

LORUS THERAPEUTICS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS and MANAGEMENT'S DISCUSSION AND ANALYSIS

As at and for the three and nine month periods ended
February 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 12, 2011

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

- *our ability to obtain the substantial capital required to fund research and operations;*
- *our plans to obtain partners to assist in the further development of our product candidates;*
- *our expectations with respect to existing and future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us or to us in respect of such arrangements;*
- *our expectations regarding future financings;*
- *our plans to conduct clinical trials; and*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, pre-clinical and clinical studies and the regulatory approval process*

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 continue to operate as a going concern;*
- *our ability to obtain the substantial capital required to fund research and operations;*
- *our lack of product revenues and history of operating losses;*
- *our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;*
- *the progress of our clinical trials;*
- *our liability associated with the indemnification of Old Lorus and its directors, officers and employees*
- *our ability to find and enter into agreements with potential partners;*
- *our drug candidates require time-consuming and costly preclinical and clinical testing and regulatory approvals before commercialization;*
- *clinical studies and regulatory approvals of our drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could delay our ability to generate revenue;*
- *the regulatory approval process;*
- *our ability to attract and retain key personnel;*
- *our ability to obtain patent protection and protect our intellectual property rights;*
- *our ability to protect our intellectual property rights and to not infringe on the intellectual property rights of others;*
- *our ability to comply with applicable governmental regulations and standards;*
- *development or commercialization of similar products by our competitors, many of which are more established and have greater financial resources than we do;*
- *commercialization limitations imposed by intellectual property rights owned or controlled by third parties;*
- *our business is subject to potential product liability and other claims;*
- *our ability to maintain adequate insurance at acceptable costs;*
- *further equity financing may substantially dilute the interests of our shareholders;*
- *changing market conditions; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and the United States Securities and Exchange Commission, and those which are discussed under the heading "Risk Factors".*

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

The interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The going concern basis of presentation assumes that Lorus will continue in operation for the foreseeable future and be able to realize our assets and discharge our liabilities and commitments in the normal course of business. There is significant doubt about the Company's ability to continue as a going concern because management has forecasted that our current level of cash and cash equivalents and short-term investments will not be sufficient to execute its current planned expenditures for the next 12 months without further investment. Lorus is currently in discussion with several potential investors to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by Lorus could result in significant dilution in the equity interest of existing shareholders. There can be no assurance that we will be able to obtain sufficient financing to meet future operational needs. As a result, there is a significant doubt as to whether the Company will be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

The interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

The following discussion should be read in conjunction with the audited financial statements for the year ended May 31, 2010 and the accompanying notes (the "Financial Statements"). The Financial Statements, and all financial information discussed below, have been prepared in accordance with Canadian GAAP. All amounts are expressed in Canadian dollars unless otherwise noted. References in this Management's Discussion and Analysis ("MD&A") to the "Company", "Lorus", "we", "our", "us" and similar expressions, unless otherwise stated, refers to Lorus Therapeutics Inc.

SHARE CONSOLIDATION

In accordance with the authority granted by shareholders at the Company's annual and special meeting on November 30, 2009 to permit it to implement a consolidation of the Company's outstanding common shares at any time prior to November 30, 2010, the Company's Board of Directors approved a 1-for-30 share consolidation which became effective May 25, 2010. In the interim MD&A, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation. All amounts based on the number of shares, stock options or warrants, unless otherwise specified, such as (loss) earnings per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of the 1-for-30 share consolidation.

OVERVIEW

Lorus is a life sciences company focused on the discovery, research and development of effective anticancer therapies with a high safety profile. Lorus has worked to establish a diverse anticancer product pipeline, with products in various stages of development ranging from a solid pre-clinical pipeline to two products at the clinical stage. A growing intellectual property portfolio supports our diverse product pipeline.

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

Our business model is to take our product candidates through pre-clinical testing and into Phase I and Phase II clinical trials. It is our intention to then partner or co-develop these drug candidates after successful completion of Phase I or II clinical trials. Lorus will give careful consideration in the selection of partners that can best advance its drug candidates into a pivotal Phase III clinical trial and, upon successful results, commercialization. Our objective is to receive upfront and milestone payments as well as royalties from such partnerships, which will support continued development of our other product candidates.

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

Our net loss for the three months ended February 28, 2011 increased to \$1.6 million (\$0.10 per share) compared to \$1.3 million (\$0.14 per share) in the same period in the prior year. The Company had a net loss of \$4.0 million (\$0.32 per share) for the nine months ended February 28, 2011 compared to net earnings of \$7.2 million (basic earnings \$0.78 per share, diluted earnings of \$0.77 per share) during the same period in the prior year. The year-to-date net earnings in fiscal 2010 were a result of the \$11.0 million gain on sale recognized on the extinguishment of our convertible debentures in June 2009 (discussed below).

We utilized cash of \$1.7 million in our operating activities in three-month period ended February 28, 2011 compared with \$1.8 million during the same period in fiscal 2010. For the nine months ended February 28, 2011 we utilized cash of \$5.0 million compared with \$3.5 million in the same period last year. The increase in cash utilized in the nine months ended February 28, 2011 compared with the same period in the prior year is due to a reduction in accounts payable and accrued liabilities as well as the repayment of outstanding promissory notes in the current year.

