therefore, under Canadian GAAP these two elements must be split and classified separately as debt and equity. In addition, as noted above, the debenture holder received 1 million purchase warrants on the issuance of each tranche of convertible debt. The Company allocated the total proceeds received from the issuance of the convertible debentures to these three elements based on their relative fair values. The fair value of the purchase warrants has been determined based on an option-pricing model. The fair value of the debt has been based on the discounted cash flows using an estimated cost of borrowing of 15% to represent an estimate of what the Company may borrow secured debt without a conversion option or purchase warrant.

The convertible debentures conversion option was valued using a trinomial model. The resulting allocation based on relative fair values resulted in the allocation of $9.8 million to the debt instrument, $4.1 million to the conversion option and $1.1 million to the purchase warrants. The financing fees totalling $1.1 million related to the issuance of the convertible debentures have been allocated pro rata between deferred financing charges of $652 thousand, against the equity portion of the convertible debentures of $322 thousand and against the purchase warrants of $87 thousand. This allocation resulted in net amounts allocated to the equity portion of the convertible debentures and warrants of $3.8 million and $991 thousand respectively. The financing charges are being amortized over the five-year life of the convertible debentures agreement. For the year ended May 31, 2006, the Company has recognized $87 thousand (2005 – $84 thousand) in amortization expense. This amortization expense has reduced the value of the deferred financing charges to $481 thousand at May 31, 2006 (2005—$568 thousand).

Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be their face value of $15.0 million. For the year ended May 31, 2006, the Company has recognized $790 thousand (2005 – $426 thousand) in accretion expense. This accretion expense has increased the carrying value of the convertible debentures from $9.8 million to $11.0 million at May 31, 2006 (2005 – $10.2 million).

The lender has the option to demand repayment in the event of default, including the failure to maintain certain subjective covenants, representations and warranties. Management assesses on a quarterly basis whether or not events during the quarter could be considered an event of default. This assessment was

performed and management believes that there has not been an event of default and that, at May 31, 2006, the term of the debt remains unchanged.

At the end of the second quarter of fiscal 2006, subject to the completion of a tax assisted financing transaction and based on mutually agreed upon terms with the holder, it had been the Company's intent to repay the debentures by October 1, 2006. However, during the third quarter of fiscal 2006, the conditions precedent of the proposed tax assisted financing were not met and as such the transaction did not close and the Company's agreement with the debenture holder to repay the debentures was terminated. As such the debentures have been recorded as a long-term liability with the original due date of October 6, 2009. The investor paid Lorus $100 thousand to help cover the costs incurred as part of the incomplete transaction. This $100 thousand has been recorded as a reduction in professional fee expense.

14. ***Commitments and Guarantees***

(a) Operating lease commitments

The Company has entered into operating leases for premises under which it is obligated to make minimum annual payments of approximately $139 thousand in 2007, $118 thousand in 2008 and $8 thousand in 2009.

During the year ended May 31, 2006, operating lease expenses were $130 thousand (2005 – $136 thousand, 2004 – $141 thousand).

(b) Other contractual commitments

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

(i) A 20% share interest in NuChem;

(ii) A payment of US $350 thousand in shares of Lorus, and

(iii) Up to US $3.5 million in cash.

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

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

(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.

15. ***Financial Instruments***

The carrying values of cash and cash equivalents, short-term investments, amounts receivable, other assets, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

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

Financial instruments potentially exposing the Company to a concentration of credit risk consist principally of cash equivalents and short-term investments. The Company mitigates this risk by investing in high grade fixed income securities.

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

The fair value of the convertible debentures at May 31, 2006 is $13.8 million.

16. ***Revenue***

During the year ended May 31, 2004, the Company recorded license revenue of $546 thousand in connection with a worldwide exclusive license agreement entered into with Cyclacel Limited in the United Kingdom for the out-licensing of the Company's small molecule program. Additional license fees of up to $11.6 million may be earned if Cyclacel achieves certain defined research and development milestones. No such milestones were achieved during the year ended May 31, 2006.

17. ***Canada and United States Accounting Policy Differences***

These consolidated financial statements have been prepared in accordance with Canadian GAAP which differ in some respects from accounting principles generally accepted in the United States ("US GAAP"). The following reconciliation identifies material differences in the Company's consolidated statement of operations and deficit and consolidated balance sheets.

(a) Consolidated statements of loss and deficit

	Years ended May 31,		
	2006	**2005**	**2004**
Loss per Canadian GAAP	**(17,909)**	(22,062)	(30,301)
Accretion of convertible debentures (i)	**480**	329	—
Amortization of debt issue costs (i)	**(108)**	(40)	—
Stock compensation expense (ii)	**1,149**	1,475	—
Loss and comprehensive loss per US GAAP	**(16,388)**	(20,298)	(30,301)
Basic and diluted loss per share per US GAAP	**$ (0.09)**	$ (0.12)	$ (0.18)

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

(b) Consolidated balance sheets:

	May 31, 2006			
		Adjustments		
	Canadian GAAP	**Convertible Debentures (i)**	**Stock Options (ii)**	**US GAAP**
Deferred financing charges	**481**	**164**	**—**	**645**
Secured convertible debentures	**(11,002)**	**(3,260)**	**—**	**(14,262)**
Equity portion of secured convertible debentures	**(3,814)**	**3,814**	**—**	**—**
Stock options	**(4,525)**	**—**	**4,525**	**—**
Contributed surplus/Additional paid in capital (APIC)	**(7,665)**	**(1,048)**	**876**	**(7,837)**
Warrants	**(991)**	**991**	**—**	**—**
Deficit accumulated during the development stage	**164,552**	**(661)**	**(5,401)**	**158,490**

	May 31, 2005			
	Canadian GAAP	**Convertible Debentures (i)**	**Stock Options (ii)**	**US GAAP**
Deferred financing charges	568	272	—	840
Secured convertible debenture	(10,212)	(3,740)	—	(13,952)
Equity portion of secured convertible debentures	(3,814)	3,814	—	—
Stock options	(4,252)	—	4,252	—
Contributed surplus/Additional paid in capital (APIC)	(6,733)	(1,048)	—	(7,781)
Warrants	(991)	991	—	—

Deficit accumulated during the development stage	146,643	(289)	(4,252)	142,102

(i) Convertible debentures

Under Canadian GAAP, the conversion option embedded in the convertible debentures is presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option is not subject to bifurcation and is thus presented as a liability along with the balance of the convertible debentures. Under U.S. GAAP, Emerging Issues Task Force No.00-19 and APB Opinion No. 14, the fair value of warrants issued in connection with the convertible debentures financing would be recorded as a reduction to the proceeds from the issuance of convertible debentures, with the offset to additional paid-in capital. The warrants have been presented as a separate component of shareholders' equity for Canadian GAAP purposes. Under U.S. GAAP the Company has allocated the total proceeds received from the issuance of the convertible debentures to the debt and warrant portions based on their relative fair values. The fair value of the purchase warrants has been determined based on an option-pricing model. The resulting allocation based on relative fair values resulted in the allocation of $13.9 million to the debt instrument and $1.1 million to the purchase warrants. The financing fees totalling $1.1 million related to the issuance of the convertible debentures have been allocated pro rata between deferred financing charges of $964 thousand and against the purchase warrants of $97 thousand. This allocation resulted in the net amount allocated to the warrants of $1.0 million. The financing charges are being amortized over the five-year life of the convertible debentures agreement.

Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity on October 6, 2009, the carrying value of the debentures will be their face value of $15.0 million. To date, the Company has recognized $407 thousand in accretion expense. This accretion expense has increased the value of the convertible debentures from $13.9 million to $14.3 million at May 31, 2006.

(ii) Stock-based compensation

Effective June 1, 2004, the Company adopted the fair value based method of accounting for employee stock options granted on or after June 1, 2002, retroactively without restatement as allowed under the transitional provisions of CICA Handbook Section 3870. As a result, the opening balances of deficit and stock options were increased by $2.8 million at June 1, 2004. During 2006, the Company recorded stock compensation expense in the consolidated financial statements, representing the amortization applicable to the current year at the estimated fair value of stock options granted since June 1, 2002.

During 2006, the Company recorded stock compensation expense of $1.2 million (2005 – $1.5 million) in the consolidated statement of operations, representing the amortization applicable to the current year at the estimated fair value of options granted since June 1, 2002; and an offsetting adjustment to stock options of $1.2 million in the consolidated balance sheets. No similar adjustments are required under U.S. GAAP as the Company has elected to continue measuring compensation expense, as permitted under SFAS No. 123, using the intrinsic value based method of accounting for stock options. Under this method, compensation is the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an employee must pay to acquire the stock. Election of this method requires pro-forma disclosure of compensation expense as if the fair value method has been applied for awards granted in fiscal periods after December 15, 1994.

The Company grants performance based stock options as a compensation tool. Under Canadian GAAP, the accounting treatment of these options is consistent with all other employee stock options. Under US GAAP, the option is treated as a variable award and is revalued, using the intrinsic value method of accounting, at the end of each reporting period until the final measurement date. At each reporting date, compensation cost is measured based on an estimate of the number of options that will vest considering the performance criteria and the difference between the market price of the underlying stock and the exercise price at such dates. The compensation cost is being recognized over the estimated performance period. For the year ended May 31, 2006 the Company recorded stock based compensation expense of $20 thousand under U.S. GAAP for performance based options.

During 2006, employees of the Company (excluding Directors and Officers) were given the opportunity to choose between keeping 100% of their existing options at the existing exercise price and forfeiting 50% of the options held in exchange for having the remaining 50% of the exercise price of the options re-priced to $0.30 per share. Employees holding 2,290,000 stock options opted for re-pricing their options, resulting in the amendment of the exercise price of 1,145,000 stock options and the forfeiture of 1,145,000 stock options. Under Canadian GAAP the accounting treatment of these options requires that any incremental value resulting from the amendment be determined and recognized over the remaining vesting period. Under US GAAP, the amended options are treated as a variable award and are revalued, using the intrinsic value method of accounting at the end of each reporting period until the date the options are exercised, forfeited or expired unexercised. The Company recorded stock-based compensation of $36 thousand under US GAAP related to these amended stock options.

Prior to the adoption of CICA Handbook Section 3870, Lorus accounted for performance based stock options using the intrinsic value method, and a recovery of $43,000 was included in net income in 2004 related to these options.

The table below presents the pro-forma disclosures required under U.S. GAAP:

	2006	2005	2004
Net loss to common shareholders — US GAAP	(16,388)	(20,298)	(30,301)
Compensation expense under SFAS 123	(1,149)	(1,475)	(1,623)
Pro-forma net loss to common shareholders — US GAAP	**(17,537)**	**(21,773)**	**(31,924)**
Pro-forma basic and diluted loss per share — US GAAP	**(0.10)**	**(0.13)**	**(0.19)**

(c) **Consolidated statements of cash flows**

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

(d) **Income taxes**

Under Canadian GAAP, investment tax credits and other research and development credits are deducted from research and development expense for items of a current nature, and deducted from property and equipment for items of a capital nature. Under US GAAP, these tax credits would be reclassified as a reduction of income tax expense. The impact would be higher research and development expense and an income tax recovery of $205 thousand for the year ended May 31, 2006 (2005 – $400 thousand, 2004 – $180 thousand) with no net impact to net income or earnings per share.

(e) **New accounting pronouncements not yet adopted**

(i) In December 2004, the FASB revised SFAS No. 123 to require companies to recognize n the income statement the grant-date fair value of stock options and other equity based compensation issued to employees, but expressed no preference for a type of valuation model (SFAS 123R). The way an award is classified will affect the measurement of compensation cost. Liability-classified awards are re-measured to fair value at each balance sheet date until the award is settled. Equity-classified awards are measured at grant-date fair value and the grant-date fair value is recognized over the requisite service period. Such awards are not subsequently re-measured.

In April 2005, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) to provide additional guidance regarding the application of SFAS 123R. SAB 107 permits registrants to choose an appropriate valuation technique or model to estimate the fair value of share options, assuming consistent application, and provides guidance for the development of assumptions used in the valuation process. Based upon SEC rules issued in April 2005, SFAS 123R is effective for fiscal years that begin after June 15, 2005 and will be adopted by the Company effective June 1, 2006. Additionally, SAB 107 discusses disclosures to be made under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in registrants' periodic reports. The Company has not yet determined the effect of this new standard on its consolidated financial position and results of operations.

(ii) In December 2004, FASB issued Financial Accounting Standard 153: Exchanges of Nonmonetary Assets as an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to

change significantly as a result of the exchange. This statement is effective for years beginning after June 15, 2005. The Company has not entered into any non-monetary transactions and as such this section is not applicable.

(iii) In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154), which replaces APB No. 20, Accounting Change and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, on the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the adoption of this statement will not have a material effect on the Company's consolidated financial condition or results of operations.

(f) **Consolidated statement of shareholders equity (deficiency) for the period from June 1, 1998 to May 31, 2006:**

	Number of Shares (000's)	Amount	Contributed Surplus/APIC	Deficit	Total
Balance May 31, 1998	**36,785**	**$ 37,180**	**$ 667**	**$(32,946)**	**$ 4,901**
Exercise of special warrants	5,333	1,004	(1,217)	—	(213)
Exercise of stock options	46	48	—	—	48
Issue of warrants	—	—	1,217	—	1,217
Issue of special warrants	—	—	213	—	213
Other issuances	583	379	—	—	379
Deficit	—	—	—	(4,623)	(4,623)
Balance May 31, 1999	**42,747**	**$ 38,611**	**$ 880**	**$(37,569)**	**$ 1,922**
Exercise of warrants	12,591	7,546	(534)	—	7,012
Issuance of special and purchase warrants	—	—	8,853	—	8,853
Issuance of public offering	15,333	41,952	659	—	42,611
Issued on acquisition	36,050	14,000	—	—	14,000
Exercise of units	893	1,821	(321)	—	1,500
Issuance under alternate compensation plan	18	15	—	—	15
Exercise of special warrants	30,303	8,438	(8,438)	—	—
Exercise of stock options	1,730	1,113	—	—	1,113
Stock based compensation	—	869	—	—	869
Deficit	—	—	—	(8,599)	(8,599)
Balance May 31, 2000	**139,665**	**$114,365**	**$ 1,099**	**$(46,168)**	**$ 69,296**
Exercise of warrants	168	93	(25)	—	68
Issuance under alternate compensation plan	28	49	—	—	49
Exercise of stock options	2,550	1,866	—	—	1,866
Stock based compensation	—	351	—	—	351
Deficit	—	82	—	(15,131)	(15,131)
Balance May 31, 2001	**142,411**	**$116,806**	**$ 1,074**	**$(61,381)**	**$ 56,499**

	Number of Shares (000's)	Amount	Contributed Surplus/APIC	Deficit	Total
Exercise of compensation warrants	476	265	(71)	—	194
Exercise of stock options	1,525	1,194	—	—	1,194
Stock based compensation	—	(100)	—	—	(100)
Deficit	—	—	—	(13,488)	(13,488)
Balance May 31, 2002	**144,412**	**$118,165**	**$ 1,003**	**$ (74,869)**	**$ 44,299**
Exercise of stock options	873	715	—	—	715
Stock based compensation	—	558	—	—	558
Deficit	—	—	—	(16,634)	(16,634)
Balance May 31, 2003	**145,285**	**$119,438**	**$ 1,003**	**$ (91,503)**	**$ 28,938**
Share issuance	26,220	24,121	4,325	—	28,446
Exercise of stock options	289	171	—	—	171
Stock based compensation	—	(88)	—	—	(88)
Other issuances	—	28	—	—	28
Deficit	—	—	—	(30,301)	(30,301)
Balance May 31, 2004	**171,794**	**$143,670**	**$ 5,328**	**$(121,804)**	**$ 27,194**
Interest payment	421	300	—	—	300
Exercise of stock options	276	112	—	—	112
Expiry of compensation options	—	—	1,405	—	1,405
Issuance under alternate compensation plan	50	37	—	—	37
Issuance of warrants	—	—	1,048	—	1,048
Deficit	—	—	—	(20,298)	(20,298)
Balance May 31, 2005	**172,541**	**$144,119**	**$ 7,781**	**$(142,102)**	**$ 9,798**
Interest payment	**2,153**	**882**	**—**	**—**	**882**
Stock-based compensation	**—**	**—**	**56**	**—**	**56**
Deficit	**—**	**—**	**—**	**(16,388)**	**(16,388)**
Balance May 31, 2006	**174,694**	**$145,001**	**$ 7,837**	**$(158,490)**	**$ (5,652)**

18. ***Comparative Figures***

Certain of the comparative figures have been reclassified to conform to the current year's method of presentation.

19. ***Subsequent Events***

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

(b) On July 24, 2006 Lorus entered into an agreement with Technifund Inc. to issue on a private placement basis, 5 million common shares at $0.36 per share for gross proceeds of $1.8 million. The transaction closed on August 31, 2006.

(c) On September 19, 2006 the Company announced that Dr. Jim A Wright would step down as the President and Chief Executive Officer of Lorus effective September 21, 2006. The departure of Dr. Wright resulted in a liability based on a mutual separation agreement executed subsequent to the quarter end of approximately $500 thousand. The amount is expected to be paid by the end of the third quarter 2007.

Exhibit 1.6

COPY

Industry Canada | Industrie Canada

Certificate of Continuance

Canada Business Corporations Act

Certificat de prorogation

Loi canadienne sur les sociétés par actions

LORUS THERAPEUTICS INC.

Name of corporation-Dénomination de la société

432523-1

Corporation number-Numéro de la société

I hereby certify that the above-named corporation was contined under section 187 of the *Canada Business Corporations Act*, as set out in the attached articles of continuance.

Richard G. Shaw
Director - Directeur

Je certifie que la société susmentionnée a été prorogée en vertu de l'article 187 de la *Loi canadienne sur les sociétés par actions*, tel qu'il est indiqué dans les clauses de prorogation ci-jointes.

October 1, 2005 / le 1 octobre 2005

Date of Continuance - Date de la prorogation

Canada

Industry Canada Canada Business Corporations Act	Industrie Canada Loi canadienne sur les sociétés par actions	FORM 11 ARTICLES OF CONTINUANCE (SECTION 187)	FORMULAIRE 11 CLAUSES DE PROROGATION (ARTICLE 187)
1. Name of the Corporation – Dénomination sociale de la société LORUS THERAPEUTICS INC.		2 – Taxation Year End – Fin de l'année d'imposition 05 31	

3 – The province or territory in Canada where the registred office is to be situated – La province ou le territoire au Canada où se situera le siege social

PROVINCE OF ONTARIO

4 – The classes and the maximum number of shares that the corporation is authorized to issue – Catégories et le nombre maximal d'actions que is société est autorisée à émettre

UNLIMITED NUMBER OF COMMON SHARES

5 – Restrictions, if any, on share transfers – Restrictions sur le transfert des actions, s'il y a lieu

NONE

6 – Number (or minimum and maximum number) of directors – Nombre (ou nombre minimal et maximal) d'administrateurs

MINIMUM 3, MAXIMUM 11

7 – Restrictions, if any, on business the corporation may carry on – Limites imposes à l'activité commerciale de la société, s'il y a lieu

NONE

8 – (1) if change of name effected, previous name – S'il y a changement de dénomination sociale, indiquer la denomination sociale antérieure

N/A

(2) Details of incorporation – Détails de la constitution

Incorporated by amalgamation in Ontario as RML Medical Laboratories Inc. on October 28, 1991. Name changed in Ontario from RML Medical Laboratories Inc. to Imutec Corporation on August 25, 1992. Name changed in Ontario from Imutec Corporation to Imutech Pharma Inc. on November 27, 1996. Name changed in Ontario from Imutec Pharma Inc. to Lorus Therapeutics Inc. on November 19, 1998.

9 – Other provisions, if any – Autres dispositions, s'il y a lieu

The actual number of directors within the minimum and maximum number set out in paragraph 6 may be determined from time to time by resolution of the directors.

The directors may appoint one or more additional directors, who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, but the total number of directors so appointed may not exceed one third of the number of directors elected at the previous annual meeting of shareholders.

Signature	Printed Name – Nom en letters moulées	10 – Capacity of – En qualité de	11 – Tel. No. – No de tél.
	Sherri Ellis	Secretary	416 798 1200

SHARE PURCHASE AGREEMENT

dated as of July 13, 2006

Between

LORUS THERAPEUTICS INC.

and

HIGH TECH BETEILIGUNGEN GMBH & CO. KG

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THIS SHARE PURCHASE AGREEMENT (this "**Agreement**") is dated as of July 13, 2006

BETWEEN	**LORUS THERAPEUTICS INC.**, a Canadian corporation (the "Company")
AND	**HIGH TECH BETEILIGUNGEN GMBH & CO. KG**, a German limited partnership, herein represented by **CONPHARM ANSTALT**, a Liechtenstein corporation (the "Purchaser")

WHEREAS, subject to the terms and conditions set out in this Agreement, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchaser agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated in this **Section 1.1** for all purposes of this Agreement:

"**Action**" shall have the meaning ascribed to such term in **Section 4.1(j).**

"**Affiliate**" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144 under the United States Securities Act.

"**AMEX**" means the American Stock Exchange.

"**AMEX Rules**" means collectively, all rules, requirements and policies of the AMEX applicable to the Company, including such as are contained in the Rules of the AMEX and the AMEX Company Guide.

"**Applicable Laws**" means, in relation to any Person, Property, transaction or event, all applicable provisions in effect at the relevant time (or mandatory applicable provisions) of federal, provincial, territorial, state, local or foreign laws, statutes, rules, regulations, directives and orders of all Governmental Authorities, and all judgments, orders, decrees, decisions, rulings or awards of all Governmental Authorities to which the Person in question is a party or by which it is bound or having application to the Person, Property, transaction or event, including the Securities Laws.

"**Canada Business Corporations Act**" means the *Canada Business Corporations Act* and the regulations made thereunder, as now in effect and as they may be amended from time to time;

"**Canadian Securities Legislation**" has the meaning attributed to such term in NI 14-101 and includes published policies promulgated thereunder from time to time by any of the Canadian Securities Regulatory Authorities and the TSX Company Manual.

"**Closing**" means the closing of the purchase and sale of the Purchased Shares pursuant to **Section 3.1**.

"**Closing Date**" means the earlier of:

(a) the third Trading Day after all conditions precedent to (i) the Purchaser's obligations to pay the Purchase Price, and (ii) the Company's obligations to deliver the Purchased Shares as set out in **Section 3.3** have been satisfied or waived; and

(b) the Outside Date.

"**Canadian Securities Regulatory Authorities**" has the meaning attributed to such term in NI 14-101.

"**Common Shares**" means the common shares of the Company, and any other class of securities into which such securities may hereafter have been reclassified or changed into.

"**Common Share Equivalents**" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Shares, including any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Shares.

"**Company Counsel**" means McCarthy Tétrault LLP and Dorsey & Whitney LLP.

"**Continuous Disclosure Reports**" shall have the meaning ascribed to such term in **Section 4.1(h)**).

"**Debentureholder**" means The Erin Mills Investment Corporation, the registered holder of the Debentures.

"**Debentures**" means the secured convertible debentures of the Company in the aggregate principal amount of CAN $15,000,000.00 issued to the Debentureholder in equal amounts of $5,000,000 each on each of October 6, 2004, January 15, 2005 and April 15, 2005.

"**Disclosure Letter**" means the Disclosure Letter of the Company delivered to the Purchaser concurrently herewith and signed by the Company with receipt acknowledged thereon by the Purchaser.

"**Evaluation Date**" shall have the meaning ascribed to such term in **Section 4.1(r)**.

"**Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended, and any successor thereto, and the rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

"**Exempt Issuance**" means the issuance of (a) Common Shares or options to employees, officers or directors of the Company pursuant to any stock or option plan duly adopted by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose or the Company's Stock Option Plans or such other incentive plans as may be otherwise approved in accordance with the requirements set out in the TSX Company Manual, and (b) Common Shares or Common Share Equivalents pursuant to the terms of the Debentures.

"**GAAP**" shall have the meaning ascribed to such term in **Section 4.1(h)**.

"**Governmental Authority**" means any federal, provincial, territorial, state, local or foreign government or any department, agency, board, tribunal (judicial, quasi-judicial, administrative, quasi-administrative or arbitral) or authority thereof or other political subdivision thereof and any Person exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining thereto or the operation thereof, including the Canadian Securities Regulatory Authorities, SEC, TSX and AMEX.

"**Intellectual Property Rights**" shall have the meaning ascribed to such term in **Section 4.1(o)**.

"**knowledge of the Company**", "**its knowledge**", "**knowledge**" and similar expressions when used in relation to the Company means the knowledge of Jim A. Wright, President and Chief Executive Officer of the Company and Aiping H. Young, Chief Operating Officer of the Company, as applicable, after commercially reasonable enquiry and review with the relevant directors, officers and employees of the Company or its Subsidiaries, as applicable.

"**Liens**" means a lien, prior claim, security interest, hypothec, right of first refusal, pre-emptive right or any other encumbrance, charge or restriction.

"**Material Adverse Effect** " in relation to the Company and its Subsidiaries means any material adverse effect on the Property, business, results of operations, capital or condition (financial or otherwise) of the Company and the Subsidiaries taken as a whole; other than any of the following, either alone or in combination: (a) any change affecting economic or financial conditions generally (global, national, or

regional, as applicable); (b) any change affecting the Company's or its Subsidiaries' industry as a whole; (c) any change in the Company's share price or trading volume; (d) any failure to meet analysts' or internal earnings estimates, milestones or business plans; (e) any action contemplated by the Debentures or taken at the Purchaser's request; (f) any action required by Applicable Laws; or (g) the results of any clinical trials of any product candidates.

"**Material Permits**" shall have the meaning ascribed to such term in **Section 4.1(m)**.

"**MI 52-109**" means Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators, as such Instrument may be amended from time to time, or any similar instrument, rule or regulation hereafter adopted by any of the Canadian Securities Regulatory Authorities having substantially the same effect as such instrument.

"**NI 14-101**" means National Instrument 14-101 – Definitions, of the Canadian Securities Administrators, as such instrument may be amended or supplemented from time to time, or any similar instrument, rule or regulation hereafter adopted by any of the Canadian Securities Regulatory Authorities having substantially the same effect as such instrument.

"**Ontario Securities Laws**" has the meaning attributed to the term "Ontario securities law" in section 1.1 of the*Securities Act* (Ontario).

"**OSC**" means the Ontario Securities Commission.

"**Outside Date**" means:

(a) if no Shareholder Approval is required, September 30, 2006; and

(b) if Shareholder Approval is required, 45 days after the Shareholder Approval is received.

"Parties" means the Company and the Purchaser, collectively, and "**Party**" means either one of them.

"**Per Share Purchase Price**" means CAN $0.36.

"**Person**" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"**Preliminary Qualification Prospectus**" means a preliminary short form prospectus of the Company, including all material incorporated by reference therein, filed with the OSC and qualifying the distribution of the Purchased Shares to the Purchaser.

"**Proceeding**" means an action, claim, suit, investigation or proceeding (including an investigation or partial proceeding).

"**Property**" means property, real or personal, tangible or intangible, other than Intellectual Property Rights.

"**Purchase Price**" means the aggregate amount to be paid for the Purchased Shares purchased hereunder as specified in**Section 3.1**.

"**Purchased Shares**" means the Common Shares issued or issuable to the Purchaser pursuant to this Agreement.

"**Purchaser Counsel**" means Fasken Martineau DuMoulin LLP.

"**Purchaser Nominee**" shall have the meaning ascribed to such term in **Section 5.9(a)**.

"**Purchaser Party**" shall have the meaning ascribed to such term in **Section 5.7**.

"**Qualification Prospectus**" means the (final) short form prospectus, including all material incorporated by reference therein, filed with the OSC and qualifying the Purchased Shares for distribution to the Purchaser.

"**Receipt**" means a receipt issued by any of the Canadian Securities Regulatory Authorities evidencing the receipt of such of the Canadian Securities Regulatory Authorities for a preliminary or (final) prospectus, including any amendment thereto, and includes, where applicable, a decision document issued by such of the Canadian Securities Regulatory Authorities on behalf of itself and, if applicable, one or more Canadian Securities Regulatory Authorities evidencing the receipt of all such Canadian Securities Regulatory Authorities for a preliminary or (final) prospectus, including any amendment thereto, pursuant to National Policy 43-201 - *Mutual Reliance Review System for Prospectuses and Annual Information Forms*.

"**Registration Rights Agreement**" means that certain registration rights agreement, attached as **Schedule 3.3**, between the Company and the Purchaser.

"**Regulation S**" means Rules 901 through 905 promulgated by the SEC pursuant to the United States Securities Act, as such Rules may be amended from time to time.

"**Required Approvals**" shall have the meaning ascribed to such term in **Section 4.1(e)**.

"**Rule 144**" means Rule 144 promulgated by the SEC pursuant to the United States Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**SEC**" means the United States Securities and Exchange Commission, or any other federal agency at the time administering the United States Securities Act or the Exchange Act.

"**Securities Laws**" means the Canadian Securities Legislation and the United States Securities Laws.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval developed by the Canadian Securities Administrators.

"**Share Purchase Plan**" means the Company's share purchase plan.

"**Shareholder Approval**" means such approval (and related disclosure from the Company) as may be required by the TSX Company Manual or the AMEX Rules with respect to the transactions contemplated by this Agreement.

"**Stock Option Plans**" means the Company's 2003 Stock Option Plan or the 1993 Stock Option Plan.

"**Subsidiary**" shall have the meaning ascribed to such term in **Section 4.1(a)**.

"**Supplementary Material**" shall have the meaning ascribed to such term in **Section 2.2(c)**.

"**Trading Day**" means a day on which the Common Shares are traded on a Trading Market.

"**Trading Market**" means the following markets or exchanges on which the Common Shares are listed or quoted for trading on the date in question: the AMEX, the New York Stock Exchange, the Nasdaq National Market or the TSX.

"**Transaction Documents**" means this Agreement, the Registration Rights Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder including the confidentiality agreement between the Parties dated March 13, 2006.

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

"**TSX Company Manual**" means the Toronto Stock Exchange Company Manual.

"**United States Securities Act"** means the United States *Securities Act of 1933*, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

"**United States Securities Laws"** means the United States Securities Act, the Exchange Act, all applicable state or "blue sky" laws and all rules and regulations promulgated thereunder or otherwise adopted from time to time by the applicable authority having jurisdiction in respect thereof, and the AMEX Rules, as applicable.

authority having jurisdiction in respect thereof, and the AMEX Rules, as applicable.

"**Updated Disclosure Letter**" shall have the meaning ascribed to it in **Section 3.3(b)(i)**.

1.2 Interpretation.

(a) Headings. The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

(b) Articles; Sections. The terms "**this Agreement**", "**hereof**", "**hereunder**" "**hereto**" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

(c) Schedules. The Disclosure Letter and other Schedules referred to herein form an integral part of this Agreement.

(d) Number; Gender. Words, including defined terms, importing the singular number only shall include the plural and vice versa, and words, including defined terms, importing gender include all genders.

(e) Extended Meaning. The word "**include(s)**" means "include(s), without limitation", and the word "**including**" means "including, but not limited to" or "including, without restricting the generality of the foregoing", as the context requires.

(f) Reference to Agreements and Enactments. Reference herein to any agreement, instrument, licence or other document shall be deemed to include reference to such agreement, instrument, licence or other document as the same may from time to time be amended, modified, supplemented or restated in accordance with the provisions of this Agreement; and reference herein to any enactment shall be deemed to include reference to such enactment as re-enacted, amended or extended from time to time and to any successor enactment.

(g) Dollars or "$" . A reference herein to "**CAN $**", "**$**" or the word "**Dollars**", without more, shall be a reference to lawful money of Canada.

ARTICLE 2
FILING OF QUALIFICATION PROSPECTUS

2.1 Filing of Qualification Prospectus.

(a) Filing. The Company shall file the Preliminary Qualification Prospectus with the OSC as soon as practicable after the date of this Agreement and obtain a Receipt issued by the OSC. The Company shall, as soon as practicable after all regulatory deficiencies have been satisfied with respect to the Preliminary Qualification Prospectus file the Qualification Prospectus with the OSC and obtain a Receipt issued by the OSC in respect of the Qualification Prospectus.

(b) Co-operation. The Company and the Purchaser shall cooperate in the preparation of the filing of the Preliminary Qualification Prospectus and the Qualification Prospectus and shall do all such other acts and things as may be reasonably necessary or desirable in order to file the Preliminary Qualification Prospectus and the Qualification Prospectus as soon as reasonably practicable.

2.2 Documents to be Delivered in Connection with Filing.

(a) Preliminary Qualification Prospectus. Concurrently with or prior to the filing of the Preliminary Qualification Prospectus, the Company shall deliver to the Purchaser (i) a copy of the Preliminary Qualification Prospectus signed and certified; and (ii) a copy of any other document required to be filed by the Company under the laws of the Province of Ontario in compliance with Ontario Securities Laws.

(b) Qualification Prospectus. Concurrently with or prior to the filing of the Qualification Prospectus, the Company shall deliver to the Purchaser (i) a copy of the Qualification Prospectus signed and certified; (ii) a copy of any other document required to be filed by the Company under the laws of the Province of Ontario in compliance with the Ontario Securities Laws; and (iii) a copy of the letter from each of the TSX and the AMEX advising the Company that approval of the conditional listing of the Purchased Shares has been granted by the TSX and the AMEX, subject to the satisfaction of certain usual conditions set out therein.

(c) Supplementary Material. The Company shall deliver to the Purchaser duly signed copies of all amendments or supplements or any other supplemental documents to the Preliminary Qualification Prospectus or the Qualification Prospectus, as the case may be, that the Company prepares or that are required to be prepared by the Company under Ontario Securities Laws (collectively, the "**Supplementary Material**").

2.3 Covenants of the Company Concerning Prospectus. The Company covenants to the Purchaser that:

(a) the Company shall advise the Purchaser, promptly after receiving notice thereof, of the time when the Preliminary Qualification Prospectus, the Qualification Prospectus and any Supplementary Material has been filed and Receipts therefor have been obtained and shall provide evidence reasonably satisfactory to the Purchaser of each such filing and copies of such Receipts; and

(b) the Company shall cause the Preliminary Qualification Prospectus, the Qualification Prospectus and the Supplementary Material to comply with the requirements of Ontario Securities Laws, to provide full, true and plain disclosure of all material facts relating to the Company and to the Purchased Shares as required by Ontario Securities Laws and to not contain any misrepresentation (as defined in Ontario Securities Laws).

ARTICLE 3
PURCHASE AND SALE

3.1 Closing. On the Closing Date, upon the terms and subject to the conditions set out herein, the Company agrees to sell and the Purchaser agrees to purchase 28,800,000 Common Shares, as fully paid and non assessable, in the capital of the Company (the "**Purchased Shares**") registered in the name of the Purchaser for an aggregate purchase price of CAN$10,368,000 (the "**Purchase Price**"). The Purchaser shall deliver to the Company via wire transfer in immediately available funds equal to the Purchase Price and the Company shall deliver to the Purchaser its Purchased Shares pursuant to **Section 3.2** and the other items set out in **Section 3.2** issuable at the Closing. Upon satisfaction of the conditions set out in **Section 3.2** and **Section 3.3**, the Closing shall occur at the offices of Purchaser Counsel, or such other location as the Parties shall mutually agree.

3.2 Deliveries.

(a) On the Closing Date, the Company shall deliver or cause to be delivered to the Purchaser the following:

(i) legal opinions of Company Counsel, customary for transactions of this type;

(ii) a share certificate or certificates representing the Purchased Shares registered in the name of the Purchaser; and

(iii) an Officer's Certificate certifying (A) that the conditions to Closing set out in **Sections 3.3(b)(i), 3.3(b)(iv), 3.3(b)(v)** and **3.3(b)(vi)** are satisfied as of the relevant time, (B) the articles and by-laws of the Company, (C) incumbency particulars, and (D) all resolutions of the board of directors and, if necessary, shareholders approving the transactions contemplated by this Agreement.

(b) On the Closing Date, the Purchaser shall deliver or cause to be delivered to the Company the following

(i) the Purchase Price by wire transfer of immediately available funds to the account as specified in writing to the Company; and

(ii) an Officer's Certificate certifying that the conditions to Closing set out in **Sections 3.3(a)(i)** and **3.3(a)(ii)** are satisfied as of the relevant time.

3.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the truth and accuracy in all material respects (with the exception of any representations and warranties qualified by materiality, which shall be true and accurate in all respects) on the Closing Date of the representations and warranties of the Purchaser contained herein;

(ii) all obligations, covenants and agreements of the Purchaser required to be performed at or prior to the Closing Date (including delivery by the Purchaser of the items set out in **Section 3.2(b)**) shall have been performed; and

(iii) the delivery by the Purchaser of the items set out in **Section 3.2(b)**).

(b) The obligations of the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(i) the truth and accuracy in all material respects (with the exception of any representations and warranties qualified by materiality, which shall be true and accurate in all respects) on the Closing Date of the representations and warranties of the Company contained herein (for the avoidance of doubt, if any of the representations and warranties of the Company contained herein refers to a date prior to, or a period of time preceding, the date of this Agreement, such representation and warranty shall remain true and accurate in respect of such reference date or period of time), and the delivery of an updated Disclosure Letter (the "**Updated Disclosure Letter**") on the Closing Date revised to reflect changes in the operations or condition of the Company and its Subsidiaries between the date of this Agreement and the Closing Date and the representations and warranties in **Section 4.1** shall be deemed to have been amended accordingly, provided that if the Updated Disclosure Letter discloses any fact, state of facts, event, circumstances or matter with respect to any representation and warranty that constitutes a Material Adverse Effect, then such representation and warranties shall be and shall be deemed to be not accurate on the Closing Date and the condition provided in this **Section 3.3(b)(i)** shall not be met or satisfied;

(ii) a Receipt shall have been issued by the OSC for the Qualification Prospectus and such Receipt shall be effective;

(iii) the execution and delivery by the Parties of the Registration Rights Agreement;

(iv) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date (including delivery by the Purchaser of the items set out **Section 3.2(a)**) shall have been performed;

(v) there shall have been no Material Adverse Effect with respect to the Company since the date of this Agreement;

(vi) from the date of this Agreement to and including the Closing Date, trading in the Common Shares shall not have been suspended by any of the Canadian Securities Regulatory Authorities, the TSX or the AMEX (except for any suspension of trading of limited duration agreed to by the Company, which suspension shall be terminated prior to the Closing); and

(vii) the delivery by the Company of the items set out in **Section 3.2(a)**.

