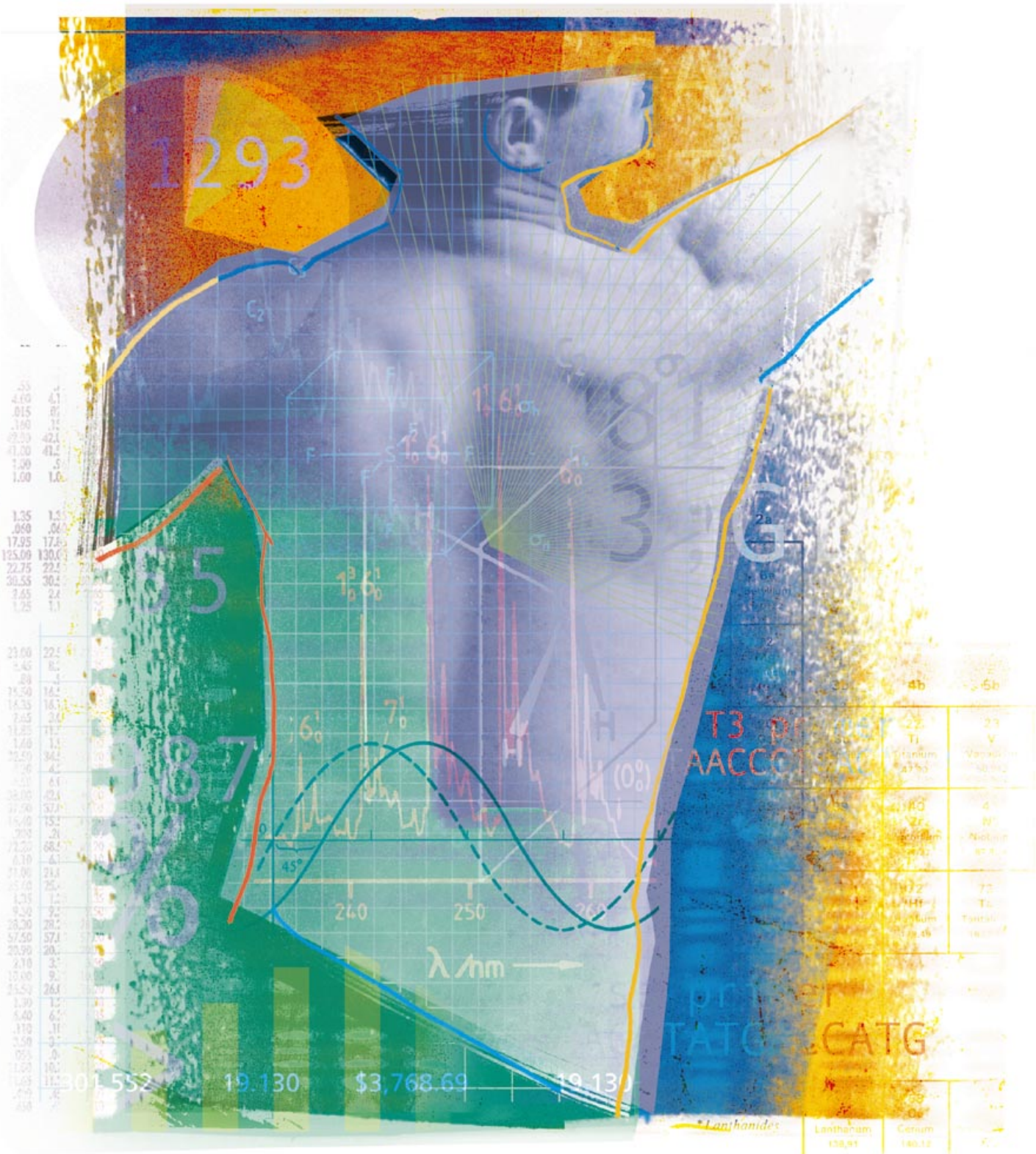
Always in motion



LORUS

Lorus at a Glance

Why motion matters.

Our people represent the best of both scientific and business accomplishment. We work in close collaboration to identify anti-cancer drugs and advance them, as quickly as possible, to the point where they can improve the quality of life of cancer patients and create wealth for our shareholders. This drive to keep the product portfolio in motion has permeated our culture and keeps us focused on the next milestone, the next stage, the next hurdle. This is not just true for our management of the science, it is how we run the business. Our products advance, our science is refined and our business model evolves.