At February 28, 2011, we had cash and cash equivalents and short-term investments totaling \$1.8 million compared to \$914 thousand at May 31, 2010.

RESULTS OF OPERATIONS

Revenue

Revenue for the three-month period ended February 28, 2011 was nil compared with revenue of \$3 thousand for the same period last year. For the nine-month period ended February 28, 2011, total revenue was also nil compared with \$131 thousand in the same period last year. Revenue recorded in the prior year was primarily related to an increase in milestone revenues associated with the license of Virulizin to ZOR Pharmaceuticals ("ZOR"). During the quarter ended November 30, 2008 Lorus received a \$178 thousand (US\$150 thousand) milestone payment from ZOR related to their achievement of a financing milestone, this milestone was recognized over the remaining 12 months of a service contract whereby Lorus agreed to provide consulting services to ZOR. As of November 30, 2009, the Company had fully recognized the milestone payments. The service agreement with ZOR expired in October 2009.

Research and Development

Research and development expenses totaled \$760 thousand in the three-month period ended February 28, 2011 compared to \$718 thousand during the same period in the prior year and remained consistent at \$1.9 million in the nine-month period ended February 28, 2011 as compared to \$1.9 million in the same period in the prior year.

Research and development expenditures increased slightly in the three month period ended February 28, 2011 compared with the prior year due to increased activity associated with the support and implementation of the LOR-253 Phase I clinical trial initiated during the quarter as well as costs associated with the protocol development of a potential Phase III clinical trial for LOR-2040. The higher clinical spending was offset by higher manufacturing costs in the prior year related to LOR-253 for which we continue to have a sufficient supply.

For the nine month period ended February 28, 2011 research and development spending decreased slightly due to the completion of the Phase II AML clinical trial in the prior year and higher manufacturing and compliance costs associated with LOR-253 in the prior year offset by higher spending in the current year on the LOR-253 Phase I clinical program initiated in the current quarter.

General and Administrative

General and administrative expenses totaled \$527 thousand in the three-month period ended February 28, 2011 compared to \$515 thousand in same period in the prior year. For the nine month period ended February 28, 2011, general and administrative expenses were \$1.7 million compared with \$1.8 million in the same period in the prior year.

General and administrative expenses remained consistent during the three months ended February 28, 2011 compared with the prior year. Savings from lower spending on legal and patent costs compared with the prior year were offset by higher investor relation costs in the current year.

General and administrative expenses were lower for the nine month period ended February 28, 2011 compared with the prior year. Cost savings due to reduced personnel, lower patent costs due to one time charges in the prior year and lower legal and board fees were offset during the nine-month period by \$156 thousand in expenses associated with the terminated financing. We do not expect to incur any further expenses related to the terminated financing discussed below.

Stock-Based Compensation

In the three-month period ended February 28, 2011, the Company recognized a stock-based compensation expense of \$287 thousand compared with \$94 thousand in the same period last year. The significant increase in the current three month period compared with the prior year is the result of an option grant during the quarter to certain officers and employees who received option grants and in turn agreed to the cancellation of the stock options previously held by them. In the nine-month period ended February 28, 2011, the Company recognized an expense of \$367 thousand compared with \$110 thousand for the same period in the prior year. Stock based compensation expense for the nine month period ended February 28, 2011 is higher than the same period in the prior year due to the option grants mentioned above as well as a recovery/reduction of expense of \$89 thousand recorded in the second quarter of the prior year due to the forfeiture of unvested options.

Depreciation and Amortization

Depreciation and amortization expenses decreased to \$13 thousand in the three-month period and \$41 thousand in the nine-month period ended February 28, 2011 as compared to \$21 thousand and \$64 thousand in the same periods, respectively, in the prior year. The decrease in depreciation and amortization expense is the result of reduced capital asset purchases over the past three fiscal years.

Interest Expense

Interest expense was \$nil in the three-month period ended February 28, 2011 compared with \$nil in the same period last year. There was no interest bearing debt outstanding during these periods. For the nine-month period ended February 28, 2011 interest expense was \$71 thousand compared with \$41 thousand for the same period last year. Interest expense for the nine months ended February 28, 2011 relates to interest accrued at a rate of 10% on the related party promissory notes described below. These promissory notes were all repaid at November 30, 2010. Interest expense in the nine months ended February 28, 2010 was related to the promissory note entered into in October 2009 and repaid November 27, 2009 as well as interest at a rate of prime plus 1% on the \$15.0 million convertible debentures. The Company repurchased the convertible debentures in June 2009.

Accretion in Carrying Value of Secured Convertible Debentures

There was no accretion expense for the three and nine-month periods ended February 28, 2011 as a result of the repurchase transaction described below. There was no accretion expense during the three-month period ended February 28, 2010. The accretion expense recorded in the nine-month period ended February 28, 2010 relates to the period June 1, 2009 to June 19, 2009. When the debentures were originally established, the Company 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. Prior to the repurchase of the convertible debentures, each reporting period, the Company accreted the carrying value of the convertible debentures such that if they had remained outstanding to maturity, October 6, 2009, the carrying value of the debentures would be the face amount of \$15.0 million. As a result of the repurchase transaction, the Company no longer incurs accretion costs on these debentures.