3.4 Mutual Conditions. The respective obligations of the Company and the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(a) the Required Approvals shall have been obtained and be in full force and effect and shall not be subject to any stop-order or proceeding seeking a stop-order or revocation;

(b) no Action or proceeding shall be pending or threatened by any person to enjoin, restrict or prohibit the sale and purchase of the Purchased Shares contemplated hereby; and

(c) no provision of any Applicable Laws and no judgment, injunction, order or decree shall be in effect which restrains or enjoins or otherwise prohibits the transactions contemplated by this Agreement.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of the Company. Except as set out under the corresponding section of the **Disclosure Letter**, which **Disclosure Letter** shall be deemed a part hereof, the Company hereby represents and warrants to the Purchaser as of the date of this Agreement as follows in this **Section 4.1**. Any disclosure set forth in a section or subsection of the Disclosure Letter discloses an exception to a representation or warranty made in the correspondingly numbered or otherwise specified section or subsection of this Agreement. Any disclosure made under one section or subsection of the Disclosure Letter shall be deemed to be disclosed under one or more other sections or subsections of the Disclosure Letter to the extent

specific reference to the relevant section(s) or subsection(s) of the representations and warranties or covenants of this Agreement is made.

(a) Subsidiaries. Each of the direct and indirect subsidiaries of the Company (each, a "**Subsidiary**") are set out in **Section 4.1(a) of the Disclosure Letter**. The Company owns, directly or indirectly, all of the issued and outstanding shares or other equity interests in the capital of each Subsidiary free and clear of any Liens, and all the issued and outstanding shares in the capital of each Subsidiary are validly issued and are fully paid, non-assessable and free of pre-emptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its Property and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, by-laws or other organizational or constating documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or Property owned or leased by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Material Adverse Effect and, to the knowledge of the Company, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its shareholders, in connection therewith other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery shall have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, shall constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Purchased Shares and the consummation by the Company of the other transactions contemplated hereby and thereby do not and shall not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, by-laws or other organizational or constating documents, or (ii), subject to the Required Approvals, conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the Property of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any Property of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any Applicable Laws to which the Company or a Subsidiary is subject, or by which any Property of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any Governmental Authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to **Section 5.4**, (ii) the filing of the Preliminary Qualification Prospectus and the Qualification Prospectus, (iii) application(s) to the AMEX and the TSX for the listing of the Purchased Shares for trading thereon in the time and manner required hereby and thereby, (iv) Shareholder Approval, if required, (v) any other required filings with one or more of the Canadian Securities Regulatory Authorities, (vi) any other required approvals of any Trading Market, and (vii) any notice to the Debentureholder if required (collectively, the "**Required Approvals**").

(f) Issuance of the Purchased Shares. The Purchased Shares, when issued and paid for in accordance with the terms and conditions of the applicable Transaction Documents, shall be duly authorized and validly issued, fully paid and non-assessable, free and clear of all Liens imposed by the Company.

(g) Capitalization. The capitalization of the Company is as described in the Company's most recent periodic report filed on SEDAR. The Company has not issued any securities other than pursuant to the Debentures, the exercise of employee stock options under the Stock Option Plans and pursuant to the conversion or exercise of outstanding Common Share Equivalents. No Person has any right of first refusal, pre-emptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Purchased Shares, the Stock Option Plans or the Debentures, there are no outstanding options,

warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any Common Shares, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional Common Shares or Common Share Equivalents. The issuance and sale of the Purchased Shares shall not obligate the Company to issue Common Shares or other securities to any Person (other than the Purchaser) and shall not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities. All of the outstanding Common Shares are validly issued, fully paid and nonassessable, to the knowledge of the Company, have been issued in compliance with all Applicable Laws and, to the knowledge of the Company, none of such outstanding Common Shares was issued in violation of any pre-emptive rights or similar rights to subscribe for or purchase securities. Except for the Required Approvals, no further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale of the Purchased Shares. There are no shareholders agreements, voting agreements or other similar agreements with respect to the Company's authorized capital to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's shareholders.

(h) Continuous Reports; Financial Statements. The Company has filed or submitted all reports, financial statements, schedules, forms, statements and other documents required to be filed or submitted by it under the Securities Laws, for the two (2) years preceding the date of this Agreement (or such shorter period as the Company may have been required by the Securities Laws to file or submit such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "**Continuous Disclosure Reports**") on a timely basis or has received a valid extension of such time of filing or submission and has filed or submitted any such Continuous Disclosure Reports prior to the expiration of any such extension, except where a failure to do so could not have or reasonably be expected to have a Material Adverse Effect. As of their respective dates, the Continuous Disclosure Reports complied with the requirements of the Securities Laws, and none of the Continuous Disclosure Reports, when filed or submitted, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Continuous Disclosure Reports have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved ("**GAAP**"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then

ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes. Since the date of the latest audited financial statements included within the Continuous Disclosure Reports and except as specifically disclosed in the Continuous Disclosure Reports, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made or required to be made pursuant to the Securities Laws, (iii) the Company has not altered its method of accounting except as required by GAAP, (iv) the Company has not declared or made any dividend or distribution of cash or other Property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any of its Common Shares and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to the Stock Option Plans or the Share Purchase Plan. The Company does not have pending before any of the Canadian Securities Regulatory Authorities any confidential material change report.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened or contemplated (including by any of the Canadian Securities Regulatory Authorities) against or affecting the Company, any Subsidiary or any of their respective Property or, to the knowledge of the Company, any current officer or director or former officer or director of the Company before or by any Governmental Authority (collectively, an "**Action**") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Purchased Shares or (ii) could, if there were an unfavourable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor, to the knowledge of the Company, any director or officer thereof, is the subject of any Action involving a claim of violation of or liability under the Applicable Laws or a claim of breach of fiduciary duty. No stop order or other order suspending the trading in securities of the Company is outstanding.

(k) Labour Relations. No labour dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect.

(l) Compliance. To the knowledge of the Company, neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in

violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its Property is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any Governmental Authority, or (iii) is or has been in violation of any Applicable Law, except in each case as could not have a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate Governmental Authorities necessary to conduct their respective businesses as described in the Continuous Disclosure Reports, except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect ("**Material Permits** "), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Property. The Company and the Subsidiaries do not own real property. Subject to the provisions of **Section 4.1(o)**, the Company and the Subsidiaries have good and marketable title in all personal property (tangible or intangible) owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, provincial, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property (including facilities) held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases of which the Company and the Subsidiaries are in compliance, except as would not have a Material Adverse Effect.

(o) Intellectual Property. The Company and the Subsidiaries have title to, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights necessary or material for use (as determined by the Company, acting commercially reasonably) in connection with their respective businesses as currently conducted and anticipated to be conducted, as described in the Continuous Disclosure Reports and except where the failure to so have could have a Material Adverse Effect (collectively, the "**Intellectual Property Rights**"). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company: (i) all such Intellectual Property Rights are enforceable, and (ii) there is no existing infringement by another Person of any of the Intellectual Property Rights.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has

any reason to believe that it shall not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set out in the Continuous Disclosure Reports, none of the current officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for leasing, rental or licensing to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, other than (i) for payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) for other employee benefits, including the Share Purchase Plan and stock option agreements under the Stock Option Plans.

(r) Securities Laws; Internal Accounting Controls. The Company is in material compliance with all provisions of the Securities Laws which are applicable to it. The Company and the Subsidiaries maintain a system of internal accounting controls as required by MI 52-109. The Company has established disclosure controls and procedures as required by MI 52-109 for the Company and designed such disclosure controls and procedures to ensure that material information relating to the Company, including its Subsidiaries, is made known to the certifying officers by others within those entities, particularly during the period in which the Company's most recently filed periodic report under the Securities Laws, as the case may be, is being prepared. The Company's certifying officers have evaluated the effectiveness of the Company's controls and procedures as of the date prior to the filing date of the most recently filed periodic report under the Securities Laws (such date, the "**Evaluation Date**"). The Company presented in its most recently filed periodic report under the Securities Laws the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date to the extent required by MI 52-109. Since the Evaluation Date, except as disclosed in the Continuous Disclosure Reports, there have been no significant changes in the Company's internal disclosure controls and procedures or its internal control over financial reporting (as such terms are defined in Section 1.1 of MI 52-109) or, to the Company's knowledge, in other factors that could significantly affect the Company's internal disclosure controls and procedures or its internal control over financial reporting. To the extent any requirements applicable to the Company under the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the SEC pursuant to such Act, differ from the foregoing, the Company is in compliance with all such requirements, except as would not have a Material Adverse Effect.

(s) Certain Fees. No brokerage or finder's fees or commissions are or shall be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents.

(t) Private Offering and Sale. Assuming the accuracy of the Purchaser's representations and warranties set out in **Section 4.2**, no registration under the United States Securities Act is required for the offer and sale of the Purchased Shares by the Company to the Purchaser as contemplated hereby.

(u) Investment Company: The Company is not, and immediately after consummation of the transactions contemplated by the Transaction Documents, shall not be, registered or required to be registered as an "investment company" under the U.S. Investment Company Act of 1940, as amended.

(v) Listing and Maintenance Requirements. The Common Shares are listed on the TSX and the AMEX, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the listing of the Common Shares on the TSX or the AMEX nor has the Company received any notification that the TSX or the AMEX is contemplating terminating such listing. The Company has not, in the 12 months preceding the date of this Agreement, received notice from any Trading Market on which the Common Shares are or have been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market, except as would not have a Material Adverse Effect. The Company is, and has no reason to believe that it shall not in the foreseeable future continue to be, in compliance with the listing and maintenance requirements of the TSX and the AMEX.

(w) Disclosure. The Disclosure Letter to this Agreement and the representations and warranties made herein are true and correct with respect to the statements made therein and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(x) Solvency. The Continuous Disclosure Reports set out as of the dates thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "**Indebtedness**" shall mean (a) any liabilities for borrowed money or amounts owed in excess of CAN $50,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except obligations in respect of indemnification, guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of CAN $50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor

any Subsidiary is in default with respect to any Indebtedness, except as would not have a Material Adverse Effect. Based on the current understanding of the Company of funding alternatives available to it, as well as its ability to make operational decisions to control its "burn rate" as needed, the Company does not expect to become insolvent within the 12-month period commencing from the date of this Agreement. The Company shall not pursue any equity financing from the date of this Agreement until the earlier of the Closing Date and September 30, 2006.

(y) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, provincial, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(z) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other Person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of Applicable Laws, or (iv) violated in any respect any provision of the United States Foreign Corrupt Practices Act of 1977, as amended.

(aa) Accountants. The Company's accountants are set out on **Section 4.1(aa) of the Disclosure Letter**. To the knowledge of the Company, such accountants are independent accountants as may be required by the Canada Business Corporations Act and the Securities Laws.

(bb) Regulation S; Directed Selling Efforts. (i) None of the Company, its Subsidiaries or any persons acting on its or their behalf has engaged in any directed selling effort (within the meaning of Regulation S) with respect to the Purchased Shares; (ii) none of the Company, its Subsidiaries or any Person acting on its or their behalf has offered to sell any of the Purchased Shares by means of any form of general solicitation or general advertising (as those terms are used in Regulation D of the United States Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the United States Securities Act; and (iii) it is a "foreign issuer" within the meaning of Regulation S and reasonably believes that there is no "substantial U.S. market interest" in the Purchased Shares of the Corporation (as such term is defined under Regulation S).

(cc) Reporting Issuer Status. The Company is a "reporting issuer" (or equivalent concept thereof) in each province of Canada that has the concept. The Company

is eligible at the date of this Agreement (i) to file a prospectus in Canada in the form of a short form prospectus pursuant to NI 44-101 and (ii) to file under the United States Securities Act a registration statement on Form F-3 for purposes of registering securities to be offered and sold for the account of any person other than the issuer, and the Company, in each case, is not engaged in or contemplating any act or transaction or series of acts or transactions the consummation of which would result in the Company ceasing to be eligible to file such a short form prospectus or Form F-3. The Company is a "foreign private issuer" under United States Securities Laws.

4.2 Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company as of the date of this Agreement as follows:

(a) Organization; Authority. The Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution, delivery and performance by the Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of the Purchaser. Each Transaction Document to which it is a party has been duly executed by the Purchaser, and when delivered by the Purchaser in accordance with the terms hereof, shall constitute the valid and legally binding obligation of the Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by Applicable Laws.

(b) No Conflicts. Neither the entering into nor the delivery of this Agreement nor the completion of the transactions contemplated hereby by the Purchaser shall result in a violation of: (i) any of the provisions of the constating documents or by-laws of the Purchaser; (ii) any agreement or other instrument to which the Purchaser is a party or by which the Purchaser is bound; or (iii) any Applicable Laws.

(c) No Common Shares. The Purchaser does not own, beneficially or otherwise, any Common Shares or Common Share Equivalents.

(d) Experience of Purchaser. The Purchaser has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Purchased Shares, and has so evaluated the merits and risks of such investment. The Purchaser is able to bear the economic risk of an investment in the Purchased Shares and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. The Purchaser is not purchasing the Purchased Shares as a result of any advertisement, article, notice or other communication regarding the Company published in any newspaper, magazine or similar media, including the internet, or broadcast over television or radio or presented at any seminar or meeting whose attendees had been invited by general solicitation or general advertising.

(f) United States Securities Laws. The Purchaser acknowledges that it was not offered the Purchased Shares in the United States (as defined in the United States Securities Act), did not execute this Agreement in the United States and was not in the United States at the time the buy order for the Purchased Shares was made.

ARTICLE 5
OTHER AGREEMENTS OF THE PARTIES

5.1 Qualification and Registration of the Purchased Shares for Resale. The rights and obligations of each of the Company and the Purchaser, and other terms and conditions relating to the registration of the resale of the Purchased Shares for resale in the United States and the qualification of the resale of the Purchased Shares for resale in Canada are set out in the Registration Rights Agreement.

5.2 Prospectus Disclosure. At the respective times of filing and at all times subsequent to the filing thereof during the distribution, the Preliminary Qualification Prospectus, the Qualification Prospectus and any Supplementary Material shall comply with the requirements of Ontario Securities Laws, and the Preliminary Qualification Prospectus and the Qualification Prospectus shall provide full, true and plain disclosure of all material facts relating to the Company, and to the Purchased Shares as required by Ontario Securities Laws and the Preliminary Qualification Prospectus and the Qualification Prospectus shall not contain any misrepresentation.

5.3 Furnishing of Information . As long as the Purchaser owns Purchased Shares, the Company covenants to timely file or submit (or obtain extensions in respect thereof and file or submit within the applicable grace period) all reports required to be filed or submitted by the Company after the date of this Agreement pursuant to Securities Laws, when applicable except where a failure to so timely file or submit could not have or reasonably be expected to have a Material Adverse Effect. As long as the Purchaser owns Purchased Shares, if the Company is not required to file reports pursuant to the Exchange Act, it shall prepare and furnish to the Purchaser and make publicly available in accordance with Rule 144(c) such information as is required for the Purchaser to sell the Purchased Shares under Rule 144. The Company further covenants that it shall take such further action as the Purchaser may request acting commercially

reasonably, all to the extent required from time to time to enable such Person to sell such Purchased Shares without registration under the United States Securities Act in accordance with the exemptions provided by Rule 144.

5.4 Securities Laws Disclosure; Publicity. The Company shall issue a press release, file a material change report and, if applicable, submit a Current Report on Form 6-K pursuant to Securities Laws and within the timeframes set out in the Securities Laws, reasonably acceptable to the Purchaser disclosing the material terms of the transactions contemplated hereby or such other information as may be required by applicable Securities Laws, and shall attach and/or file or submit those Transaction Documents required to be filed or submitted with any such filings or submissions by the applicable Securities Laws or required to be filed on SEDAR. The Company and the Purchaser shall consult with each other in issuing such press release, submitting any such Form 6-K and filing such Transaction Documents on SEDAR as required by Securities Laws, and any other press releases with respect to the transactions contemplated by the Transaction Documents. Neither the Company nor the Purchaser shall issue any such press release or otherwise make any such public statement or publicly disclose (collectively, a "**Public Disclosure**") without the prior consent of the Company, with respect to any Public Disclosure of the Purchaser, or without the prior consent of the Purchaser, with respect to any Public Disclosure of the Company, which consent shall not unreasonably be withheld. Notwithstanding the foregoing, in the event that the Company or the Purchaser is required by Applicable Laws or, in the case of the Company the requirements of any Trading Market on which its Common Shares are listed, to publicly disclose information regarding the transactions contemplated by the Transaction Documents (a "**Required Disclosure**") and it is not then reasonably possible to delay such Required Disclosure until such time as such Party shall have notified, consulted with and obtained the consent of the other Party to such Required Disclosure as required by this **Section 5.4**, then any such Required Disclosure made without prior notice to, consultation with or obtaining the consent of the Purchaser shall not be deemed a breach of the disclosing Party's obligations under this **Section 5.4**.

5.5 Regulation S; Directed Selling Efforts. (i) None of the Company, its Subsidiaries or any persons acting on its or their behalf shall engage in any directed selling effort (within the meaning of Regulation S) with respect to the Purchased Shares; (ii) to the extent that the Company engages in a sale of the Purchased Shares, or other securities substantially similar to the Purchased Shares, outside of the United States, it shall comply with the requirements for an "offshore transaction", as such term is defined in Regulation S; (iii) none of the Company, its Subsidiaries or any Person acting on its or their behalf shall offer to sell any of the Purchased Shares by means of any form of general solicitation or general advertising (as those terms are used in Regulation D of the United States Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the United States Securities Act; and (iv) the Company shall notify its transfer agent as soon as practicable upon it becoming a "domestic issuer", as defined in Regulation S.

5.6 Use of Proceeds. The Company shall use the net proceeds from the sale of the Purchased Shares hereunder for the purposes and in the amounts specified in **Section 5.6 of the Disclosure Letter** for so long as such purposes are scientifically and economically feasible, as determined by management of the Company and its board of directors, and not for the satisfaction of any portion of the Debentures or any debt (other than debt which may be incurred

in implementing the purposes specified in **Section 5.6 of the Disclosure Letter**) or to redeem any Common Shares or Common Share Equivalents or to settle any outstanding litigation.

5.7 Indemnification.

(a) Indemnification of Purchaser. Subject to the provisions of this **Section 5.7(a)**, the Company shall indemnify and hold the Purchaser and its directors, officers, partners and employees (each, a "**Purchaser Party**") harmless from any and all claims, legal procedures, obligations, liabilities, contingencies, damages, losses, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser, by any shareholder of the Company, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of the Purchaser's representations, warranties or covenants under the Transaction Documents or any relevant and material agreements or understandings the Purchaser may have with any such shareholder or any material violations by the Purchaser of Securities Laws or any conduct by the Purchaser which constitutes fraud, gross negligence or wilful misconduct). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defence thereof with counsel of its own choosing. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defence thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defence and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party. The Company shall not be liable to any Purchaser Party under this Agreement for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed. For avoidance of doubt, the Company's obligations and the Purchaser's rights under **Section 5.7(a)** are in addition to any such obligations and rights imposed or provided in the Registration Rights Agreement relating to the registration of Purchased Shares.

(b) Limitation. To the extent permitted by Applicable Laws, the liability of the Company under **Section 5.7(a)** shall be limited to the Purchase Price.

5.8 **Subsequent Equity Sales**. Neither the Company nor any Subsidiary shall, until July 31, 2007, issue Common Shares or Common Share Equivalents at a price per share that is less than the Per Share Purchase Price, except for Exempt Issuances.

5.9 **Board Representation**.

(a) Commencing with the first of the annual, special or extraordinary meetings of shareholders of the Company the record date for which next follows the Closing Date, and at each annual meeting of shareholders of the Company thereafter, the Purchaser shall be entitled to present to the Board of Directors or the nominating committee thereof one nominee (each such person, or replacement designated by the Purchaser, a "**Purchaser Nominee**") for election to the Board of Directors at each such meeting of shareholders of the Company. In the event of the death, disability, resignation or removal of a Purchaser Nominee, or the failure of a Purchaser Nominee to qualify to act as a director pursuant to **Section 5.9(e)**, the Purchaser shall designate a replacement for such director, which replacement the Company shall cause to be nominated for election to the Board of Directors at the annual, special or extraordinary meeting of shareholders of the Company the record date for which next follows the date on which such director ceased to be a director as a result of his or her death, disability, resignation or removal from the Board of Directors.

(b) The Company shall cause each Purchaser Nominee designated for election to the Board of Directors pursuant to**Section 5.9(a)** to be included in the slate of nominees recommended by the Board of Directors to the shareholders of the Company for election as directors at the relevant meeting of the shareholders, and shall use its commercially reasonable efforts to cause the election of each such Purchaser Nominee, including soliciting proxies in favour of the election of such person.

(c) Notwithstanding the foregoing provisions of this **Section 5.9**, the Purchaser shall not be entitled to designate a Purchaser Nominee for election to the Board of Directors as of the first date on which the Purchaser no longer owns any Purchased Shares of the Company. In the event that the Purchaser shall no longer be entitled to designate Purchaser Nominees for election to the Board of Directors pursuant to this **Section 5.9(c)**, the Purchaser shall cause any Purchaser Nominee then serving as a director to resign from the Board of Directors no later than the thirtieth (30th) day after the first day on which the Purchaser no longer owns any Purchased Shares of the Company.

(d) If at any time that the Purchaser is entitled to designate a Purchaser Nominee for election to the Board of Directors no Purchaser Nominee shall then be elected and serving as a director on the Board of Directors, then until such time as a Purchaser Nominee shall be elected to serve as a director the Purchaser shall be entitled to designate one person (each such person, a "**Board Observer**") who shall be permitted to attend all regular and special meetings of the Board of Directors. Each Board Observer shall enter into the Company's standard form

confidentiality agreement prior to acting as a Board Observer. The Company shall (i) notify each Board Observer of any such meeting no later than the time at which it notifies any member of the Board of Directors of such meeting and (ii) provide to such Board Observer copies of all written or other materials delivered to other members of the Board of Directors.

(e) The Purchaser Nominee shall, at all times, be qualified and eligible to act as a director pursuant to the requirements of the Canada Business Corporations Act and the Securities Laws, as applicable.

5.10 **Officer Share Transactions**. The Company shall use its commercially reasonable efforts to cause each of the Company's Chief Executive Officer and President, Chief Operating Officer, Director of Business Development, and Director of Finance to enter into an agreement on the Closing Date, which provides that he or she shall not, directly or indirectly, without the prior consent of the Purchaser, (i) offer, sell, contract to sell, secure, pledge, grant or sell any option, right or warrant to purchase, or otherwise lend, transfer or dispose of, or announce any intention to do so, any securities of the Company, or (ii) make any short sale, engage in any hedging transaction, or enter into any swap or other arrangement that transfers to another Person any of the economic consequences of ownership of Common Shares (each, an "**Officer Disposition**"), for a period of 30 days following the Closing Date, and for the 30 days immediately following such initial 30 day period, the aggregate Officer Dispositions of any of such Scheduled Officer shall not exceed 50% of the aggregate number of Common Shares held by such Scheduled Officer on the Closing Date. Each such agreement with such Scheduled Officers may contain customary exceptions to such restrictions, which exceptions shall be reasonably acceptable to the Purchaser.

5.11 **Compliance with Securities Laws**. The Purchaser shall comply with all applicable Securities Laws in connection with any resale of the Purchased Shares.

5.12 **Ordinary Course of Business**. The Company shall exercise commercially reasonable efforts to ensure that, until the Closing Date its operations and business are conducted only in the ordinary course, substantially in the same manner as currently conducted, including in such manner that:

(a) it shall not incur any indebtedness or obligation except in the ordinary course of business, and in a manner consistent with, past practices;

(b) it shall not dispose of its Property (in whole or in part as may otherwise constitute a "bulk sale"), except in the ordinary course of business, and in a manner consistent with past practices;

(c) it shall not dispose of or lose any of its title to or right to use any of the Intellectual Property Rights, except in the ordinary course of business, and in a manner consistent with past practices;

(d) it shall maintain in force all policies of insurance; and

(e) it shall not enter or agree to enter into any transaction that may result in a Material Adverse Effect.

The Company shall promptly notify the Purchaser of the occurrence or existence of any event or circumstance on or prior to the Closing Date by reason of which the Company has ceased to conduct its operations and business in the ordinary course as currently conducted or by reason of which the representations and warranties made by the Company herein have ceased to be true and correct in any material respect (or, in the case of representations and warranties qualified by materiality, in any respect).

5.13 **No Dividends**. From the date of this Agreement until the Closing Date, the Company shall not declare, pay or set aside for payment any dividend (including a dividend in specie or in kind) or other distribution to holders of any of its shares (including by way of return of capital).

ARTICLE 6
MISCELLANEOUS

6.1 **Fees and Expenses**. The Company shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and of Purchaser Counsel incident to the negotiation, preparation, execution and delivery of this Agreement. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Purchased Shares. The fees and expenses that the Company is obligated to pay pursuant to this **Section 6.1** shall be in addition to all such fees and expenses the Company is obligated to pay pursuant to the terms of any other Transaction Document.

6.2 **Entire Agreement**. The Transaction Documents, together with the schedules thereto, contain the entire understanding of the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, including, without limitation the non-binding term sheet between the Parties dated as of June 13, 2006.

6.3 **Notices**. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto prior to 5:30 p.m. (Toronto time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (Toronto time) on any Trading Day, (c) the 2nd Trading Day following the date of mailing, if sent by an internationally recognized overnight courier service, or (d) upon actual receipt by the Party to whom such notice is required to be given. The address for such notices and communications shall be as set out on the signature pages attached hereto.

6.4 **Amendments; Waivers**. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company

and the Purchaser or, in the case of a waiver, by the Party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either Party to exercise any right hereunder in any manner impair the exercise of any such right.

6.5 **Successors and Assigns**. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns. Neither Party may assign this Agreement or any rights or obligations hereunder without the prior written consent of the other Party.

6.6 **No Third-Party Beneficiaries**. This Agreement is intended for the benefit of the Parties and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set out in **Section 5.7**.

6.7 **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

6.8 **Survival**. The representations and warranties contained herein shall survive the Closing for a period of two years thereafter, except in the case of fraud and except that the representations and warranties set out in **Sections 4.1(f)** and **4.1(y)** shall survive for the limitation period applicable to the respective subject matter thereof.

6.9 **Execution**. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each Party and delivered to the other Party, it being understood that both Parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the Party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

6.10 **Severability**. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the Parties shall attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

6.11 **Construction**. The Parties confirm that each of them together with the Company Counsel and Purchaser Counsel, as applicable, has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the provisions of this Agreement express the Parties' mutual intent and the rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto and no rule of strict construction shall be applied against either Party.

(Signature Pages Follow)

IN WITNESS WHEREOF, the Parties have caused this Share Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated on the first page hereof.

LORUS THERAPEUTICS INC.

Per: /s/ Jim Wright
Name: Jim Wright
Title: Chief Executive Officer

Per: /s/ Aiping Young
Name: Aiping H. Young
Title: Chief Operating Officer

Address for Notice:
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Jim Wright, CEO
Telephone: +(416) 798-1200 Ext. 340
Telecopy: +(416) 798-2200
E-mail: jawright@lorusthera.com

and

Attention: Aiping H. Young, COO
Telephone: +(416) 798-1200 Ext. 379
Telecopy: +(416) 798-2200
E-mail: ahyoung@lorusthera.com

HIGH TECH BETEILIGUNGEN GMBH & CO. KG represented by CONPHARM ANSTALT

Per: /s/ Georg Ludwig
Name: Georg Ludwig
Title: Managing Director

Address for Notice:
ConPharm Anstalt
Grossfeld 10
FL 9492 Eschen
Principality of Liechtenstein
Attention: Georg Ludwig, Managing Director
Telephone: +423 79 17 066
Telecopy: +423 373 0423
E-mail: gludwig@High Tech-pe.com

With copy to:
High Tech Beteiligungen GmbH & Co. KG
Steinstrasse 20
D 40212 Düsseldorf
Germany
Attention: Georg Ludwig, Managing Director
Telephone: +49 211 86 289 460
Telecopy: +49 211 86 289 465
E-mail: gludwig@High Tech-pe.com

REGISTRATION RIGHTS AGREEMENT

Dated as of August 30, 2006

LORUS THERAPEUTICS INC.

and

HIGH TECH BETEILIGUNGEN GMBH & CO. KG

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**") is dated as of August 30, 2006

BETWEEN LORUS THERAPEUTICS INC., a Canadian corporation (the "**Company**")

AND HIGH TECH BETEILIGUNGEN GMBH & CO. KG, a German limited partnership, herein represented by **CONPHARM ANSTALT**, a Liechtenstein corporation (the "**Purchaser**")

WHEREAS, the Company and the Purchaser have entered into the Share Purchase Agreement (as defined below) pursuant to and subject to the terms and conditions of

which, the Purchaser has agreed to purchase from the Company, and the Company has agreed to issue and sell to the Purchaser, Purchased Shares (as defined in the Share Purchase Agreement).

AND WHEREAS, as an inducement to the Purchaser for entering into the Share Purchase Agreement, the Purchaser has required that the Company agree, and the Company has agreed, to provide the rights set forth in this Agreement.

AND WHEREAS, the consummation of the Closing (as defined in the Share Purchase Agreement) is conditional upon, among other things, the execution and delivery of this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchaser agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Defined Terms. Capitalized terms used but not defined in this Agreement shall have the meanings assigned to such terms in that certain share purchase agreement, dated as of July 13, 2006 (the "**Share Purchase Agreement**"), between the Company and the Purchaser. As used in this Agreement, the following terms shall have the following meanings:

"**Canadian Prospectus**" means a short form prospectus prepared and filed in accordance with NI 44-101 in the English and/or French language, as applicable, including all amendments and supplements thereto and all documents and information incorporated therein by reference.

"**Canadian securities regulatory authorities**" has the meaning attributed to such term in NI 14-101.

"**Company Public Sale**" has the meaning set forth in **Section 3.1(a)**.

"**Canadian Securities Administrators**" means the CSA as defined in NI 14-101.

"**Lock-Up Period**" has the meaning set forth in **Section 2.3(b)(ii)**.

"**Loss**" has the meaning set forth in **Section 6.1**.

"**MRRS**" means National Policy 43-201 — Mutual Reliance Review System for Prospectus and Annual Information Forms of the Canadian Securities Administrators, as such policy may be amended or supplemented from time to time, or any similar instrument, rule or regulation hereafter adopted by the Canadian Securities Administrators having substantially the same effect as such instrument.

"**MRRS Decision Document**" means a decision document issued by the principal regulator pursuant to MRRS.

"**NASD**" means the National Association of Securities Dealers, Inc.

"**NI 44-101**" means National Instrument 44-101 – Short-Form Prospectus Distributions, of the Canadian Securities Administrators, as such instrument may be amended or supplemented from time to time, or any similar instrument, rule or regulation hereafter adopted by the Canadian Securities Administrators having substantially the same effect as such instrument.

"**NI 45-102**" means National Instrument 45-102 – Resale of Securities, of the Canadian Securities Administrators, as such instrument may be amended or supplemented or replaced from time to time, or any similar instrument, rule or regulation hereafter adopted by the Canadian Securities Administrators having substantially the same effect as such instrument.

"**Piggyback Registration**" has the meaning set forth in **Section 3.1(a)**.

"**Preliminary Canadian Prospectus**" means a preliminary short form prospectus prepared and filed in accordance with NI 44-101 in the English and/or French language, as applicable, including all amendments and supplements thereto and all documents and information incorporated therein by reference.

"**Qualifying Provinces**" means, collectively, each of the provinces of Canada.

"**Register**" means:

(a) in the case of a registration under the United States Securities Act of the Company's securities for offer and sale, or resale, to the public in the United States under a Registration Statement, preparing and filing a registration statement in compliance with the United States Securities Act and the automatic effectiveness or the use of commercially reasonable efforts to cause such Registration Statement to become effective under the United States Securities Act; and

(b) in the case of the qualification with the applicable Canadian securities regulatory authorities of the Company's securities for distribution in any Qualifying Province, preparing and filing a Canadian Preliminary Prospectus, and as soon as practicable thereafter, a Canadian Prospectus under Canadian Securities

Legislation and in respect of each, the use of commercially reasonable efforts to obtain an MRRS Decision Document.

The term "**Registration**" shall have a correlative meaning.

"**Registrable Securities**" means the Purchased Shares issued to the Purchaser pursuant to the Share Purchase Agreement or upon the conversion, exchange or exercise of or as a dividend with respect to such shares and any securities that may be issued or distributed or be issuable in respect of the Purchased Shares by way of conversion, dividend, stock split or other distribution, merger, consolidation, exchange, recapitalization or reclassification or similar transaction; *provided that* any such Registrable Securities shall cease to be Registrable Securities upon the earliest to occur of:

(a) the first day that the Purchaser no longer owns any Registrable Securities;

(b) in respect of a Registration under the United States Securities Act, the first day on which the Purchaser may sell all of the Registrable Securities owned by the Purchaser in one transaction pursuant to Rule 144;

(c) in respect of a Registration in Canada, the first day on which the Purchaser owns less than 10% of the number of Common Shares then outstanding; and

(d) June 30, 2012.

"**Registration Expenses**" has the meaning set forth in **Section 5.1**.

"**Registration Period**" means:

(e) in respect of a Registration under the United States Securities Act, the period commencing on the Closing Date and ending on the earliest to occur of:

(i) the first day that the Purchaser no longer owns any Registrable Securities;

(ii) the first day on which the Purchaser may sell all of the Registrable Securities owned by the Purchaser in one transaction pursuant to Rule 144; and

(iii) June 30, 2012; and

(f) in respect of a Registration in Canada, the period commencing on the Closing Date and ending on the earliest to occur of:

(i) the first day that the Purchaser no longer owns any Registrable Securities;

(ii) the first day on which the Purchaser owns less than 10% of the number of Common Shares then outstanding; and

(iii) June 30, 2012.

"**Registration Statement**" means any registration statement on Form F-3, or any successor form thereto, of the Company filed with, or to be filed with, the SEC under the United States Securities Act, including the related U.S. Prospectus, amendments and supplements to such registration statement, including post-effective amendments, and all exhibits and all material incorporated by reference in such registration statement.

"**Securities Regulators**" means the SEC and the Canadian securities regulatory authorities.

"**Shelf Registration Statement**" means a Registration Statement filed in respect of an offering to be made on a continuous or delayed basis pursuant to Rule 415 under the United States Securities Act (or any successor or similar rule that may be adopted by the SEC) covering the resale of Registrable Securities.

"**Shelf Supplement**" means, in respect of a Registration under the United States Securities Act, a supplement to the U.S. Prospectus contained in the Shelf Registration Statement for purposes of including pricing and other necessary information in connection with any resale of Registrable Securities.

"**Specified Province(s)**" has the meaning set forth in **Section 2.1(a)**.

"**supplement**" shall include any Shelf Supplement.

"**Underwritten Offering**" means a Registration in which securities of the Company are sold to an underwriter or underwriters on a firm commitment basis for distribution to the public.

"**U.S. Prospectus**" means the prospectus included in any Registration Statement, all amendments and supplements to such prospectus, including post-effective amendments, and all material incorporated by reference in such prospectus.

1.2 General Interpretive Principles.

(a) Headings: The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

(b) Articles; Sections: The terms "**this Agreement**", "**hereof**", "**hereunder**" "**hereto**" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles, Sections and clauses are to Articles, Sections and clauses of this Agreement.

(c) Number; Gender: Words, including defined terms, importing the singular number only shall include the plural and vice versa, and words, including defined terms, importing gender include all genders.

(d) Extended Meaning: The word "**include(s)**" means "include(s), without limitation", and the word "**including**" means "including, but not limited to" or "including, without restricting the generality of the foregoing", as the context requires.

(e) Reference to Agreements and Enactments: Reference herein to any agreement, instrument, licence or other document shall be deemed to include reference to such agreement, instrument, licence or other document as the same may from time to time be amended, modified, supplemented or restated in accordance with the provisions of this Agreement; and reference herein to any enactment shall be deemed to include reference to such enactment as re-enacted, amended or extended from time to time and to any successor enactment.

ARTICLE 2
REGISTRATION RIGHTS

2.1 Registration Rights. If the Company receives a written request from the Purchaser that the Company file a Canadian Prospectus under Canadian Securities Legislation or a Registration Statement under the United States Securities Act to Register the resale of all or part of the Registrable Securities held by the Purchaser, the Company shall, subject to the limitations of **Sections 2.2** and **2.3**:

(a) as soon as practicable and in any event within 90 days (or four weeks in the case of a demand for Registration in Canada prior to the date that is four months from the Closing Date) after the Company's receipt of such written request, prepare and file in those Qualifying Provinces specified by the Purchaser (the "**Specified Province(s)**") or in the United States, as the case may be, a Canadian Prospectus or Registration Statement, as applicable, in order to Register that number of Registrable Securities specified by the Purchaser in the request;

(b) use its commercially reasonable efforts to resolve any regulatory comments and satisfy any regulatory deficiencies in respect of the Preliminary Canadian Prospectus or Registration Statement, as applicable, and, as soon as reasonably practicable after such comments or deficiencies have been resolved or satisfied, prepare and file, and use its commercially reasonable efforts to (i) in Canada, obtain an MRRS Decision Document (or an equivalent document) for the Specified Province(s) for the (final) Canadian Prospectus or (ii) in the United States, cause the Registration Statement to become effective under the United States Securities Act, and will, subject to the provisions of **Article 3**, take all other steps and proceedings necessary in order to Register the resale of the Registrable Securities in the Specified Province(s) or the United States, as the case may be, as soon as practicable;

(c) ensure that (i) in the case of the Canadian Prospectus, the Canadian Prospectus contains the disclosure required by, and conforms in all material respects to the requirements of, the applicable provisions of Canadian Securities Legislation; and (ii) in the case of the Registration Statement, the Registration Statement contains

the disclosure required by, and conforms in all material respects, to the requirements of, the applicable provisions of the United States Securities Act;

(d) prepare and file as soon as practicable with the securities regulatory authorities in the Specified Province(s) or the United States, as the case may be, any amendments and supplements to the Canadian Prospectus or the Registration Statement that may be necessary to comply with applicable Canadian Securities Legislation or the United States Securities Laws, as the case may be; and

(e) in the case of an Underwritten Offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the underwriters of such offering.