Lorus at a Glance

OUR BUSINESS: **Research and development of anti-cancer drugs.**

THE LORUS VISION:

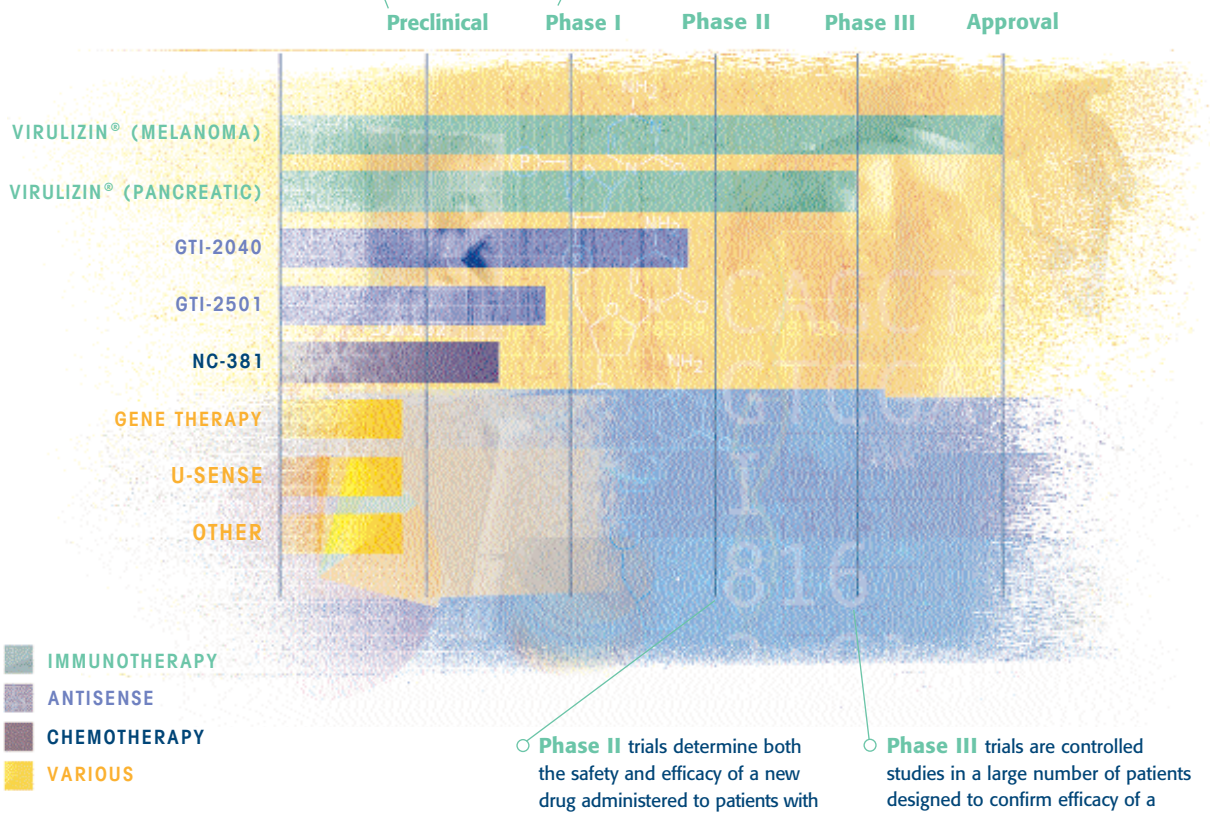
To be the leading biopharmaceutical company specializing in the research and development of effective therapies for the treatment of cancer.

KEY FACTS:

Established:	1986
Public since:	1991 TSE(LOR)
	NASDAQ OTCBB (LORFF)
Shares Outstanding:	139,665,125
Employees:	23

Pre-clinical studies investigate the safety and efficacy of drug candidates in animal models.

Phase I trials usually involve small numbers of human subjects to test safety and tolerability and to determine the best dose to be used in future trials.



Phase II trials determine both the safety and efficacy of a new drug administered to patients with the target disease.

Phase III trials are controlled studies in a large number of patients designed to confirm efficacy of a new drug, usually in comparison to an approved treatment.

BALANCED PIPELINE, STRONG PATENT PROTECTION

The Lorus product pipeline is carefully managed to provide a continuous flow of products through all development phases, across multiple oncology technologies. This year's portfolio shows exceptionally strong advancement over last year as every one of our products has cleared another major milestone on the road to commercial status.

We have four major products in our portfolio that together represent over $3 billion in revenue potential. Our patent position is very strong on all of our major products having been issued or allowed patents in each of our core technologies in the United States, Canada and other key countries.