Interest Income

Interest income totaled \$6 thousand in the three-month period ended February 28, 2011 compared to \$2 thousand in the same period last year. For the nine-month period ended February 28, 2011 interest income totaled \$10 thousand compared with \$16 thousand in the same period last year. The increase in interest income during the three months ended February 28, 2011 compared with the prior year is due to a higher average cash balance during the current three months. Interest income for the nine months ended February 28, 2011 is lower than the prior year due to a higher average cash balance in the first two quarters of the prior year compared with the first two quarters of the current year.

Net (loss) earning for the period

Our net loss for the three months ended February 28, 2011 increased to \$1.6 million (\$0.10 per share) compared to \$1.3 million (\$0.14 per share) in the same period in the prior year. The Company had a net loss of \$4.0 million (\$0.32 per share) for the nine months ended February 28, 2011 compared to net earnings of \$7.2 million (basic earnings \$0.78 per share, diluted earnings of \$0.77 per share) during the same period in the prior year. The year-to-date net earnings in fiscal 2010 are primarily a result of the \$11.0 million gain on sale recognized on the extinguishment of its convertible debentures in June 2009. Our loss from operations for the three and nine month periods ended February 28, 2011 (before the gain on repurchase of the convertible debentures) increased to \$1.6 million and \$4.0 million compared with \$1.3 million and \$3.9 million in the same periods in the prior year.

The increase in net loss for the three months ended February 28, 2011 compared with the prior year is primarily the result of increased stock based compensation expense of \$193 thousand compared with the prior year as well as higher research and development spending of \$42 thousand due to increased activity associated with the support and implementation of the LOR-253 Phase I clinical trial initiated during the quarter as well as costs associated with the protocol development of a potential Phase III clinical trial for LOR-2040. The higher clinical spending was offset by higher manufacturing costs in the prior year related to LOR-253 for which we continue to have a sufficient supply.

The increase in loss from operations for the nine months ended February 28, 2011 compared with the prior year is again primarily the result of increased stock based compensation expense of \$257 thousand due to a higher level of grants in the current year and a recovery of expense in the second quarter of the prior year (due to the forfeiture of unvested options) offset by lower general and administrative spending of \$111 thousand due to reduced personnel, lower patent costs due to one time charges in the prior year and lower legal and board fees. These general and administrative savings were offset during the nine-month period ended February 28, 2011 by \$156 thousand in expenses associated with the terminated financing.

PRIVATE PLACEMENTS

November 2009

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

December 2010

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

RIGHTS OFFERING

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

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

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

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

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

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

TERMINATED U.S. FINANCING

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

In August 2010 the Company announced that due to unfavourable market conditions the Registration Statement would be withdrawn and the public financing would not proceed. The Company incurred fees of approximately \$569 thousand related to this filing which were included in general and administrative expenses for the year ended May 31, 2010. An additional \$156 thousand in fees were incurred in the nine months ended February 28, 2011 and included in general and administrative expenditures.

RELATED PARTY TRANSACTIONS

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

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

See also Rights Offering and Private Placements for further related party transactions.

DEBENTURE REPURCHASE

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

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

Virulizin. TEMIC is fully responsible for all clinical and regulatory costs associated with commercialization of Virulizin in territories not covered by the ZOR license agreement. Lorus will assist TEMIC with certain agreed upon services. For receipt of this Consideration, TEMIC released all security interest in the assets of Lorus.

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

WARRANT EXPIRY

The 571 thousand warrants issued on August 7, 2008 expired unexercised on August 10, 2010. This expiry resulted in a transfer of the value attributed to the expired warrants of \$417 thousand to contributed surplus.

PLAN OF ARRANGEMENT AND CORPORATE REORGANIZATION

On July 10, 2007 (the "Arrangement Date"), the Company (or "New Lorus") completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc., formerly Lorus Therapeutics Inc. ("Old Lorus"), 6707157 Canada Inc. and Pinnacle International Lands, Inc (the "Arrangement"). As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one common share of the Company and the assets (excluding certain future tax attributes and related valuation allowance) and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it) were transferred, directly or indirectly, to the Company and/or its subsidiaries. The Company continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same directors as Old Lorus prior to the Arrangement Date. Therefore, the Company's operations have been accounted for on a continuity of interest basis and accordingly, the interim consolidated financial statement information included in this MD&A reflect that of the Company as if it had always carried on the business formerly carried on by Old Lorus.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Research and development expenditures have remained fairly consistent over the past eight quarters with the exception of May 31, 2009 and February 28, 2010 when spending was higher due to compliance and manufacturing costs of LOR-253 drug for future development and February 28, 2011 relating to the initiation of the Phase 1 LOR-253 clinical trial as well as costs associated with the protocol development of a potential Phase III clinical trial for LOR-2040.

General and administrative expenses have remained fairly consistent over the past two years as the Company continues to reduce overhead spending. The quarter ended November 30, 2009 had slightly higher spending due to one time patent costs. For the quarter ended May 31, 2010 expenditures were higher than average due to \$569 thousand in costs associated with a terminated financing initiative which were written off during the quarter.

The Company recognized a gain on the repurchase of its convertible debentures and transfer of assets of \$11.0 million in the quarter ended August 31, 2009.