Subject to the provisions of **Section 5.1**, a request pursuant to **Section 2.1** may be withdrawn by written notice to the Company by the Purchaser.

2.2 Number of Demand Qualifications. The Company is only obligated to file an aggregate of five Canadian Prospectuses and Registration Statements under **Section 2.1** and shall not be obligated to effect more than two Registrations in any one calendar year, but no filing pursuant to **Section 2.1** shall be deemed to be a filing for purposes of this **Article 2** until:

(a) the Company has in Canada, secured an MRRS Decision Document (or an equivalent document) for the Specified Province(s) for the Canadian Prospectus; or

(b) in the United States, the Registration Statement has become effective

unless such document has not been secured or become effective due solely to the fault of, or (except as a result of any postponement of any filing pursuant to **Section 2.3**) because the filing is withdrawn at the written request of, the Purchaser. For greater certainty, any request by the Purchaser to file a Canadian Prospectus or Registration Statement, which is subsequently abandoned or withdrawn by the Purchaser, shall count as one of the five Canadian Prospectuses and Registration Statements the Company is obligated to file hereunder.

2.3 Exceptions. If the Company is requested to file a Canadian Prospectus or Registration Statement pursuant to **Section 2.1**:

(a) the Company is not obligated to effect the filing of such Canadian Prospectus or Registration Statement if the number of Registrable Securities to be Registered comprises less than 1% of the issued and outstanding Common Shares at the time of delivery of the notice;

(b) the Company is not obligated to effect the filing of such Canadian Prospectus or Registration Statement:

(i) for a period of up to 90 days after the date of a request for Registration pursuant to **Section 2.1** if:

(A) at the time of such request, the Company is engaged, or has fixed plans to engage within 60 days after the date of such request, in an Underwritten Offering in which the Purchaser is entitled to include Registrable Securities pursuant to **Section 3.1**; or

(B) at the time of such request, the Company is currently engaged in an offer or exchange offer and the filing of a Canadian Prospectus or Registration Statement would cause a violation of applicable Canadian Securities Legislation or the United States Securities Act;

(ii) during the 90-day period following the closing by the Company of an Underwritten Offering in which the Purchaser was entitled (subject to underwriter cutbacks) to include Registrable Securities pursuant to **Section 3.1** (or for such shorter period as the lead underwriter(s) of such public offering may have requested) (the "**Lock-Up Period**"), if the lead underwriter(s) of such public offering has advised the Company that the stand-off pursuant to this **clause (ii)**, including the length thereof, is reasonable and customary under the circumstances and has requested such stand-off;

(iii) if the Company has already effected the filing of a Canadian Prospectus or Registration Statement pursuant to **Section 2.1** within the previous 90 days and such Canadian Prospectus or Registration Statement has not been withdrawn or such prior offering otherwise terminated; or

(iv) if the Company has a Shelf Registration Statement that has been declared effective under the United States Securities Act at the time it receives a written notice from the Purchaser exercising its demand rights pursuant to **Section 2.1**;

(c) the Company may defer such filing for up to 90 days after the delivery by the Company to the Purchaser of a certificate signed by the Chief Executive Officer of the Company stating that in the good faith judgment of the board of directors of the Company it would be detrimental to the Company and its shareholders for a Canadian Prospectus or Registration Statement to be filed and it is essential to defer the filing of such Canadian Prospectus or Registration Statement; *provided that* the Company may not use this right more than twice in any one calendar year;

(d) the Company shall keep a Shelf Registration Statement effective for the period specified by the Purchaser; *provided that* such period ends on or prior to the date on which the Registration Period ends.

provided that (1) the Company shall give prompt written notice to the Purchaser at such time as the reason for any postponement of the filing of a Canadian Prospectus or Registration Statement pursuant to **clause (i)** of this **Section 2.3(b)**, or **Section 2.3(c)**, no longer exists, or any Lock-Up

Period has been terminated, at which point the relevant postponement shall terminate, (2) any stand-off period pursuant to **Section 2.3(b)(ii)** may be terminated by the relevant lead underwriter(s), such consent to termination not to be unreasonably withheld, and upon any such termination the postponement of the filing of a Canadian Prospectus or Registration Statement pursuant to **Section 2.3(b)(ii)** shall terminate, and (3) if the Company postpones the filing of any Canadian Prospectus or Registration Statement pursuant to **Section 2.3(b)** or **(c)** and the Purchaser withdraws its related request pursuant to **Section 2.1**, the Purchaser will not have any obligation pursuant to **Section 5.1** in connection with such aborted filing.

ARTICLE 3
PIGGY-BACK RIGHTS

3.1 Piggyback Registrations.

(a) Participation. If the Company at any time proposes to Register any offering of its securities under the United States Securities Act or Canadian Securities Legislation, for its own account or for the account of any other Persons, on a form or in a manner that would permit the inclusion of the Registrable Securities for offer and sale in an Underwritten Offering to the public under the United States Securities Act or Canadian Securities Legislation (other than (i) a Registration under the United States Securities Act on Form S-4, F-4, F-10 or S-8 or any successor form to such Forms or (ii) a Registration of securities solely relating to an offering and sale to employees or directors of the Company pursuant to any employee stock plan or other employee benefit plan arrangement) (a "**Company Public Sale**"), then, as soon as practicable but in no event less than,

(i) in respect of a Company Public Sale in Canada five (5) Trading Days prior to the proposed date of filing the Preliminary Canadian Prospectus, except that in the case of a "bought deal" as contemplated by NI 44-101 the Company shall give such notice to the Purchaser as promptly as practicable but not later than four (4) Trading Days prior to the proposed date of filing the Canadian Preliminary Prospectus, and

(ii) in respect of a Company Public Sale Registered under the United States Securities Act, five (5) Trading Days prior to the proposed date of filing the Registration Statement,

the Company shall give written notice of such proposed filing to the Purchaser. Such notice shall offer the Purchaser the opportunity to include in such Company Public Sale under a Registration Statement or Canadian Prospectus (as the case may be) such number of Registrable Securities as the Purchaser may request in writing (a "**Piggyback Registration**"). The Company is under no obligation to complete any offering of its securities it proposes to make pursuant to this **Section 3.1** and will incur no liability to the Purchaser for its failure to do so.

(b) Inclusion of Registrable Securities in Company Public Sale. Subject to **Section 3.1(c)**, the Company shall include in such Company Public Sale all such

Registrable Securities which are requested to be included therein within 15 days after the receipt by the Purchaser of any such notice; *provided that* if at any time after giving written notice of its intention to Register any securities and prior to:

(i) the effective date of the applicable Registration Statement (in the case of a Registration under the United States Securities Act); or

(ii) an MRRS Decision Document being issued for the Canadian Prospectus (in the case of a Registration pursuant to Canadian Securities Legislation)

filed in connection with such Registration, the Company shall determine for any reason not to Register or to delay Registration of such securities, the Company may, at its election, give written notice of such determination to the Purchaser and, thereupon:

(iii) in the case of a determination not to Register, shall be relieved of its obligation to include any Registrable Securities in such Underwritten Offering (but not from its obligation to pay the Registration Expenses in connection therewith); and

(iv) in the case of a determination to delay Registering, shall be permitted to delay including any Registrable Securities in such Underwritten Offering, for the same period as the delay in Registering such other securities.

If the Purchaser requests a Piggyback Registration pursuant to **Section 3.1(a)**, then the Purchaser must, and the Company shall make such arrangements with the managing underwriter or underwriters so that the Purchaser may, participate in such Underwritten Offering. The Purchaser shall be permitted to withdraw all or part of its Registrable Securities from a Piggyback Registration at any time prior to the effective date thereof.

(c) Priority of Piggyback Registration. If the managing underwriter or underwriters of any proposed Underwritten Offering of Registrable Securities included in a Piggyback Registration informs the Company and the Purchaser in writing that, in its or their opinion, the number of securities which the Purchaser and any other Persons intend to include in such offering exceeds the number which can be sold in such offering without being likely to have a significant adverse effect on the price, timing or distribution of the securities offered or the market for the securities offered, then the securities to be included in such Registration shall be:

(i) first, 100% of the securities that the Company or (subject to **Section 7.3**) any Person (other than the Purchaser) exercising a contractual right to demand Registration, as the case may be, proposes to sell; and

(ii) second, and only if all the securities referred to in **Section 3.1(c)(i)** have been included, the number of Registrable Securities that, in the opinion of such managing underwriter or underwriters, can be sold without having such adverse effect; and

(iii) third, and only if all of the Registrable Securities referred to in **Sections 3.1(c)(i)** and **3.1(c)(ii)** have been included in such Registration, any other securities eligible for inclusion in such Registration.

(d) Obligation to Register Registrable Securities. To the extent that any Registrable Securities are included and sold in a Company Public Sale, the Company's continuing obligations to Register that number of securities included in the Company Public Sale shall forthwith cease upon the closing of the Company Public Sale; *provided that* all of the Company's obligations under **Article 2** and **Section 3.1** in respect of the Registrable Shares that were not included and sold in such Company Public Sale shall remain in full force and effect and shall not be deemed to have been satisfied or to have ceased as a result of such Company Public Sale.

(e) Underwriting Agreement. The Purchaser shall be party to the underwriting agreement between the Company and such underwriters, which underwriting agreement shall (i) contain such representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of the Purchaser as are customarily made by issuers to selling stockholders in secondary underwritten public offerings and (ii) provide that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement also shall be conditions precedent to the obligations of the Purchaser. The Purchaser shall not be required to make any representations or warranties to or agreements with the Company or the underwriters, except that such Purchaser shall be required, upon request, to provide representations, warranties or agreements regarding the Purchaser, the Purchaser's Registrable Securities and the Purchaser's intended method of distribution of the Registrable Securities or any other representations or information required by law or required to be included in a Registration Statement.

(f) Participation in Underwritten Registrations. The Purchaser may not participate in any Underwritten Offering hereunder unless the Purchaser (i) agrees to sell its applicable Registrable Securities on the basis provided in any underwriting arrangements approved by the Company and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

ARTICLE 4
OBLIGATIONS AND COVENANTS OF THE PARTIES

4.1 Registration Procedures. In connection with the Company's Registration obligations under **Article 2** and **Article 3**, the Company will use commercially reasonable efforts to effect such Registration to permit the sale of such Registrable Securities in accordance with the intended method or methods of distribution thereof as expeditiously as reasonably practicable, and in connection therewith the Company will:

(a) prepare the required Registration Statement or Canadian Prospectus (as the case may be) including all exhibits and financial statements required under the United States Securities Act or Canadian Securities Legislation to be filed therewith, and before filing a Registration Statement, U.S. Prospectus or Canadian Prospectus (as the case may be), or any amendments or supplements thereto, and (x) furnish to the Purchaser copies of all documents prepared to be filed, which documents will be subject to the review of the Purchaser and its counsel, acting reasonably and (y) except in the case of a Registration under **Section 3.1**, not file any Registration Statement, U.S. Prospectus, or Canadian Prospectus or amendments or supplements thereto to which the Purchaser or the underwriters, if any, shall reasonably object; *provided that* notwithstanding any other term of this Agreement, if the Purchaser or the underwriters, if any, do so reasonably object, the Company shall not be deemed to be in breach of any of its obligations hereunder;

(b) as soon as reasonably practicable file with the SEC or the Canadian Securities Administrators in each applicable Qualifying Province (as the case may be) a Registration Statement or Canadian Prospectus, respectively, relating to the Registrable Securities including all exhibits and financial statements required by the SEC or such Canadian Securities Administrators (as the case may be) to be filed therewith, and use commercially reasonable efforts to cause such Registration Statement to become effective under the United States Securities Act or an MRRS Decision Document to be issued for such Canadian Prospectus;

(c) prepare and file with the SEC or the Canadian Securities Administrators in each applicable Qualifying Province such amendments and post-effective amendments to any Registration Statement or Canadian Prospectus (as the case may be) and supplements (including Shelf Supplements) to the U.S. Prospectus or Canadian Prospectus (as the case may be) as may be reasonably requested by the Purchaser or necessary to keep such Registration effective for the period of time required by this Agreement and, if applicable, to include the Registrable Securities in an Underwritten Offering pursuant to **Section 3.1**, and comply with provisions of applicable Securities Laws with respect to the sale or other disposition of all securities covered by such Registration Statement or Canadian Prospectus (as the case may be) during such period in accordance with the intended method or methods of disposition by the Purchaser set forth in such Registration Statement or Canadian Prospectus (as the case may be);

(d) notify the Purchaser and (if requested) confirm such advice in writing and provide copies of the relevant documents to the Purchaser, as soon as reasonably practicable after notice thereof is received by or on behalf of the Company

(i) when

(A) the applicable Registration Statement or any amendment thereto has been filed, becomes effective, and when the applicable U.S. Prospectus or any amendme or supplement to such U.S. Prospectus has been filed, and/or

(B) the applicable Canadian Preliminary Prospectus or Canadian Prospectus or any amendment or supplement thereto has been filed or an MRRS Decision Document issued therefor,

(ii) of any written comments by the Securities Regulators or any request by the Securities Regulators or any other Governmental Authority for amendments or supplements to any Registration Statement (or the related U.S. Prospectus), any Canadian Preliminary Prospectus or any Canadian Prospectus or for additiona information,

(iii) of the issuance by the Securities Regulators of any stop order or cease trade order suspending the effectiveness of any Registration Statement or Canadian Prospectus or any order by the Securities Regulators or any other Governmental Authority preventing or suspending the use of any preliminary or final U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus or the initiation or threatening of any proceedings for such purposes, and

(iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for offering or sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(e) promptly notify the Purchaser when the Company becomes aware of the happening of any event as a result of which

(i) the applicable Preliminary Canadian Prospectus or Canadian Prospectus contains any misrepresentation (as defined in Canadian Securities Legislation) or fail constitute full, true and plain disclosure of all material facts regarding the Registrable Securities or,

(ii) the applicable Registration Statement or the U.S. Prospectus included in such Registration Statement (as then in effect), contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein (in the case of the U.S. Prospectus, in light of the circumstances under which they were made), not misleading, or

if for any other reason it shall be necessary during such time period to amend or supplement such Registration Statement, U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus in order to comply with the United States Securities Laws or Canadian Securities Legislation, as applicable, and, in each case as promptly as reasonably practicable thereafter, prepare and file with the Securities Regulators, and furnish without charge to the selling Purchaser an amendment or supplement to such Registration Statement, U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus which will correct such misstatement or

omission or effect such compliance;

(f) use commercially reasonable efforts to prevent or obtain the withdrawal of any stop order, cease trade order or other order suspending the use of any preliminary or final U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus or suspending the qualification of Registrable Securities covered by a Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus;

(g) promptly incorporate in a U.S. Prospectus supplement or post-effective amendment to a Registration Statement, or in an amendment or supplement to a Preliminary Canadian Prospectus or Canadian Prospectus, such information as the managing underwriter or underwriters, if any, and the Purchaser agree should be included therein relating to the plan of distribution with respect to such Registrable Securities; and make all required filings of such U.S. Prospectus supplement or post-effective amendment, or amendment or supplement to such Preliminary Canadian Prospectus or Canadian Prospectus, as soon as reasonably practicable after being notified of the matters to be incorporated in such U.S. Prospectus supplement or post-effective amendment or amendment or supplement to such Preliminary Canadian Prospectus or Canadian Prospectus;

(h) furnish to the Purchaser without charge, as many conformed copies as the Purchaser may reasonably request of the applicable Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus (as the case may be) and any supplement, amendment or post-effective amendment thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those incorporated by reference);

(i) deliver to the Purchaser without charge, as many copies of the applicable U.S. Prospectus (including each preliminary prospectus), Preliminary Canadian Prospectus and Canadian Prospectus (as the case may be) and any amendment or supplement thereto as the Purchaser may reasonably request (it being understood that the Company consents to the use of such U.S. Prospectus, Preliminary Canadian Prospectus and Canadian Prospectus (as the case may be) or any amendment or supplement thereto by the Purchaser in connection with the offering and sale of the Registrable Securities covered by such U.S. Prospectus, Preliminary Canadian Prospectus and Canadian Prospectus (as the case may be) or any amendment or supplement thereto) and such other documents as the Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities by the Purchaser;

(j) on or prior to the date on which the applicable Registration Statement becomes effective under the United States Securities Act, use commercially reasonable efforts to register or qualify, and cooperate with the Purchaser and its counsel, in connection with the registration or qualification of such Registrable Securities for offer and sale under the securities or "Blue Sky" laws of each state and other jurisdiction of the United States as the Purchaser or its counsel reasonably request in writing and do any and all other acts or things reasonably necessary or advisable to keep such Registration in effect, *provided that* the Company will not be required to

(i) qualify generally to do business in any jurisdiction where it is not then so qualified,

(ii) become subject to the securities laws of any jurisdiction other than the United States, the various states of the United States, Canada or the Qualifying Provinces, or

(iii) take any action which would subject it to taxation or general service of process in any such jurisdiction where it is not then so subject;

(k) use commercially reasonable efforts to cause the Registrable Securities covered by any Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as applicable to be registered with or approved by such other Governmental Authorities as may be necessary to enable the Purchaser to consummate the disposition of such Registrable Securities;

(l) enter into such customary agreements (including, without limitation, indemnification agreements, and in the case of Underwritten Offerings, underwriting agreements) and take all such other actions as the Purchaser or the underwriters, if any, reasonably request in order to expedite or facilitate the registration and disposition of such Registrable Securities;

(m) obtain for delivery to the Purchaser and to the underwriters, if any, an opinion or opinions (including, as applicable, any French translation opinion for any Preliminary Canadian Prospectus or Canadian Prospectus) from counsel for the Company dated the effective date of the Registration Statement or, in the event of an Underwritten Offering, the date of the closing under the underwriting agreement, addressed or confirmed to the Purchaser and underwriters, in customary form, scope and substance, which opinions shall be reasonably satisfactory to the Purchaser or underwriters, as the case may be, and their respective counsel;

(n) in the case of an Underwritten Offering, provide copies to the Purchaser included in such Underwritten Offering, of the "comfort letter" from, and delivered to the Company and the underwriters, if any, by the Company's independent certified public accountants, in customary form and covering such matters of the type customarily covered by "comfort letters" as the Company and the underwriters, if

any, reasonably request, dated the date of execution of the underwriting agreement and brought down to the closing under the underwriting agreement;

(o) cooperate with each seller of Registrable Securities and each underwriter, if any, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD or other regulatory body;

(p) use commercially reasonable efforts to comply with all applicable securities laws and make available to its security holders, as soon as reasonably practicable an earnings statement satisfying the provisions of Section 11(a) of the United States Securities Act and the rules and regulations promulgated thereunder;

(q) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by the applicable Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, from and after a date not later than the effective date of such Registration Statement, or the date an MRRS Decision Document is issued for the Canadian Prospectus, as the case may be;

(r) cause all Registrable Securities covered by the Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, to be listed on each securities exchange on which any of the Company's securities are then listed or quoted and on each inter-dealer quotation system on which any of the Company's securities are then quoted; and

(s) make available upon reasonable notice at reasonable times and for reasonable periods for inspection by

(i) a representative appointed by the Purchaser covered by the applicable Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be,

(ii) any underwriter or agent participating in any disposition to be effected pursuant to such Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, and

(iii) by any attorney, lawyer, accountant or other agent retained by the Purchaser or any such underwriter or agent,

all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees and the independent public accountants who have certified its financial statements to make themselves available to discuss the business of the Company and to supply all information reasonably requested by any such Person in connection with such Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus (as the case may be) as shall be necessary to enable them to exercise their due diligence responsibility; *provided that* any such Person gaining

access to information regarding the Company pursuant to this **Section 4.1** shall agree to hold in strict confidence and shall not make any disclosure or use any information regarding the Company which the Company determines in good faith to be confidential, and of which determination such Person is notified, unless (w) the release of such information is requested or required (by deposition, interrogatory, requests for information or documents by a governmental entity, subpoena or similar process), (x) such information is or becomes publicly known without a breach of this or any other agreement of which such Person has knowledge, (y) such information is or becomes available to such Person on a non-confidential basis from a source other than the Company or (z) such information is independently developed by such Person.

4.2 Information Regarding the Purchaser.

The Company may require the Purchaser to furnish to the Company such information regarding the distribution of the Registrable Securities and such other information relating to the Purchaser and its ownership of Registrable Securities as the Company may from time to time reasonably request in writing to enable the Company to comply with its obligations hereunder. The Purchaser agrees to furnish such information to the Company and to cooperate with the Company as reasonably necessary to enable the Company to comply with the provisions of this Agreement. The Company shall assume and shall not be deemed to assume any liability for any information provided to it by the Purchaser.

4.3 Discontinuance of Distribution.

The Purchaser agrees by acquisition of such Registrable Securities that, upon receipt of any notice from the Company of the happening of any event of the kind described in **Section 4.1(e)**, the Purchaser will forthwith discontinue disposition of Registrable Securities pursuant to such Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, until the Purchaser's receipt of the copies of the supplemented or amended U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, contemplated by **Section 4.1(e)**, or until the Purchaser is advised in writing by the Company that the use of the U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, may be resumed, and if so directed by the Company, the Purchaser will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Purchaser's possession, of the U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus, as the case may be, covering such Registrable Securities current at the time of receipt of such notice.

4.4 Eligibility for use of Short-Form Prospectus and Form F-3.

The Company covenants that it shall, during the Registration Period, use commercially reasonable efforts to maintain its eligibility to file:

(a) a prospectus in Canada in the form of a short form prospectus pursuant to NI 44-101, and

(b) a registration statement on Form F-3, or successor form thereto, under the United States Securities Act for purposes of registering securities to be offered and sold, including on a delayed or continuous basis, for the account of any person other than the issuer.

4.5 Compliance with Securities Laws.

The Purchaser will comply with all Applicable Laws in connection with its resale of the Registrable Securities and the exercise of any of its rights and obligations hereunder.

4.6 Purchaser Information.

The Purchaser covenants that any information it provides in writing to the Company for the express purpose of inclusion in

(a) any Registration Statement under which Registrable Securities are Registered under the United States Securities Act (including any final, preliminary or summary U.S. Prospectus contained therein or any amendment thereof or supplement thereto), or

(b) any Preliminary Canadian Prospectus, Canadian Prospectus or any amendment or supplement thereto,

shall not contain any untrue statement of a material fact or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a U.S. Prospectus, in light of the circumstances under which they were made) not misleading or, in the case of a Preliminary Canadian Prospectus or Canadian Prospectus, that such information provides full, true and plain disclosure of all material facts.

ARTICLE 5
EXPENSES

5.1 Registration Expenses.

The expenses incident to the Company's performance of or compliance with **Article 2**, **Article 3** and **Article 4** of this Agreement will be paid by the Company, consisting of those expenses as set forth below:

(a) all registration and filing fees, and any other fees and expenses associated with filings required to be made with the Securities Regulators or the NASD,

(b) all fees and expenses in connection with compliance with state securities or "Blue Sky" laws,

(c) all printing, duplicating, word processing, messenger, telephone, facsimile and delivery expenses (including expenses of printing prospectuses or similar documents),

(d) all fees and disbursements of counsel for the Company and of all independent certified public accountants of the Company (including the expenses of any opinions, audit and "comfort letters" required by or incident to such performance),

(e) United States Securities Act liability insurance or similar insurance if the Company so desires or the underwriters, if any, so require in accordance with then-customary underwriting practice,

(f) all fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange or quotation of the Registrable Securities on any inter-dealer quotation system,

(g) all applicable rating agency fees with respect to the Registrable Securities,

(h) any reasonable fees and disbursements of underwriters, if any, customarily paid by issuers of securities and, for greater certainty, shall not include the fees and disbursements of any underwriters separately engaged by the Purchaser,

(i) all fees and expenses of any special experts or other Persons retained by the Company in connection with any Registration, and

(j) all of the Company's internal expenses (including all salaries and expenses of its officers and employees performing legal or accounting duties).

All such expenses are referred to herein as "**Registration Expenses**." The Company shall not be required to pay any fees and disbursements to underwriters not customarily paid by the issuers of securities in a secondary offering, including underwriting discounts and commissions and transfer taxes, if any, attributable solely to the sale of Registrable Securities.

ARTICLE 6
INDEMNIFICATION

6.1 Indemnification by the Company.

The Company agrees to indemnify and hold harmless, to the full extent permitted by law, the Purchaser, its directors, officers and employees and each Person who controls (within the meaning of the United States Securities Act or the Exchange Act) such Persons from and against any and all losses, penalties, judgments, suits, costs, claims, damages, liabilities (or actions or proceedings in respect thereof, whether or not such indemnified party is a party thereto) and expenses, joint or several (including reasonable costs of investigation and legal expenses) (each, a "**Loss**" and collectively "**Losses**") arising out of or based upon

(a) any untrue or alleged untrue statement of a material fact contained or incorporated by reference in

(i) any Registration Statement under which such Registrable Securities were Registered under the United States Securities Act (including any final,

preliminary or summary U.S. Prospectus contained therein or any amendment thereof or supplement thereto or any documents incorporated by reference therein), or

(ii) any Preliminary Canadian Prospectus, Canadian Prospectus or any amendment or supplement thereto or any material incorporated by reference therein, or

(b) any omission or alleged omission to state in a Registration Statement or U.S. Prospectus a material fact required to be stated therein (in the case of the U.S. Prospectus) or necessary to make the statements therein in light of the circumstances under which they were made not misleading or in a Preliminary Canadian Prospectus or Canadian Prospectus to provide full, true and plain disclosure of all material facts, or

(c) any violation or alleged violation by the Company of any Applicable Law relating to any action or inaction in connection with any Registration or disclosure document or other document or information incorporated by reference therein and used in connection with such Registration;

provided that the Company shall not be liable to any particular indemnified party (x) to the extent that any such Loss arises solely as a result of an untrue statement or alleged untrue statement or omission or alleged omission made in any such Registration Statement, Preliminary Canadian Prospectus or Canadian Prospectus in reliance upon and in conformity with written information furnished to the Company by such indemnified party expressly for use in the preparation thereof or (y) to the extent that any such Loss arises solely as a result of an untrue statement or omission in a preliminary U.S. Prospectus or Preliminary Canadian Prospectus relating to Registrable Securities, if a U.S. Prospectus or Canadian Prospectus, respectively, (as then amended or supplemented) that would have cured the defect was furnished to the indemnified party from whom the Person asserting the claim giving rise to such Loss purchased Registrable Securities at least one day prior to the sale (which may include a contract of sale) of the Registrable Securities to such Person and a copy of such U.S. Prospectus or Canadian Prospectus, as applicable, (as amended and supplemented) was not sent or given by or on behalf of such indemnified party to such Person at or prior to the sale (which may include a contract of sale) of the Registrable Securities to such Person. This indemnity shall be in addition to any liability the Company may otherwise have. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Purchaser or any indemnified party and shall survive the transfer of such securities by the Purchaser. The Company will also indemnify underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution, their officers and directors and each Person who controls such Persons (within the meaning of the United States Securities Act and the Exchange Act) to the same extent as provided above with respect to the indemnification of the indemnified parties.

6.2 Conduct of Indemnification Proceedings.

Any Person entitled to indemnification hereunder will

(a) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification, *provided that* any delay or failure to so notify the indemnifying party shall relieve the indemnifying party of its obligations hereunder only to the extent, if at all, that it is actually and materially prejudiced by reason of such delay or failure, and

(b) permit such indemnifying party to assume the defence of such claim with counsel reasonably satisfactory to the indemnified party; *provided that* any Person entitled to indemnification hereunder shall have the right to select and employ separate counsel and to participate in the defence of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless

(i) the indemnifying party has agreed in writing to pay such fees or expenses,

(ii) the indemnifying party shall have failed to assume the defence of such claim within a reasonable time after receipt of notice of such claim from the Person entitled to indemnification hereunder and employ counsel reasonably satisfactory to such Person,

(iii) the indemnified party has reasonably concluded (based upon advice of its counsel) that there may be legal defences available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, or

(iv) in the reasonable judgment of any such Person (based upon advice of its counsel) a conflict of interest may exist between such Person and the indemnifying party with respect to such claims (in which case, if the Person notifies the indemnifying party in writing that such Person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defence of such claim on behalf of such Person).

If the indemnifying party assumes the defence, the indemnifying party shall not have the right to settle such action without the consent of the indemnified party. No indemnifying party shall consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of an unconditional release from all liability in respect to such claim or litigation. If such defence is not assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its prior written consent, but such consent may not be unreasonably withheld. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements or other charges of more than one separate firm admitted to practice in such jurisdiction at any one time from such indemnified party or parties unless (x) the employment of more than one counsel has been authorized in writing by the indemnifying party or parties, (y) an indemnified party has

reasonably concluded (based on the advice of counsel) that there may be legal defences available to it that are different from or in addition to those available to the other indemnified parties or (z) a conflict or potential conflict exists or may exist (based upon advice of counsel to an indemnified party) between such indemnified party and the other indemnified parties, in each of which cases the indemnifying party shall be obligated to pay the reasonable fees and expenses of such additional counsel or counsels.

6.3 Contribution.

If for any reason the indemnification provided for in **Section 6.1** is unavailable to an indemnified party or insufficient in respect of any Losses referred to therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such Loss

(a) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party or parties on the other hand; or

(b) if the allocation provided by **clause (a)** of this **Section 6.3** is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in **clause (a)** of this **Section 6.3** but also the relative fault of the indemnifying party on the one hand and the indemnified party or parties on the other hand in connection with the acts, statements or omissions that resulted in such losses, as well as any other relevant equitable considerations.

In connection with any Registration Statement, U.S. Prospectus, Preliminary Canadian Prospectus or Canadian Prospectus (as the case may be) filed with the applicable Securities Regulators by the Company, (x) the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other hand shall be deemed to be in the same respective proportions as the net proceeds from the offering of any securities registered thereunder (before deducting expenses) received by the indemnifying party and the net proceeds from the offering of any Registrable Securities (before deducting expenses) received by the indemnified party, bear to the aggregate public offering price of the securities registered thereunder; and (y) the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just or equitable if contribution pursuant to this **Section 6.3** were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this **Section 6.3**. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the United States Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. The amount paid or payable by an indemnified party as a result of the Losses referred to in **Section 6.1** shall be deemed to include, subject to the limitations set forth above, any legal or other

expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. If indemnification is available under **Section 6.1**, the indemnifying parties shall indemnify each indemnified party to the full extent provided in **Section 6.1** without regard to the relative fault of said indemnifying parties or indemnified party. The remedies provided for in this **Section 6.3** are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

ARTICLE 7
MISCELLANEOUS

7.1 Rules 144 and 144A.

The Company covenants that it will file the reports required to be filed by it under the United States Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder. If the Company is not required to file such reports, it will, upon the request of the Purchaser, make publicly available such necessary information for so long as necessary to permit sales pursuant to Rules 144, 144A or Regulation S under the United States Securities Act, and it will take such further action as the Purchaser may reasonably request, all to the extent required from time to time to enable the Purchaser to sell Registrable Securities without Registration under the United States Securities Act within the limitation of the exemptions provided by (i) Rules 144, 144A or Regulation S under the United States Securities Act, as such Rules may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC. Upon the request of the Purchaser, the Company will deliver to the Purchaser a written statement as to whether it has complied with such requirements and, if not, the specifics thereof.

7.2 Free Writing Prospectuses.

The Purchaser agrees that it will not use any "free writing prospectuses" (as such term is defined in Rule 405 of the United States Securities Act) in connection with the offer or sale by it of Registrable Securities pursuant to a Registration Statement.

7.3 No Inconsistent Agreements; Additional Rights.

The Company will not hereafter enter into, and is not currently a party to, any agreement with respect to its securities which is inconsistent with the rights granted to the Purchaser by this Agreement.

7.4 Term and Termination.

This Agreement shall take effect from and after the Closing Date and shall terminate upon the later of the expiration of the Registration Period in Canada or the United States, except for the provisions of **Article 6**, which shall survive any such termination.

7.5 Fees and Expenses.

The Company shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and of Purchaser Counsel incident to the negotiation, preparation, execution

and delivery of this Agreement. The fees and expenses that the Company is obligated to pay pursuant to this **Section 7.5** shall be in addition to all such fees and expenses the Company is obligated to pay pursuant to the terms of **Article 5**, **Article 6** and any other Transaction Document.

7.6 Entire Agreement.

The Transaction Documents, together with the schedules thereto, contain the entire understanding of the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, including, without limitation the non-binding term sheet between the Parties dated as of June 13, 2006.

7.7 Notices.

Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of

(a) the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto prior to 5:30 p.m. (Toronto time) on a Trading Day,

(b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (Toronto time) on any Trading Day,

(c) the 2nd Trading Day following the date of mailing, if sent by an internationally recognized overnight courier service, or

(d) upon actual receipt by the Party to whom such notice is required to be given.

The address for such notices and communications shall be as set out on the signature pages attached hereto.

7.8 Amendments; Waivers.

No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchaser or, in the case of a waiver, by the Party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either Party to exercise any right hereunder in any manner impair the exercise of any such right.

7.9 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns. Neither Party may assign this Agreement or any rights or obligations hereunder without the prior written consent of the other Party.

7.10 No Third-Party Beneficiaries.

This Agreement is intended for the benefit of the Parties and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

7.11 Governing Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

7.12 Execution.

This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each Party and delivered to the other Party, it being understood that both Parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the Party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

7.13 Severability.

If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the Parties shall attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

7.14 Construction.

The Parties confirm that each of them together with the Company Counsel and Purchaser Counsel, as applicable, has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the provisions of this Agreement express the Parties' mutual intent and the rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto and no rule of strict construction shall be applied against either Party.

(Signature Pages Follow)

IN WITNESS WHEREOF, the Parties have caused this Registration Rights Agreement to be duly executed by their respective authorized signatories as of the date first indicated on the

first page hereof.

LORUS THERAPEUTICS INC.

Per: /s/ Jim Wright

Name: Jim Wright
Title: Chief Executive Officer

Per: /s/ Aiping Young

Name: Aiping H. Young
Title: Chief Operating Officer

Address for Notice:
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Jim Wright, CEO
Telephone: +(416) 798-1200 Ext. 340
Telecopy: +(416) 798-2200
E-mail: jawright@lorusthera.com

and

Attention: Aiping H. Young, COO
Telephone: +(416) 798-1200 Ext. 379
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HIGH TECH BETEILIGUNGEN GMBH & CO. KG
represented
by CONPHARM ANSTALT

Per: /s/ Georg Ludwig

Name: Georg Ludwig
Title: Managing Director

Address for Notice:
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E-mail: gludwig@High Tech-pe.com

With copy to:
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SHARE PURCHASE AGREEMENT

dated as of July 24, 2006

Between

LORUS THERAPEUTICS INC.

and

TECHNIFUND INC.

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SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (this "**Agreement**") is dated as of July 24, 2006

BETWEEN LORUS THERAPEUTICS INC., a Canadian corporation (the "**Company**")

AND **TECHNIFUND INC.**, an Ontario corporation (the "**Purchaser**")

WHEREAS, subject to the terms and conditions set out in this Agreement, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchaser agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated in this **Section 1.1** for all purposes of this Agreement:

"**Action**" shall have the meaning ascribed to such term in **Section 3.1(j).**

"**Affiliate**" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144 under the United States Securities Act.

"**AMEX**" means the American Stock Exchange.

"**AMEX Rules**" means collectively, all rules, requirements and policies of the AMEX applicable to the Company, including such as are contained in the Rules of the AMEX and the AMEX Company Guide.

"**Applicable Laws**" means, in relation to any Person, Property, transaction or event, all applicable provisions in effect at the relevant time (or mandatory applicable provisions) of federal, provincial, territorial, state, local or foreign laws, statutes, rules, regulations, directives and orders of all Governmental Authorities, and all judgments, orders, decrees, decisions, rulings or awards of all Governmental Authorities to which the Person in question is a party or by which it is bound or having application to the Person, Property, transaction or event, including the Securities Laws.

"**Canada Business Corporations Act**" means the *Canada Business Corporations Act* and the regulations made thereunder, as now in effect and as they may be amended from time to time.

"**Canadian Securities Legislation**" has the meaning attributed to such term in NI 14-101 and includes published policies promulgated thereunder from time to time by any of the Canadian Securities Regulatory Authorities and the TSX Company Manual.

"**Closing**" means the closing of the purchase and sale of the Purchased Shares pursuant to **Section 2.1**.

"**Closing Date**" means the third Trading Day after all conditions precedent to the Purchaser's obligations to pay the Purchase Price and the Company's obligations to deliver the Purchased Shares as set out in **Section 2.3** and **Section 2.4** have been satisfied or waived.

"**Canadian Securities Regulatory Authorities**" has the meaning attributed to such term in NI 14-101.

"**Common Shares**" means the common shares of the Company, and any other class of securities into which such securities may hereafter have been reclassified or changed into.

"**Common Share Equivalents**" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Shares, including any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Shares.

"**Company Counsel**" means McCarthy Tétrault LLP.

"**Continuous Disclosure Reports**" shall have the meaning ascribed to such term in **Section 3.1(h)**).

"**Debentureholder**" means The Erin Mills Investment Corporation, the registered holder of the Debentures.

"**Debentures**" means the secured convertible debentures of the Company in the aggregate principal amount of CAN $15,000,000.00 issued to the Debentureholder in equal amounts of $5,000,000 each on each of October 6, 2004, January 15, 2005 and April 15, 2005.

"**Disclosure Letter**" means the Disclosure Letter of the Company delivered to the Purchaser concurrently herewith and signed by the Company with receipt acknowledged thereon by the Purchaser.

"**Evaluation Date**" shall have the meaning ascribed to such term in **Section 3.1(r)**.

"**Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended, and any successor thereto, and the rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

"**GAAP**" shall have the meaning ascribed to such term in **Section 3.1(h)**.

"**Governmental Authority**" means any federal, provincial, territorial, state, local or foreign government or any department, agency, board, tribunal (judicial, quasi-judicial, administrative, quasi-administrative or arbitral) or authority thereof or other political subdivision thereof and any Person exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining thereto or the operation thereof, including the Canadian Securities Regulatory Authorities, SEC, TSX and AMEX.

"**Intellectual Property Rights**" shall have the meaning ascribed to such term in **Section 3.1(o)**.