DIVERSIFIED TECHNOLOGY PLATFORM

Lorus selects the best of the best – promising technologies for which we can secure patent protection and which will have the potential to achieve significant commercial value. The following is an outline of our core technologies and the Lorus products within each. A more detailed discussion of the science is available on our web site – www.lorusthera.com

SMALL MOLECULES – NUCHEM ANALOGUES

In his work at the Harvard Medical School, Dr. Jose Halperin discovered anti-cancer activity of an anti-fungal agent called Clotrimazole which works by starving cells of calcium. Many of the analogues of this molecule showed anti-proliferative properties both in tumor cell line studies and in animal models of human cancers. There is also evidence that these drugs have anti-metastatic and anti-angiogenic properties, starving tumor cells of the blood supply required for tumor growth and spread. In pre-clinical research, the NuChem analogues have demonstrated effectiveness against such important cancers as lung, melanoma, pancreatic and kidney cancers.

What gives these molecules even greater promise is their potential to be administered orally – a factor that would contribute to improved quality of life for patients, and lower cost for the health care system.

Lorus is developing several small molecule products as anti-cancer agents through its 80% owned subsidiary NuChem Pharmaceuticals Inc. NC-381, NC-383 and NC-384 are currently the analogues of greatest promise, with combined market potential of approximately $1 billion. NC-381 was recently chosen as the lead compound.

IMMUNOTHERAPEUTICS

The immune system is a powerful tool in the fight against cancer. Solid cancer tumors have antigens that are recognized by cells of the immune system, including a type of white blood cell called a macrophage. When macrophages are activated, they are believed to enhance the immune system's rejection of tumor cells by producing proteins that can either kill tumor cells directly, or stimulate the anti-tumor activity of other cell types.

Our Phase III product, Virulizin®, is a potent and unique activator of human macrophages and has shown potential in the immunotherapy of cancer patients. The drug is purified from bovine bile through a proprietary production process. Virulizin® has been administered in over 450 patients and has demonstrated an excellent safety profile, prolonged patient survival and preserved quality of life. Patients with pancreatic cancer and malignant melanoma have survived longer, compared to historical controls, when they have been administered Virulizin®.

MOLECULAR GENETICS – ANTISENSE

All proteins, including disease causing proteins are produced by information within specific genetic codes called sense sequences. Antisense molecules prevent the formation of disease-causing proteins by binding the appropriate sense sequences, and locking them up. Our antisense technology is proving its low toxicity and is beginning to show its vast potential to work against many different cancers. In mouse models of human cancers Lorus antisense compounds have been shown to prevent the growth of cancer, before it can spread to secondary sites – which is the cause of 90% of cancer mortalities.

In late 1999 Lorus was awarded a U.S. patent providing protection for two of its antisense products GTI-2040 and GTI-2501. These drugs working alone or in combination therapy, have delivered dramatic results in pre-clinical trials, in some cases showing complete tumor regression, for example, with breast and kidney derived cancer cells.

The Year's Achievements

SUCCESSFUL INTEGRATION WITH GENESENSE

In October of 1999, Lorus and GeneSense Technologies Inc. came together to form one of Canada's leading biopharmaceutical cancer companies. GeneSense, with a strong scientific team, was led by Dr. Jim A. Wright, (now President and Chief Scientific Officer of Lorus), and Dr. Aiping Young (now V.P. Research). GeneSense specialized in the development of novel oligonucleotide drugs with its lead products representing a combined market value of over CDN$2 billion. The synergies that were evident at the time of the merger are now being realized. The integration of the two companies has been rapid and successful as it continues to meet its clinical milestones.

EXCELLENT RESULTS FOR ANTISENSE COMPOUND GTI-2040

Our lead antisense compound, GTI-2040 continues to demonstrate its excellent potential. After outstanding *in vivo* anti-tumor results communicated in November and the initiation of a Phase I/II clinical trial in December, GTI-2040 is meeting company objectives for safety, and potential against common cancers.

GTI-2501 ADVANCING ON OUTSTANDING PRE-CLINICAL RESULTS

After showing complete regression of several types of human cancers in animal models last year, GTI-2501, also part of the Lorus antisense portfolio, has received additional U.S. patent protection and is now completing the vital toxicology study stage. This unique drug, used alone or in combination therapy, has demonstrated anticancer activity against a variety of human tumors in pre-clinical studies including tumor regressions in animal models bearing human tumors derived from breast and kidney cancers.