Cash used in operating activities fluctuates significantly based on the timing of payments. For the quarter ended November 30, 2010 the number was much higher due to the repayment of promissory notes discussed under Rights Offering.

| <i>(Amounts in 000's except for per common share data)</i> | Feb 28, 2011 | Nov. 30, 2010 | Aug. 31, 2010 | May 31, 2010 | Feb 28, 2010 | Nov 30, 2009 | Aug 31, 2009 | May 31, 2009 |
|--|---------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue | \$ — | \$ — | \$ — | \$ — | \$3 | \$79 | \$49 | \$78 |
| Research and development expense ⁽¹⁾ | 760 | 603 | 489 | 601 | 718 | 658 | 540 | 701 |
| General and administrative expense ⁽¹⁾ | 527 | 564 | 589 | 1,173 | 515 | 743 | 533 | 516 |
| Net earnings (loss) | (1,581) | (1,255) | (1,165) | (1,820) | (1,343) | (1,266) | 9,760 | (1,895) |
| Basic and diluted | | | | | | | | |
| net (loss) profit per share | \$ (0.10) | \$ (0.11) | \$ (0.12) | \$ (0.18) | \$ (0.14) | \$ (0.14) | \$ 1.14 | \$ (0.22) |
| Cash used in operating activities | \$(1,676) | \$(2,603) | \$(685) | \$(271) | \$(1,812) | \$(651) | \$(987) | \$(1,394) |

⁽¹⁾ Quarterly information prior to August 31, 2009 has been reclassified to conform to the financial statement presentation subsequent to that date.

⁽²⁾ During periods of net loss, the calculation of diluted loss per share excludes all common shares potentially issuable upon the exercise of stock options, warrants and the convertible debenture that could dilute basic loss per share, because to do so would be anti-dilutive.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to:

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

The capital structure of the Company consists of equity comprised of share capital, share purchase warrants, stock options, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, acquiring or disposing of assets, adjusting the amount of cash and short-term investments balances or by undertaking other activities as deemed appropriate under the specific circumstances.

While the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2010, the Company has forecasted that its current capital resources are not sufficient to carry out its research and development plans and operations for the next twelve months and continues to investigate various alternatives to obtain sufficient capital to continue its operations.

The Company is not subject to externally imposed capital requirements.

Cash Position

At February 28, 2011, Lorus had cash, cash equivalents and short-term investments totaling \$1.8 million compared to \$914 thousand at May 31, 2010. The Company invests in highly rated and liquid debt instruments. Investment decisions are made in accordance with an established investment policy administered by senior management and overseen by the board of directors. Working capital (representing primarily cash, cash equivalents, short term investments and other current assets less current liabilities) at February 28, 2011 was \$1.0 million.

As discussed above, management has forecasted that the Company's current level of cash, cash equivalents and short-term investments is not sufficient to execute its current planned expenditures for the next twelve months without further investment. The Company continues to investigate various options to obtain sufficient capital to continue its operations. If we are able to secure additional financing, we intend to use these resources to fund our existing drug development programs and develop new programs from our portfolio of preclinical research technologies or acquire new technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the ability of the Company to raise additional capital, the progress of the Company's research and drug development programs, the results of preclinical and clinical trials, the timing of regulatory submissions and approvals, the impact of any internally developed, licensed or acquired technologies, our ability to find suitable partnership agreements to assist financially with future development, the impact from technological advances, determinations as to the commercial potential of the Company's compounds and the timing and development status of competitive products.

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/or royalty or milestone revenue from any such products exceeds expenses.

Contractual Obligations and Off-Balance Sheet Financing

At February 28, 2011, we had contractual obligations requiring annual payments as follows:

| <i>(Amounts in 000's)</i> | Less than 1 year | 1-3 years | 3-5 years | Total |
|---------------------------|-----------------------------|------------------|------------------|---------------|
| Operating leases | \$ 141 | \$169 | \$ 17 | \$ 327 |
| Total | \$ 141 | \$169 | \$ 17 | \$ 327 |

In addition, the Company is party to certain licensing agreements that require it to pay a proportion of any fees that it may receive from future revenues or milestone payments. As of February 28, 2011 the Company has not received any amounts related to these licensing agreements and therefore, no amounts are owing. The amount of future fees, if any, is not determinable.

During the quarter the Company entered into various contracts with service providers with respect to the proposed LOR-253 phase I clinical trial. These contracts could result in future payment commitments of approximately \$860 thousand. Of this amount \$190 thousand has been accrued or paid at February 28, 2011. The payments will be based on services performed and amounts maybe higher or lower based on actual services performed.

The Company has entered into various consulting agreements that upon execution of a partnership agreement could result in liabilities owing to such consultants. The amounts payable in these agreements are contingent on the amounts receivable by Lorus under such partnership agreements. As of February 28, 2011 no amounts were owed and the amount of future fees payable to the consultants, if any, are not determinable.

As at February 28, 2011, we have not entered into any off-balance sheet arrangements.

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 into this report. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition, prospects or results of operations would likely suffer. In that case, the trading price of our common shares could decline and you may lose all or part of the money you paid to buy our common shares.

Please refer to our MD&A for the year ended May 31, 2010 for a complete discussion of risks and uncertainties.