"**knowledge of the Company**", "**its knowledge**", "**knowledge**" and similar expressions when used in relation to the Company means the knowledge of Jim A. Wright, President and Chief Executive Officer of the Company and Aiping H. Young, Chief Operating Officer of the Company, as applicable, after commercially reasonable enquiry and review with the relevant directors, officers and employees of the Company or its Subsidiaries, as applicable.

"**Liens**" means a lien, prior claim, security interest, hypothec, right of first refusal, pre-emptive right or any other encumbrance, charge or restriction.

"**Material Adverse Effect**" in relation to the Company and its Subsidiaries means any material adverse effect on the Property, business, results of operations, capital or condition (financial or otherwise) of the Company and the Subsidiaries taken as a whole; other than any of the following, either alone or in combination: (a) any change

affecting economic or financial conditions generally (global, national, or regional, as applicable); (b) any change affecting the Company's or its Subsidiaries' industry as a whole; (c) any change in the Company's share price or trading volume; (d) any failure to meet analysts' or internal earnings estimates, milestones or business plans; (e) any action contemplated by the Debentures or taken at the Purchaser's request; (f) any action required by Applicable Laws; or (g) the results of any clinical trials of any product candidates.

"**Material Permits**" shall have the meaning ascribed to such term in **Section 3.1(m)**.

"**MI 52-109**" means Multilateral Instrument 52-109 — *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators, as such Instrument may be amended from time to time, or any similar instrument, rule or regulation hereafter adopted by any of the Canadian Securities Regulatory Authorities having substantially the same effect as such instrument.

"**NI 14-101**" means National Instrument 14-101 — Definitions, of the Canadian Securities Administrators, as such instrument may be amended or supplemented from time to time, or any similar instrument, rule or regulation hereafter adopted by any of the Canadian Securities Regulatory Authorities having substantially the same effect as such instrument.

"**Ontario Securities Laws**" has the meaning attributed to the term "Ontario securities law" in section 1.1 of the *Securities Act* (Ontario).

"**OSC**" means the Ontario Securities Commission.

"Parties" means the Company and the Purchaser, collectively, and "**Party**" means either one of them.

"**Per Share Purchase Price**" means CAN $0.36.

"**Person**" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"**Personal Information**" has the meaning ascribed to such phrase under applicable privacy legislation, including without limitation, the *Personal Information Protection and Electronic Documents Act* (Canada).

"**Proceeding**" means an action, claim, suit, investigation or proceeding (including an investigation or partial proceeding).

"**Property**" means property, real or personal, tangible or intangible, other than Intellectual Property Rights.

"**Purchase Price**" means the aggregate amount to be paid for the Purchased Shares purchased hereunder as specified in **Section 2.1**.

"**Purchased Shares**" means the Common Shares issued or issuable to the Purchaser pursuant to this Agreement.

"**Purchaser Party**" shall have the meaning ascribed to such term in **Section 4.3**.

"**Regulation S**" means Rules 901 through 905 promulgated by the SEC pursuant to the United States Securities Act, as such Rules may be amended from time to time.

"**Required Approvals**" shall have the meaning ascribed to such term in **Section 3.1(e)**.

"**Rule 144**" means Rule 144 promulgated by the SEC pursuant to the United States Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**SEC**" means the United States Securities and Exchange Commission, or any other federal agency at the time administering the United States Securities Act or the Exchange Act.

"**Securities Laws**" means the Canadian Securities Legislation and the United States Securities Laws.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval developed by the Canadian Securities Administrators.

"**Share Purchase Plan**" means the Company's share purchase plan.

"**Stock Option Plans**" means the Company's 2003 Stock Option Plan or the 1993 Stock Option Plan.

"**Subsidiary**" shall have the meaning ascribed to such term in **Section 3.1(a)**.

"**Trading Day**" means a day on which the Common Shares are traded on a Trading Market.

"**Trading Market**" means the following markets or exchanges on which the Common Shares are listed or quoted for trading on the date in question: the AMEX, the New York Stock Exchange, the Nasdaq National Market or the TSX.

"**Transaction Documents**" means this Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

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

"**TSX Company Manual**" means the Toronto Stock Exchange Company Manual.

"**United States Securities Act**" means the United States *Securities Act of 1933*, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

"**United States Securities Laws**" means the United States Securities Act, the Exchange Act, all applicable state or "blue sky" laws and all rules and regulations promulgated thereunder or otherwise adopted from time to time by the applicable authority having jurisdiction in respect thereof, and the AMEX Rules, as applicable.

"**Updated Disclosure Letter**" shall have the meaning ascribed to it in **Section 2.3(b)(i)**.

1.2 Interpretation.

(a) Headings. The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

(b) Articles; Sections. The terms "**this Agreement**", "**hereof**", "**hereunder**" "**hereto**" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto.

Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

(c) Schedules. The Disclosure Letter and other Schedules referred to herein form an integral part of this Agreement.

(d) Number; Gender. Words, including defined terms, importing the singular number only shall include the plural and vice versa, and words, including defined terms, importing gender include all genders.

(e) Extended Meaning. The word "**include(s)**" means "include(s), without limitation", and the word "**including**" means "including, but not limited to" or "including, without restricting the generality of the foregoing", as the context requires.

(f) Reference to Agreements and Enactments. Reference herein to any agreement, instrument, licence or other document shall be deemed to include reference to such agreement, instrument, licence or other document as the same may from time to time be amended, modified, supplemented or restated in accordance with the provisions of this Agreement; and reference herein to any enactment shall be deemed to include reference to such enactment as re-enacted, amended or extended from time to time and to any successor enactment.

(g) Dollars or "$". A reference herein to "**CAN $**", "**$" or the word "Dollars**", without more, shall be a reference to lawful money of Canada.

ARTICLE 2
PURCHASE AND SALE

2.1 Closing. On the Closing Date, upon the terms and subject to the conditions set out herein, the Company agrees to sell and the Purchaser agrees to purchase 5,000,000 Common Shares, as fully paid and non assessable, in the capital of the Company (the "**Purchased Shares**") registered in the name of the Purchaser for an aggregate purchase price of CAN$1,800,000 (the "**Purchase Price**"). The Purchaser shall deliver to the Company via wire transfer in immediately available funds equal to the Purchase Price and the Company shall deliver to the Purchaser its Purchased Shares pursuant to **Section 2.2** and the other items set out in **Section 2.2** issuable at the Closing. Upon satisfaction of the conditions set out in **Section 2.2** and **Section 2.3**, the Closing shall occur at the offices of Company Counsel, or such other location as the Parties shall mutually agree.

2.2 Deliveries.

(a) On the Closing Date, the Company shall deliver or cause to be delivered to the Purchaser the following:

(i) legal opinion of Company Counsel, customary for transactions of this type;

(ii) a share certificate or certificates representing the Purchased Shares registered in the name of the Purchaser; and

(iii) an Officer's Certificate certifying (A) that the conditions to Closing set out in **Sections 2.3(b)(i), 2.3(b)(ii), 2.3(b)(iii)** and **2.3(b)(iv)** are satisfied as of the relevant time, (B) the articles and by-laws of the Company, (C) incumbency particulars, and (D) all resolutions of the board of directors approving the transactions contemplated by this Agreement.

(b) On the Closing Date, the Purchaser shall deliver or cause to be delivered to the Company the following

(i) a completed and duly signed Accredited Investor Certificate Form, in the form attached as **Schedule 2.2(b)(i)**;

(ii) the Purchase Price by certified cheque or wire transfer of immediately available funds to the account as specified in writing to the Company; and

(iii) an Officer's Certificate certifying (A) that the conditions to Closing set out in **Sections 2.3(a)(i)** and **2.3(a)(ii)** are satisfied as of the relevant time, (B) the articles and by-laws of the Purchaser, (C) incumbency particulars, and (D) all resolutions of the board of directors approving the transactions contemplated by this Agreement.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the truth and accuracy in all material respects (with the exception of any representations and warranties qualified by materiality, which shall be true and accurate in all respects) on the Closing Date of the representations and warranties of the Purchaser contained herein;

(ii) all obligations, covenants and agreements of the Purchaser required to be performed at or prior to the Closing Date (including delivery by the Purchaser of the items set out in **Section 2.2(b)**) shall have been performed; and

(iii) the delivery by the Purchaser of the items set out in **Section 2.2(b)**).

(b) The obligations of the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(i) the truth and accuracy in all material respects (with the exception of any representations and warranties qualified by materiality, which shall be true and accurate in all respects) on the Closing Date of the representations and warranties of the Company contained herein (for the avoidance of doubt, if any of the representations and warranties of the Company contained herein refers to a date prior to, or a period of time preceding, the date of this Agreement, such representation and warranty shall remain true and accurate

in respect of such reference date or period of time), and the delivery of an updated Disclosure Letter (the "**Updated Disclosure Letter**") on the Closing Date revised to reflect changes in the operations or condition of the Company and its Subsidiaries between the date of this Agreement and the Closing Date and the representations and warranties in **Section 3.1** shall be deemed to have been amended accordingly, provided that if the Updated Disclosure Letter discloses any fact, state of facts, event, circumstances or matter with respect to any representation and warranty that constitutes a Material Adverse Effect, then such representation and warranties shall be and shall be deemed to be not accurate on the Closing Date and the condition provided in this **Section 2.3(b)(i)** shall not be met or satisfied;

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date (including delivery by the Purchaser of the items set out **Section 2.2(a)**) shall have been performed;

(iii) there shall have been no Material Adverse Effect with respect to the Company since the date of this Agreement;

(iv) from the date of this Agreement to and including the Closing Date, trading in the Common Shares shall not have been suspended by any of the Canadian Securities Regulatory Authorities, the TSX or the AMEX (except for any suspension of trading of limited duration agreed to by the Company, which suspension shall be terminated prior to the Closing); and

(v) the delivery by the Company of the items set out in **Section 2.2(a)**.

2.4 Mutual Conditions. The respective obligations of the Company and the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(a) the closing of the share purchase transaction between the Company and High Tech Beteiligungen GmbH & Co. KG, a German limited partnership, represented by Conpharm Anstalt, pursuant to the terms and conditions of a share purchase agreement dated as of July 13, 2006;

(b) the Required Approvals shall have been obtained and be in full force and effect and shall not be subject to any stop-order or proceeding seeking a stop-order or revocation;

(c) no Action or proceeding shall be pending or threatened by any person to enjoin, restrict or prohibit the sale and purchase of the Purchased Shares contemplated hereby; and

(d) no provision of any Applicable Laws and no judgment, injunction, order or decree shall be in effect which restrains or enjoins or otherwise prohibits the transactions contemplated by this Agreement.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company Except as set out under the corresponding section of the **Disclosure Letter**, which **Disclosure Letter** shall be deemed a part hereof, the Company hereby represents and warrants to the Purchaser as of the date of this Agreement as follows in this **Section 3.1**. Any disclosure set forth in a section or subsection of the Disclosure Letter discloses an exception to a representation or warranty made in the correspondingly numbered or otherwise specified section or subsection of this Agreement. Any disclosure made under one section or subsection of the Disclosure Letter shall be deemed to be disclosed under one or more other sections or subsections of the Disclosure Letter to the extent specific reference to the relevant section(s) or subsection(s) of the representations and warranties or covenants of this Agreement is made.

(a) Subsidiaries. Each of the direct and indirect subsidiaries of the Company (each, a "**Subsidiary**") are set out in **Section 3.1(a) of the Disclosure Letter**. The Company owns, directly or indirectly, all of the issued and outstanding shares or other equity interests in the capital of each Subsidiary free and clear of any Liens, and all the issued and outstanding shares in the capital of each Subsidiary are validly issued and are fully paid, non-assessable and free of pre-emptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its Property and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, by-laws or other organizational or constating documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or Property owned or leased by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Material Adverse Effect and, to the knowledge of the Company, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its shareholders, in connection therewith other than in connection with the Required Approvals. Each

Transaction Document has been (or upon delivery shall have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, shall constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Purchased Shares and the consummation by the Company of the other transactions contemplated hereby and thereby do not and shall not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, by-laws or other organizational or constating documents, or (ii), subject to the Required Approvals, conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the Property of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any Property of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any Applicable Laws to which the Company or a Subsidiary is subject, or by which any Property of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any Governmental Authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to **Section 4.1**, (ii) application(s) to the AMEX and the TSX for the listing of the Purchased Shares for trading thereon in the time and manner required hereby and thereby, (iii) any other required filings with one or more of the Canadian Securities Regulatory Authorities, (iv) any other required approvals of any Trading Market, and (v) any notice to the Debentureholder if required (collectively, the "**Required Approvals**").

(f) Issuance of the Purchased Shares. The Purchased Shares, when issued and paid for in accordance with the terms and conditions of the applicable Transaction Documents, shall be duly authorized and validly issued, fully paid and non-assessable, free and clear of all Liens imposed by the Company.

(g) Capitalization. The capitalization of the Company is as described in the Company's most recent periodic report filed on SEDAR. The Company has not issued any

securities other than pursuant to the Debentures, the exercise of employee stock options under the Stock Option Plans and pursuant to the conversion or exercise of outstanding Common Share Equivalents. No Person has any right of first refusal, pre-emptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Purchased Shares, the Stock Option Plans or the Debentures, there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any Common Shares, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional Common Shares or Common Share Equivalents. The issuance and sale of the Purchased Shares shall not obligate the Company to issue Common Shares or other securities to any Person (other than the Purchaser) and shall not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities. All of the outstanding Common Shares are validly issued, fully paid and nonassessable, to the knowledge of the Company, have been issued in compliance with all Applicable Laws and, to the knowledge of the Company, none of such outstanding Common Shares was issued in violation of any pre-emptive rights or similar rights to subscribe for or purchase securities. Except for the Required Approvals, no further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale of the Purchased Shares. There are no shareholders agreements, voting agreements or other similar agreements with respect to the Company's authorized capital to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's shareholders.

(h) Continuous Reports; Financial Statements. The Company has filed or submitted all reports, financial statements, schedules, forms, statements and other documents required to be filed or submitted by it under the Securities Laws, for the two (2) years preceding the date of this Agreement (or such shorter period as the Company may have been required by the Securities Laws to file or submit such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "**Continuous Disclosure Reports**") on a timely basis or has received a valid extension of such time of filing or submission and has filed or submitted any such Continuous Disclosure Reports prior to the expiration of any such extension, except where a failure to do so could not have or reasonably be expected to have a Material Adverse Effect. As of their respective dates, the Continuous Disclosure Reports complied with the requirements of the Securities Laws, and none of the Continuous Disclosure Reports, when filed or submitted, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Continuous Disclosure Reports have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved ("**GAAP**"), except as may be otherwise specified in such financial

statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes. Since the date of the latest audited financial statements included within the Continuous Disclosure Reports and except as specifically disclosed in the Continuous Disclosure Reports, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made or required to be made pursuant to the Securities Laws, (iii) the Company has not altered its method of accounting except as required by GAAP, (iv) the Company has not declared or made any dividend or distribution of cash or other Property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any of its Common Shares and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to the Stock Option Plans or the Share Purchase Plan. The Company does not have pending before any of the Canadian Securities Regulatory Authorities any confidential material change report.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened or contemplated (including by any of the Canadian Securities Regulatory Authorities) against or affecting the Company, any Subsidiary or any of their respective Property or, to the knowledge of the Company, any current officer or director or former officer or director of the Company before or by any Governmental Authority (collectively, an "**Action**") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Purchased Shares or (ii) could, if there were an unfavourable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor, to the knowledge of the Company, any director or officer thereof, is the subject of any Action involving a claim of violation of or liability under the Applicable Laws or a claim of breach of fiduciary duty. No stop order or other order suspending the trading in securities of the Company is outstanding.

(k) Labour Relations. No labour dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect.

(l) Compliance. To the knowledge of the Company, neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a

default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its Property is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any Governmental Authority, or (iii) is or has been in violation of any Applicable Law, except in each case as could not have a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate Governmental Authorities necessary to conduct their respective businesses as described in the Continuous Disclosure Reports, except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect ("**Material Permits**"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Property. The Company and the Subsidiaries do not own real property. Subject to the provisions of**Section 3.1(o)**, the Company and the Subsidiaries have good and marketable title in all personal property (tangible or intangible) owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, provincial, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property (including facilities) held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases of which the Company and the Subsidiaries are in compliance, except as would not have a Material Adverse Effect.

(o) Intellectual Property. The Company and the Subsidiaries have title to, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights necessary or material for use (as determined by the Company, acting commercially reasonably) in connection with their respective businesses as currently conducted and anticipated to be conducted, as described in the Continuous Disclosure Reports and except where the failure to so have could have a Material Adverse Effect (collectively, the "**Intellectual Property Rights**"). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company: (i) all such Intellectual Property Rights are enforceable, and (ii) there is no existing infringement by another Person of any of the Intellectual Property Rights.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has any reason to believe that

it shall not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set out in the Continuous Disclosure Reports, none of the current officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for leasing, rental or licensing to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, other than (i) for payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) for other employee benefits, including the Share Purchase Plan and stock option agreements under the Stock Option Plans.

(r) Securities Laws; Internal Accounting Controls. The Company is in material compliance with all provisions of the Securities Laws which are applicable to it. The Company and the Subsidiaries maintain a system of internal accounting controls as required by MI 52-109. The Company has established disclosure controls and procedures as required by MI 52-109 for the Company and designed such disclosure controls and procedures to ensure that material information relating to the Company, including its Subsidiaries, is made known to the certifying officers by others within those entities, particularly during the period in which the Company's most recently filed periodic report under the Securities Laws, as the case may be, is being prepared. The Company's certifying officers have evaluated the effectiveness of the Company's controls and procedures as of the date prior to the filing date of the most recently filed periodic report under the Securities Laws (such date, the "**Evaluation Date**"). The Company presented in its most recently filed periodic report under the Securities Laws the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date to the extent required by MI 52-109. Since the Evaluation Date, except as disclosed in the Continuous Disclosure Reports, there have been no significant changes in the Company's internal disclosure controls and procedures or its internal control over financial reporting (as such terms are defined in Section 1.1 of MI 52-109) or, to the Company's knowledge, in other factors that could significantly affect the Company's internal disclosure controls and procedures or its internal control over financial reporting. To the extent any requirements applicable to the Company under the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the SEC pursuant to such Act, differ from the foregoing, the Company is in compliance with all such requirements, except as would not have a Material Adverse Effect.

(s) Certain Fees. No brokerage or finder's fees or commissions are or shall be payable by the Company to any broker, financial advisor or consultant, finder, placement

agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents.

(t) Private Offering and Sale. Assuming the accuracy of the Purchaser's representations and warranties set out in **Section 3.2**, no registration under the United States Securities Act is required for the offer and sale of the Purchased Shares by the Company to the Purchaser as contemplated hereby.

(u) Investment Company: The Company is not, and immediately after consummation of the transactions contemplated by the Transaction Documents, shall not be, registered or required to be registered as an "investment company" under the U.S. Investment Company Act of 1940, as amended.

(v) Listing and Maintenance Requirements. The Common Shares are listed on the TSX and the AMEX, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the listing of the Common Shares on the TSX or the AMEX nor has the Company received any notification that the TSX or the AMEX is contemplating terminating such listing. The Company has not, in the 12 months preceding the date of this Agreement, received notice from any Trading Market on which the Common Shares are or have been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market, except as would not have a Material Adverse Effect. The Company is, and has no reason to believe that it shall not in the foreseeable future continue to be, in compliance with the listing and maintenance requirements of the TSX and the AMEX.

(w) Disclosure. The Disclosure Letter to this Agreement and the representations and warranties made herein are true and correct with respect to the statements made therein and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(x) Solvency. The Continuous Disclosure Reports set out as of the dates thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "**Indebtedness**" shall mean (a) any liabilities for borrowed money or amounts owed in excess of CAN $50,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except obligations in respect of indemnification, guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of CAN $50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness, except as would not have a Material Adverse Effect. Based on the current understanding of the Company of funding alternatives available to it, as well

as its ability to make operational decisions to control its "burn rate" as needed, the Company does not expect to become insolvent within the 12-month period commencing from the date of this Agreement.

(y) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, provincial, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(z) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other Person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of Applicable Laws, or (iv) violated in any respect any provision of the United States Foreign Corrupt Practices Act of 1977, as amended.

(aa) Accountants. The Company's accountants are set out on **Section 3.1(aa) of the Disclosure Letter**. To the knowledge of the Company, such accountants are independent accountants as may be required by the Canada Business Corporations Act and the Securities Laws.

(bb) Regulation S; Directed Selling Efforts. (i) None of the Company, its Subsidiaries or any persons acting on its or their behalf has engaged in any directed selling effort (within the meaning of Regulation S) with respect to the Purchased Shares; (ii) none of the Company, its Subsidiaries or any Person acting on its or their behalf has offered to sell any of the Purchased Shares by means of any form of general solicitation or general advertising (as those terms are used in Regulation D of the United States Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the United States Securities Act; and (iii) it is a "foreign issuer" within the meaning of Regulation S and reasonably believes that there is no "substantial U.S. market interest" in the Purchased Shares of the Corporation (as such term is defined under Regulation S).

(cc) Reporting Issuer Status. The Company is a "reporting issuer" (or equivalent concept thereof) in each province of Canada that has the concept.

3.2 Representations and Warranties of the Purchaser The Purchaser hereby represents and warrants to the Company as of the date of this Agreement as follows:

(a) Organization; Authority. The Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full

right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution, delivery and performance by the Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of the Purchaser. Each Transaction Document to which it is a party has been duly executed by the Purchaser, and when delivered by the Purchaser in accordance with the terms hereof, shall constitute the valid and legally binding obligation of the Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by Applicable Laws.

(b) No Conflicts. Neither the entering into nor the delivery of this Agreement nor the completion of the transactions contemplated hereby by the Purchaser shall result in a violation of: (i) any of the provisions of the constating documents or by-laws of the Purchaser; (ii) any agreement or other instrument to which the Purchaser is a party or by which the Purchaser is bound; or (iii) any Applicable Laws.

(c) Residence. The Purchaser is resident or has a place of business in the Province of Ontario at the following address: 22 St. Clair Avenue East, 18th Floor, Toronto, Ontario, M4T 2S3, Attention: Herbert Abramson.

(d) Purchase for Own Account. The Purchaser is purchasing the Purchased Shares as principal for its own account, and not for the benefit of any other Person, for investment only and not with a view to the resale or distribution of any or all of the Purchased Shares. The Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the Purchased Shares and does not presently have any undertaking, agreement, arrangement or understanding with any Person to sell, transfer or grant participation to that Person or any third Person with respect to the Purchased Shares.

(e) Not Single Purpose Entity. The Purchaser has not been formed for the specific purpose of and is not being used primarily for the purpose of purchasing and holding the Purchased Shares.

(f) Accredited Investor. The Purchaser is an "accredited investor" (as that term is defined in **Schedule 2.2(b)(i)** and the Purchaser has completed and executed the Certificate of Accredited Investor attached hereto as **Schedule 2.2(b)(i)**.

(g) Not a U.S. Person. The Purchaser is neither a "United States person" (as that term is defined in Rule 902 of Regulation S promulgated under the United States Securities Act of 1933) nor purchasing the Purchased Shares for the account of a United States person or for resale to a United States person or to a Person in the United States.

(h) No Fees or Commissions. The Purchaser is not and will not be obligated to pay any fee or commission to any Person in connection with its purchase of the Purchased Shares.

3.3 Acknowledgments of the Purchaser. The Purchaser acknowledges and agrees as follows:

(a) Legal Advice. The Purchaser is responsible for obtaining any legal, accounting, tax and other professional advice that the Purchaser considers appropriate in connection with the execution, delivery and performance of this Agreement and any subsequent transfer or resale of the Purchased Shares.

(b) No Regulatory Review. No Governmental Authority has reviewed or passed on the merits of the Purchased Shares. The Company is relying on an exemption from the requirement to provide the Purchaser with a prospectus under applicable Securities Laws and, as a consequence of acquiring the Purchased Shares pursuant to such exemption, certain protections, rights and remedies provided by applicable Securities Laws, are available to the Purchaser.

(c) No Offering Memorandum. The Purchaser has not received or been provided with a prospectus, offering memorandum or any sales or advertising literature. The Purchaser's purchase of the Purchased Shares has not been made through or as a result of, and the distribution of the Purchased Shares is not being accompanied by, an advertisement, including in electronic display, or general solicitation. The Purchaser has had the opportunity to discuss the Company's business, management, financial affairs, prospects and terms and conditions of the offering of the Purchased Shares with the Company to the extent the Purchaser determined necessary in connection with its decision to acquire the Purchased Shares. The Purchaser acknowledges and agrees that its decision to acquire the Purchased Shares was not based upon, and the Purchaser has not relied upon, any written or oral representations (including any implied representations) made by the Company or any other Person other than the representations and warranties of the Company set forth in Section 3.1 hereof (as modified by the Disclosure Letter).

(d) Resale Restrictions. The Purchased Shares are subject to resale restrictions under applicable Securities Laws. The Purchaser agrees to cause any purchaser of any of the Purchased Shares not to resell such Purchased Shares in Canada or to any Canadian Person for such period as is prescribed by applicable Securities Laws and to file all required reports of the resale of such Purchased Shares as may be required by applicable Securities Laws within the time periods prescribed by such applicable Securities Laws.

(e) Legends. The certificates representing the Purchased Shares will bear legends indicating the resale restrictions referred to above.

(f) No United States Offering. The Purchased Shares have not been offered to the Purchaser in the United States and this Agreement has not been signed in the United

States. The Purchased Shares will not be registered under any United States Securities Laws and may not be offered or sold or re-offered or re-sold in the United States or to a "United States person" (as that term is defined in Rule 902 of Regulation S) without registration under the United States Securities Laws unless an exemption from registration is available or the transaction complies with Regulation S.

(g) Collection of Personal Information. (i) This Agreement requires that the Purchaser provide certain Personal Information to the Company. Such information is being collected by the Company for the purpose of completing the purchase and sale of the Purchased Shares, which includes without limitation, determining the Purchaser's eligibility to acquire the Purchased Shares under applicable Securities Laws, preparing and registering share certificates representing the Purchased Shares and completing all filings required under applicable Securities Laws. The Purchaser's Personal Information may be disclosed by the Company to: (a) any stock exchange, self regulatory organization or securities regulatory authority, and (b) the Company's registrar and transfer agent. The Purchaser consents to the foregoing collection, use and disclosure of its Personal Information; and (ii) If the Purchaser is resident in or otherwise subject to Ontario Securities Laws, the Purchaser authorizes the indirect collection of Personal Information pertaining to it by the OSC and acknowledges and agrees that it has been notified by the Company (A) of the delivery to the OSC of Personal Information pertaining to it, including, without limitation, the full name, residential address and telephone number of the Purchaser, the number and type of securities purchased and the aggregate purchase price paid in respect of the Purchased Shares, (B) that such information is being collected indirectly by the OSC under the authority granted to it under applicable Securities Laws, (C) that such information is being collected for the purposes of the administration and enforcement of Ontario Securities Laws, and (D) that the title, business address and business telephone number of the public official in Ontario who can answer questions about the OSC's indirect collection of the information is the Administrative Assistant to the Director of Corporate Finance, the Ontario Securities Commission, Suite 1903, Box 5520, Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086, Facsimile: (416) 593-8252.

(h) Ability to Bear Risk. There are risks associated with the acquisition of the Purchased Shares by the Purchaser. The Purchaser is knowledgeable, sophisticated and experienced in business and financial matters and is capable of evaluating the merits and risks of the investment in the Purchased Shares, fully understands the terms and conditions of the investment in the Purchased Shares and the restrictions on transfer described in this Agreement and is able to bear the economic risk of an investment in the Purchased Shares.

(i) Further Documents. The Purchaser will execute, deliver, file and otherwise assist the Company in filing, any reports, undertakings and other documents as may be required by Applicable Laws with respect to the purchase of the Purchased Shares under this Agreement.

ARTICLE 4
OTHER AGREEMENTS OF THE PARTIES

4.1 Securities Laws Disclosure; Publicity. The Company shall issue a press release, file a material change report and, if applicable, submit a Current Report on Form 6-K pursuant to Securities Laws and within the timeframes set out in the Securities Laws, reasonably acceptable to the Purchaser disclosing the material terms of the transactions contemplated hereby or such other information as may be required by applicable Securities Laws, and shall attach and/or file or submit those Transaction Documents required to be filed or submitted with any such filings or submissions by the applicable Securities Laws or required to be filed on SEDAR. The Company and the Purchaser shall consult with each other in issuing such press release, submitting any such Form 6-K and filing such Transaction Documents on SEDAR as required by Securities Laws, and any other press releases with respect to the transactions contemplated by the Transaction Documents. Neither the Company nor the Purchaser shall issue any such press release or otherwise make any such public statement or publicly disclose (collectively, a "**Public Disclosure**") without the prior consent of the Company, with respect to any Public Disclosure of the Purchaser, or without the prior consent of the Purchaser, with respect to any Public Disclosure of the Company, which consent shall not unreasonably be withheld. Notwithstanding the foregoing, in the event that the Company or the Purchaser is required by Applicable Laws or, in the case of the Company the requirements of any Trading Market on which its Common Shares are listed, to publicly disclose information regarding the transactions contemplated by the Transaction Documents (a "**Required Disclosure**") and it is not then reasonably possible to delay such Required Disclosure until such time as such Party shall have notified, consulted with and obtained the consent of the other Party to such Required Disclosure as required by this **Section 4.1**, then any such Required Disclosure made without prior notice to, consultation with or obtaining the consent of the Purchaser shall not be deemed a breach of the disclosing Party's obligations under this **Section 4.1**.

4.2 Regulation S; Directed Selling Efforts. (i) None of the Company, its Subsidiaries or any persons acting on its or their behalf shall engage in any directed selling effort (within the meaning of Regulation S) with respect to the Purchased Shares; (ii) to the extent that the Company engages in a sale of the Purchased Shares, or other securities substantially similar to the Purchased Shares, outside of the United States, it shall comply with the requirements for an "offshore transaction", as such term is defined in Regulation S; (iii) none of the Company, its Subsidiaries or any Person acting on its or their behalf shall offer to sell any of the Purchased Shares by means of any form of general solicitation or general advertising (as those terms are used in Regulation D of the United States Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the United States Securities Act; and (iv) the Company shall notify its transfer agent as soon as practicable upon it becoming a "domestic issuer", as defined in Regulation S.

4.3 Indemnification

(a) Indemnification of Purchaser. Subject to the provisions of this **Section 4.3(a)**, the Company shall indemnify and hold the Purchaser and its directors, officers, partners

and employees (each, a "**Purchaser Party**") harmless from any and all claims, legal procedures, obligations, liabilities, contingencies, damages, losses, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser, by any shareholder of the Company, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of the Purchaser's representations, warranties or covenants under the Transaction Documents or any relevant and material agreements or understandings the Purchaser may have with any such shareholder or any material violations by the Purchaser of Securities Laws or any conduct by the Purchaser which constitutes fraud, gross negligence or wilful misconduct). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defence thereof with counsel of its own choosing. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defence thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defence and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party. The Company shall not be liable to any Purchaser Party under this Agreement for any settlement by a Purchaser Party

effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed.

(b) Limitation. To the extent permitted by Applicable Laws, the liability of the Company under **Section 4.3(a)** shall be limited to the Purchase Price.

4.4 Compliance with Securities Laws. The Purchaser shall comply with all applicable Securities Laws in connection with any resale of the Purchased Shares.

ARTICLE 5
MISCELLANEOUS

5.1 Fees and Expenses. The Company shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and of Purchaser's counsel (such Purchaser's counsel fees not to exceed $10,000) incident to the negotiation, preparation, execution and delivery of this Agreement. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Purchased Shares.

5.2 Entire Agreement. The Transaction Documents, together with the schedules thereto, contain the entire understanding of the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters.

5.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto prior to 5:30 p.m. (Toronto time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or via internet at the facsimile number or internet address respectively set out on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (Toronto time) on any Trading Day, (c) the 2nd Trading Day following the date of mailing, if sent by an internationally recognized overnight courier service, or (d) upon actual receipt by the Party to whom such notice is required to be given. The address for such notices and communications shall be as set out on the signature pages attached hereto.

5.4 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchaser or, in the case of a waiver, by the Party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either Party to exercise any right hereunder in any manner impair the exercise of any such right.

5.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns. Neither Party may assign this Agreement or any rights or obligations hereunder without the prior written consent of the other Party.

5.6 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the Parties and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set out in **Section 4.3**.

5.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

5.8 Survival. The representations and warranties contained herein shall survive the Closing for a period of two years thereafter, except in the case of fraud and except that the representations and warranties set out in **Sections 3.1(f)** and **3.1(y)** shall survive for the limitation period applicable to the respective subject matter thereof.

5.9 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each Party and delivered to the other Party, it being understood that both Parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the Party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

5.10 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the Parties shall attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

5.11 Construction. The Parties confirm that each of them together with the Company Counsel and Purchaser's counsel, as applicable, has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the provisions of this Agreement express the Parties' mutual intent and the rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto and no rule of strict construction shall be applied against either Party.

(Signature Pages Follow)

IN WITNESS WHEREOF, the Parties have caused this Share Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated on the first page hereof.

LORUS THERAPEUTICS INC.

Per: /s/ Jim Wright

Name: Jim Wright
Title: Chief Executive Officer

Per: /s/ Aiping Young

Name: Aiping H. Young
Title: Chief Operating Officer

Address for Notice:
2 Meridian Road
Toronto, Ontario
M9W 4Z7

Attention: Jim Wright, CEO
Telephone: +(416) 798-1200 Ext. 340
Telecopy: +(416) 798-2200
E-mail: jawright@lorusthera.com

and

Attention: Aiping H. Young, COO
Telephone: +(416) 798-1200 Ext. 379
Telecopy: +(416) 798-2200
E-mail: ahyoung@lorusthera.com

TECHNIFUND INC.

Per: /s/ Herbert Abramson

Name: Herbert Abramson
Title:

Address for Notice:
22 St. Clair Avenue East
18th Floor
Toronto, Ontario
M4T 2S3
Attention: Herbert Abramson
Telephone: 416-861-0774
Telecopy: 416-867-9771

SCHEDULE 2.2(b)(i)

LORUS THERAPEUTICS INC.

Accredited Investor Certificate

Province or Territory of Residence: Ontario

In connection with the purchase of securities of **Lorus Therapeutics Inc.** (the "**Issuer**"), the undersigned Purchaser hereby represents, warrants and certifies to the Issuer that:

1. The Purchaser is purchasing the securities of the Issuer as principal and not as agent and is purchasing for investment only and not with a view to resale or distribution.

2. The Purchaser is a resident of and is an "accredited investor" within the meaning of National Instrument 45-106, by virtue of being:

[Check appropriate box]

[ ] (a) a Canadian financial institution, or a Schedule III bank;

[ ] (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);

[ ] (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;

[ ] (d) a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a person registered solely as a limited market dealer registered under one or both of the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador);

[ ] (e) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person or company referred to in paragraph (d);

[ ] (f) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada;

[ ] (g) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de I'île de Montréal or an intermunicipal management board in Québec;

[ ] (h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;

[ ] (i) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada;

[ ] (j) an individual who, either alone or with a spouse, beneficially owns, directly[2] or indirectly, financial assets[1] having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds $1,000,000;

[ ] (k) an individual whose net income before taxes exceeded $200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded $300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;

[ ] (l) a individual who, either alone or with a spouse, has net assets of at least $5,000,000;

[ ] (m) a person, other than an individual or investment fund, that has net assets of at least $5,000,000 as shown on its most recently prepared financial statements;

[ ] (n) an investment fund that distributes or has distributed its securities only to

(i) a person that is or was an accredited investor at the time of the distribution,

(ii) a person that acquires or acquired securities in the circumstances referred to in sections 2.10 [*Minimum amount investment*] and 2.19 [*Additional investment in investment funds*] of NI45-106, or

(iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 [*Investment fund reinvestment*] of NI45-106.

[ ] (o) an investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the securities regulator has issued a receipt;

[ ] (p) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be;

[ ] (q) a person acting on behalf of a fully managed account managed by that person, if that person is registered or authorized to carry on business as an advisor or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction;

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1 Financial assets means (a) cash, (b) securities, or (c) a contract of insurance, a deposit or an evidence of a deposit that is not a security for securities law purposes.

2 Related liabilities means (a) liabilities incurred or assumed for the purposes of financing the acquisition or ownership of financial assets, or (b) liabilities that are secured by financial assets.

[ ] (r) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded;

[ ] (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) through (d) or paragraph (i) in form and function;

(t) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors; or

[ ] (u) a person that is recognized or designated by the securities regulator as

(i) an accredited investor, or

(ii) an exempt purchaser in Alberta or British Columbia.

(Please attach a copy of such order.)

3. The Purchaser has not been provided with any offering memorandum[3] within the meaning of securities laws.

The Purchaser acknowledges that the Issuer is relying on this certificate to determine the Purchaser's suitability as a purchaser of securities of the Issuer. The Purchaser agrees that the representations and warranties contained herein will survive any issuance of securities of the Issuer.

DATED at _____, in the _____ of _____, on _____, 2006.

_____

Name of Purchaser (Please print)

By: _____

Authorized Signature

_____

Title, if applicable

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[3] An "offering memorandum" means a document purporting to describe the business and affairs of an issuer that has been prepared primarily for delivery to and review by a prospective purchaser so as to assist the prospective purchaser to make an investment decision in respect of securities being sold on a private placement basis but does not include a document setting out current information about an issuer for the benefit of a prospective purchaser familiar with the issuer through prior investment or business contacts.

THIS DEBENTURE AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOFHAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT PURSUANT TO THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE FEBRUARY 7, 2005.

CONVERTIBLE SECURED DEBENTURE

Issued to: The Erin Mills Investment Corporation
7501 Keele Street,
Suite 500,
Concord, Ontario,
L4K 1Y2

Attention: Gerry C. Quinn
Facsimile No.: (416) 736-8373

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

Attention: Dr. Jim A. Wright
Facsimile No.: (416) 798-2200

Principal: $5,000,000 Issue Date: OCTOBER 6, 2004.

1. Defined Terms.

Defined terms are set out in Schedule "A".