NUCHEM COMPOUNDS RECEIVING POWERFUL SUPPORT

With the announcement of an opportunity to collaborate with the U.S. National Cancer Institute to develop these novel anti-cancer compounds, and a successful presentation at the prestigious International Conference on Molecular Targets and Cancer Therapeutics, NuChem compounds NC-381 and NC-384 have drawn the deserved attention of the oncology community. This interest has been further strengthened by our selection of NC-381 as the lead compound based on its early toxicity results and on its demonstrated ability to significantly reduce the growth of a variety of human cancers in cell culture and in animal models.
Pre-clinical toxicology studies are now underway.

PROGRESS OF VIRULIZIN® EXTENDS THE LORUS PORTFOLIO INTO THE LATE STAGE

Virulizin® continues to prove its efficacy, low toxicity and revenue potential as it moves into Phase III trials in North America next year. In June of 2000 Lorus announced the results of a meta-analysis of Virulizin's® Phase I and II trials by Dr. Benny Zee, senior biostatistician at the National Cancer Institute of Canada. This analysis provided further confidence in Virulizin's® clinical activity (increasing survival rates and preserving quality of life). The results of this analysis and our ongoing scientific research confirm the potential of Virulizin® to improve the lives of pancreatic cancer patients worldwide. Our decision to implement a pivotal Phase III clinical trial for Virulizin® provides the opportunity to fully leverage our drug development capability and builds value while maximizing revenue potential for the long-term.

For more information on any of these highlights visit www.lorusthera.com

TWO SUCCESSFUL FINANCINGS PUT LORUS IN A STRONG CASH POSITION

In October 1999 and May 2000, Lorus completed two substantial financings of $10 million and $46 million respectively. These financings put us in a strong cash position that allows us to increase the speed of the development process and add to our technology and product portfolio.

AVI COLLABORATION ANNOUNCED

In July of 2000, Lorus and AVI BioPharma Inc. initiated a research collaboration designed to yield the discovery of new drugs for the development pipeline. This alliance capitalizes on the complementary technologies of the two companies and on our shared focus on cancer therapies. Of immediate value to Lorus is AVI's NeuGene® based antisense backbone, a development technology that has potential to work with several new Lorus oligonucleotide compounds to create novel drug products.

LORUS JOINS THE TSE 300 COMPOSITE INDEX® (TSE 300)

In recognition of our leadership in the Canadian biopharmaceutical industry, Standard & Poors added Lorus to the TSE 300 as of April 20th, 2000. This move was part of a series of events that have made Lorus the most actively traded biopharmaceutical issue in Canada. On the strength of our diversified product pipeline and our highly capable team, loyal Lorus shareholders, both private and institutional, have been rewarded with an approximately ten-fold share price appreciation during the year.

IMPORTANT ADDITIONS TO THE LORUS TEAM

The integration with GeneSense has significantly deepened the strength of Lorus's fundamental scientific capabilities – a fact that will have a profound impact on our ability to identify and develop effective cancer products. The senior team was further enhanced on the business side, with the addition of Geoffery Collett, vice-president of corporate development, who brings 15 years of multi-national pharmaceutical management experience with GlaxoWellcome and Boehringer Ingelheim. James Parsons, vice-president of finance and administration and Chief Financial Officer, brings his background at KPMG and two research-driven public companies to manage Lorus's financings, acquisitions, treasury and control functions. Now more than ever we can stand behind our promise of science and business working together.

INCREASED PUBLIC AWARENESS

A significant priority for Lorus in the year has been to enhance public awareness of the company through media and conference participation. We have met our objective of providing a clear, compelling picture of Lorus to the financial, scientific and regulatory communities. The media now look to Lorus representatives as spokespeople for the sector. In the scientific community, our presentation at major conferences including the American Association of Cancer Research in April 2000, has given our core scientific platform strong validation. Together, these events confirm that our strategy is strong, and embraced by the stakeholders who will help make it happen.

Dear Shareholders

"Lorus has become what every biotech company wants to be when it grows up – a stable and enduring organization delivering superior returns to its shareholders."

Always in Motion – Advance, Refine, Evolve

From the day I joined Lorus, I believed that this company would be a force to be reckoned with, a leader, a success story, not just in Canada but globally. I will remember 2000 as the year that the rest of the world started to see it too.