- Our ability to continue as a going concern.
- The cash and cash equivalents on hand are not sufficient to execute our operating strategies for the next twelve months and we may not be able to raise sufficient funds to continue operations.
- We have a history of operating losses. We expect to incur net losses and we may never achieve or maintain 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.
- Future sales of our common shares by us or by our existing shareholders could cause our share price to fall.
- We have indemnified Old Lorus and its directors, officers and employees in respect of the Arrangement.
- 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.
- 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.
- Our products and product candidates may infringe the intellectual property rights of others, which could increase our costs.
- Our share price has been and may continue to be volatile and an investment in our common shares could suffer a decline in value.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies and Estimates

Our accounting policies are in accordance with Canadian GAAP including some that require management to make assumptions and estimates that could significantly affect the results of operations and financial position. The significant accounting policies that we believe are the most critical in fully understanding and evaluating the reported financial results are disclosed in our MD&A for the year ended May 31, 2010. As well, our significant accounting policies are disclosed in Note 3, *Significant Accounting Policies*, of the notes to the financial statements of Lorus for the year ended May 31, 2010.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting during the quarter ended February 28, 2011 that materially affected or are reasonably likely to materially affect, internal controls over financial reporting.

Recent Accounting Recommendations not yet adopted

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

The Company is managing the IFRS conversion requirements in phases as described in detail in our MD&A for the year ended May 31, 2010.

Current Implementation Status

To date, Phase 1 of our implementation has been completed and the Company is in the process of assessing policy and disclosure choices through the preparation of impact assessments based on those changes expected to have the largest impact on the financial statements and internal control processes and controls. The Company's plan is to have its accounting policies under IFRS finalized by May 31, 2011. The Company's plan includes monitoring changes to IFRS standards throughout the year. Based on initial analysis the areas that are expected to have the most significant impact on the Company include:

- ◆ Stock-based compensation (IFRS 2)
- ◆ Property, plant and equipment (IAS 16)
- ◆ Intangible Assets (IAS 38)
- ◆ Impairment (IAS 36)
- ◆ Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
- ◆ Financial statement presentation (IAS 1)

The Company's IFRS convergence project is managed by the Acting Chief Financial Officer. The Company has a simple corporate structure with only one subsidiary and no foreign operations. For these reasons there is not a need to have a cross functional team of

human resources and information technology professionals. The Company engaged a consultant to perform Phase I of our implementation plan which was complete at May 31, 2010. Consultants will be brought in to provide expert advice as necessary throughout the implementation process.

Due to our efforts being focused on financing initiatives over the first three quarters of the year there has been little progress made on our implementation plan. Management intends to escalate our efforts during the last quarter of the year with external resources. We believe that given our simple organizational structure that we will be able to meet the IFRS implementation deadline.

UPDATED SHARE INFORMATION

As at April 12, 2011, the Company had 15.7 million common shares issued and outstanding and common share purchase warrants convertible into 4.9 million common shares. In addition, the Company had issued and outstanding 978 thousand stock options to purchase an equal number of common shares.

ADDITIONAL INFORMATION

Additional information relating to Lorus, including Lorus' 2010 annual information form and other disclosure documents, is available on SEDAR at www.sedar.com.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4 subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim unaudited financial statements of the Corporation for the interim period ending February 28, 2011 have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Lorus Therapeutics Inc.
Consolidated Balance Sheets - Unaudited

| <i>(amounts in 000's)</i> | As at | | As at |
|--|--------------------------|------------------|---------------------|
| <i>(Canadian dollars)</i> | February 28, 2011 | | May 31, 2010 |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | \$ | 1,845 | \$ 667 |
| Short-term investments (note 7) | | - | 247 |
| Prepaid expenses and other assets | | 278 | 636 |
| | | 2,123 | 1,550 |
| Fixed assets | | 110 | 147 |
| Goodwill | | 606 | 606 |
| | \$ | 2,839 | \$ 2,303 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | \$ | 229 | \$ 387 |
| Accrued liabilities | | 887 | 1,458 |
| Promissory notes payable (note 9) | | - | 1,000 |
| | | 1,116 | 2,845 |
| SHAREHOLDERS' EQUITY (DEFICIENCY) | | | |
| Share capital (note 5) | | | |
| Common shares | | 168,787 | 163,920 |
| Stock options (note 6) | | 1,000 | 3,704 |
| Contributed surplus (note 5(g)) | | 18,363 | 14,875 |
| Warrants (note 5(d)) | | 1,654 | 1,039 |
| Deficit accumulated during development stage | | (188,081) | (184,080) |
| | | 1,723 | (542) |
| | \$ | 2,839 | \$ 2,303 |

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

Basis of Presentation (note 1)

Lorus Therapeutics Inc.
Consolidated Statements of (Loss) Earnings and Deficit - Unaudited