2. Principal.

Lorus Therapeutics Inc. (the "**Company**") for value received hereby promises to pay to The Erin Mills Investment Corporation (the "**Investor**"), at its address specified above on the date (the "**Payment**

Date") being the earlier of (i) October 6, 2009 (the "Maturity Date") and (ii) the date of demand, if any, upon the occurrence of an Event of Default, the principal amount of **$5,000,000.00** (the "**Principal**") or such balance from time to time outstanding thereon, in the manner hereinafter provided, together with all other moneys which may from time to time be owing hereunder or pursuant hereto.

3. Interest.

Interest shall be payable monthly ("**Interest**") commencing October 6, 2004, on the balance from time to time outstanding of the Principal, any overdue interest and any other monies due and payable hereunder, both before and after maturity, default or judgment, shall be calculated on the basis of the actual number of days elapsed and on the basis of a year of 365 or 366 days, as applicable, at the prime rate from time to time quoted by the Royal Bank of Canada plus one percent (1%) per annum (the "**Loan Rate**") accruing daily and compounded monthly in arrears, computed from October 6, 2004, until payment in full of Principal has been made. For greater certainty, where the Loan Rate is changed, Interest shall be charged for the day on which such change is effective on the basis of the new rate. Interest is to be payable in Common Shares of the Company until the weighted average trading price for such Common Shares reaches a price of $1.00 and such trading price is sustained for 60 Trading Days (for certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained), after which interest shall be paid in cash or Common Shares at the option of the Investor provided that the Investor shall consider any reasonable request by the Company to pay Interest in Common Shares. Shares issued in payment of interest shall be issued at a price equal to the weighted average trading price of such shares for the 10 Trading Days immediately preceding the date of their issue in respect of each such interest payment. Interest will cease when the weighted average trading price for the Common Shares of the Company reaches $1.75 per share and such trading price is sustained for 60 Trading Days. For certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained.

4. Conversion Rights and Conversion Price.

(a) At any time prior to the Maturity Date and subject to Section 5 hereof, the Investor shall have the right to convert all or part of the Principal advanced and evidenced by this Debenture, into Conversion Shares at a price of $1.00 per share (the "**Conversion Price**") by delivering a notice of its intention to convert the Principal as aforesaid to the Company in the form attached as Exhibit "A" ("**Conversion Notice**").

(b) *Partial Conversion*

The Principal secured by this Debenture may be partially converted by the Investor from time to time, provided no partial conversion shall be for less than ONE MILLION ($1,000,000.00) DOLLARS, by delivering a Conversion Notice to the Company specifying the amount of the Principal to be converted into Conversion Shares at the Conversion Price.

(c) *Issuance of Conversion Shares*

Upon any exercise of the conversion rights provided in Section 4(a) or (b), the Investor

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shall be entitled to convert the Principal specified in the Conversion Notice at the Conversion Price. As promptly as practicable after such conversion, the Company shall deliver to the Investor a certificate representing the Conversion Shares resulting from any such conversion.

(d) *Conversion Date*

If this Debenture is converted pursuant to Section 4(a) or (b), then the Conversion Shares shall be deemed to be issued for all purposes as of the date on which the Company received the Conversion Notice.

(e) *Payment of Unconverted Principal*

If the Principal amount of this Debenture has not been converted prior to the Maturity Date the amount secured hereby shall become immediately due and payable to the

Investor on the Maturity Date.

(f) *Records*

The Company shall maintain in its records an account showing the amount of this Debenture, the date thereof and the Interest accrued thereon or applicable thereto from time to time. At all times and for all purposes such account shall constitute prime facie evidence, in the absence of manifest error, of the matters recorded therein; provided that the failure of the Company to record same in such account shall not affect the obligation of the Company to pay or repay such indebtedness and liability in accordance with this Debenture.

(g) *Forced Conversion*

In the event that the Investor fails to comply with the provisions of Section 2.1(c) of the Subscription Agreement, the Company shall, in addition to any other remedies provided in the Subscription Agreement, be entitled, at any time after such default on 2 Business Days' notice to the Investor, to convert all amounts then secured by this Debenture into Common Shares at the Conversion Price.

5. Conversion Price Adjustments for Certain Dilutive Issuances, Splits and Combinations.

The Conversion Price shall be subject to adjustment from time to time as follows:

(a) Adjustment in Rights

If, at any time after the date hereof and prior to the Maturity Date, there is a reclassification of the outstanding Common Shares or change of the Common Shares into other shares or securities or any other capital reorganization of the Company or a consolidation, merger or amalgamation of the Company with or into any other corporation (any such event being called a "**Capital Reorganization**"), the Investor shall be entitled

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to receive and shall accept for the same aggregate consideration, upon the exercise of the conversion rights contained in this Debenture at any time after the record date on which the holders of Common Shares are determined for the purpose of the Capital Reorganization (the "**relevant record date**"), in lieu of the number of Common Shares to which it was theretofore entitled upon such exercise, the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization that the Investor would have been entitled to receive as a result of such Capital Reorganization if, on the relevant record date, it had been the holder of record of the number of Common Shares in respect of which the conversion right contained in this Debenture is then being exercised, and such shares or other securities shall be subject to adjustment thereafter in accordance with provisions which are the same, as nearly as may be possible, as those contained in this Section 5(a) provided that no such Capital Reorganization shall be implemented unless all necessary steps have been taken so that the Investor shall be entitled to receive the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization as provided above.

(b) Adjustment in Conversion Price

The Conversion Price shall be subject to adjustment from time to time as follows:

(i) If, at any time after the date hereof and prior to the Maturity Date, the Company:

(A) subdivides its outstanding Common Shares into a greater number of shares, or

(B) consolidates its outstanding Common Shares into a smaller number of shares, or

(C) issues Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all the holders of Common Shares as a stock dividend or other distribution (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan);

(D) makes a distribution to all or substantially all of the holders of Common Shares on its outstanding Common Shares payable in Common Shares or securities exchangeable for or convertible into Common Shares (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course) and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan,)

(any of such events being called a "**Common Share Reorganization**"), the Conversion Price shall be adjusted effective immediately after the record date on which the holders of Common Shares are determined for the purpose of the Common Share Reorganization, as the case may be, by multiplying the Conversion Price in effect immediately prior to the effective date or record date, as the case may be, by a fraction:

(1) the numerator of which shall be the number of Common Shares outstanding on the relevant record date before giving effect to the Common Share Reorganization; and

(2) the denominator of which shall be the number of Common Shares outstanding on the relevant record date after giving effect to the Common Share Reorganization, including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had all such securities been exchanged for or converted into Common Shares on such effective date or record date.

(ii) If any question at any time arises with respect to the Conversion Price or the number of Common Shares issuable upon the exercise of the Debenture, such question shall be conclusively determined by the auditors from time to time of the Company, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Company with the concurrence of the Investor, and any such determination shall be binding upon the Investor and the Company. If any such determination is made, the Company shall deliver a certificate to the Investor describing such determination.

(iii) If and whenever at any time after the date hereof and prior to the Maturity Date the Company fixes a record date for the issue of rights, options or warrants to all or substantially all the holders of Common Shares (not including rights, options or warrants issued under the Company's stock option plan) under which such holders are entitled, during a period expiring not more than 45 days after the date of such issue (the **"Rights Period"**), to subscribe for or purchase Common Shares or securities exchangeable for or convertible into Common Shares at a price per share to the holder (or at an exchange or conversion price per share during the Rights Period to the holder in the case of securities exchangeable for or convertible into Common Shares) of less than 95% of the Current Market Price for the Common Shares on such record date (any of such events being called a **"Rights Offering"**), then the Conversion Price will be adjusted effective immediately after the end of the Rights Period to a price determined by multiplying the Conversion Price in effect immediately prior to the end of the Rights Period by a fraction:

(A) the numerator of which will be the aggregate of:

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(1) the number of Common Shares outstanding as of the record date for the Rights Offering, and

(2) a number determined by dividing (1) by either (A) the product of the number of Common Shares issued or subscribed for during the Rights Period upon the exercise of the rights, warrants or options under the Rights Offering and the price at which such Common Shares are offered, or, as the case may be, (B) the product of the exchange or conversion price of such securities exchangeable for or convertible into Common Shares and the number of Common Shares for or into which the securities so offered pursuant to the Rights Offering could have been exchanged or converted during the Rights Period, by (2) the Current Market Price of the Common Shares as of the record date for the Rights Offering, and

(B) the denominator of which will be the number of Common Shares outstanding, or the number of Common Shares which would be outstanding if all the exchangeable or convertible securities were exchanged for or converted into Common Shares during the Rights Period, after giving effect to the Rights Offering and including the number of Common Shares actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Right Offering.

If the Investor has exercised the right to convert the Common Shares in accordance with this Section 5(b)(iii) during the period beginning immediately after the record date for a Rights Offering and ending on the last day of the Rights Period for the Rights Offering, the Investor will, in addition to the Common Shares to which the Investor would otherwise be entitled upon such conversion, be entitled to that number of additional Common Shares equal to the result obtained when the difference, if any, between the Conversion Price in effect immediately prior to the end of such Rights Offering and the Conversion Price as adjusted for such Rights Offering pursuant to this section 5(b)(iii) is multiplied by the number of Common Shares received upon the conversion of the Debenture during such period, and the resulting product is divided by the Conversion Price as adjusted for such Rights Offering pursuant to this subsection. Such additional Common Shares will be deemed to have been issued to the Investor immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to such Holder within 15 business days following the end of the Rights Period. To the extent that any such rights, options or warrants are not so exercised on or before the expiry thereof, the Conversion Price will be readjusted to the Conversion Price which would then be in effect based on the number of Common Shares (or the securities convertible into or exchangeable for Common Shares) actually delivered on the exercise of such rights, options or warrants.

(iv) If and whenever at any time after the date hereof and prior to the Maturity Date, the Company fixes a record date for the issue or the distribution to all or substantially all the holders of the Common Shares of (i) securities of the Company, including rights, options or warrants to acquire securities of the Company or any of its properties or assets and including evidences of indebtedness or (ii) any property or other assets including evidences of indebtedness, and if such issuance or distribution does not constitute a Dividend Paid in the Ordinary Course, a Common Share Reorganization or a Rights Offering (any of such non-excluded events being called a **"Special Distribution"**) the Conversion Price will be adjusted effective immediately after such record date to a price determined by multiplying the Conversion Price in effect on such record date by a fraction:

(A) the numerator of which will be:

(1) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less

(2) the fair market value, as determined by action by the Directors (whose determination will be conclusive), to the holders of Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and

(B) the denominator of which will be the product of the number of Common Shares outstanding on such record date and the Current Market Price of the common shares on such record date.

To the extent that any Special Distribution is not so made, the Conversion Price will be readjusted effective immediately to the Conversion Price which would then be in effect based upon such securities or property or other assets as actually distributed.

(v) If the purchase price provided for in any rights, options or warrants (the **"Rights Offering Price"** referred to in subsections 5(b)(iii) and 5(b)(iv) is decreased, the Conversion Price will forthwith be changed so as to decrease the Conversion Price to the Conversion Price that would have been obtained if the adjustment to the Conversion Price made under subsections 5(b)(iii) and 5(b)(iv), as the case may be, with respect to such rights, options, or warrants had been made on the basis of the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price resulting from terms in any such rights, options or warrants designed to prevent dilution except to the extent that the resulting decrease in the Conversion Price under this subsection would be greater than the decrease, if any, in the Conversion Price to be made under the terms of

this section by virtue of the occurrence of the event giving rise to such decrease in the Rights Offering Price.

6. Payments and Notice.

Any payments received by the Investor or the Company after 2:00 p.m. on a Business Day shall be deemed to have been received on the next Business Day. Any notice required or desired to be given hereunder or under any instrument supplemental hereto shall be in writing and provided in accordance with the provisions of section 6.7 of the Subscription Agreement.

7. Covenants.

This Debenture is issued subject to and with the benefit of all the covenants, terms and conditions in Schedule "B".

8. Default and Enforcement.

The terms and conditions upon which the security constituted by this Debenture shall become enforceable are provided for in Schedule "B".

9. Security.

As continuing security for the due and timely payment by the Company of its Obligations hereunder, the Company hereby grants the charges, liens mortgages and Security Interests in favour of the Investor as set out in Schedule "C".

10. Receipt.

The Company hereby acknowledges receipt of a true copy of this Debenture and a copy of the verification statement registered under the *Personal Property Security Act* (Ontario) in respect of the security created hereby.

11. Binding Effect, Governing Law and Headings.

These presents are binding upon the parties hereto and their respective successors and assigns. This Debenture shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The division of this Debenture into sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Debenture.

12. Currency.

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

13. Perfection of Security.

The Company authorizes the Investor to file such financing statements and other documents and do such acts, matters and things (including completing and adding schedules identifying all or any part of the Collateral) as the Investor may consider appropriate to perfect and continue the security created by this Debenture.

14. Invalidity, etc.

Each of the provisions contained in this Debenture is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of Debenture.

15. Assignment.

The Investor may not sell, transfer or otherwise dispose of part or all of its interest in this Debenture without the consent of the Company, except the Investor shall be entitled to assign this Debenture to an Affiliate or subsidiary of the Investor, provided that such transferee agrees to be bound by the terms of this Debenture and provides written notice of such assignment to the Company. This Debenture may not be assigned by the Company without prior written consent of the Investor, except that the Company may assign its rights and obligations hereunder as part of a merger, acquisition, reorganization or sale of all or substantially all of its assets without consent provided that such transferee agrees to be bound by the terms of this Debenture and provides 15 days written notice of such assignment to the Investor and the security granted by the Debentures is not impaired without the consent of the Investor in any way.

16. Schedules and Exhibit.

Each of the following schedules and exhibit is incorporated by reference into, and constitutes a part of, this Debenture:

Schedule “A” - Definitions
Schedule “B” - Covenants, Events of Default and Enforcement
Schedule “C” - Security Interest

Exhibit “A”- Conversion Notice

17. Amendment.

This Debenture may only be amended with the written agreement of the Company and the Investor provided any such amendments shall be subject to the approval of the Toronto Stock Exchange.

IN WITNESS WHEREOF the Company has executed this Debenture.

LORULORUS THERAPEUTICS INC.

/s/ Jim A. Wright
Jim A. Wright
President and CEO

/s/ Shane Ellis
Shane Ellis
VP of Legal Affairs and Corporate Secretary

SCHEDULE “A”

DEFINITIONS

Interpretation. As used in this Debenture and all schedules incorporated therewith the following expressions shall have the following meanings:

“**Affiliate**” has the meaning set forth in Section 2(1) of the *Ontario Business Corporations Act*;

“**arm’s length**” has the meaning given to such term in the *Income Tax Act* (Canada) as now in effect;

“**Business**” means the research, development and commercialization of pharmaceutical products and technologies for the management of cancer;

“**Business Day**” means any day except Saturday, Sunday or a statutory holiday in the Province of Ontario;

“**Collateral**” means any and all undertaking, property and assets, real or personal property, other than the last day of any leasehold interest pursuant to any leases, which is now or hereafter owned by the Company or in which the Company now has or hereafter acquires any interest of any nature whatsoever, including, without limitation, all land, buildings, leasehold interests and improvements, equipment, fixtures, computer hardware and software, intellectual property, inventory, goods, instruments, securities, documents of title, chattel paper, accounts, money, contract rights, intangibles, credits, claims, demands, debts and choses in action and all Proceeds, products and accessions from, of and to any thereof, and, where the context so permits, any reference to “Collateral” shall be deemed to refer to “Collateral or any part thereof. For greater certainty, Collateral shall not include the shares of NuChem Pharmaceuticals Inc.;

“Common Shares” means the common shares of the Company;

“**Company**” means Lorus Therapeutics Inc.;

“Companies” means the Company and the Subsidiary;

“**Conversion Price**” has the meaning ascribed to it in Section 4(a);

“Conversion Shares” means the common shares in the capital stock of the Company to be issued to the Investor pursuant to the terms and conditions of this Debenture.

“**Current Market Price**” determined as at any date means the weighted average trading price per share for the common shares for the twenty (20) consecutive Trading Days ending on the fifth (5^{th}) Trading Day before such date on the Toronto Stock Exchange, or, if the Common Shares are not listed thereon, on such stock exchange on which the Common Shares are listed as may be selected for such purpose by the board of directors of the Company or, if the Common Shares are not listed on any stock exchange, then on the over-the-counter market; and for the purpose of this definition, the weighted average price shall be determined by dividing the aggregate sale price of all Common Shares sold during each period of twenty (20) consecutive Trading Days on such exchange or market, as the case may be, by the total number of Common Shares sold;

“**Debenture**” means this secured convertible debenture and all Exhibits and Schedules annexed hereto;

“**Deficiency**” means, at any time, the difference, if any between:

(1) the aggregate of:

(1) the amount of the Obligations at that time; and

(2) the Reasonable Expenses incurred up that time; and

(b) the proceeds of disposition received by the Investor from a disposition of the Collateral in accordance with Section 3.1(f) of Schedule "C"

"Dividends Paid in the Ordinary Course" means cash dividends declared payable on the Common Shares in any fiscal year of the Company to the extent that such cash dividends do not exceed, in the aggregate, the greatest of: (i) 100% of the aggregate amount of cash dividends declared payable by the Company on the Common shares in its immediately preceding fiscal year, (ii) 150% of the arithmetic mean of the aggregate amounts of cash dividends declared payable by the Company on the Common Shares in its three immediately preceding fiscal years and (iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding fiscal year.

"**Event of Default**" has the meaning ascribed thereto in Section 2 of Schedule "B" to this Debenture;

"**Interest**" has the meaning ascribed thereto in Section 3 of this Debenture;

"**Investor**" means The Erin Mills Investment Corporation;

"**Loan Rate**" means the rate of interest specified in Section 3 of this Debenture;

"**Material Adverse Change**" in relation to any of the Companies means any change that could reasonably be expected to have or has a material adverse effect on the assets or properties, business, results of operations, capital or condition (financial or otherwise) of the Companies taken as a whole;

"Maturity Date" has the meaning ascribed to it in Section 2 of this Agreement;

"Obligations" means all indebtedness, liabilities and obligations (of whatsoever nature or kind, whether direct, indirect, absolute, contingent or otherwise) of the Company from time to time, under or in respect of this Debenture;

"**Payment Date**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Permitted Liens**" means the following:

(i) liens for taxes, assessments, governmental charges or levies, not at the time due;

(ii) easements, rights of way or similar rights in land, which, in the aggregate, do not materially impair

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the usefulness of the business of the Company or of the property subject thereto;

(iii) rights reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit, or by any statutory provision, to terminate the same or to require annual or other periodic payments as a condition to the continuance thereof;

(iv) any lien or encumbrance the validity of which is being contested by the Company in good faith and in respect of which either there will have been deposited with the Investor cash in an amount sufficient to satisfy the same or the Investor will be otherwise satisfied that its interests are not prejudiced thereby;

(v) any reservations, limitations, provisos and conditions expressed in any original grant from the Crown;

(vi) title defects or irregularities which are of a minor nature and in the aggregate will not materially impair the usefulness in the business of the Subsidiary of the property subject thereto;

(vii) security in cash or governmental obligations deposited in the ordinary course of business in connection with contracts, bids, tenders or to secure worker's compensation, unemployment insurance, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, liens or claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens;

(viii) security given in the ordinary course of business to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or governmental or other authority in connection with the operations of the Company;

(ix) other encumbrances arising by operation of law or which are not material in character, amount, and extent and do not materially detract from the value or use of the Collateral;

(x) liens securing the Obligations under the Debentures;

(xi) liens subordinate to the Obligations under the Debentures;

(xii) purchase money security interests; and

(xiii) capital leases

"**person**" means a natural person, a firm, a corporation or other body corporate, a syndicate, a partnership, an association, a trust, a government or agency thereof or any other legal or business entity whatsoever;

"**Principal**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Proceeds**", of any Collateral, means property in any form derived, directly or indirectly, from any dealing with such Collateral or the proceeds therefrom and includes any payment representing indemnity or compensation for loss or damage to such Collateral or proceeds therefrom, including, without limitation, insurance proceeds;

"**Reasonable Expenses**" means any and all expenses incurred from time to time by the Investor or any Receiver in the perfection or preservation of the security constituted hereby, in enforcing payment or performance of the Obligations or any part thereof or in locating, taking possession of, transporting, holding, repairing, processing, preparing for and arranging for the disposition of and/or disposing of the Collateral and any and all other expenses incurred by the Investor or any Receiver as a result of the Investor or such Receiver exercising any of its rights or remedies hereunder or at law, including, without in any way limiting the generality of the foregoing, any and all legal expenses including those incurred in any legal action or proceeding or appeal therefrom commenced or taken in good faith by the Investor and any and all fees and disbursements of any counsel, accountant or valuator or any similar person employed by the Investor in connection with any of the foregoing and the costs of insurance and payment of taxes (other than taxes relating to the income of the Investor) and other charges incurred in retaking, holding, repairing, processing and preparing for disposition and disposing of the Collateral;

"**Receiver**" means a receiver, a receiver and manager or any similar person appointed in accordance with Section 3.1(l) of Schedule "C"

"**Security Interest**" has the meaning given to that term in Section 1.1 of Schedule "C"

"**Subscription Agreement**" means the Subscription Agreement among the Company, the Investor, and GeneSense Technologies Inc. dated October 6, 2004, as amended or supplemented from time to time;

"**Subsidiary**" means GeneSense Technologies Inc.; and

"**Trading Days**" means any day on which securities are traded on the Toronto Stock Exchange.

SCHEDULE "B"

COVENANTS, EVENTS OF DEFAULT AND ENFORCEMENT

AND REPRESENTATIONS AND WARRANTIES

1. **Covenants by Company**.

The Company shall perform and observe each of the following covenants:

b. Payment of Principal. The Company shall duly and punctually pay or cause to be paid to the Investor all Principal hereunder and Interest accrued thereon (including, in the case of default, Interest on the amount in default), on the Payment Date at the places and in the manner specified herein.

c. Payment of Interest. The Company shall duly and punctually pay or cause to be paid to the Investor all Interest (including, in the case of default, interest on the amount in default) monthly in accordance with the provisions of section 3 of the Debenture.

d. Corporate Existence. The Company shall preserve and maintain its corporate existence and shall cause its Subsidiary to preserve and maintain its corporate existence; however, the Company and the Subsidiary may engage in internal reorganizations with Affiliates without the Investor's consent.

e. Taxes, Claims for Labour and Materials. The Company will promptly pay and discharge and will cause its Subsidiary to promptly pay and discharge, (i) all lawful taxes, assessments and governmental charges or levies imposed upon the Company and the Subsidiary or upon or in respect of all or any part of the property or business of the Company and the Subsidiary; (ii) all trade accounts payable in accordance with its usual and customary business practices, except those trade accounts that are in dispute; and (iii) all claims for work, labour or materials, that if unpaid might become a lien upon any property of the Company and the Subsidiary; provided the Company and its Subsidiary will not be required to pay any such tax, assessment, charge, levy, account payable or claim if (A) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings that will prevent the forfeiture or sale of any property of the Company or the Subsidiary or any interference with the use thereof by the Company or the Subsidiary, except that whenever foreclosure on any lien that attaches (or security therefor) appears imminent, the Company and/or the Subsidiary shall pay or cause to be paid all such taxes, assessments, charges, levies, accounts payable or claims and (B) the Company and/or the Subsidiary will, to the extent required, in accordance with generally accepted accounting principles, set aside on its books reserves deemed by it to be adequate with respect thereto.

f. Compliance with Laws. The Company will comply, and will cause the Subsidiary to comply, in all material respects, with the requirements of all applicable laws, rules and regulations and orders of any governmental authority including, without limitation, all laws, rules and regulations.

g. Rights of Inspection. For so long as the Investor holds the Debenture, the Company will, and will cause its Subsidiary to, permit the Investor or its authorized representative (at the Investor's expense), on 24 hours prior written request during normal business hours, to visit and inspect under the Company's guidance, any of the properties of the Company and the Subsidiary, to examine all its books of account, records, reports and other papers and to discuss its affairs, finances and accounts with the senior officers of the Company.

h. Regulatory Approvals. The Company shall maintain and keep, and shall cause its Subsidiary to maintain and keep in good standing all permits, licenses, memberships and other regulatory approvals necessary or desirable to carry on the Business and do all things necessary to prevent the cancellation or suspension thereof to the extent the failure to maintain any such permit, license, membership or other regulatory approval would cause a Material Adverse Change in the Business.

i. Notice of Default. The Company shall give the Investor written notice of (i) the occurrence of any Event of Default, or of any default in respect of any other indebtedness of the Company or any event which with the lapse of time or giving of notice or both, would constitute an Event of Default or such a default in respect of any such other indebtedness; or (ii) any material default which has occurred and is continuing under any loan agreement, debt instrument or other material agreement to which it is a party, promptly after the occurrence of the same.

j. Maintain Status. The Company shall, and shall cause its Subsidiary to, conduct its Business and affairs so as to not be in breach of any of the representations and warranties in the Subscription Agreement.

k. Termination of Licences. The Company shall not, and shall cause the Subsidiary not to terminate without cause any material licence agreement or contract and comply with all other terms and conditions set out in such agreements/contracts.

l. Further Assurances. The Company shall, upon request by the Investor, execute and deliver all such further documents and do all such further acts and things as may be reasonably necessary or desirable at any time or times to give effect to the terms and conditions of this Debenture.

m. Notifications. The Company shall notify the Investor promptly of any Material Adverse Change in the Business or the condition (financial or otherwise), properties, assets, liabilities, prospects, earnings or operations of the Company or its Subsidiary.

n. Disclosure and Filings. The Company shall continue to provide all material disclosure and make all required filings, reports and payments as required under all applicable securities laws and regulations and stock exchange rules.

o. Company to Reserve Shares

The Company shall at all times reserve and keep available out of its authorized Common

Shares (if the number thereof is or becomes limited) solely for the purpose of issue upon conversion of the Debentures as provided herein, and issue to the Investor who may exercise its conversion rights hereunder, such number of Common Shares as shall then be issuable upon the conversion of the Debentures. All Common Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.

p. Material Contracts/Licences. In the event that management of the Company seeks the direction and/or approval of the board of directors of the Company concerning the termination of any Material Contract (as defined in the Subscription Agreement) (whether the termination is initiated or caused by the Company or any other party to such agreements) the Company shall notify the Investor in writing at the same time the direction and/or approval of the board of directors is sought.

q. Litigation. Subject to compliance with disclosure requirements of securities and other laws, the Company shall promptly notify the Investor of the commencement of any material litigation against the Company or its Subsidiary.

r. Certificate of Officer. The Company shall deliver to the Investor at any time and from time to time, promptly following a reasonable request in writing by the Investor a certificate of a senior officer of the Company (which shall be given on behalf of the Company and without personal liability) to the effect that to the best knowledge of that officer, there exists no condition, event or act which constitutes an Event of Default or a default or breach under any material agreement to which the Company is a party or which, with notice or lapse of time, or both, would constitute an Event of Default or such a default or breach or, if any such condition, event or act exists, specifying the nature thereof, the period of existence thereof and the action that the Company proposes to take with respect thereto.

s. Use of Proceeds. Subject to the payment of expenses related to the closing of this transaction, the Company shall use the Principal only to fund ongoing research and development and operations of the Company.

2. **Events of Default; Acceleration of Payment.**

The following events shall constitute an event of default hereunder (each an "Event of Default"):

b. if the Company defaults in any payment of the Principal or Interest amount outstanding under this Debenture or any other debenture issued by the Company to the Investor when due and such non-payment is not cured within 5 Business Days;

c. subject to subparagraph (a) above, if the Company or its Subsidiary defaults in the observance or performance of anything required to be done by any of them, or any covenant or condition required to be observed or performed by any of them, pursuant to this Debenture, any other debenture issued by the Company to the Investor, and/or any other agreement between the Company, its Subsidiary and the Investor, including without limitation any of the Collateral Documents, as such term is defined in the Subscription

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Agreement, and such default remains unremedied for a period of 15 Business Days following the receipt by the Company from the Investor of written notice of such default;

d. if any of the representations or warranties of the Company under Section 5 of this Schedule "B" or in the Subscription Agreement is incorrect in any way as to make it materially misleading;

e. if the Company or its Subsidiary ceases or threatens to cease to carry on the Business or ceases paying its obligations in the ordinary course of business as they generally become due or makes or agrees to make a sale of all or substantially all of its assets or makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency in writing;

f. if a bankruptcy petition or similar proceeding is filed or presented against the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

g. if a custodian or sequestrator or liquidator or trustee in bankruptcy or a receiver or receiver and manager or any other officer with similar powers is appointed with respect to the Company or its Subsidiary or all or any material part of the property, assets or undertaking of the Company or its Subsidiary;

h. if the Company or its Subsidiary makes a proposal under the *Bankruptcy and Insolvency Act (Canada)* or other legislation of Canada respecting bankruptcy and insolvency or takes any action in respect of the settlement of any claims of its creditors under the provisions of the *Bankruptcy and Insolvency Act (Canada)* or such other legislation;

i. if any proceedings against the Company or its Subsidiary are taken with respect to a compromise or arrangement under the *Companies' Creditors Arrangement Act (Canada)* (or any Act substituted therefor) or similar legislation of any other jurisdiction and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

j. if an order is made or a resolution is passed for the winding-up, dissolution or liquidation of the Company or its Subsidiary or if a petition is filed or other process taken for the winding-up, dissolution or liquidation of the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have

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occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

k. if the Company or its Subsidiary shall lose its charter by expiration, forfeiture or otherwise; and

l. if a Material Adverse Change occurs, and is not cured, if susceptible to cure, within 15 Business Days.

The Company shall promptly notify the Investor of an Event of Default or any event which, with notice or lapse of time or both, would constitute an Event of Default under this Debenture.

If following the occurrence of any Event of Default the Investor takes any legal proceeding for the purpose of enforcing its rights under the Debenture in accordance with the terms and conditions hereof, the Company shall reimburse the Investor for all Reasonable Expenses incurred by it as a result thereof.

3. Matters Requiring Investor Approval.

Notwithstanding any of the other provisions hereof, the Company covenants and agrees that the following matters shall require the prior written approval of the Investor not to be unreasonably withheld. The parties agree that the Investor shall be deemed to consent to any matter if it has not responded within 45 days of the Company's written request for such consent:

b. declaring any dividend or distribution on any Common Shares or any other equity securities of the Company or redeem, purchase or otherwise acquire any Common Shares or any other equity securities of the Company;

c. ceasing the operations of all or substantially all of the business of the Company or materially changing the Business of the Company;

d. carrying on of business in excess of $250,000.00 annually with any person that does not deal at arms' length with the Company;

e. encumbering any of its undertaking, property or assets or the incurring of any indebtedness by the Company for borrowed money other than: (i) Permitted Liens; (ii) operating lines of credit in connection with the ordinary course of business; (iii) any debt incurred in connection with capital expenditures which has been approved by the board of directors of the Company; and (iv) indebtedness subordinate to the Obligations; and

f. carrying on (directly or indirectly) of any other business activity or the acquisition of any assets materially unrelated or unnecessary to the Company's present business.

4. Representations and Warranties.

The Company represents and warrants to the Investor, and acknowledges that the Investor is relying on such representations and warranties, that:

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b. Corporate. The Company is a corporation duly subsisting under the laws of Ontario with the corporate power to own its assets and to carry on its business. The Company is duly registered to carry on business in those jurisdictions where it operates and is in good standing under the laws of Canada.

c. Authority. The Company has good and sufficient power, authority and right to enter into and deliver this Debenture, and the execution, delivery and performance of this Debenture and the consummation of the transactions contemplated under this Debenture have been duly and validly authorized and approved by all necessary corporate action on the part of the Company.

d. Binding Agreement. This Debenture constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy and insolvency laws and to equitable remedies being always in the discretion of a court.

The representations and warranties of the Company set forth in this Section 4 of this Schedule "B" will survive the issuance of this Debenture and, notwithstanding such issuance, will continue in full force and effect for the benefit of the Investor for so long as any Principal or Interest remains outstanding under this Debenture.

SCHEDULE "C"SECURITY INTEREST

1. **SECURITY**

1.1 **Security**.

Subject to Sections 1.3 and 1.4 of this Schedule "C", as continuing security for the due and timely payment and performance by the Company of its Obligations hereunder, the Company hereby grants a security interest in and mortgages and charges to and in favour of the Investor all right, title and interest which the Company may be possessed of, entitled to or acquire, by way of amalgamation or otherwise, in and to all Collateral, whether now owned or hereafter acquired by, or on behalf of the Company or in respect of which the Company now or hereafter has, any right, title or interest (including, without limitation, **such as may be returned to or repossessed by the Company)**(the "Security Interest").

2.2 **Attachment**.
The parties acknowledge and agree that value has been given for the granting of the Security Interest and that they have not agreed to postpone the time for attachment.

3.3 **Exception for Last Day of Leases**.

The Security Interest granted hereby does not and shall not extend to, and the Collateral shall not include, the last day of the term of any lease or sub-lease, oral or written, or any agreement therefor, now held or hereafter acquired by the Company but, upon the sale of the leasehold interest or any part thereof, the Company shall stand possessed of such last day in trust to assign the same as the Investor shall direct.

4.4 **Exception for Contractual Rights**.

The Security Interest hereby granted does not and shall not extend to, and the Collateral shall not include, any agreement, right, franchise, licence or permit (collectively, '**Contractual Rights**") to which the Company is a party or of which the Company has the benefit, to the extent that the creation of the Security Interest therein would constitute a breach of the terms of, or permit any person to terminate, the Contractual Rights, but the Company shall hold its interest therein in trust for the Investor and shall assign such Contractual Rights to the Investor forthwith upon obtaining the consent of the other party or parties thereto. Upon the request of the Investor, the Company shall use all commercially reasonable efforts to obtain any consent required to permit any Contractual Rights to be subject to the Security Interest.

1.5 **Permitted Dealings with Collateral**.

Unless an Event of Default has occurred and is continuing, the Company may, without the consent of the Investor:

(1) sell or otherwise dispose of such part of their equipment which is no longer necessary or useful in connection with its business or which has become worn out or obsolete or unsuitable for the purpose for which it was intended;

(2) deal with Collateral in the ordinary course of Business; and

(3) subject to Section 2 of this Schedule "C", collect Proceeds and accounts in the ordinary course of business.

1.6 **Delivery of Instruments, Securities, Etc.**

(1) If an Event of Default has occurred, that has not been waived in writing by the Investor, the Company shall, upon request of the Investor, forthwith deliver to the Investor, to be held by the Investor hereunder, all cash, instruments, patents, securities, letters of credit, advances of credit and negotiable documents of title in its possession or control which pertain to or form part of the Collateral and shall, where appropriate, duly endorse the same for transfer in blank or as the Investor may direct and shall use all reasonable efforts to deliver to the Investor any and all consents or other instruments or documents necessary to comply with any restrictions on the transfer thereof in order to transfer the same to the Investor, including without limitation, consenting to a copy of this Debenture being recorded in the Canadian Intellectual Property Office, as evidence of an assignment of any such patents from the Company to the Investor.

(2) Subject to any other written agreements or instruments in effect from time to time between the parties, unless an Event of Default has occurred and is continuing, the Company shall be entitled (i) to receive all distributions of any kind whatsoever at any time payable on or with respect to the Collateral and (ii) to vote the Collateral and to give consents, waivers, notices and ratifications and to take other action in respect of the Collateral; provided, however, that no vote shall be cast and no consent, waiver, notice or ratification shall be given and no action be taken which would materially impair the Collateral without the consent of the Investor, or which would be inconsistent with or violate any provision of this Debenture or any other written agreement or instrument in effect from time to time between the parties.

(3) Upon the occurrence of an Event of Default, that has not been waived in writing by the Investor, the Investor shall be entitled to enjoy and exercise all of the rights referred to in Section 1.6(b) of this Schedule "C" in such manner as it sees fit.

2. COLLECTION OF PROCEEDS AND ACCOUNTS

2.1 **Control of Proceeds and Accounts**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor, if demand has been made in accordance with Section 3.1 of this Schedule "C", may take control of any proceeds and accounts and may notify any account debtor or any obligor under any instrument held by the Company in satisfaction pro tanto of the Obligations hereunder to make payment in respect of any proceeds and accounts directly to the Investor, whether or not the Company has theretofore been making collections on the Collateral.

2.2 **Proceeds and Accounts Received in Trust**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, if the Company shall collect or receive any accounts or shall be paid for any of the other Collateral or shall receive any Proceeds, all money so collected or received by the Company shall be received by the Company as trustee for the Investor and, if demand has been made in accordance with Section 3.1 of this Schedule "C", shall be paid to the Investor forthwith upon reasonable demand and the Investor may, in its discretion, apply the same in satisfaction pro tanto of the Obligations or hold the same as further Collateral hereunder.

3. **DEFAULT AND THE INVESTOR'S REMEDIES**

3.1 **Remedies Upon Default**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor may declare any or all of the Obligations not then due and payable to be immediately due and payable by giving notice in writing thereof to the Company and, in such event, such Obligations shall be due and payable forthwith by the Company to the Investor and the Investor may thereafter, without further notice to the Company except as provided at law, or otherwise provided for in this Debenture:

(a) commence legal action to enforce payment or performance of the Obligations;

(b) require the Company, at the Company's expense, to assemble the Collateral at a place or places designated by notice in writing given by the Investor to the Company, and the Company agrees to so assemble the Collateral;

(c) require the Company, by notice in writing given by the Investor to the Company, to disclose to the Investor the location or locations of the Collateral, and the Company agrees to make such disclosure when so required by the Investor;

(d) enter any premises where the Collateral may be situated and take possession of the Collateral by any method permitted by law;

(e) repair, process, complete, modify or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Company or otherwise and, in connection with any such action, utilize any of the Company's property without charge;

(f) dispose of the Collateral by private or public sale, lease or otherwise upon such terms and conditions as the Investor may determine and whether or not the Investor has taken possession of the Collateral;

(g) carry on all or any part of the business or businesses of the Company and, to the exclusion of all others (including the Company), enter upon, occupy and, subject to any requirements of law and subject to any leases or agreements then in place, use all or any of the premises, buildings, plant, undertaking and other property of, or used by, the Company for such time and in such manner as the Investor sees fit, free of charge, and, except to the extent required by law, the Investor shall not be liable to the Company for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages or other amount incurred in connection therewith or resulting therefrom;

(h) file such proofs of claim or other documents as may be necessary or desirable to have its claim lodged in any bankruptcy, winding-up, liquidation, dissolution or other proceedings (voluntary or otherwise) relating to the Company;

(i) borrow money for the purpose of carrying on the business of the Company or for the maintenance, preservation or protection of the Collateral and mortgage, charge, pledge or grant a security interest in the Collateral, whether or not in priority to this Debenture, to secure repayment of any money so borrowed;

(j) where the Collateral has been disposed of by the Investor as provided in Section 3.1(f) of this Schedule "C", commence legal action against the Company for the Deficiency, if any;

(k) where the Investor has taken possession of the Collateral as herein provided, retain the Collateral irrevocably, to the extent not prohibited by law, by giving notice thereof to the Company and to any other persons required by law in the manner provided by law;

(l) appoint, by an instrument in writing delivered to the Company, a Receiver of the Collateral and remove any Receiver so appointed and appoint another or others in its stead or institute proceedings in any court of competent jurisdiction for the appointment of a Receiver, it being understood and agreed that:

(1) the Investor may appoint any person as Receiver, including an officer or employee of the Investor;

(2) such appointment may be made at any time after an Event of Default, either before or after the Investor shall have taken possession of the Collateral;

(3) the Investor may, from time to time, fix the reasonable remuneration of the Receiver and direct the payment thereof out of the Collateral or any Proceeds; and

(4) the Receiver shall be deemed to be the appointee/agent of the Company for all purposes, and, for greater certainty, the Investor shall not be, in any way, responsible for any actions, whether wilful, negligent or otherwise, of any Receiver;

(m) pay or discharge any mortgage, charge, encumbrance, lien, adverse claim or security interest claimed by any person in the Collateral and the amount so paid shall be added to the Obligations and shall bear interest calculated from the date of payment at the Loan Rate until paid; and

(n) take any other action, suit, remedy or proceeding authorized or permitted by this Debenture or at law or equity.