| <i>(amounts in 000's except for per common share data)</i> <i>(Canadian dollars)</i> | Three months ended Feb. 28, 2011 | Three months ended Feb. 28, 2010 | Nine months ended Feb. 28, 2011 | Nine months ended Feb. 28, 2010 | Period from inception Sept. 5, 1986 to Feb. 28, 2011 |
|---|---|---|--|--|---|
| REVENUE | \$ - | \$ 3 | \$ - | \$ 131 | \$ 1,171 |
| EXPENSES | | | | | |
| Research and development | 760 | 718 | 1,852 | 1,916 | 128,366 |
| General and administrative | 527 | 515 | 1,680 | 1,791 | 62,519 |
| Stock-based compensation | 287 | 94 | 367 | 110 | 8,961 |
| Depreciation and amortization of fixed assets | 13 | 21 | 41 | 64 | 9,858 |
| Cost of sales | - | - | - | - | 105 |
| Operating expenses | 1,587 | 1,348 | 3,940 | 3,881 | 209,809 |
| Interest expense | - | - | 71 | 41 | 4,093 |
| Accretion in carrying value of convertible debentures | - | - | - | 80 | 4,983 |
| Amortization of deferred financing charges | - | - | - | - | 412 |
| Interest income | (6) | (2) | (10) | (16) | (12,267) |
| Loss from operations for the period | (1,581) | (1,343) | (4,001) | (3,855) | (205,859) |
| Gain on repurchase of convertible debentures and transfer of assets (note 8) | - | - | - | 11,006 | 11,006 |
| Gain on sale of shares | - | - | - | - | 6,799 |
| Net (loss) earnings and other comprehensive income for the period | (1,581) | (1,343) | (4,001) | 7,151 | (188,054) |
| Deficit, beginning of period | \$ (186,500) | \$ (180,917) | \$ (184,080) | \$ (189,411) | - |
| Change in accounting policy | - | - | - | - | (27) |
| Deficit, end of period | \$ (188,081) | \$ (182,260) | \$ (188,081) | \$ (182,260) | \$ (188,081) |
| Basic (loss) earnings per common share | \$ (0.10) | \$ (0.14) | \$ (0.32) | \$ 0.78 | |
| Diluted (loss) earnings per common share | \$ (0.10) | \$ (0.14) | \$ (0.32) | \$ 0.77 | |
| Weighted average number of common shares (note 5) | | | | | |
| outstanding used in the calculation of | | | | | |
| Basic (loss) earnings per common share | 15,685 | 9,933 | 12,314 | 9,174 | |
| Diluted (loss) earnings per common share | 15,685 | 9,933 | 12,314 | 9,279 | |

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

Lorus Therapeutics Inc.
Consolidated Statements of Cash Flows - Unaudited

| <i>(amounts in 000's)</i> <i>(Canadian Dollars)</i> | Three months ended Feb. 28, 2011 | Three months ended Feb. 28, 2010 | Nine months ended Feb. 28, 2011 | Nine months ended Feb. 28, 2010 | Period from inception Sept. 5, 1986 to Feb. 28, 2011 |
|--|---|---|--|--|---|
| Cash flows from operating activities: | | | | | |
| Net (loss) earnings for the period | \$ (1,581) | \$ (1,343) | \$ (4,001) | \$ 7,151 | \$ (188,054) |
| Less: Gain on repurchase of convertible debentures and transfer of assets (note 8) | - | - | - | (11,006) | (11,006) |
| Gain on sale of shares | - | - | - | - | (6,799) |
| Items not involving cash: | | | | | |
| Stock-based compensation | 287 | 94 | 367 | 110 | 8,961 |
| Interest Expense | - | - | - | 15 | 3,983 |
| Accretion in carrying value of convertible debentures | - | - | - | 80 | 4,983 |
| Amortization of deferred financing charges | - | - | - | - | 412 |
| Depreciation, amortization and write-down of fixed assets and acquired patents and licenses | 13 | 21 | 41 | 64 | 22,419 |
| Other | - | (1) | - | (5) | 437 |
| Change in non-cash operating working capital | (395) | (583) | (1,371) | 141 | (170) |
| Cash used in operating activities | (1,676) | (1,812) | (4,964) | (3,450) | (164,834) |
| Cash flows from financing activities: | | | | | |
| Issuance of convertible debentures, net of issuance costs | - | - | - | - | 12,948 |
| Payment on settlement of convertible debentures, including transaction costs (note 8) | - | - | - | (3,521) | (3,521) |
| Issuance of warrants | - | - | - | - | - |
| Proceeds on sale of shares, net of arrangement costs (note 1) | - | - | - | - | 6,899 |
| Issuance of common shares and warrants, net of issuance costs | 1,641 | - | 5,899 | 2,235 | 157,571 |
| Cash provided by (used in) financing activities | 1,641 | - | 5,899 | (1,286) | 173,897 |
| Cash flows from investing activities: | | | | | |
| Maturity (purchase) of marketable securities and other investments, net | - | 250 | 247 | 250 | (3) |
| Business acquisition, net of cash received | - | - | - | - | (539) |
| Acquired patents and licenses | - | - | - | - | (715) |
| Additions to fixed assets | - | - | (4) | - | (6,309) |
| Proceeds on sale of fixed assets | - | - | - | - | 348 |
| Cash (used in) provided by investing activities | - | 250 | 243 | 250 | (7,218) |
| (Decrease) increase in cash and cash equivalents during the period | (35) | (1,562) | 1,178 | (4,486) | 1,845 |
| Cash and cash equivalents, beginning of period | 1,880 | 2,450 | 667 | 5,374 | - |
| Cash and cash equivalents, end of period | \$ 1,845 | \$ 888 | \$ 1,845 | \$ 888 | \$ 1,845 |
| Supplemental cash flow information | | | | | |
| Interest paid in cash | \$ - | \$ - | \$ 71 | \$ 26 | |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

1. Basis of presentation

These unaudited interim consolidated financial statements of Lorus Therapeutics Inc., (the "Company" or "Lorus") have been prepared by the Company in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. The unaudited interim financial statements follow the same accounting policies and methods of application as the audited annual consolidated financial statements for the year ended May 31, 2010. These statements should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2010. These financial statements are prepared based on the assumption that Lorus will continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business which may not be appropriate given the discussion in section (a) "Going concern," below.