3.2 **Sale of Collateral**.

The parties acknowledge and agree that any sale referred to in Section 3.1(f) of this Schedule "C" may be either a sale of all or any portion of the Collateral and may be by way of public auction, public tender, private contract or otherwise without notice, advertisement or any other formality, except as required by law, all of which are hereby waived by the Company to the extent permitted by law. To the extent not prohibited by law, any such sale may be made with or without any special condition as permitted by law, as to an upset price, reserve bid, title or evidence of title or other matter and, from time to time as the Investor in its sole discretion thinks fit, with power to vary or rescind any such sale or buy in at any public sale and resell. The Investor may sell the Collateral for a consideration payable by instalments either with or without taking security for the payment of such instalments and may make and deliver to any purchaser thereof good and sufficient deeds, assurances and conveyances of the Collateral and give receipts for the purchase money, and any such sale shall be a perpetual bar, both at law and in equity, against the Company and all those claiming an interest in the Collateral by, from, through or under the Company.

3.3 **Reference to Secured Party Includes Receiver**.

For the purposes of Sections 3.1 and 3.2 of this Schedule "C", a reference to the "Investor" shall, where the context permits, include any Receiver appointed in accordance with Section 3.1(l) of this Schedule "C".

3.4 **Payment of Expenses**.

The amount of the Reasonable Expenses shall be paid by the Company to the Investor, from time to time forthwith after demand therefor is given by the Investor as applicable, to the Company, together with interest thereon from the date of such demand at the Loan Rate, and payment of such Reasonable Expenses together with such interest shall be secured by the Security Interest.

3.5 **Payment of Deficiency**.

Where the Collateral has been disposed of by the Investor as provided herein and in accordance with applicable law, the Deficiency, if any, shall be paid by the Company to the Investor forthwith after demand therefor has been given by the Investor to the Company, together with interest thereon calculated from the date of such demand at the Loan Rate, and the payment of the Deficiency together with such interest shall be secured by the Security Interest.

3.6 **Discharge of Debenture**

After the Obligations have been paid in full, the Investor shall, at the written request and expense of the Company, cancel and discharge this Debenture and execute and deliver to the Company such instruments as shall be necessary to discharge this Debenture and to release or reconvey to the Company any property and assets subject to the security created hereby.

3.7 **Rights and Remedies Not Mutually Exclusive**.

To the fullest extent permitted by law, the Investor's rights and remedies, whether provided for in this Debenture or otherwise, are not mutually exclusive and are cumulative and not alternative and may be exercised independently or in any combination.

3.8 **No Obligation to Enforce**.

The Investor shall not be under any obligation to, or liable or accountable for any failure to enforce payment or performance of the Obligations or to seize, realize, take possession of or dispose of the Collateral and shall not be under any obligation to institute proceedings for any such purpose.

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4. **POSSESSION OF COLLATERAL BY THE INVESTOR**

4.1 **Possession of Collateral**.

For so long as any Collateral is in the possession of the Investor:

(1) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor, grant or otherwise create a security interest in such Collateral upon any terms, whether or not such terms impair the Company's right to redeem such Collateral;

(2) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor use such Collateral in any manner and to such extent as it deems necessary; and

(3) the Investor shall have no duty of care whatsoever with respect to such Collateral other than to use reasonable care in the custody and preservation thereof, provided that the Investor need not take any steps of any nature to defend or preserve the rights of the Company therein against the claims or demands of others or to preserve rights therein against prior parties.

THIS DEBENTURE AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOFHAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT PURSUANT TO THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE MAY 15, 2005.

CONVERTIBLE SECURED DEBENTURE

Issued to: The Erin Mills Investment Corporation
7501 Keele Street,
Suite 500,
Concord, Ontario,
L4K 1Y2

Attention: Gerry C. Quinn
Facsimile No.: (416) 736-8373

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

Attention: Dr. Jim A. Wright
Facsimile No.: (416) 798-2200

Principal: $5,000,000 Issue Date: JANUARY 14, 2005.

3. Defined Terms.

Defined terms are set out in Schedule "A".

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4. Principal.

Lorus Therapeutics Inc. (the "**Company**") for value received hereby promises to pay to The Erin Mills Investment Corporation (the "**Investor**"), at its address specified above on the date (the "**Payment Date**") being the earlier of (i) October 6, 2009 (the "Maturity Date") and (ii) the date of demand, if any, upon the occurrence of an Event of Default, the principal amount of **$5,000,000.00** (the "**Principal**") or such balance from time to time outstanding thereon, in the manner hereinafter provided, together with all other moneys which may from time to time be owing hereunder or pursuant hereto.

3. Interest.

Interest shall be payable monthly ("**Interest**") commencing January 14, 2005, on the balance from time to time outstanding of the Principal, any overdue interest and any other monies due and payable hereunder, both before and after maturity, default or judgment, shall be calculated on the basis of the actual number of days elapsed and on the basis of a year of 365 or 366 days, as applicable, at the prime rate from time to time quoted by the Royal Bank of Canada plus one percent (1%) per annum (the "**Loan Rate**") accruing daily and compounded monthly in arrears, computed from January 14, 2005, until payment in full of Principal has been made. For greater certainty, where the Loan Rate is changed, Interest shall be charged for the day on which such change is effective on the basis of the new rate. Interest is to be payable in Common Shares of the Company until the weighted average trading price for such Common Shares reaches a price of $1.00 and such trading price is sustained for 60 Trading Days (for certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained), after which interest shall be paid in cash or Common Shares at the option of the Investor provided that the Investor shall consider any reasonable request by the Company to pay Interest in Common Shares. Shares issued in payment of interest shall be issued at a price equal to the weighted average trading price of such shares for the 10 Trading Days immediately preceding the date of their issue in respect of each such interest payment. Interest will cease when the weighted average trading price for the Common Shares of the Company reaches $1.75 per share and such trading price is sustained for 60 Trading Days. For certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained.

4. Conversion Rights and Conversion Price.

(a) At any time prior to the Maturity Date and subject to Section 5 hereof, the Investor shall have the right to convert all or part of the Principal advanced and evidenced by this Debenture, into Conversion Shares at a price of $1.00 per share (the "**Conversion Price**") by delivering a notice of its intention to convert the Principal as aforesaid to the Company in the form attached as Exhibit "A" ("**Conversion Notice**").

(b) *Partial Conversion*

The Principal secured by this Debenture may be partially converted by the Investor from time to time, provided no partial conversion shall be for less than ONE MILLION ($1,000,000.00) DOLLARS, by delivering a Conversion Notice to the Company specifying the amount of the Principal to be converted into Conversion Shares at the Conversion Price.

(c) *Issuance of Conversion Shares*

Upon any exercise of the conversion rights provided in Section 4(a) or (b), the Investor shall be entitled to convert the Principal specified in the Conversion Notice at the Conversion Price. As promptly as practicable after such conversion, the Company shall deliver to the Investor a certificate representing the Conversion Shares resulting from any such conversion.

(d) *Conversion Date*

If this Debenture is converted pursuant to Section 4(a) or (b), then the Conversion Shares shall be deemed to be issued for all purposes as of the date on which the Company received the Conversion Notice.

(e) *Payment of Unconverted Principal*

If the Principal amount of this Debenture has not been converted prior to the Maturity Date the amount secured hereby shall become immediately due and payable to the Investor on the Maturity Date.

(f) *Records*

The Company shall maintain in its records an account showing the amount of this Debenture, the date thereof and the Interest accrued thereon or applicable thereto from time to time. At all times and for all purposes such account shall constitute prime facie evidence, in the absence of manifest error, of the matters recorded therein; provided that the failure of the Company to record same in such account shall not affect the obligation of the Company to pay or repay such indebtedness and liability in accordance with this Debenture.

(g) *Forced Conversion*

In the event that the Investor fails to comply with the provisions of Section 2.1(c) of the Subscription Agreement, the Company shall, in addition to any other remedies provided in the Subscription Agreement, be entitled, at any time after such default on 2 Business Days' notice to the Investor, to convert all amounts then secured by this Debenture into Common Shares at the Conversion Price.

5. Conversion Price Adjustments for Certain Dilutive Issuances, Splits and Combinations.

The Conversion Price shall be subject to adjustment from time to time as follows:

(a) Adjustment in Rights

If, at any time after the date hereof and prior to the Maturity Date, there is a reclassification of the outstanding Common Shares or change of the Common Shares into other shares or securities or any other capital reorganization of the Company or a consolidation, merger or amalgamation of the Company with or into any other corporation (any such event being called a "**Capital Reorganization**"), the Investor shall be entitled to receive and shall accept for the same aggregate consideration, upon the exercise of the conversion rights contained in this Debenture at any time after the record date on which the holders of Common Shares are determined for the purpose of the Capital Reorganization (the "**relevant record date**"), in lieu of the number of Common Shares to which it was theretofore entitled upon such exercise, the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization that the Investor would have been entitled to receive as a result of such Capital Reorganization if, on the relevant record date, it had been the holder of record of the number of Common Shares in respect of which the conversion right contained in this Debenture is then being exercised, and such shares or other securities shall be subject to adjustment thereafter in accordance with provisions which are the same, as nearly as may be possible, as those contained in this Section 5(a) provided that no such Capital Reorganization shall be implemented unless all necessary steps have been taken so that the Investor shall be entitled to receive the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization as provided above.

(b) Adjustment in Conversion Price

The Conversion Price shall be subject to adjustment from time to time as follows:

(i) If, at any time after the date hereof and prior to the Maturity Date, the Company:

(A) subdivides its outstanding Common Shares into a greater number of shares, or

(B) consolidates its outstanding Common Shares into a smaller number of shares, or

(C) issues Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all the holders of Common Shares as a stock dividend or other distribution (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan);

(D) makes a distribution to all or substantially all of the holders of Common Shares on its outstanding Common Shares payable in Common Shares or securities exchangeable for or convertible into Common Shares (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course) and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan,)

(any of such events being called a "**Common Share Reorganization**"), the Conversion Price shall be adjusted effective immediately after the record date on which the holders of Common Shares are determined for the purpose of the Common Share Reorganization, as the case may be, by multiplying the Conversion Price in effect immediately prior to the effective date or record date, as the case may be, by a fraction:

(1) the numerator of which shall be the number of Common Shares outstanding on the relevant record date before giving effect to the Common Share Reorganization; and

(2) the denominator of which shall be the number of Common Shares outstanding on the relevant record date after giving effect to the Common Share Reorganization, including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had all such securities been exchanged for or converted into Common Shares on such effective date or record date.

(ii) If any question at any time arises with respect to the Conversion Price or the number of Common Shares issuable upon the exercise of the Debenture, such question shall be conclusively determined by the auditors from time to time of the Company, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Company with the concurrence of the Investor, and any such determination shall be binding upon the Investor and the Company. If any such determination is made, the Company shall deliver a certificate to the Investor describing such determination.

(iii) If and whenever at any time after the date hereof and prior to the Maturity Date the Company fixes a record date for the issue of rights, options or warrants to all or substantially all the holders of Common Shares (not including rights, options or warrants issued under the Company's stock option plan) under which such holders are entitled, during a period expiring not more than 45 days after the date of such issue (the **"Rights Period"**), to subscribe for or purchase Common Shares or securities exchangeable for or convertible into Common Shares at a price per share to the holder (or at an exchange or conversion price per share during the Rights Period to the holder in the case of securities exchangeable for or

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convertible into Common Shares) of less than 95% of the Current Market Price for the Common Shares on such record date (any of such events being called a **"Rights Offering"**), then the Conversion Price will be adjusted effective immediately after the end of the Rights Period to a price determined by multiplying the Conversion Price in effect immediately prior to the end of the Rights Period by a fraction:

(A) the numerator of which will be the aggregate of:

(1) the number of Common Shares outstanding as of the record date for the Rights Offering, and

(2) a number determined by dividing (1) by either (A) the product of the number of Common Shares issued or subscribed for during the Rights Period upon the exercise of the rights, warrants or options under the Rights Offering and the price at which such Common Shares are offered, or, as the case may be, (B) the product of the exchange or conversion price of such securities exchangeable for or convertible into Common Shares and the number of Common Shares for or into which the securities so offered pursuant to the Rights Offering could have been exchanged or converted during the Rights Period, by (2) the Current Market Price of the Common Shares as of the record date for the Rights Offering, and

(B) the denominator of which will be the number of Common Shares outstanding, or the number of Common Shares which would be outstanding if all the exchangeable or convertible securities were exchanged for or converted into Common Shares during the Rights Period, after giving effect to the Rights Offering and including the number of Common Shares actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Right Offering.

If the Investor has exercised the right to convert the Common Shares in accordance with this Section 5(b)(iii) during the period beginning immediately after the record date for a Rights Offering and ending on the last day of the Rights Period for the Rights Offering, the Investor will, in addition to the Common Shares to which the Investor would otherwise be entitled upon such conversion, be entitled to that number of additional Common Shares equal to the result obtained when the difference, if any, between the Conversion Price in effect immediately prior to the end of such Rights Offering and the Conversion Price as adjusted for such Rights Offering pursuant to this section 5(b)(iii) is multiplied by the number of Common Shares received upon the conversion of the Debenture during such period, and the resulting product is divided by the Conversion Price

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as adjusted for such Rights Offering pursuant to this subsection. Such additional Common Shares will be deemed to have been issued to the Investor immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to such Holder within 15 business days following the end of the Rights Period. To the extent that any such rights, options or warrants are not so exercised on or before the expiry thereof, the Conversion Price will be readjusted to the Conversion Price which would then be in effect based on the number of Common Shares (or the securities convertible into or exchangeable for Common Shares) actually delivered on the exercise of such rights, options or warrants.

(iv) If and whenever at any time after the date hereof and prior to the Maturity Date, the Company fixes a record date for the issue or the distribution to all or substantially all the holders of the Common Shares of (i) securities of the Company, including rights, options or warrants to acquire securities of the Company or any of its properties or assets and including evidences of indebtedness or (ii) any property or other assets including evidences of indebtedness, and if such issuance or distribution does not constitute a Dividend Paid in the Ordinary Course, a Common Share Reorganization or a Rights Offering (any of such non-excluded events being called a **"Special Distribution"**) the Conversion Price will be adjusted effective immediately after such record date to a price determined by multiplying the Conversion Price in effect on such record date by a fraction:

(A) the numerator of which will be:

(1) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less

(2) the fair market value, as determined by action by the Directors (whose determination will be conclusive), to the holders of Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and

(B) the denominator of which will be the product of the number of Common Shares outstanding on such record date and the Current Market Price of the common shares on such record date.

To the extent that any Special Distribution is not so made, the Conversion Price will be readjusted effective immediately to the Conversion Price which would then be in effect based upon such securities or property or other assets as actually distributed.

(v) If the purchase price provided for in any rights, options or warrants (the **"Rights Offering Price"** referred to in subsections 5(b)(iii) and 5(b)(iv) is decreased, the

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Conversion Price will forthwith be changed so as to decrease the Conversion Price to the Conversion Price that would have been obtained if the adjustment to the Conversion Price made under subsections 5(b)(iii) and 5(b)(iv), as the case may be, with respect to such rights, options, or warrants had been made on the basis of the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price resulting from terms in any such rights, options or warrants designed to prevent dilution except to the extent that the resulting decrease in the Conversion Price under this subsection would be greater than the decrease, if any, in the Conversion Price to be made under the terms of this section by virtue of the occurrence of the event giving rise to such decrease in the Rights Offering Price.

6. Payments and Notice.

Any payments received by the Investor or the Company after 2:00 p.m. on a Business Day shall be deemed to have been received on the next Business Day. Any notice required or desired to be given hereunder or under any instrument supplemental hereto shall be in writing and provided in accordance with the provisions of section 6.7 of the Subscription Agreement.

7. Covenants.

This Debenture is issued subject to and with the benefit of all the covenants, terms and conditions in Schedule "B".

8. Default and Enforcement.

The terms and conditions upon which the security constituted by this Debenture shall become enforceable are provided for in Schedule "B".

9. Security.

As continuing security for the due and timely payment by the Company of its Obligations hereunder, the Company hereby grants the charges, liens mortgages and Security Interests in favour of the Investor as set out in Schedule "C".

10. Receipt.

The Company hereby acknowledges receipt of a true copy of this Debenture and a copy of the verification statement registered under the *Personal Property Security Act* (Ontario) in respect of the security created hereby.

11. Binding Effect, Governing Law and Headings.

These presents are binding upon the parties hereto and their respective successors and assigns. This Debenture shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The division of this Debenture into sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Debenture.

12. Currency.

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

13. Perfection of Security.

The Company authorizes the Investor to file such financing statements and other documents and do such acts, matters and things (including completing and adding schedules identifying all or any part of the Collateral) as the Investor may consider appropriate to perfect and continue the security created by this Debenture.

14. Invalidity, etc.

Each of the provisions contained in this Debenture is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of Debenture.

15. Assignment.

The Investor may not sell, transfer or otherwise dispose of part or all of its interest in this Debenture without the consent of the Company, except the Investor shall be entitled to assign this Debenture to an Affiliate or subsidiary of the Investor, provided that such transferee agrees to be bound by the terms of this Debenture and provides written notice of such assignment to the Company. This Debenture may not be assigned by the Company without prior written consent of the Investor, except that the Company may assign its rights and obligations hereunder as part of a merger, acquisition, reorganization or sale of all or substantially all of its assets without consent provided that such transferee agrees to be bound by the terms of this Debenture and provides 15 days written notice of such assignment to the Investor and the security granted by the Debentures is not impaired without the consent of the Investor in any way.

16. Schedules and Exhibit.

Each of the following schedules and exhibit is incorporated by reference into, and constitutes a part of, this Debenture:

Schedule "A" - Definitions
Schedule "B" - Covenants, Events of Default and Enforcement
Schedule "C" - Security Interest

Exhibit "A"- Conversion Notice

17. Amendment.

This Debenture may only be amended with the written agreement of the Company and the Investor provided any such amendments shall be subject to the approval of the Toronto Stock Exchange.

IN WITNESS WHEREOF the Company has executed this Debenture.

LORULORUS THERAPEUTICS INC.

/s/ Jim A. Wright
Jim A. Wright
President and CEO

/s/ Shane Ellis
Shane Ellis
VP of Legal Affairs and Corporate Secretary

SCHEDULE "A"

DEFINITIONS

Interpretation. As used in this Debenture and all schedules incorporated therewith the following expressions shall have the following meanings:

"**Affiliate**" has the meaning set forth in Section 2(1) of the *Ontario Business Corporations Act*;

"**arm's length**" has the meaning given to such term in the *Income Tax Act* (Canada) as now in effect;

"**Business**" means the research, development and commercialization of pharmaceutical products and technologies for the management of cancer;

"**Business Day**" means any day except Saturday, Sunday or a statutory holiday in the Province of Ontario;

"**Collateral**" means any and all undertaking, property and assets, real or personal property, other than the last day of any leasehold interest pursuant to any leases, which is now or hereafter owned by the Company or in which the Company now has or hereafter acquires any interest of any nature whatsoever, including, without limitation, all land, buildings, leasehold interests and improvements, equipment, fixtures, computer hardware and software, intellectual property, inventory, goods, instruments, securities, documents of title, chattel paper, accounts, money, contract rights, intangibles, credits, claims, demands, debts and choses in action and all Proceeds, products and accessions from, of and to any thereof, and, where the context so permits, any reference to "Collateral" shall be deemed to refer to "Collateral or any part thereof. For greater certainty, Collateral shall not include the shares of NuChem Pharmaceuticals Inc.;

"Common Shares" means the common shares of the Company;

"**Company**" means Lorus Therapeutics Inc.;

"Companies" means the Company and the Subsidiary;

"**Conversion Price**" has the meaning ascribed to it in Section 4(a);

"Conversion Shares" means the common shares in the capital stock of the Company to be issued to the Investor pursuant to the terms and conditions of this Debenture.

"**Debenture**" means this secured convertible debenture and all Exhibits and Schedules annexed hereto;

"**Deficiency**" means, at any time, the difference, if any between:

(a) the aggregate of:

(1) the amount of the Obligations at that time; and

(2) the Reasonable Expenses incurred up that time; and

(b) the proceeds of disposition received by the Investor from a disposition of the Collateral in accordance with Section 3.1(f) of Schedule "C"

"Dividends Paid in the Ordinary Course" means cash dividends declared payable on the Common Shares in any fiscal year of the Company to the extent that such cash dividends do not exceed, in the aggregate, the greatest of: (i) 100% of the aggregate amount of cash dividends declared payable by the Company on the Common shares in its immediately preceding fiscal year, (ii) 150% of the arithmetic mean of the aggregate amounts of cash dividends declared payable by the Company on the Common Shares in its three immediately preceding fiscal years and (iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding fiscal year.

"**Event of Default**" has the meaning ascribed thereto in Section 2 of Schedule "B" to this Debenture;

"**Interest**" has the meaning ascribed thereto in Section 3 of this Debenture;

"**Investor**" means The Erin Mills Investment Corporation;

"**Loan Rate**" means the rate of interest specified in Section 3 of this Debenture;

"**Material Adverse Change**" in relation to any of the Companies means any change that could reasonably be expected to have or has a material adverse effect on the assets or properties, business, results of operations, capital or condition (financial or otherwise) of the Companies taken as a whole;

"Maturity Date" has the meaning ascribed to it in Section 2 of this Agreement;

"Obligations" means all indebtedness, liabilities and obligations (of whatsoever nature or kind, whether direct, indirect, absolute, contingent or otherwise) of the Company from time to time, under or in respect of this Debenture;

"**Payment Date**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Permitted Liens**" means the following:

(i) liens for taxes, assessments, governmental charges or levies, not at the time due;

(iii) easements, rights of way or similar rights in land, which, in the aggregate, do not materially impair the usefulness of the business of the Company or of the property subject thereto;

(iii) rights reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit, or by any statutory provision, to terminate the same or to require annual or other periodic payments as a condition to the continuance thereof;

(iv) any lien or encumbrance the validity of which is being contested by the Company in good faith and in respect of which either there will have been deposited with the Investor cash in an amount sufficient to satisfy the same or the Investor will be otherwise satisfied that its interests are not prejudiced thereby;

(v) any reservations, limitations, provisos and conditions expressed in any original grant from the Crown;

(vi) title defects or irregularities which are of a minor nature and in the aggregate will not materially impair the usefulness in the business of the Subsidiary of the property subject thereto;

(vii) security in cash or governmental obligations deposited in the ordinary course of business in connection with contracts, bids, tenders or to secure worker's compensation, unemployment insurance, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, liens or claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens;

(viii) security given in the ordinary course of business to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or governmental or other authority in connection with the operations of the Company;

(ix) other encumbrances arising by operation of law or which are not material in character, amount, and extent and do not materially detract from the value or use of the Collateral;

(x) liens securing the Obligations under the Debentures;

(xi) liens subordinate to the Obligations under the Debentures;

(xii) purchase money security interests; and

(xiii) capital leases

"**person**" means a natural person, a firm, a corporation or other body corporate, a syndicate, a partnership, an association, a trust, a government or agency thereof or any other legal or

business entity whatsoever;

"**Principal**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Proceeds**", of any Collateral, means property in any form derived, directly or indirectly, from any dealing with such Collateral or the proceeds therefrom and includes any payment representing indemnity or compensation for loss or damage to such Collateral or proceeds therefrom, including, without limitation, insurance proceeds;

"**Reasonable Expenses**" means any and all expenses incurred from time to time by the Investor or any Receiver in the perfection or preservation of the security constituted hereby, in enforcing payment or performance of the Obligations or any part thereof or in locating, taking possession of, transporting, holding, repairing, processing, preparing for and arranging for the disposition of and/or disposing of the Collateral and any and all other expenses incurred by the Investor or any Receiver as a result of the Investor or such Receiver exercising any of its rights or remedies hereunder or at law, including, without in any way limiting the generality of the foregoing, any and all legal expenses including those incurred in any legal action or proceeding or appeal therefrom commenced or taken in good faith by the Investor and any and all fees and disbursements of any counsel, accountant or valuator or any similar person employed by

the Investor in connection with any of the foregoing and the costs of insurance and payment of taxes (other than taxes relating to the income of the Investor) and other charges incurred in retaking, holding, repairing, processing and preparing for disposition and disposing of the Collateral;

"**Receiver**" means a receiver, a receiver and manager or any similar person appointed in accordance with Section 3.1(l) of Schedule "C"

"**Security Interest**" has the meaning given to that term in Section 1.1 of Schedule "C"

"**Subscription Agreement**" means the Subscription Agreement among the Company, the Investor, and GeneSense Technologies Inc. dated October 6, 2004, as amended or supplemented from time to time;

"**Subsidiary**" means GeneSense Technologies Inc.; and

"**Trading Days**" means any day on which securities are traded on the Toronto Stock Exchange.

SCHEDULE "B"

COVENANTS, EVENTS OF DEFAULT AND ENFORCEMENT

AND REPRESENTATIONS AND WARRANTIES

1. Covenants by Company.

The Company shall perform and observe each of the following covenants:

(a) Payment of Principal. The Company shall duly and punctually pay or cause to be paid to the Investor all Principal hereunder and Interest accrued thereon (including, in the case of default, Interest on the amount in default), on the Payment Date at the places and in the manner specified herein.

(b) Payment of Interest. The Company shall duly and punctually pay or cause to be paid to the Investor all Interest (including, in the case of default, interest on the amount in default) monthly in accordance with the provisions of section 3 of the Debenture.

(c) Corporate Existence. The Company shall preserve and maintain its corporate existence and shall cause its Subsidiary to preserve and maintain its corporate existence; however, the Company and the Subsidiary may engage in internal reorganizations with Affiliates without the Investor's consent.

(d) Taxes, Claims for Labour and Materials. The Company will promptly pay and discharge and will cause its Subsidiary to promptly pay and discharge, (i) all lawful taxes, assessments and governmental charges or levies imposed upon the Company and the Subsidiary or upon or in respect of all or any part of the property or business of the Company and the Subsidiary; (ii) all trade accounts payable in accordance with its usual and customary business practices, except those trade accounts that are in dispute; and (iii) all claims for work, labour or materials, that if unpaid might become a lien upon any property of the Company and the Subsidiary; provided the Company and its Subsidiary will not be required to pay any such tax, assessment, charge, levy, account payable or claim if (A) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings that will prevent the forfeiture or sale of any property of the Company or the Subsidiary or any interference with the use thereof by the Company or the Subsidiary, except that whenever foreclosure on any lien that attaches (or security therefor) appears imminent, the Company and/or the Subsidiary shall pay or cause to be paid all such taxes, assessments, charges, levies, accounts payable or claims and (B) the Company and/or the Subsidiary will, to the extent required, in accordance with generally accepted accounting principles, set aside on its books reserves deemed by it to be adequate with respect thereto.

(e) Compliance with Laws. The Company will comply, and will cause the Subsidiary to comply, in all material respects, with the requirements of all applicable laws, rules and regulations and orders of any governmental authority including, without limitation, all laws, rules and regulations.

(f) Rights of Inspection. For so long as the Investor holds the Debenture, the Company will, and will cause its Subsidiary to, permit the Investor or its authorized representative (at the Investor's expense), on 24 hours prior written request during normal business hours, to visit and inspect under the Company's guidance, any of the properties of the Company and the Subsidiary, to examine all its books of account, records, reports and other papers and to discuss its affairs, finances and accounts with the senior officers of the Company.

(g) Regulatory Approvals. The Company shall maintain and keep, and shall cause its Subsidiary to maintain and keep in good standing all permits, licenses, memberships and other regulatory approvals necessary or desirable to carry on the Business and do all things necessary to prevent the cancellation or suspension thereof to the extent the failure to maintain any such permit, license, membership or other regulatory approval would cause a Material Adverse Change in the Business.

(h) Notice of Default. The Company shall give the Investor written notice of (i) the occurrence of any Event of Default, or of any default in respect of any other indebtedness of the Company or any event which with the lapse of time or giving of notice or both, would constitute an Event of Default or such a default in respect of any such other indebtedness; or (ii) any material default which has occurred and is continuing under any loan agreement, debt instrument or other material agreement to which it is a party, promptly after the occurrence of the same.

(i) Maintain Status. The Company shall, and shall cause its Subsidiary to, conduct its Business and affairs so as to not be in breach of any of the representations and warranties in the Subscription Agreement.

(j) Termination of Licences. The Company shall not, and shall cause the Subsidiary not to terminate without cause any material licence agreement or contract and comply with all other terms and conditions set out in such agreements/contracts.

(k) Further Assurances. The Company shall, upon request by the Investor, execute and deliver all such further documents and do all such further acts and things as may be reasonably necessary or desirable at any time or times to give effect to the terms and conditions of this Debenture.

(l) Notifications. The Company shall notify the Investor promptly of any Material Adverse Change in the Business or the condition (financial or otherwise), properties, assets, liabilities, prospects, earnings or operations of the Company or its Subsidiary.

(m) Disclosure and Filings. The Company shall continue to provide all material disclosure and make all required filings, reports and payments as required under all applicable securities laws and regulations and stock exchange rules.

(n) Company to Reserve Shares

The Company shall at all times reserve and keep available out of its authorized Common

Shares (if the number thereof is or becomes limited) solely for the purpose of issue upon conversion of the Debentures as provided herein, and issue to the Investor who may exercise its conversion rights hereunder, such number of Common Shares as shall then be issuable upon the conversion of the Debentures. All Common Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.

(o) Material Contracts/Licences. In the event that management of the Company seeks the direction and/or approval of the board of directors of the Company concerning the termination of any Material Contract (as defined in the Subscription Agreement) (whether the termination is initiated or caused by the Company or any other party to such agreements) the Company shall notify the Investor in writing at the same time the direction and/or approval of the board of directors is sought.

(p) Litigation. Subject to compliance with disclosure requirements of securities and other laws, the Company shall promptly notify the Investor of the commencement of any material litigation against the Company or its Subsidiary.

(q) Certificate of Officer. The Company shall deliver to the Investor at any time and from time to time, promptly following a reasonable request in writing by the Investor a certificate of a senior officer of the Company (which shall be given on behalf of the Company and without personal liability) to the effect that to the best knowledge of that officer, there exists no condition, event or act which constitutes an Event of Default or a default or breach under any material agreement to which the Company is a party or which, with notice or lapse of time, or both, would constitute an Event of Default or such a default or breach or, if any such condition, event or act exists, specifying the nature thereof, the period of existence thereof and the action that the Company proposes to take with respect thereto.

(r) Use of Proceeds. Subject to the payment of expenses related to the closing of this transaction, the Company shall use the Principal only to fund ongoing research and development and operations of the Company.

2. **Events of Default; Acceleration of Payment.**

The following events shall constitute an event of default hereunder (each an "Event of Default"):

(a) if the Company defaults in any payment of the Principal or Interest amount outstanding under this Debenture or any other debenture issued by the Company to the Investor when due and such non-payment is not cured within 5 Business Days;

(b) subject to subparagraph (a) above, if the Company or its Subsidiary defaults in the observance or performance of anything required to be done by any of them, or any covenant or condition required to be observed or performed by any of them, pursuant to this Debenture, any other debenture issued by the Company to the Investor, and/or any other agreement between the Company, its Subsidiary and the Investor, including without limitation any of the Collateral Documents, as such term is defined in the Subscription

Agreement, and such default remains unremedied for a period of 15 Business Days following the receipt by the Company from the Investor of written notice of such default;

(c) if any of the representations or warranties of the Company under Section 5 of this Schedule "B" or in the Subscription Agreement is incorrect in any way as to make it materially misleading;

(d) if the Company or its Subsidiary ceases or threatens to cease to carry on the Business or ceases paying its obligations in the ordinary course of business as they generally become due or makes or agrees to make a sale of all or substantially all of its assets or makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency in writing;

(e) if a bankruptcy petition or similar proceeding is filed or presented against the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(f) if a custodian or sequestrator or liquidator or trustee in bankruptcy or a receiver or receiver and manager or any other officer with similar powers is appointed with respect to the Company or its Subsidiary or all or any material part of the property, assets or undertaking of the Company or its Subsidiary;

(g) if the Company or its Subsidiary makes a proposal under the *Bankruptcy and Insolvency Act (Canada)* or other legislation of Canada respecting bankruptcy and insolvency or takes any action in respect of the settlement of any claims of its creditors under the provisions of the *Bankruptcy and Insolvency Act (Canada)* or such other legislation;

(h) if any proceedings against the Company or its Subsidiary are taken with respect to a compromise or arrangement under the *Companies' Creditors Arrangement Act (Canada)* (or any Act substituted therefor) or similar legislation of any other jurisdiction and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(i) if an order is made or a resolution is passed for the winding-up, dissolution or liquidation of the Company or its Subsidiary or if a petition is filed or other process taken for the winding-up, dissolution or liquidation of the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have

occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(j) if the Company or its Subsidiary shall lose its charter by expiration, forfeiture or otherwise; and

(k) if a Material Adverse Change occurs, and is not cured, if susceptible to cure, within 15 Business Days.

The Company shall promptly notify the Investor of an Event of Default or any event which, with notice or lapse of time or both, would constitute an Event of Default under this Debenture.

If following the occurrence of any Event of Default the Investor takes any legal proceeding for the purpose of enforcing its rights under the Debenture in accordance with the terms and conditions hereof, the Company shall reimburse the Investor for all Reasonable Expenses incurred by it as a result thereof.

3. Matters Requiring Investor Approval.

Notwithstanding any of the other provisions hereof, the Company covenants and agrees that the following matters shall require the prior written approval of the Investor not to be unreasonably withheld. The parties agree that the Investor shall be deemed to consent to any matter if it has not responded within 45 days of the Company's written request for such consent:

(a) declaring any dividend or distribution on any Common Shares or any other equity securities of the Company or redeem, purchase or otherwise acquire any Common Shares or any other equity securities of the Company;

(b) ceasing the operations of all or substantially all of the business of the Company or materially changing the Business of the Company;

(c) carrying on of business in excess of $250,000.00 annually with any person that does not deal at arms' length with the Company;

(d) encumbering any of its undertaking, property or assets or the incurring of any indebtedness by the Company for borrowed money other than: (i) Permitted Liens; (ii) operating lines of credit in connection with the ordinary course of business; (iii) any debt incurred in connection with capital expenditures which has been approved by the board of directors of the Company; and (iv) indebtedness subordinate to the Obligations; and

(e) carrying on (directly or indirectly) of any other business activity or the acquisition of any assets materially unrelated or unnecessary to the Company's present business.

4. Representations and Warranties.

The Company represents and warrants to the Investor, and acknowledges that the Investor is relying on such representations and warranties, that:

(a) Corporate. The Company is a corporation duly subsisting under the laws of Ontario with the corporate power to own its assets and to carry on its business. The Company is duly registered to carry on business in those jurisdictions where it operates and is in good standing under the laws of Canada.

(b) Authority. The Company has good and sufficient power, authority and right to enter into and deliver this Debenture, and the execution, delivery and performance of this Debenture and the consummation of the transactions contemplated under this Debenture have been duly and validly authorized and approved by all necessary corporate action on the part of the Company.

(c) Binding Agreement. This Debenture constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy and insolvency laws and to equitable remedies being always in the discretion of a court.

The representations and warranties of the Company set forth in this Section 4 of this Schedule "B" will survive the issuance of this Debenture and, notwithstanding such issuance, will continue in full force and effect for the benefit of the Investor for so long as any Principal or Interest remains outstanding under this Debenture.

SCHEDULE "C"SECURITY INTEREST

1. **SECURITY**

1.1 **Security**.

Subject to Sections 1.3 and 1.4 of this Schedule "C", as continuing security for the due and timely payment and performance by the Company of its Obligations hereunder, the Company hereby grants a security interest in and mortgages and charges to and in favour of the Investor all right, title and interest which the Company may be possessed of, entitled to or acquire, by way of amalgamation or otherwise, in and to all Collateral, whether now owned or hereafter acquired by, or on behalf of the Company or in respect of which the Company now or hereafter has, any right, title or interest (including, without limitation, **such as may be returned to or repossessed by the Company)**(the "Security Interest").

1.2 Attachment.
The parties acknowledge and agree that value has been given for the granting of the Security Interest and that they have not agreed to postpone the time for attachment.

1.3 Exception for Last Day of Leases.

The Security Interest granted hereby does not and shall not extend to, and the Collateral shall not include, the last day of the term of any lease or sub-lease, oral or written, or any agreement therefor, now held or hereafter acquired by the Company but, upon the sale of the leasehold interest or any part thereof, the Company shall stand possessed of such last day in trust to assign the same as the Investor shall direct.

1.4 Exception for Contractual Rights.

The Security Interest hereby granted does not and shall not extend to, and the Collateral shall not include, any agreement, right, franchise, licence or permit (collectively, '**Contractual Rights**") to which the Company is a party or of which the Company has the benefit, to the extent that the creation of the Security Interest therein would constitute a breach of the terms of, or permit any person to terminate, the Contractual Rights, but the Company shall hold its interest therein in trust for the Investor and shall assign such Contractual Rights to the Investor forthwith upon obtaining the consent of the other party or parties thereto. Upon the request of the Investor, the Company shall use all commercially reasonable efforts to obtain any consent required to permit any Contractual Rights to be subject to the Security Interest.

1.5 **Permitted Dealings with Collateral**.

Unless an Event of Default has occurred and is continuing, the Company may, without the consent of the Investor:

(a) sell or otherwise dispose of such part of their equipment which is no longer necessary or useful in connection with its business or which has become worn out or obsolete or unsuitable for the purpose for which it was intended;

(b) deal with Collateral in the ordinary course of Business; and

(c) subject to Section 2 of this Schedule "C", collect Proceeds and accounts in the ordinary course of business.

1.6 **Delivery of Instruments, Securities, Etc.**

(a) If an Event of Default has occurred, that has not been waived in writing by the Investor, the Company shall, upon request of the Investor, forthwith deliver to the Investor, to be held by the Investor hereunder, all cash, instruments, patents, securities, letters of credit, advances of credit and negotiable documents of title in its possession or control which pertain to or form part of the Collateral and shall, where appropriate, duly endorse the same for transfer in blank or as the Investor may direct and shall use all reasonable efforts to deliver to the Investor any and all consents or other instruments or documents necessary to comply with any restrictions on the transfer thereof in order to transfer the same to the Investor, including without limitation, consenting to a copy of this Debenture being recorded in the Canadian Intellectual Property Office, as evidence of an assignment of any such patents from the Company to the Investor.

(b) Subject to any other written agreements or instruments in effect from time to time between the parties, unless an Event of Default has occurred and is continuing, the Company shall be entitled (i) to receive all distributions of any kind whatsoever at any time payable on or with respect to the Collateral and (ii) to vote the Collateral and to give consents, waivers, notices and ratifications and to take other action in respect of the Collateral; provided, however, that no vote shall be cast and no consent, waiver, notice or ratification shall be given and no action be taken which would materially impair the Collateral without the consent of the Investor, or which would be inconsistent with or violate any provision of this Debenture or any other written agreement or instrument in effect from time to time between the parties.

(c) Upon the occurrence of an Event of Default, that has not been waived in writing by the Investor, the Investor shall be entitled to enjoy and exercise all of the rights referred to in Section 1.6(b) of this Schedule "C" in such manner as it sees fit.

2. COLLECTION OF PROCEEDS AND ACCOUNTS

2.1 **Control of Proceeds and Accounts**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor, if demand has been made in accordance with Section 3.1 of this Schedule "C", may take control of any proceeds and accounts and may notify any account debtor or any obligor under any instrument held by the Company in satisfaction pro tanto of the Obligations hereunder to make payment in respect of any proceeds and accounts directly to the Investor, whether or not the Company has theretofore been making collections on the Collateral.

2.2 **Proceeds and Accounts Received in Trust**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, if the Company shall collect or receive any accounts or shall be paid for any of the other Collateral or shall receive any Proceeds, all money so collected or received by the Company shall be received by the Company as trustee for the Investor and, if demand has been made in accordance with Section 3.1 of this Schedule "C", shall be paid to the Investor forthwith upon reasonable demand and the Investor may, in its discretion, apply the same in satisfaction pro tanto of the Obligations or hold the same as further Collateral hereunder.

3. **DEFAULT AND THE INVESTOR'S REMEDIES**

3.1 **Remedies Upon Default**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor may declare any or all of the Obligations not then due and payable to be immediately due and payable by giving notice in writing thereof to the Company and, in such event, such Obligations shall be due and payable forthwith by the Company to the Investor and the Investor may thereafter, without further notice to the Company except as provided at law, or otherwise provided for in this Debenture:

(a) commence legal action to enforce payment or performance of the Obligations;

(b) require the Company, at the Company's expense, to assemble the Collateral at a place or places designated by notice in writing given by the Investor to the Company, and the Company agrees to so assemble the Collateral;

(c) require the Company, by notice in writing given by the Investor to the Company, to disclose to the Investor the location or locations of the Collateral, and the Company agrees to make such disclosure when so required by the Investor;

(d) enter any premises where the Collateral may be situated and take possession of the Collateral by any method permitted by law;

(e) repair, process, complete, modify or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Company or otherwise and, in connection with any such action, utilize any of the Company's property without charge;

(f) dispose of the Collateral by private or public sale, lease or otherwise upon such terms and conditions as the Investor may determine and whether or not the Investor has taken possession of the Collateral;

(g) carry on all or any part of the business or businesses of the Company and, to the exclusion of all others (including the Company), enter upon, occupy and, subject to any requirements of law and subject to any leases or agreements then in place, use all or any of the premises, buildings, plant, undertaking and other property of, or used by, the Company for such time and in such manner as the Investor sees fit, free of charge, and, except to the extent required by law, the Investor shall not be liable to the Company for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages or other amount incurred in connection therewith or resulting therefrom;

(h) file such proofs of claim or other documents as may be necessary or desirable to have its claim lodged in any bankruptcy, winding-up, liquidation, dissolution or other proceedings (voluntary or otherwise) relating to the Company;

(i) borrow money for the purpose of carrying on the business of the Company or for the maintenance, preservation or protection of the Collateral and mortgage, charge, pledge or grant a security interest in the Collateral, whether or not in priority to this Debenture, to secure repayment of any money so borrowed;

(j) where the Collateral has been disposed of by the Investor as provided in Section 3.1(f) of this Schedule "C", commence legal action against the Company for the Deficiency, if any;

(k) where the Investor has taken possession of the Collateral as herein provided, retain the Collateral irrevocably, to the extent not prohibited by law, by giving notice thereof to the Company and to any other persons required by law in the manner provided by law;

(l) appoint, by an instrument in writing delivered to the Company, a Receiver of the Collateral and remove any Receiver so appointed and appoint another or others in its stead or institute proceedings in any court of competent jurisdiction for the appointment of a Receiver, it being understood and agreed that:

1. the Investor may appoint any person as Receiver, including an officer or employee of the Investor;

b) such appointment may be made at any time after an Event of Default, either before or after the Investor shall have taken possession of the Collateral;

c) the Investor may, from time to time, fix the reasonable remuneration of the Receiver and direct the payment thereof out of the Collateral or any Proceeds; and

d) the Receiver shall be deemed to be the appointee/agent of the Company for all purposes, and, for greater certainty, the Investor shall not be, in any way, responsible for any actions, whether wilful, negligent or otherwise, of any Receiver;

(m) pay or discharge any mortgage, charge, encumbrance, lien, adverse claim or security interest claimed by any person in the Collateral and the amount so paid shall be added to the Obligations and shall bear interest calculated from the date of payment at the Loan Rate until paid; and

(n) take any other action, suit, remedy or proceeding authorized or permitted by this Debenture or at law or equity.

3.2 **Sale of Collateral**.

The parties acknowledge and agree that any sale referred to in Section 3.1(f) of this Schedule "C" may be either a sale of all or any portion of the Collateral and may be by way of public auction, public tender, private contract or otherwise without notice, advertisement or any other formality, except as required by law, all of which are hereby waived by the Company to the extent permitted by law. To the extent not prohibited by law, any such sale may be made with or without any special condition as permitted by law, as to an upset price, reserve bid, title or evidence of title or other matter and, from time to time as the Investor in its sole discretion thinks fit, with power to vary or rescind any such sale or buy in at any public sale and resell. The Investor may sell the Collateral for a consideration payable by instalments either with or without taking security for the payment of such instalments and may make and deliver to any purchaser thereof good and sufficient deeds, assurances and conveyances of the Collateral and give receipts for the purchase money, and any such sale shall be a perpetual bar, both at law and in equity, against the Company and all those claiming an interest in the Collateral by, from, through or under the Company.

3.3 **Reference to Secured Party Includes Receiver**.

For the purposes of Sections 3.1 and 3.2 of this Schedule "C", a reference to the "Investor" shall, where the context permits, include any Receiver appointed in accordance with Section 3.1(l) of this Schedule "C".

3.4 **Payment of Expenses**.

The amount of the Reasonable Expenses shall be paid by the Company to the Investor, from time to time forthwith after demand therefor is given by the Investor as applicable, to the Company, together with interest thereon from the date of such demand at the Loan Rate, and payment of such Reasonable Expenses together with such interest shall be secured by the Security Interest.

3.5 **Payment of Deficiency**.

Where the Collateral has been disposed of by the Investor as provided herein and in accordance with applicable law, the Deficiency, if any, shall be paid by the Company to the Investor forthwith after demand therefor has been given by the Investor to the Company, together with interest thereon calculated from the date of such demand at the Loan Rate, and the payment of the Deficiency together with such interest shall be secured by the Security Interest.

3.6 **Discharge of Debenture**

After the Obligations have been paid in full, the Investor shall, at the written request and expense of the Company, cancel and discharge this Debenture and execute and deliver to the Company such instruments as shall be necessary to discharge this Debenture and to release or reconvey to the Company any property and assets subject to the security created hereby.

3.7 **Rights and Remedies Not Mutually Exclusive**

To the fullest extent permitted by law, the Investor's rights and remedies, whether provided for in this Debenture or otherwise, are not mutually exclusive and are cumulative and not alternative and may be exercised independently or in any combination.

3.8 **No Obligation to Enforce**.

The Investor shall not be under any obligation to, or liable or accountable for any failure to enforce payment or performance of the Obligations or to seize, realize, take possession of or dispose of the Collateral and shall not be under any obligation to institute proceedings for any such purpose.

4. **POSSESSION OF COLLATERAL BY THE INVESTOR**

4.1 **Possession of Collateral**.

For so long as any Collateral is in the possession of the Investor:

(a) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor, grant or otherwise create a security interest in such Collateral upon any terms, whether or not such terms impair the Company's right to redeem such Collateral;

(b) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor use such Collateral in any manner and to such extent as it deems necessary; and

(c) the Investor shall have no duty of care whatsoever with respect to such Collateral other than to use reasonable care in the custody and preservation thereof, provided that the Investor need not take any steps of any nature to defend or preserve the rights of the Company therein against the claims or demands of others or to preserve rights therein against prior parties.

THIS DEBENTURE AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOFHAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT PURSUANT TO THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE AUGUST 16, 2005.

CONVERTIBLE SECURED DEBENTURE

Issued to: The Erin Mills Investment Corporation
7501 Keele Street,
Suite 500,
Concord, Ontario,
L4K 1Y2

Attention: Gerry C. Quinn
Facsimile No.: (416) 736-8373

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

Attention: Dr. Jim A. Wright
Facsimile No.: (416) 798-2200

Principal: $5,000,000 Issue Date: APRIL 15, 2005.

2. Defined Terms.

Defined terms are set out in Schedule "A".

3. Principal.

Lorus Therapeutics Inc. (the "**Company**") for value received hereby promises to pay to The Erin Mills Investment Corporation (the "**Investor**"), at its address specified above on the date (the "**Payment Date**") being the earlier of (i) October 6, 2009 (the "Maturity Date") and (ii) the date of demand, if any, upon the occurrence of an Event of Default, the principal amount of **$5,000,000.00** (the "**Principal**") or such balance from time to time outstanding thereon, in the manner hereinafter provided, together with all other moneys which may from time to time be owing hereunder or pursuant hereto.

3. Interest.

Interest shall be payable monthly ("**Interest**") commencing April 15, 2005, on the balance from time to time outstanding of the Principal, any overdue interest and any other monies due and payable hereunder, both before and after maturity, default or judgment, shall be calculated on the basis of the actual number of days elapsed and on the basis of a year of 365 or 366 days, as applicable, at the prime rate from time to time quoted by the Royal Bank of Canada plus one percent (1%) per annum (the "**Loan Rate**") accruing daily and compounded monthly in arrears, computed from April 15, 2005, until payment in full of Principal has been made. For greater certainty, where the Loan Rate is changed, Interest shall be charged for the day on which such change is effective on the basis of the new rate. Interest is to be payable in Common Shares of the Company until the weighted average trading price for such Common Shares reaches a price of $1.00 and such trading price is sustained for 60 Trading Days (for certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained), after which interest shall be paid in cash or Common Shares at the option of the Investor provided that the Investor shall consider any reasonable request by the Company to pay Interest in Common Shares. Shares issued in payment of interest shall be issued at a price equal to the weighted average trading price of such shares for the 10 Trading Days immediately preceding the date of their issue in respect of each such interest payment. Interest will cease when the weighted average trading price for the Common Shares of the Company reaches $1.75 per share and such trading price is sustained for 60 Trading Days. For certainty, interest will continue to be charged and payable during such 60 Trading Day qualification period whether or not the required price level is sustained.

4. Conversion Rights and Conversion Price.

(a) At any time prior to the Maturity Date and subject to Section 5 hereof, the Investor shall have the right to convert all or part of the Principal advanced and evidenced by this Debenture, into Conversion Shares at a price of $1.00 per share (the "**Conversion Price**") by delivering a notice of its intention to convert the Principal as aforesaid to the Company in the form attached as Exhibit "A" ("**Conversion Notice**").

(b) *Partial Conversion*

The Principal secured by this Debenture may be partially converted by the Investor from time to time, provided no partial conversion shall be for less than ONE MILLION ($1,000,000.00) DOLLARS, by delivering a Conversion Notice to the Company specifying the amount of the Principal to be converted into Conversion Shares at the Conversion Price.

(c) *Issuance of Conversion Shares*

Upon any exercise of the conversion rights provided in Section 4(a) or (b), the Investor shall be entitled to convert the Principal specified in the Conversion Notice at the Conversion Price. As promptly as practicable after such conversion, the Company shall deliver to the Investor a certificate representing the Conversion Shares resulting from any such conversion.

(d) *Conversion Date*

If this Debenture is converted pursuant to Section 4(a) or (b), then the Conversion Shares shall be deemed to be issued for all purposes as of the date on which the Company received the Conversion Notice.

(e) *Payment of Unconverted Principal*

If the Principal amount of this Debenture has not been converted prior to the Maturity Date the amount secured hereby shall become immediately due and payable to the Investor on the Maturity Date.

(f) *Records*

The Company shall maintain in its records an account showing the amount of this Debenture, the date thereof and the Interest accrued thereon or applicable thereto from time to time. At all times and for all purposes such account shall constitute prime facie evidence, in the absence of manifest error, of the matters recorded therein; provided that the failure of the Company to record same in such account shall not affect the obligation of the Company to pay or repay such indebtedness and liability in accordance with this Debenture.

(g) *Forced Conversion*

In the event that the Investor fails to comply with the provisions of Section 2.1(c) of the Subscription Agreement, the Company shall, in addition to any other remedies provided in the Subscription Agreement, be entitled, at any time after such default on 2 Business Days' notice to the Investor, to convert all amounts then secured by this Debenture into Common Shares at the Conversion Price.

5. Conversion Price Adjustments for Certain Dilutive Issuances, Splits and Combinations.

The Conversion Price shall be subject to adjustment from time to time as follows:

(a) Adjustment in Rights

If, at any time after the date hereof and prior to the Maturity Date, there is a reclassification of the outstanding Common Shares or change of the Common Shares into other shares or securities or any other capital reorganization of the Company or a consolidation, merger or amalgamation of the Company with or into any other corporation (any such event being called a "**Capital Reorganization**"), the Investor shall be entitled to receive and shall accept for the same aggregate consideration, upon the exercise of the conversion rights contained in this Debenture at any time after the record date on which the holders of Common Shares are determined for the purpose of the Capital Reorganization (the "**relevant record date**"), in lieu of the number of Common Shares to which it was theretofore entitled upon such exercise, the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization that the Investor would have been entitled to receive as a result of such Capital Reorganization if, on the relevant record date, it had been the holder of record of the number of Common Shares in respect of which the conversion right contained in this Debenture is then being exercised, and such shares or other securities shall be subject to adjustment thereafter in accordance with provisions which are the same, as nearly as may be possible, as those contained in this Section 5(a) provided that no such Capital Reorganization shall be implemented unless all necessary steps have been taken so that the Investor shall be entitled to receive the kind and amount of shares or other securities of the Company or of the corporation resulting from the Capital Reorganization as provided above.

(b) Adjustment in Conversion Price

The Conversion Price shall be subject to adjustment from time to time as follows:

(i) If, at any time after the date hereof and prior to the Maturity Date, the Company:

(A) subdivides its outstanding Common Shares into a greater number of shares, or

(B) consolidates its outstanding Common Shares into a smaller number of shares, or

(C) issues Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all the holders of Common Shares as a stock dividend or other distribution (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan);

(D) makes a distribution to all or substantially all of the holders of Common Shares on its outstanding Common Shares payable in Common Shares or securities exchangeable for or convertible into Common Shares (other than an issue of Common Shares to holders of Common Shares pursuant to a right granted to such holders to receive such Common Shares in lieu of Dividends Paid in the Ordinary Course) and other than an issue of Common Shares on account of the exercise of options granted from time to time under the Company's Stock Option Plan,)

(any of such events being called a "**Common Share Reorganization**"), the Conversion Price shall be adjusted effective immediately after the record date on which the holders of Common Shares are determined for the purpose of the Common Share Reorganization, as the case may be, by multiplying the Conversion Price in effect immediately prior to the effective date or record date, as the case may be, by a fraction:

(1) the numerator of which shall be the number of Common Shares outstanding on the relevant record date before giving effect to the Common Share Reorganization; and

(2) the denominator of which shall be the number of Common Shares outstanding on the relevant record date after giving effect to the Common Share Reorganization, including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had all such securities been exchanged for or converted into Common Shares on such effective date or record date.

(ii) If any question at any time arises with respect to the Conversion Price or the number of Common Shares issuable upon the exercise of the Debenture, such question shall be conclusively determined by the auditors from time to time of the Company, or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Company with the concurrence of the Investor, and any such determination shall be binding upon the Investor and the Company. If any such determination is made, the Company shall deliver a certificate to the Investor describing such determination.

(iii) If and whenever at any time after the date hereof and prior to the Maturity Date the Company fixes a record date for the issue of rights, options or warrants to all or substantially all the holders of Common Shares (not including rights, options or warrants issued under the Company's stock option plan) under which such holders are entitled, during a period expiring not more than 45 days after the date of such issue (the **"Rights Period"**), to subscribe for or purchase Common Shares or securities exchangeable for or convertible into Common Shares at a price per share to the holder (or at an exchange or conversion price per share during the Rights Period to the holder in the case of securities exchangeable for or

convertible into Common Shares) of less than 95% of the Current Market Price for the Common Shares on such record date (any of such events being called a **"Rights Offering"**), then the Conversion Price will be adjusted effective immediately after the end of the Rights Period to a price determined by multiplying the Conversion Price in effect immediately prior to the end of the Rights Period by a fraction:

(A) the numerator of which will be the aggregate of:

(1) the number of Common Shares outstanding as of the record date for the Rights Offering, and

(2) a number determined by dividing (1) by either (A) the product of the number of Common Shares issued or subscribed for during the Rights Period upon the exercise of the rights, warrants or options under the Rights Offering and the price at which such Common Shares are offered, or, as the case may be, (B) the product of the exchange or conversion price of such securities exchangeable for or convertible into Common Shares and the number of Common Shares for or into which the securities so offered pursuant to the Rights Offering could have been exchanged or converted during the Rights Period, by (2) the Current Market Price of the Common Shares as of the record date for the Rights Offering, and

(B) the denominator of which will be the number of Common Shares outstanding, or the number of Common Shares which would be outstanding if all the exchangeable or convertible securities were exchanged for or converted into Common Shares during the Rights Period, after giving effect to the Rights Offering and including the number of Common Shares actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Right Offering.

If the Investor has exercised the right to convert the Common Shares in accordance with this Section 5(b)(iii) during the period beginning immediately after the record date for a Rights Offering and ending on the last day of the Rights Period for the Rights Offering, the Investor will, in addition to the Common Shares to which the Investor would otherwise be entitled upon such conversion, be entitled to that number of additional Common Shares equal to the result obtained when the difference, if any, between the Conversion Price in effect immediately prior to the end of such Rights Offering and the Conversion Price

as adjusted for such Rights Offering pursuant to this section 5(b)(iii) is multiplied by the number of Common Shares received upon the conversion of the Debenture during such period, and the resulting product is divided by the Conversion Price as adjusted for such Rights Offering pursuant to this subsection. Such additional Common Shares will be deemed to have been issued to the Investor immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to such Holder within 15 business days following the end of the Rights Period. To the extent that any such rights, options or warrants are not so exercised on or before the expiry thereof, the Conversion Price will be readjusted to the Conversion Price which would then be in effect based on the number of Common Shares (or the securities convertible into or exchangeable for Common Shares) actually delivered on the exercise of such rights, options or warrants.

(iv) If and whenever at any time after the date hereof and prior to the Maturity Date, the Company fixes a record date for the issue or the distribution to all or substantially all the holders of the Common Shares of (i) securities of the Company, including rights, options or warrants to acquire securities of the Company or any of its properties or assets and including evidences of indebtedness or (ii) any property or other assets including evidences of indebtedness, and if such issuance or distribution does not constitute a Dividend Paid in the Ordinary Course, a Common Share Reorganization or a Rights Offering (any of such non-excluded events being called a **"Special Distribution"**) the Conversion Price will be adjusted effective immediately after such record date to a price determined by multiplying the Conversion Price in effect on such record date by a fraction:

(A) the numerator of which will be:

(1) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less

(2) the fair market value, as determined by action by the Directors (whose determination will be conclusive), to the holders of Common Shares of such securities or property or other assets so issued or distributed in the Special Distribution; and

(B) the denominator of which will be the product of the number of Common Shares outstanding on such record date and the Current Market Price of the common shares on such record date.

To the extent that any Special Distribution is not so made, the Conversion Price will be readjusted effective immediately to the Conversion Price which would then be in effect based upon such securities or property or other assets as actually distributed.

(v) If the purchase price provided for in any rights, options or warrants (the **"Rights Offering Price"** referred to in subsections 5(b)(iii) and 5(b)(iv) is decreased, the

Conversion Price will forthwith be changed so as to decrease the Conversion Price to the Conversion Price that would have been obtained if the adjustment to the Conversion Price made under subsections 5(b)(iii) and 5(b)(iv), as the case may be, with respect to such rights, options, or warrants had been made on the basis of the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price resulting from terms in any such rights, options or warrants designed to prevent dilution except to the extent that the resulting decrease in the Conversion Price under this subsection would be greater than the decrease, if any, in the Conversion Price to be made under the terms of this section by virtue of the occurrence of the event giving rise to such decrease in the Rights Offering Price.

6. Payments and Notice.

Any payments received by the Investor or the Company after 2:00 p.m. on a Business Day shall be deemed to have been received on the next Business Day. Any notice required or desired to be given hereunder or under any instrument supplemental hereto shall be in writing and provided in accordance with the provisions of section 6.7 of the Subscription Agreement.

7. Covenants.

This Debenture is issued subject to and with the benefit of all the covenants, terms and conditions in Schedule "B".

8. Default and Enforcement.

The terms and conditions upon which the security constituted by this Debenture shall become enforceable are provided for in Schedule "B".

9. Security.

As continuing security for the due and timely payment by the Company of its Obligations hereunder, the Company hereby grants the charges, liens mortgages and Security Interests in favour of the Investor as set out in Schedule "C".

10. Receipt.

The Company hereby acknowledges receipt of a true copy of this Debenture and a copy of the verification statement registered under the *Personal Property Security Act* (Ontario) in respect of the security created hereby.

11. Binding Effect, Governing Law and Headings.

These presents are binding upon the parties hereto and their respective successors and assigns. This Debenture shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The division of this Debenture into sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Debenture.

12. Currency.

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

13. Perfection of Security.

The Company authorizes the Investor to file such financing statements and other documents and do such acts, matters and things (including completing and adding schedules identifying all or any part of the Collateral) as the Investor may consider appropriate to perfect and continue the security created by this Debenture.

14. Invalidity, etc.

Each of the provisions contained in this Debenture is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of Debenture.

15. Assignment.

The Investor may not sell, transfer or otherwise dispose of part or all of its interest in this Debenture without the consent of the Company, except the Investor shall be entitled to assign this Debenture to an Affiliate or subsidiary of the Investor, provided that such transferee agrees to be bound by the terms of this Debenture and provides written notice of such assignment to the Company. This Debenture may not be assigned by the Company without prior written consent of the Investor, except that the Company may assign its rights and obligations hereunder as part of a merger, acquisition, reorganization or sale of all or substantially all of its assets without consent provided that such transferee agrees to be bound by the terms of this Debenture and provides 15 days written notice of such assignment to the Investor and the security granted by the Debentures is not impaired without the consent of the Investor in any way.

16. Schedules and Exhibit.

Each of the following schedules and exhibit is incorporated by reference into, and constitutes a part of, this Debenture:

Schedule "A" - Definitions
Schedule "B" - Covenants, Events of Default and Enforcement
Schedule "C" - Security Interest

Exhibit "A"- Conversion Notice

17. Amendment.

This Debenture may only be amended with the written agreement of the Company and the Investor provided any such amendments shall be subject to the approval of the Toronto Stock Exchange.

IN WITNESS WHEREOF the Company has executed this Debenture.

LORULORUS THERAPEUTICS INC.
/s/ Jim A. Wright
Jim A. Wright
President and CEO

/s/ Shane Ellis
Shane Ellis
VP of Legal Affairs and Corporate Secretary

SCHEDULE "A"

DEFINITIONS

Interpretation. As used in this Debenture and all schedules incorporated therewith the following expressions shall have the following meanings:

"**Affiliate**" has the meaning set forth in Section 2(1) of the *Ontario Business Corporations Act*;

"**arm's length**" has the meaning given to such term in the *Income Tax Act* (Canada) as now in effect;

"**Business**" means the research, development and commercialization of pharmaceutical products and technologies for the management of cancer;

"**Business Day**" means any day except Saturday, Sunday or a statutory holiday in the Province of Ontario;

"**Collateral**" means any and all undertaking, property and assets, real or personal property, other than the last day of any leasehold interest pursuant to any leases, which is now or hereafter owned by the Company or in which the Company now has or hereafter acquires any interest of any nature whatsoever, including, without limitation, all land, buildings, leasehold interests and improvements, equipment, fixtures, computer hardware and software, intellectual property, inventory, goods, instruments, securities, documents of title, chattel paper, accounts, money, contract rights, intangibles, credits, claims, demands, debts and choses in action and all Proceeds, products and accessions from, of and to any thereof, and, where the context so permits, any reference to "Collateral" shall be deemed to refer to "Collateral or any part thereof. For greater certainty, Collateral shall not include the shares of NuChem Pharmaceuticals Inc.;

"Common Shares" means the common shares of the Company;

"**Company**" means Lorus Therapeutics Inc.;

"Companies" means the Company and the Subsidiary;

"**Conversion Price**" has the meaning ascribed to it in Section 4(a);

"Conversion Shares" means the common shares in the capital stock of the Company to be issued to the Investor pursuant to the terms and conditions of this Debenture.

"**Debenture**" means this secured convertible debenture and all Exhibits and Schedules annexed hereto;
"**Deficiency**" means, at any time, the difference, if any between:

(1) the aggregate of:

(1) the amount of the Obligations at that time; and

(2) the Reasonable Expenses incurred up that time; and

(b) the proceeds of disposition received by the Investor from a disposition of the Collateral in accordance with Section 3.1(f) of Schedule "C"

"Dividends Paid in the Ordinary Course" means cash dividends declared payable on the Common Shares in any fiscal year of the Company to the extent that such cash dividends do not exceed, in the aggregate, the greatest of: (i) 100% of the aggregate amount of cash dividends declared payable by the Company on the Common shares in its immediately preceding fiscal year, (ii) 150% of the arithmetic mean of the aggregate amounts of cash dividends declared payable by the Company on the Common Shares in its three immediately preceding fiscal years and (iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding fiscal year.

"**Event of Default**" has the meaning ascribed thereto in Section 2 of Schedule "B" to this Debenture;

"**Interest**" has the meaning ascribed thereto in Section 3 of this Debenture;

"**Investor**" means The Erin Mills Investment Corporation;

"**Loan Rate**" means the rate of interest specified in Section 3 of this Debenture;

"**Material Adverse Change**" in relation to any of the Companies means any change that could reasonably be expected to have or has a material adverse effect on the assets or properties, business, results of operations, capital or condition (financial or otherwise) of the Companies taken as a whole;

"Maturity Date" has the meaning ascribed to it in Section 2 of this Agreement;

"Obligations" means all indebtedness, liabilities and obligations (of whatsoever nature or kind, whether direct, indirect, absolute, contingent or otherwise) of the Company from time to time, under or in respect of this Debenture;

"**Payment Date**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Permitted Liens**" means the following:

(i) liens for taxes, assessments, governmental charges or levies, not at the time due;

(ii) easements, rights of way or similar rights in land, which, in the aggregate, do not materially impair the usefulness of the business of the Company or of the property subject thereto;

(iii) rights reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit, or by any statutory provision, to terminate the same or to require annual or other periodic payments as a condition to the continuance thereof;

(iv) any lien or encumbrance the validity of which is being contested by the Company in good faith and in respect of which either there will have been deposited with the Investor cash in an amount sufficient to satisfy the same or the Investor will be otherwise satisfied that its interests are not prejudiced thereby;

(v) any reservations, limitations, provisos and conditions expressed in any original grant from the Crown;

(vi) title defects or irregularities which are of a minor nature and in the aggregate will not materially impair the usefulness in the business of the Subsidiary of the property subject thereto;

(vii) security in cash or governmental obligations deposited in the ordinary course of business in connection with contracts, bids, tenders or to secure worker's compensation, unemployment insurance, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, liens or claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens;

(viii) security given in the ordinary course of business to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or governmental or other authority in connection with the operations of the Company;

(ix) other encumbrances arising by operation of law or which are not material in character, amount, and extent and do not materially detract from the value or use of the Collateral;

(x) liens securing the Obligations under the Debentures;

(xi) liens subordinate to the Obligations under the Debentures;

(xii) purchase money security interests; and

(xiii) capital leases

"**person**" means a natural person, a firm, a corporation or other body corporate, a syndicate, a partnership, an association, a trust, a government or agency thereof or any other legal or business entity whatsoever;

"**Principal**" has the meaning ascribed thereto in Section 2 of this Debenture;

"**Proceeds**", of any Collateral, means property in any form derived, directly or indirectly, from any dealing with such Collateral or the proceeds therefrom and includes any payment representing indemnity or compensation for loss or damage to such Collateral or proceeds therefrom, including, without limitation, insurance proceeds;

"**Reasonable Expenses**" means any and all expenses incurred from time to time by the Investor or any Receiver in the perfection or preservation of the security constituted hereby, in enforcing payment or performance of the Obligations or any part thereof or in locating, taking possession of, transporting, holding, repairing, processing, preparing for and arranging for the disposition of and/or disposing of the Collateral and any and all other expenses incurred by the Investor or any Receiver as a result of the Investor or such Receiver exercising any of its rights or remedies hereunder or at law, including, without in any way limiting the generality of the foregoing, any and all legal expenses including those incurred in any legal action or proceeding or appeal therefrom commenced or taken in good faith by the Investor and any and all fees and disbursements of any counsel, accountant or valuator or any similar person employed by

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the Investor in connection with any of the foregoing and the costs of insurance and payment of taxes (other than taxes relating to the income of the Investor) and other charges incurred in retaking, holding, repairing, processing and preparing for disposition and disposing of the Collateral;

"**Receiver**" means a receiver, a receiver and manager or any similar person appointed in accordance with Section 3.1(l) of Schedule "C"

"**Security Interest**" has the meaning given to that term in Section 1.1 of Schedule "C"

"**Subscription Agreement**" means the Subscription Agreement among the Company, the Investor, and GeneSense Technologies Inc. dated October 6, 2004, as amended or supplemented from time to time;

"**Subsidiary**" means GeneSense Technologies Inc.; and

"**Trading Days**" means any day on which securities are traded on the Toronto Stock Exchange.

SCHEDULE "B"

COVENANTS, EVENTS OF DEFAULT AND ENFORCEMENT

AND REPRESENTATIONS AND WARRANTIES

1. **Covenants by Company**.

The Company shall perform and observe each of the following covenants:

(a) Payment of Principal. The Company shall duly and punctually pay or cause to be paid to the Investor all Principal hereunder and Interest accrued thereon (including, in the case of default, Interest on the amount in default), on the Payment Date at the places and in the manner specified herein.

(b) Payment of Interest. The Company shall duly and punctually pay or cause to be paid to the Investor all Interest (including, in the case of default, interest on the amount in default) monthly in accordance with the provisions of section 3 of the Debenture.

(c) Corporate Existence. The Company shall preserve and maintain its corporate existence and shall cause its Subsidiary to preserve and maintain its corporate existence; however, the Company and the Subsidiary may engage in internal reorganizations with Affiliates without the Investor's consent.

(d) Taxes, Claims for Labour and Materials. The Company will promptly pay and discharge and will cause its Subsidiary to promptly pay and discharge, (i) all lawful taxes, assessments and governmental charges or levies imposed upon the Company and the Subsidiary or upon or in respect of all or any part of the property or business of the Company and the Subsidiary; (ii) all trade accounts payable in accordance with its usual and customary business practices, except those trade accounts that are in dispute; and (iii) all claims for work, labour or materials, that if unpaid might become a lien upon any property of the Company and the Subsidiary; provided the Company and its Subsidiary will not be required to pay any such tax, assessment, charge, levy, account payable or claim if (A) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings that will prevent the forfeiture or sale of any property of the Company or the Subsidiary or any interference with the use thereof by the Company or the Subsidiary, except that whenever foreclosure on any lien that attaches (or security therefor) appears imminent, the Company and/or the Subsidiary shall pay or cause to be paid all such taxes, assessments, charges, levies, accounts payable or claims and (B) the Company and/or the Subsidiary will, to the extent required, in accordance with generally accepted accounting principles, set aside on its books reserves deemed by it to be adequate with respect thereto.

(e) Compliance with Laws. The Company will comply, and will cause the Subsidiary to comply, in all material respects, with the requirements of all applicable laws, rules and regulations and orders of any governmental authority including, without limitation, all laws, rules and regulations.

(f) Rights of Inspection. For so long as the Investor holds the Debenture, the Company will, and will

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cause its Subsidiary to, permit the Investor or its authorized representative (at the Investor's expense), on 24 hours prior written request during normal business hours, to visit and inspect under the Company's guidance, any of the properties of the Company and the Subsidiary, to examine all its books of account, records, reports and other papers and to discuss its affairs, finances and accounts with the senior officers of the Company.

(g) Regulatory Approvals. The Company shall maintain and keep, and shall cause its Subsidiary to maintain and keep in good standing all permits, licenses, memberships and other regulatory approvals necessary or desirable to carry on the Business and do all things necessary to prevent the cancellation or suspension thereof to the extent the failure to maintain any such permit, license, membership or other regulatory approval would cause a Material Adverse Change in the Business.

(h) Notice of Default. The Company shall give the Investor written notice of (i) the occurrence of any Event of Default, or of any default in respect of any other indebtedness of the Company or any event which with the lapse of time or giving of notice or both, would constitute an Event of Default or such a default in respect of any such other indebtedness; or (ii) any material default which has occurred and is continuing under any loan agreement, debt instrument or other material agreement to which it is a party, promptly after the occurrence of the same.

(i) Maintain Status. The Company shall, and shall cause its Subsidiary to, conduct its Business and affairs so as to not be in breach of any of the representations and warranties in the Subscription Agreement.

(j) Termination of Licences. The Company shall not, and shall cause the Subsidiary not to terminate without cause any material licence agreement or contract and comply with all other terms and conditions set out in such agreements/contracts.

(k) Further Assurances. The Company shall, upon request by the Investor, execute and deliver all such further documents and do all such further acts and things as may be reasonably necessary or desirable at any time or times to give effect to the terms and conditions of this Debenture.

(l) Notifications. The Company shall notify the Investor promptly of any Material Adverse Change in the Business or the condition (financial or otherwise), properties, assets, liabilities, prospects, earnings or operations of the Company or its Subsidiary.

(m) Disclosure and Filings. The Company shall continue to provide all material disclosure and make all required filings, reports and payments as required under all applicable securities laws and regulations and stock exchange rules.

(n) Company to Reserve Shares

The Company shall at all times reserve and keep available out of its authorized Common Shares (if the number thereof is or becomes limited) solely for the purpose of issue upon conversion of the Debentures as provided herein, and issue to the Investor who may exercise its conversion rights hereunder, such number of Common Shares as shall then be issuable upon the conversion of the Debentures. All Common Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.

(o) Material Contracts/Licences. In the event that management of the Company seeks the direction and/or approval of the board of directors of the Company concerning the termination of any Material Contract (as defined in the Subscription Agreement) (whether the termination is initiated or caused by the Company or any other party to such agreements) the Company shall notify the Investor in writing at the same time the direction and/or approval of the board of directors is sought.

(p) Litigation. Subject to compliance with disclosure requirements of securities and other laws, the Company shall promptly notify the Investor of the commencement of any material litigation against the Company or its Subsidiary.

(q) Certificate of Officer. The Company shall deliver to the Investor at any time and from time to time, promptly following a reasonable request in writing by the Investor a certificate of a senior officer of the Company (which shall be given on behalf of the Company and without personal liability) to the effect that to the best knowledge of that officer, there exists no condition, event or act which constitutes an Event of Default or a default or breach under any material agreement to which the Company is a party or which, with notice or lapse of time, or both, would constitute an Event of Default or such a default or breach or, if any such condition, event or act exists, specifying the nature thereof, the period of existence thereof and the action that the Company proposes to take with respect thereto.

(r) Use of Proceeds. Subject to the payment of expenses related to the closing of this transaction, the Company shall use the Principal only to fund ongoing research and development and operations of the Company.