The information presented as at February 28, 2011 and February 28, 2010 reflect, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for a full year.

a) Going concern

The Company has not earned substantial revenue from its drug candidates and is, therefore, considered to be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully fund its cash requirements through a combination of equity financing, debt and payments from strategic partners. The Company has no current sources of payments from strategic partners.

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

The interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

b) Share consolidation

In accordance with the authority granted by shareholders at the Company's annual and special meeting on November 30, 2009 to permit it to implement a consolidation of the Company's outstanding common shares the Company's Board of Directors approved a 1-for-30 share consolidation which became effective May 25, 2010. The share consolidation affected all of the Company's common shares, stock options and warrants outstanding at the effective time. Fractional shares were not issued. In these interim consolidated financial statements, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the consolidation. All amounts based on the number of shares, stock options or warrants, unless otherwise specified, such as (loss) earnings per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of 1-for-30 share consolidation.

c) Reorganization

On July 10, 2007 (the "Arrangement Date"), the Company (or "New Lorus") completed a plan of arrangement and corporate reorganization with, among others, 4325231 Canada Inc., formerly Lorus Therapeutics Inc. ("Old Lorus"), 6707157 Canada Inc. and Pinnacle International Lands, Inc (the "Arrangement"). As a result of the plan of arrangement and reorganization, among other things, each common share of Old Lorus was exchanged for one common share of the Company and the assets (excluding certain future tax attributes and related valuation allowance) and liabilities of Old Lorus (including all of the shares of its subsidiaries held by it) were transferred, directly or indirectly, to the Company and/or its subsidiaries. The Company continued the business of Old Lorus after the Arrangement Date with the same officers and employees and continued to be governed by the same directors as Old Lorus prior to the Arrangement Date. Therefore, the Company's operations have been accounted for on a continuity of interest basis and accordingly, the consolidated financial statement information included in these financial statements reflect that of the Company as if it had always carried on the business formerly carried on by Old Lorus. Following completion of the Arrangement, New Lorus is not related to Old Lorus, which was subsequently renamed Global Summit Real Estate Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

2. Changes in accounting policy

There were no new accounting policies adopted during the nine month period ended February 28, 2011.

3. Capital risk management

The Company's objectives when managing capital are to:

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

The capital structure of the Company consists of equity comprised of share capital, share purchase warrants, stock options, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, acquiring or disposing of assets, adjusting the amount of cash and short-term investments balances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements.

While the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2010, the Company has forecasted that its current capital resources are not sufficient to carry out its research and development plans and operations for the next twelve months and continues to investigate various alternatives to obtain sufficient capital to continue its operations (note 1a).

4. Financial instruments

(a) Financial instruments

The Company has classified its financial instruments as follows:

| <i>(amounts in 000's)</i> | As at February 28, 2011 | As at May 31, 2010 |
|---|------------------------------------|-------------------------------|
| <u>Financial assets</u> | | |
| Cash and cash equivalents, consisting of guaranteed investment certificates, held for trading, measured at fair value | \$ 1,845 | \$ 667 |
| Short-term investments, held-for-trading, recorded at fair value | — | 247 |
| <u>Financial liabilities</u> | | |
| Accounts payable, measured at amortized cost | 229 | 387 |
| Accrued liabilities, measured at amortized cost | 887 | 1,458 |
| Promissory notes payable, measured at amortized cost | — | 1,000 |

(b) Financial risk management

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

(i) Credit risk

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

(ii) Liquidity risk

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

(iii) Market risk

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

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

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of accounts payable and accrued liabilities. The Company holds minimal amounts of U.S. dollar denominated cash, purchasing on an as needed basis to cover U.S. dollar denominated payments. At February 28, 2011, U.S. dollar denominated accounts payable and accrued liabilities amounted to \$260 thousand. Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss for the year and comprehensive loss of \$26 thousand. The Company does not have any forward exchange contracts to hedge this risk.

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

5. Share capital

(a) Continuity of common shares and warrants

| <i>(amounts in 000's)</i> | Common Shares | | Warrants | |
|--|---------------|-------------------|--------------|-----------------|
| | Number | Amount | Number | Amount |
| Balance at May 31, 2009 | 8,560 | \$ 162,240 | 571 | \$ 417 |
| Interest payments (b) | 7 | 15 | — | — |
| Balance at August 31, 2009 | 8,567 | 162,255 | 571 | 417 |
| Issuance of units (c) | 1,366 | 1,665 | 755 | 622 |
| Balance at November 30, 2009 and May 31, 2010 | 9,933 | \$ 163,920 | 1,326 | \$ 1,039 |
| Expiry of warrants (d) | — | — | (571) | (417) |
| Balance at August 31, 2010 | 9,933 | \$ 163,920 | 755 | \$ 622 |
| Issuance of units (e) | 4,170 | 3,226 | 4,170 | 1,032 |
| Balance at November 30, 2010 | 14,103 | 167,146 | 4,925 | 1,654 |
| Issuance of units (c) | 1,582 | 1,641 | — | — |
| Balance at February 28, 2011 | 15,685 | 168,787 | 4,925 | 1,654 |

(b) Interest payments

Interest payments relate to interest payable on the \$15.0 million convertible debentures payable at a rate of prime +1% up to June 19, 2009. Effective that date, the Company repurchased the convertible debentures, see note 8. Common shares issued in payment of interest were issued at an amount equal to the weighted average trading price of such shares for the ten trading days immediately preceding their issue in respect of each interest payment.