2. **Events of Default; Acceleration of Payment.**

The following events shall constitute an event of default hereunder (each an "Event of Default"):

(b) if the Company defaults in any payment of the Principal or Interest amount outstanding under this Debenture or any other debenture issued by the Company to the Investor when due and such non-payment is not cured within 5 Business Days;

(c) subject to subparagraph (a) above, if the Company or its Subsidiary defaults in the observance or performance of anything required to be done by any of them, or any covenant or condition required to be observed or performed by any of them, pursuant to this Debenture, any other debenture issued by the Company to the Investor, and/or any other agreement between the Company, its Subsidiary and the Investor, including without limitation any of the Collateral Documents, as such term is defined in the Subscription Agreement, and such default remains unremedied for a period of 15 Business Days following the receipt by the Company from the Investor of written notice of such default;

(d) if any of the representations or warranties of the Company under Section 5 of this Schedule "B" or in the Subscription Agreement is incorrect in any way as to make it materially misleading;

(e) if the Company or its Subsidiary ceases or threatens to cease to carry on the Business or ceases paying its obligations in the ordinary course of business as they generally become due or makes or agrees to make a sale of all or substantially all of its assets or makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency in writing;

(f) if a bankruptcy petition or similar proceeding is filed or presented against the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(g) if a custodian or sequestrator or liquidator or trustee in bankruptcy or a receiver or receiver and manager or any other officer with similar powers is appointed with respect to the Company or its Subsidiary or all or any material part of the property, assets or undertaking of the Company or its Subsidiary;

(h) if the Company or its Subsidiary makes a proposal under the *Bankruptcy and Insolvency Act (Canada)* or other legislation of Canada respecting bankruptcy and insolvency or takes any action in respect of the settlement of any claims of its creditors under the provisions of the *Bankruptcy and Insolvency Act (Canada)* or such other legislation;

(i) if any proceedings against the Company or its Subsidiary are taken with respect to a compromise or arrangement under the *Companies' Creditors Arrangement Act (Canada)* (or any Act substituted therefor) or similar legislation of any other jurisdiction and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(j) if an order is made or a resolution is passed for the winding-up, dissolution or liquidation of the Company or its Subsidiary or if a petition is filed or other process taken for the winding-up, dissolution or liquidation of the Company or its Subsidiary and such proceeding is not being contested in good faith by appropriate proceedings or, if so contested, remains outstanding, undismissed and unstayed more than 60 days from the institution of such first-mentioned proceeding; provided however that notwithstanding any such 60 day period shall not have elapsed, an Event of Default shall be deemed to have occurred if such proceeding remains outstanding and, after the date of commencement of such proceeding, the Company does not satisfy a payroll obligation;

(k) if the Company or its Subsidiary shall lose its charter by expiration, forfeiture or otherwise; and

(l) if a Material Adverse Change occurs, and is not cured, if susceptible to cure, within 15 Business Days.

The Company shall promptly notify the Investor of an Event of Default or any event which, with notice or lapse of time or both, would constitute an Event of Default under this Debenture.

If following the occurrence of any Event of Default the Investor takes any legal proceeding for the purpose of enforcing its rights under the Debenture in accordance with the terms and conditions hereof, the Company shall reimburse the Investor for all Reasonable Expenses incurred by it as a result thereof.

3. Matters Requiring Investor Approval.

Notwithstanding any of the other provisions hereof, the Company covenants and agrees that the following matters shall require the prior written approval of the Investor not to be unreasonably withheld. The parties agree that the Investor shall be deemed to consent to any matter if it has not responded within 45 days of the Company's written request for such consent:

(a) declaring any dividend or distribution on any Common Shares or any other equity securities of the Company or redeem, purchase or otherwise acquire any Common Shares or any other equity securities of the Company;

(b) ceasing the operations of all or substantially all of the business of the Company or materially changing the Business of the Company;

(c) carrying on of business in excess of $250,000.00 annually with any person that does not deal at arms' length with the Company;

(d) encumbering any of its undertaking, property or assets or the incurring of any indebtedness by the Company for borrowed money other than: (i) Permitted Liens; (ii) operating lines of credit in connection with the ordinary course of business; (iii) any debt incurred in connection with capital expenditures which has been approved by the board of directors of the Company; and (iv) indebtedness subordinate to the Obligations; and

(e) carrying on (directly or indirectly) of any other business activity or the acquisition of any assets materially unrelated or unnecessary to the Company's present business.

4. Representations and Warranties.

The Company represents and warrants to the Investor, and acknowledges that the Investor is relying on such representations and warranties, that:

(a) Corporate. The Company is a corporation duly subsisting under the laws of Ontario with the corporate power to own its assets and to carry on its business. The Company is duly registered to carry on business in those jurisdictions where it operates and is in good standing under the laws of Canada.

(b) Authority. The Company has good and sufficient power, authority and right to enter into and deliver this Debenture, and the execution, delivery and performance of this Debenture and the consummation of the transactions contemplated under this Debenture have been

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duly and validly authorized and approved by all necessary corporate action on the part of the Company.

(c) Binding Agreement. This Debenture constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy and insolvency laws and to equitable remedies being always in the discretion of a court.

The representations and warranties of the Company set forth in this Section 4 of this Schedule "B" will survive the issuance of this Debenture and, notwithstanding such issuance, will continue in full force and effect for the benefit of the Investor for so long as any Principal or Interest remains outstanding under this Debenture.

SCHEDULE "C"SECURITY INTEREST

1. **SECURITY**

1.1 Security.

Subject to Sections 1.3 and 1.4 of this Schedule "C", as continuing security for the due and timely payment and performance by the Company of its Obligations hereunder, the Company hereby grants a security interest in and mortgages and charges to and in favour of the Investor all right, title and interest which the Company may be possessed of, entitled to or acquire, by way of amalgamation or otherwise, in and to all Collateral, whether now owned or hereafter acquired by, or on behalf of the Company or in respect of which the Company now or hereafter has, any right, title or interest (including, without limitation, **such as may be returned to or repossessed by the Company)**(the "Security Interest").

1.2 Attachment.
The parties acknowledge and agree that value has been given for the granting of the Security Interest and that they have not agreed to postpone the time for attachment.

1.3 Exception for Last Day of Leases.

The Security Interest granted hereby does not and shall not extend to, and the Collateral shall not include, the last day of the term of any lease or sub-lease, oral or written, or any agreement therefor, now held or hereafter acquired by the Company but, upon the sale of the leasehold interest or any part thereof, the Company shall stand possessed of such last day in trust to assign the same as the Investor shall direct.

1.4 Exception for Contractual Rights.

The Security Interest hereby granted does not and shall not extend to, and the Collateral shall not include, any agreement, right, franchise, licence or permit (collectively, '**Contractual Rights**") to which the Company is a party or of which the Company has the benefit, to the extent that the creation of the Security Interest therein would constitute a breach of the terms of, or permit any person to terminate, the Contractual Rights, but the Company shall hold its interest therein in trust for the Investor and shall assign such Contractual Rights to the Investor forthwith upon obtaining the consent of the other party or parties thereto. Upon the request of the Investor, the Company shall use all commercially reasonable efforts to obtain any consent required to permit any Contractual Rights to be subject to the Security Interest.

1.5 **Permitted Dealings with Collateral**.

Unless an Event of Default has occurred and is continuing, the Company may, without the consent of the Investor:

i. sell or otherwise dispose of such part of their equipment which is no longer necessary or useful in connection with its business or which has become worn out or obsolete or unsuitable for the purpose for which it was intended;

ii. deal with Collateral in the ordinary course of Business; and

iii. subject to Section 2 of this Schedule "C", collect Proceeds and accounts in the ordinary course of business.

1.6 **Delivery of Instruments, Securities, Etc.**

(a) If an Event of Default has occurred, that has not been waived in writing by the Investor, the Company shall, upon request of the Investor, forthwith deliver to the Investor, to be held by the Investor hereunder, all cash, instruments, patents, securities, letters of credit, advances of credit and negotiable documents of title in its possession or control which pertain to or form part of the Collateral and shall, where appropriate, duly endorse the same for transfer in blank or as the Investor may direct and shall use all reasonable efforts to deliver to the Investor any and all consents or other instruments or documents necessary to comply with any restrictions on the transfer thereof in order to transfer the same to the Investor, including without limitation, consenting to a copy of this Debenture being recorded in the Canadian Intellectual Property Office, as evidence of an assignment of any such patents from the Company to the Investor.

(b) Subject to any other written agreements or instruments in effect from time to time between the parties, unless an Event of Default has occurred and is continuing, the Company shall be entitled (i) to receive all distributions of any kind whatsoever at any time payable on or with respect to the Collateral and (ii) to vote the Collateral and to give consents, waivers, notices and ratifications and to take other action in respect of the Collateral; provided, however, that no vote shall be cast and no consent, waiver, notice or ratification shall be given and no action be taken which would materially impair the Collateral without the consent of the Investor, or which would be inconsistent with or violate any provision of this Debenture or any other written agreement or instrument in effect from time to time between the parties.

(c) Upon the occurrence of an Event of Default, that has not been waived in writing by the Investor, the Investor shall be entitled to enjoy and exercise all of the rights referred to in Section 1.6(b) of this Schedule "C" in such manner as it sees fit.

2. COLLECTION OF PROCEEDS AND ACCOUNTS

2.1 **Control of Proceeds and Accounts**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor, if demand has been made in accordance with Section 3.1 of this Schedule "C", may take control of any proceeds and accounts and may notify any account debtor or any obligor under any instrument held by the Company in satisfaction pro tanto of the Obligations hereunder to make payment in respect of any proceeds and accounts directly to the Investor, whether or not the Company has theretofore been making collections on the Collateral.

2.2 **Proceeds and Accounts Received in Trust**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, if the Company shall collect or receive any accounts or shall be paid for any of the other Collateral or shall receive any Proceeds, all money so collected or received by the Company shall be received by the Company as trustee for the Investor and, if demand has been made in accordance with Section 3.1 of this Schedule "C", shall be paid to the Investor forthwith upon reasonable demand and the Investor may, in its discretion, apply the same in satisfaction pro tanto of the Obligations or hold the same as further Collateral hereunder.

3. **DEFAULT AND THE INVESTOR'S REMEDIES**

3.1 **Remedies Upon Default**.

If an Event of Default has occurred, that has not been waived in writing by the Investor, the Investor may declare any or all of the Obligations not then due and payable to be immediately due and payable by giving notice in writing thereof to the Company and, in such event, such Obligations shall be due and payable forthwith by the Company to the Investor and the Investor may thereafter, without further notice to the Company except as provided at law, or otherwise provided for in this Debenture:

(a) commence legal action to enforce payment or performance of the Obligations;

(b) require the Company, at the Company's expense, to assemble the Collateral at a place or places designated by notice in writing given by the Investor to the Company, and the Company agrees to so assemble the Collateral;

(c) require the Company, by notice in writing given by the Investor to the Company, to disclose to the Investor the location or locations of the Collateral, and the Company agrees to make such disclosure when so required by the Investor;

(d) enter any premises where the Collateral may be situated and take possession of the Collateral by any method permitted by law;

(e) repair, process, complete, modify or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Company or otherwise and, in connection with any such action, utilize any of the Company's property without charge;

(f) dispose of the Collateral by private or public sale, lease or otherwise upon such terms and conditions as the Investor may determine and whether or not the Investor has taken possession of the Collateral;

(g) carry on all or any part of the business or businesses of the Company and, to the exclusion of all others (including the Company), enter upon, occupy and, subject to any requirements of law and subject to any leases or agreements then in place, use all or any of the premises, buildings, plant, undertaking and other property of, or used by, the Company for such time and in such manner as the Investor sees fit, free of charge, and, except to the extent required by law, the Investor shall not be liable to the Company for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages or other amount incurred in connection therewith or resulting therefrom;

(h) file such proofs of claim or other documents as may be necessary or desirable to have its claim lodged in any bankruptcy, winding-up, liquidation, dissolution or other proceedings (voluntary or otherwise) relating to the Company;

(i) borrow money for the purpose of carrying on the business of the Company or for the maintenance, preservation or protection of the Collateral and mortgage, charge, pledge or grant a security interest in the Collateral, whether or not in priority to this Debenture, to secure repayment of any money so borrowed;

(j) where the Collateral has been disposed of by the Investor as provided in Section 3.1(f) of this Schedule "C", commence legal action against the Company for the Deficiency, if any;

(k) where the Investor has taken possession of the Collateral as herein provided, retain the Collateral irrevocably, to the extent not prohibited by law, by giving notice thereof to the Company and to any other persons required by law in the manner provided by law;

(l) appoint, by an instrument in writing delivered to the Company, a Receiver of the Collateral and remove any Receiver so appointed and appoint another or others in its stead or institute proceedings in any court of competent jurisdiction for the appointment of a Receiver, it being understood and agreed that:

b) the Investor may appoint any person as Receiver, including an officer or employee of the Investor;

c) such appointment may be made at any time after an Event of Default, either before or after the Investor shall have taken possession of the Collateral;

d) the Investor may, from time to time, fix the reasonable remuneration of the Receiver and direct the payment thereof out of the Collateral or any Proceeds; and

e) the Receiver shall be deemed to be the appointee/agent of the Company for all purposes, and, for greater certainty, the Investor shall not be, in any way, responsible for any actions, whether wilful, negligent or otherwise, of any Receiver;

(m) pay or discharge any mortgage, charge, encumbrance, lien, adverse claim or security interest claimed by any person in the Collateral and the amount so paid shall be added to the Obligations and shall bear interest calculated from the date of payment at the Loan Rate until paid; and

(n) take any other action, suit, remedy or proceeding authorized or permitted by this Debenture or at law or equity.

3.2 **Sale of Collateral**.

The parties acknowledge and agree that any sale referred to in Section 3.1(f) of this Schedule "C" may be either a sale of all or any portion of the Collateral and may be by way of public auction, public tender, private contract or otherwise without notice, advertisement or any other formality, except as required by law, all of which are hereby waived by the Company to the extent permitted by law. To the extent not prohibited by law, any such sale may be made with or without any special condition as permitted by law, as to an upset price, reserve bid, title or evidence of title or other matter and, from time to time as the Investor in its sole discretion thinks fit, with power to vary or rescind any such sale or buy in at any public sale and resell. The Investor may sell the Collateral for a consideration payable by instalments either with or without taking security for the payment of such instalments and may make and deliver to any purchaser thereof good and sufficient deeds, assurances and conveyances of the Collateral and give receipts for the purchase money, and any such sale shall be a perpetual bar, both at law and in equity, against the Company and all those claiming an interest in the Collateral by, from, through or under the Company.

3.3 **Reference to Secured Party Includes Receiver**.

For the purposes of Sections 3.1 and 3.2 of this Schedule "C", a reference to the "Investor" shall, where the context permits, include any Receiver appointed in accordance with Section 3.1(l) of this Schedule "C".

3.4 **Payment of Expenses**.

The amount of the Reasonable Expenses shall be paid by the Company to the Investor, from time to time forthwith after demand therefor is given by the Investor as applicable, to the Company, together with interest thereon from the date of such demand at the Loan Rate, and payment of such Reasonable Expenses together with such interest shall be secured by the Security Interest.

3.5 **Payment of Deficiency**.

Where the Collateral has been disposed of by the Investor as provided herein and in accordance with applicable law, the Deficiency, if any, shall be paid by the Company to the Investor forthwith after demand therefor has been given by the Investor to the Company, together with interest thereon calculated from the date of such demand at the Loan Rate, and the payment of the Deficiency together with such interest shall be secured by the Security Interest.

3.6 **Discharge of Debenture**

After the Obligations have been paid in full, the Investor shall, at the written request and expense of the Company, cancel and discharge this Debenture and execute and deliver to the Company such instruments as shall be necessary to discharge this Debenture and to release or reconvey to the Company any property and assets subject to the security created hereby.

3.7 **Rights and Remedies Not Mutually Exclusive**.

To the fullest extent permitted by law, the Investor's rights and remedies, whether provided for in this Debenture or otherwise, are not mutually exclusive and are cumulative and not alternative and may be exercised independently or in any combination.

3.8 **No Obligation to Enforce**.

The Investor shall not be under any obligation to, or liable or accountable for any failure to enforce payment or performance of the Obligations or to seize, realize, take possession of or dispose of the Collateral and shall not be under any obligation to institute proceedings for any such purpose.

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4. **POSSESSION OF COLLATERAL BY THE INVESTOR**

4.1 **Possession of Collateral**.

For so long as any Collateral is in the possession of the Investor:

(a) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor, grant or otherwise create a security interest in such Collateral upon any terms, whether or not such terms impair the Company's right to redeem such Collateral;

(b) the Investor may, at any time following the occurrence of an Event of Default that has not been waived in writing by the Investor use such Collateral in any manner and to such extent as it deems necessary; and

(c) the Investor shall have no duty of care whatsoever with respect to such Collateral other than to use reasonable care in the custody and preservation thereof, provided that the Investor need not take any steps of any nature to defend or preserve the rights of the Company therein against the claims or demands of others or to preserve rights therein against prior parties.

LORUS THERAPEUTICS INC.

2003 SHARE OPTION PLAN

OCTOBER 9, 2003

TABLE OF CONTENTS

LORUS THERAPEUTICS INC.
2003 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 security holders.

1.2. Definitions

1.2.1. In this Plan and its Schedules, the terms set out in Schedule 1.2.1 (Definitions) will have the meanings given to those terms in that schedule.

1.2.2. Certain terms, whose definitions are incorporated by reference from other material, are set out in Schedule 1.2.2 (Incorporated Definitions).

1.3. Schedules

The following are the schedules attached to this Plan:

Schedule 1.2.1	—Definitions
Schedule 1.2.2	—Incorporated 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.

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. Effective from September 13, 2005 the maximum total number of Shares available for issuance from treasury upon exercise of Options granted under the Plan is 10% of the issued and outstanding Shares of the Corporation, being 25,920,797 Shares as at September 13, 2005, less any Shares issued pursuant to options exercised under the Previous Stock Option Plan. Any Share subject to an Option that, for any reason, has been cancelled or terminated without having been exercised under the Plan or the

Previous Plan, will again be available for issuance under this Plan.

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. Restrictions on Issuances

The issuing of Options is subject to the following restrictions:

2.5.1. that the number of Shares reserved for issuance under Options granted to Insiders or under Stock Options granted to Insiders under this and any other Share Compensation Arrangement of the Company may not exceed 15% of the Outstanding Issue;

2.5.2. that Insiders may not, within a 12 month period, be issued a number of Shares under the Plan and/or under any other Share Compensation Arrangement of the Company exceeding 10% of the Outstanding Issue; and

2.5.3. that any one Insider and that Insider's Associates may not, within a 12 month period, be issued a number of Shares under the Plan and/or under any other Share Compensation Arrangement of the Company exceeding 10% of the Outstanding Issue.

2.5.4. that the number of Shares reserved for issuance under Options to any one Person may not exceed 5% of the Outstanding Issue.

2.6. Compliance with Law

2.6.1. 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.

2.6.2. 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.

2.6.3. 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.

2.6.4. 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 (other than Incentive Options) under section 4.4 will be equal to the closing market price of the Shares on the Stock Market on the last trading date preceding the date of the grant. 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. Termination.

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

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

4.5.2.1.2. the resignation of the Participant, or

4.5.2.1.3. 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.

4.5.2.2. 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.

4.5.2.3. Effective the Termination Date, any portion of an Option that has not vested on or prior to the Termination Date will no longer be exercisable.

4.5.3. 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 may amend, suspend or terminate this Plan or any portion of it at any time in accordance with Law, provided that no amendment, suspension or termination may, without the consent of the affected Participant or except as otherwise provided in the Plan, impair any Option, or any right under an Option, previously granted to any Participant.

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.

10.1. 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.

10.1. 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.

10.1. 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 1.2.1

Definitions

1. **"Affiliate"** has the meaning given to that term in OSC Rule 45-105.

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

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

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

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

   5.1. 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

   5.2. 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.

6. **"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.

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

8. **"Consultant"** has the meaning given to that term in OSC Rule 45-105 and excludes an individual whose services are in connection with the offer or sale or securities of the Company in a capital raising transaction.

9. **"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.

10. **"Control"** (or "Controlled") has the meaning given to that term in OSC Rule 45-105.

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

    11.1. 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

    11.2. 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.

12. **"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.

13. **"Employee"** has the meaning given to that term in in Schedule 1.2.2.

14. **"Entity"** means any partnership, limited partnership, joint venture, syndicate, company or corporation with or without share capital, unincorporated association, trust or other entity however designated or constituted.

15. **"Executive"** has the meaning given to that term in Schedule 1.2.2.

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

21. **"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.

22. **"OSC Rule 45-105"** means Ontario Securities Commission Rule 45-105 — Trades to Employees, Senior Officers, Directors and Consultants, as that rule may be amended, renumbered or reclassified from time to time, and any successor to that rule.

23. **"Outstanding Issue"** has the meaning given to the term "outstanding issue" in the TSX Rules.

24. **"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.

25. **"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.

26. **"Plan"** means this 2003 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.

27. **"Previous Stock Option Plan"** means the stock option plan of the Company established June 3, 1993, as amended. Issuances of options under this stock option plan ceased November 20, 2003.

28. **"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.

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

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

31. **"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.

32. **"Share Compensation Arrangement"** has the meaning given to the term "share compensation arrangement" in the TSX Rules.

33. **"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.

34. **"Stock Option"** has the meaning given to the term "stock option" in the TSX Rules.

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

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

37. **"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.

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

39. **"TSX Rules"** means the rules of the Toronto Stock Exchange Company Manual relating to changes in capital structure of listed companies in connection with employee stock option and stock purchase plans, options for services, and related matters (currently sections 626 to 637.3), as those rules may be amended, renumbered or reclassified from time to time, or any successors.

SCHEDULE 1.2.2

Incorporated Definitions

The definitions in this schedule have been substantially reproduced from the statutory, regulatory or other material in force as of October 9, 2003 and from which they have been incorporated. This Schedule will be deemed to be updated from time to time, as applicable, as that material is updated, and a replacement version will be distributed to Participants as soon as practicable after.

1. A person or company is considered to be an **affiliated entity** of another person or company if one is a subsidiary entity of the other or if both are subsidiary entities of the same person or company, or if each of them is controlled by the same person or company.

2. **"associate"**, where used to indicate a relationship with any person or company means,

   2.1. any company of which such person or company beneficially owns, directly or indirectly, voting securities carrying more than 10 per cent of the voting rights attached to all voting securities of the company for the time being outstanding,

   2.2. any partner of that person or company,

   2.3. any trust or estate in which such person or company has a substantial beneficial interest or as to which such person or company serves as trustee or in a similar capacity,

   2.4. any relative of that person who resides in the same home as that person,

   2.5. any person who resides in the same home as that person and to whom that person is married, or any person of the opposite sex or the same sex who resides in the same home as that person and with whom that person is living in a conjugal relationship outside marriage, or

   2.6. any relative of a person mentioned in clause 2.5 who has the same home as that person.

3. a person or company is considered to be **controlled** by a person or company if

   3.1. in the case of a person or company

      3.1.1. voting securities of the first-mentioned person or company carrying more than 50 percent of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or company, and

      3.1.2. the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person or company;

   3.2. in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than 50 percent of the interests in the partnership; or

   3.3. in the case of a limited partnership, the general partner is the second-mentioned person or company.

4. **"consultant"** means, for an issuer, an individual, other than an employee or an executive of the issuer, that (1) is engaged to provide on a bona fide basis consulting, technical, management or other services to the issuer or to an affiliated entity of the issuer under a written contract between the issuer or the affiliated entity and the individual or a consultant company or consultant partnership of the individual, and (2) in the reasonable opinion of the issuer, spends or will spend a significant amount of time and attention on the affairs and business of the issuer or an affiliated entity of the issuer.

5. **"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.

6. **"executive"** means, for an issuer, an issuer-officer or an issuer-director.

7. **"incentive"** means a compensation or incentive arrangement for an executive.

8. **“incentive plan”** means a plan providing for incentives.

9. **“insider”** of a listed company means:

   9.1. an insider as defined in the *Securities Act* (Ontario), other than a person who falls within that definition solely by virtue of being a director or senior officer of a subsidiary of the listed company, and

   9.2. an associate of any person who is an insider by virtue of 9.1.

10. **“outstanding issue”** means the number of shares of the applicable class outstanding on a non-diluted basis, subject to any applicable adjustments provided for in Sections 628 to 630 of the TSX Rules.

11. **“related person”**, for an issuer, means (1) a director or senior officer of the issuer or (2) an associate of a director or senior officer of the issuer.

12. **“share compensation arrangement”** means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of shares to one or more service providers, including a share purchase from treasury which is financially assisted by the company by way of a loan, guaranty or otherwise.

13. **“stock option”** means an option to purchase shares from treasury granted to a service provider as a compensation or incentive mechanism.

14. a person or company is considered to be a **subsidiary entity** of another person or company if

   14.1. it is controlled by

      14.1.1. that other, or

      14.1.2. that other and one or more persons or companies, each of which is controlled by that other, or

      14.1.3. two or more persons or companies, each of which is controlled by that other; or

   14.2. it is a subsidiary entity of a person or company that is that other’s subsidiary entity.

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.
2003 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 2003 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 Time Period	Column 2 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.
2003 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 2003 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: _____
_____

INDEMNITY AGREEMENT

TO: •

In consideration of your acting, deemed to be acting or having acted as a director/officer of the Corporation or at the Corporations request as a director and/or officer of a body corporate of which the Corporation is or was a shareholder or creditor, Lorus Therapeutics Inc. ("LORUS")(the "Corporation") hereby undertakes and agrees to indemnify you and your heirs and legal representatives against all costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, reasonably incurred by you in respect of any civil, criminal or administrative action or proceeding to which you are made a party by reason of being or having been a director and/or officer of the Corporation or such body corporate (except in respect of an action by or on behalf of the Corporation or such body corporate to procure a judgment in its favour), if

A) You acted honestly and in good faith with a view to the best interest of the Corporation or such body corporate, as the case may be; and

B) In the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, you had reasonable grounds for believing that your conduct was lawful.

In respect of an action by or on behalf of the Corporation or such body corporate to procure a judgment in its favour to which you are made a party by reason of being or having been a director and /or officer of the Corporation or such body corporate, the Corporation hereby undertakes and agrees (subject to obtaining approval of the court having jurisdiction) to indemnify you and your heirs and legal representatives against all costs, charges and expenses reasonably incurred by you in connection with any such action if you fulfill the conditions set forth in paragraphs (a) and (b) above.

Notwithstanding anything set forth herein, the Corporation shall indemnify you and your heirs and legal representatives in respect of all costs, charges and expenses reasonably incurred by you in connection with the defense of any civil, criminal or administrative or proceeding to which you are made a party by reason of being or having been a director and/or officer of the Corporation or such body corporate if you have been substantially successful on the merits in your defense of the action or proceeding and you fulfil the conditions set forth in paragraphs (a) and (b) above.

DATED at Toronto this _____ day of _____, 2006

Lorus Therapeutics Inc.

By: _____

President and CEO

_____

•

EXHIBIT 8.1

List of Subsidiaries

Name	Jurisdiction	Other names under which it does business
GeneSense Technologies Inc.	Canada	None
NuChem Pharmaceuticals Inc.	Ontario	None

LORUS THERAPEUTICS INC.
AND ITS SUBSIDIARIES AND AFFILIATES
CODE OF BUSINESS CONDUCT AND ETHICS

INTRODUCTION

It is our policy that our employees, directors and agents are held to the highest standards of honest and ethical conduct when acting on our behalf. In this Code of Business Conduct and Ethics (the **"Code"**), all references to "we", "us", "our", "the Company" and similar references refer to Lorus Therapeutics Inc. and its affiliates and subsidiaries.

"At Lorus we are dedicated to the highest standards of ethical behaviour. These standards guide us in all aspects of our business culture whether it be with our employees, our shareholders, our business partners or cancer patients everywhere."
- Dr. Jim Wright, President and Chief Executive Officer of Lorus Therapeutics Inc.

The Code is intended to promote, among other things:

- *honest and ethical conduct*, including the ethical handling of actual or apparent conflicts of interest between personal and Company interests;
- *full, fair, accurate, timely and understandable disclosure* in continuous disclosure reports and documents filed with or submitted to securities regulators and other public communications;
- *compliance* with applicable governmental laws, rules and regulations;
- *prompt internal reporting* of violations of the Code to the appropriate person identified in the Code; and
- *accountability* for adherence to the Code.

The Code is intended to provide general guidance as to ethical behaviour when dealing with other people -—from employees, officers and directors to customers, suppliers, government authorities and the public. The Code is available at a dedicated page on the Company's website (www.lorusthera.com) and on SEDAR (www.sedar.com). All of our directors, officers, employees, agents and consultants (the "**Representatives**") are expected to adhere to the principles of the Code in their dealings with us and on our behalf.

CONFLICTS OF INTEREST

A "conflict of interest" occurs whenever your private interests interfere in any way (or even appear to interfere) with the interests of the Company and your employment duties and responsibilities.

You must avoid any investment, interest, association or other relationship that interferes, might interfere, or might be thought to interfere, with your independent exercise of judgment in the Company's best interest and otherwise with your professional obligations to the Company. Any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest must be disclosed as soon as possible to a member of the senior management team or if a member of the senior management team is not available, to the Chair of the Audit Committee and if none of them is available, to your immediate supervisor. Contact information for the Chairman of the Audit Committee can be obtained on a confidential basis from the Office Manager or the Finance Department. Officers and directors should make such disclosure to the Chair of the Audit Committee.

There are many situations that could give rise to a conflict of interest. The most common include but are not limited to:

- accepting gifts with a value exceeding $200 or other favours or "kickbacks" from suppliers;
- employment by another company;
- ownership of a significant part of another company or business;

- close or family relationships with outside suppliers – the closeness of the relationship might lead an employee to inadvertently compromise the Company's interests. Several factors to consider include: the relationship between us and the other company; the nature of one's responsibilities as a Company employee, and those of the person close to the employee; and the access each person has to his or her respective employer's confidential information;
- passing confidential information to competitors – employees must treat all information from its customers, suppliers, or other third parties with the same degree of care as they are required to treat the Company' own information;
- loans by the Company to directors and executive officers;
- investment activity using insider information; and
- providing assistance to an organization that markets products and services in competition with the Company's own products or services Such organizations include suppliers, competitors, customers, and distributors.

Conflicts of interest may not always be readily apparent, so if you are in doubt as to whether undertaking a particular course of action may lead to a conflict of interest or if you become aware of a conflict or potential conflict, you should consult with your immediate supervisoror a member of senior management of the Company.

BRIBES

All dealings between directors, officers, employees, agents and consultants and public officials are to be conducted in a manner that will not compromise the integrity or the reputation of any public official or of the Company. The appearance of impropriety in dealing with public officials, whether domestic or foreign, is improper and unacceptable. Any participation, whether directly or indirectly, in any bribes, kickbacks, illegal gratuities, indirect contributions or similar payments is expressly forbidden, whether or not they might further the interests of the Company. A high standard of integrity is of the utmost importance to the Company.

PROTECTION AND PROPER USE OF COMPANY ASSETS AND OPPORTUNITIES

Our property is of significant value to our competitiveness and success as a business. Company assets are for Company business and for Company use. You must not obtain, use or divert our property for personal use or benefit, materially alter or destroy our property or remove it without prior management approval. Theft, carelessness and waste have a direct impact on the Company's profitability. All of our assets should be used for legitimate business purposes.

The Company is entitled to determine who should have access to its proprietary information and for what purpose. Representatives must not use or disclose confidential information except as authorized by the Company and must implement and/or follow safeguards to prevent loss of such information.

Commercial and other corporate opportunities of the Company are an important asset of the Company and must be protected by our Representatives. Any diversion of corporate opportunities through the use of information learned in one's capacity as a Representative of the Company will not be tolerated and should be reported to a senior officer of the Company and if such activity involves a senior officer of the Company, should be reported directly to the Chairman of the Audit Committee or ConfidenceLine.

Representatives will not use their employment status to obtain personal gain from those doing or seeking to do business with the Company. If improper financial benefit is gained by a Representative through a spouse, child or relative sharing the same residence as the employee, as a result of his or her employment, or by the use or misuse of confidential information, the Representative must account for any benefit received. Representatives must act in such a manner that their conduct will bear the closest scrutiny should circumstances demand that it be examined.

ACCOUNTING AND RECORDS

All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail and must reflect accurately and fairly, our operations and financial position, underlying transactions and dispositions of assets. These books, records and statements must conform to applicable legal requirements, to our system of internal controls and to generally accepted accounting principles.

You must ensure the accuracy and integrity of our corporate records and that all of our assets and liabilities are properly recorded on the Company's books. In maintaining accurate books and records, you should:

- cooperate with the Finance Department of the Company and external auditors;
- report transactions that do not seem to serve a legitimate purpose;
- volunteer knowledge of any untruthful or inaccurate statements or records, whether intentionally or unintentionally made;
- make sure that contracts to which the Company is a party are in writing;
- make sure that side letters or comfort letters which are not mentioned in the main document and are not exhibits, appendices or attachments to the main document are executed only after being approved by a member of senior management and
- make sure that our records are always retained or destroyed according to our document retention policies.

PUBLIC COMPANY REPORTING

As a public company, it is critical that our filings with securities regulatory authorities be accurate and timely.

You may not, directly or indirectly, make or cause to be made a materially false or misleading statement, or omit to state, or cause another person to omit to state, any material fact necessary in order to make statements made not misleading, in light of the circumstances in which such statements were made, to the Company's independent auditors, the Audit Committee, the Board of Directors or to a member of the Company's Finance Department in connection with:

- any audit or examination of the financial statements of the Company; or
- the preparation or filing of any document or report required to be filed with any regulator.

You may not, directly or indirectly take any action to fraudulently influence, coerce, manipulate, or mislead any independent public or certified public accountant engaged in the performance of an audit or review of the financial statements of the Company that are required to be filed with regulators, if you knew or were unreasonable in not knowing that such action could, if successful, result in rendering such financial statements materially misleading.

Our policy is to comply with all applicable financial reporting and accounting regulations applicable to us. If you have concerns or complaints regarding questionable accounting or audit matters of the Company, then you should submit those concerns or complaints (anonymously, confidentially or otherwise) to the Audit Committee of the Board of Directors (which will, subject to its duties arising under applicable law, regulations and legal proceedings) treat such submissions confidentially. Such submissions may be directed to the attention of the Audit Committee, or any director who is a member of the Audit Committee (or ConfidenceLine).

COMPLIANCE WITH LAWS

You are expected to comply with both the letter and spirit of all applicable laws and governmental rules and regulations. You should be aware of and, to the extent you are a member of senior management, are responsible for establishing and maintaining procedures to:

- understand applicable laws and governmental rules and regulations;
- monitor compliance with applicable laws and governmental rules and regulations; and
- identify any possible violations of applicable laws and governmental rules and regulations and report to a member of the senior management team and correct in a timely and effective manner any violations of applicable laws or governmental rules and regulations.

AMENDMENTS, MODIFICATIONS AND WAIVERS OF THE CODE

The Code may be amended, modified or waived by our Board of Directors and waivers may also be granted by the Corporate Governance Committee of the Board, subject to the disclosure and other provisions of applicable securities laws, regulations and policies.

REPORTING ANY ILLEGAL OR UNETHICAL BEHAVIOUR AND VIOLATIONS OF THE CODE: WHISTLE BLOWER POLICY

Illegal or unethical behaviour and any violation of the Code and its requirements are taken seriously by us. If you are concerned that illegal or unethical behaviour or violations of the Code may be taking place, you should contact, orally or in writing, an officer of the Company or your immediate supervisor. The report should include all evidence of activity by a department or Representative of the Company that may constitute any of the following:

- corporate fraud;
- unethical business conduct;
- a violation of federal, provincial or municipal law; or
- substantial and specific danger to the health and safety of any individual.

The party receiving your report will record receiving the report and document how the situation was handled.

In instances where you have not received a satisfactory response from an executive officer or your immediate supervisor, or if you are uncomfortable addressing your concerns to these individuals, we have engaged ConfidenceLine, an independent third party supplier, to provide a confidential and anonymous communication channel for reporting concerns about possible violations of the Code as well as financial and accounting irregularities or fraud. The ConfidenceLine Call Centre is available 24 hours a day, seven days a week and provides assistance in more than 150 languages. All inquiries will be handled promptly and discreetly.

To make a report you may call 1-800-661-9675 within Canada or the United States.

If you bring forward a complaint, you have the right to remain anonymous and your confidentiality will be protected, except as necessary to conduct the investigation and take any remedial action, and subject to and in accordance with applicable law, regulation or legal proceedings. We will not permit retaliation, harassment, discharge, or other types of discrimination, including but not limited to, compensation or terms and conditions of employment of any kind by or on behalf of the Company or you, in respect of reports made in good faith or complaints of violations of this Code or other illegal or unethical conduct. In addition, no individual may be adversely affected if he or she refuses to carry out a directive which constitutes fraud or violation of any of the noted incidents. Nevertheless, if you participated in the alleged violation or alleged illegal or unethical behaviour, disciplinary action may be necessary. Disciplinary action up to and including dismissal will be taken against anyone who retaliates, directly or indirectly, or encourages others to do so, against anyone who reports a violation of the Code or illegal or unethical behaviour.

All Representatives have a duty to cooperate in an investigation. Should a Representative fail to cooperate or provides false information in an investigation, the Company will take effective remedial action commensurate with the severity of the offense. The action may include disciplinary measures up to and including termination.

To protect our good name, we may discipline and/or terminate our relationship or affiliation with any Representative who breaches the Code, its related policies or engages in illegal or unethical behaviour. In the case of members of the board of directors, we may require that they resign from their position.

DISSEMINATION

A member of the senior management team will send out an e-mail to all Representatives on an annual basis, reminding them of their obligations under the Code.

WHERE TO SEEK CLARIFICATION

Conflict of Interest.....	Chief Executive Officer
Employee Issues.....	Your immediate Supervisor Chief Executive Officer
Legal Matters.....	Director of Finance
Media Inquiries.....	Chief Executive Officer
Illegal Unethical Behaviour or Suspected Breach of this Code.....	Your supervisor Member of senior management Chairman of the Audit Committee ConfidenceLine

EXHIBIT 12.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Aiping H. Young, certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 21, 2006

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

EXHIBIT 12.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Elizabeth Williams, certify that:

1. I have reviewed this annual report on Form 20-F of Lorus Therapeutics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 21, 2006

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

EXHIBIT 13.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aiping H. Young, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 21, 2006

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

EXHIBIT 13.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lorus Therapeutics Inc. (the "Company") on Form 20-F for the period ended May 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elizabeth Williams, Director of Finance and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 21, 2006

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