(c) Equity issuances

November 2009

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

December 2010

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

Stock Options

During the three and nine months ended February 28, 2011, nil stock options were exercised (three and nine months ended February 28, 2010 – nil)

(d) Warrant expiry

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

(e) Rights Offering

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

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

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

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

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

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

(f) Earnings/Loss per share

For the three and nine month periods ended February 28, 2011 and the three months ended February 28, 2010 the Company has excluded from the calculation of diluted loss per share all common shares potentially issuable upon the exercise of stock options and share purchase warrants that could dilute basic loss per share, because to do so would be anti-dilutive.

For the nine month period ended February 28, 2010, the determination of diluted earnings per share includes in the calculation all common shares potentially issuable upon the exercise of stock options and share purchase warrants, using the "treasury stock method."

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

(g) Continuity of contributed surplus

| | Nine months ended February 28, 2011 | | Nine months ended February 28, 2010 | |
|--|--|--------|--|--------|
| Balance, Beginning of year | \$ | 14,875 | \$ | 10,744 |
| Equity portion of secured convertible debentures | | — | | 3,814 |
| Expiry of warrants (d) | | 417 | | — |
| Forfeiture of stock options | | 3,071 | | 276 |
| Balance, end of period | \$ | 18,363 | \$ | 14,834 |

As a result of repurchasing the convertible debentures, the Company reallocated the equity portion of the debentures to contributed surplus—see note 8.

6. Stock options**(a) Stock options outstanding**

| | Nine months ended February 28, 2011 | | Nine months ended February 28, 2010 | |
|--------------------------------|--|--|--|--|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding, Beginning of year | 672,901 | \$ 6.60 | 562,358 | \$ 8.66 |
| Granted | 791,800 | 1.05 | 189,406 | 2.41 |
| Exercised | — | — | — | — |
| Forfeited | (486,434) | 7.30 | (67,156) | 12.00 |
| Outstanding, end of period | 978,267 | \$ 1.80 | 684,608 | \$ 6.60 |

In the three-month period ended February 28, 2011, the Company recognized a stock-based compensation expense of \$287 thousand (2010 —\$94 thousand). For the nine-month period ended February 28, 2011 the Company recognized an expense of \$367 thousand (2010 — \$110 thousand). The expense represents the amortization applicable to the current periods of the estimated fair value of options granted since June 1, 2002 net of the recovery of expense related to the forfeiture of unvested options in the current periods.

During the three months ended February 29, 2011 the Company issued options to certain officers and employees and in return these officers and employees agreed to the cancellation of issued stock options held by them. These transactions led to an increased stock option expense during the quarter as well as an adjustment to the stock option equity account in order to account for the forfeiture of the vested stock options.

(b) Fair value assumptions

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

| | Three months ended February 28 | | Nine months ended February 28 | |
|---|-----------------------------------|---------|----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Risk free interest rate | 1.85% | 2.0% | 1.85% | 2.0% |
| Expected dividend yield | — | — | — | 0% |
| Expected volatility | 119% | 206% | 119% | 178-206% |
| Expected life of options | 5 years | 5 years | 5 years | 5 years |
| Weighted average fair value of options granted in the period | \$ 0.866 | \$ 1.95 | \$ 0.866 | \$ 1.43 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and nine months ended February 28, 2011 and 2010

(c) Continuity of stock options

| <i>(amounts in 000's)</i> | Nine months ended February 28, 2011 | Nine months ended February 28, 2010 |
|---|--|--|
| Balance at beginning of the year | \$ 3,704 | \$ 3,845 |
| Stock option expense | 367 | 283 |
| Forfeiture of stock options | (3,071) | (449) |
| Balance, end of period | \$ 1,000 | \$ 3,679 |

7. Short term investments, marketable securities and other investments

| <i>As at May 31, 2010</i> | | | | |
|--|-------------------------------------|---|--------|----------------------|
| <i>(amounts in 000's)</i> | Less than one year maturities | Greater than one year maturities | Total | Yield to Maturity |
| Corporate instruments (including guaranteed investment certificates) | \$ 247 | \$ | \$ 247 | — |

The Company did not have any short term investments, marketable securities or other investments at February 28, 2011. Certain corporate investments, totaling \$247 thousand at May 31, 2010 had been designated as held-for-trading investments, and had been classified as short-term investments on the consolidated balance sheets. These investments were carried at fair value.

8. Convertible debentures

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

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

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

As a result of the transaction, the Company recognized a gain on the repurchase of the debentures of \$11.0 million reflecting the difference between the fair value of the debentures at the repurchase date, net of transaction costs of approximately \$221 thousand, and the cash payment amount of \$3.3 million in the year ended May 31, 2010. In addition, as a result of extinguishing the debentures, \$3.8 million, the equity portion of the debentures, was transferred to contributed surplus. The gain on repurchase of the debentures did not result in income taxes payable as the Company had sufficient capital loss and non-capital loss carryforwards to shelter these gains.

9. Related Party Transactions

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

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

See also notes 5 (c) and (e) for additional related party transactions.