AN EXTRAORDINARY YEAR – FOR THE SCIENCE AND THE BUSINESS

Lorus has made a giant step toward becoming a focal point in the research and development of anti-cancer therapies. We have received extraordinary endorsement from the financial, scientific and regulatory communities. We have attracted top talent to our senior team in both business and scientific disciplines. We have seen our product pipeline grow, and advance more quickly than we could have imagined. We have the cash, the products and the team. Will we rest a while? Never.

We are already in forward motion, putting these resources to work. We are taking steps to speed the development process, for example for our first late stage product, Virulizin®, for which we now have the cash to accelerate the Phase III program. The advancement of our Antisense and small molecule products is very exciting for our entire Lorus team as every day we move closer to market with these drugs.

THE ROAD FORWARD – BUILD REVENUE BASE

The biopharmaceutical world is changing fast and Lorus is evolving to stay ahead of the game, adapting to meet the imperative of enhanced shareholder value. Lorus has become what every biotechnology company wants to be when it grows up – a stable and enduring organization delivering superior returns to its shareholders. We have arrived here one, smart, step at a time, thanks to a diverse product pipeline fueled by outstanding research, development, management, and partnering capabilities.

We have proven our ability to discover, acquire and license-in promising cancer products and we will continue to grow our base as well as exploit our existing technologies for additional product opportunities beyond the current $3 billion + in potential revenue. Lorus has now entered a new phase with a deep product pipeline and the financial strength to realize the potential of our technologies. As our business evolves, our ability to execute in operations becomes more important. We will continue to access and adapt our management skills to meet the requirements of this phase.

In addition to our responsibility to shareholders, we have a strong sense of our social responsibility and the deep importance, in human terms, of what we do. Above all, our priority is to extend and improve the lives of cancer patients and to help reduce the personal and social burden of this disease. This is what motivates each one of us at Lorus. Happily, success on this front is also good business.

Lorus has many loyal shareholders, employees and partners. To those of you who have watched Lorus over the years, you may not recognize the company; we have matured so dramatically over that time. But look closely and you will see, at its heart, the same commitment that has always driven us – to build an international, leading biopharmaceutical company. This natural evolution defines us. Thus, the theme of our annual report; *Always in Motion. Advance, Refine, Evolve – the science* and *the business. That is what we do.*

Philippe G. Lacaille (signed)
Chairman and Chief Executive Officer

Our Management and Scientific Team

Philippe Lacaille
Chairman and
Chief Executive Officer

Dr. Guy Ely
Vice President,
Drug Development

James Parsons
Vice President Finance
and Administration and
Chief Financial Officer

Dr. Aiping Young
Vice President,
Research

Dr. Jim Wright
President and
Chief Scientific Officer

Geoffery Collett
Vice President,
Corporate Development

Shane Ellis
Vice President Legal Affairs
and Corporate Secretary

Nadir Harjee
Vice President,
Industrial Operations

Always **advancing** – our products

Our success rests on continuously advancing high potential cancer therapies to market-readiness. This advancement is achieved through a constant process of selecting, developing and enhancing a broad range of products through all phases, from pre-clinical to Phase III and regulatory approval. Our goal is to keep our pipeline balanced, full and always in motion.

STRONG ADVANCEMENT IN THE YEAR

In the last year we have seen significant advancement, with every Lorus product achieving new and important milestones:

Antisense compounds – GTI-2040 and GTI-2501 both advanced significantly as individual therapies and in their potential to work in combination chemotherapy. GTI-2040 has moved into Phase I/II and GTI-2501 has shown excellent pre-clinical results in kidney and breast cancer models. Our antisense technology received broad patent protection in the United States this year.

Small molecule technology – NC-381 was chosen this year as the lead anti-cancer drug from the NuChem drug series after NC-381 was found to significantly reduce growth of a variety of human cancers in mouse studies. NC-381 also inhibited the metastasis of malignant melanoma cells in mouse models (i.e. the spread of tumor cell to other organs of the body).

Immunotherapy – Virulizin® will soon enter a Phase III clinical trial in North America in the first half of 2001. Meta-analysis of Virulizin's® clinical studies supports the company's confidence in the efficacy and excellent safety profile of the drug against pancreatic cancer.

NEW PRODUCTS FEED THE EARLY STAGE

Reducing time-to-market and maintaining a strong late-stage portfolio is vital to value creation at Lorus. To ensure that value creation is sustained over the long term, our research team is committed to generating a steady stream of opportunities, both from our core technology platforms and from other technologies that complement our oncology focus. These may be early stage novel products or later stage, more proven drugs that offer good near-term revenue potential. This year we introduced several promising new product opportunities to our portfolio:

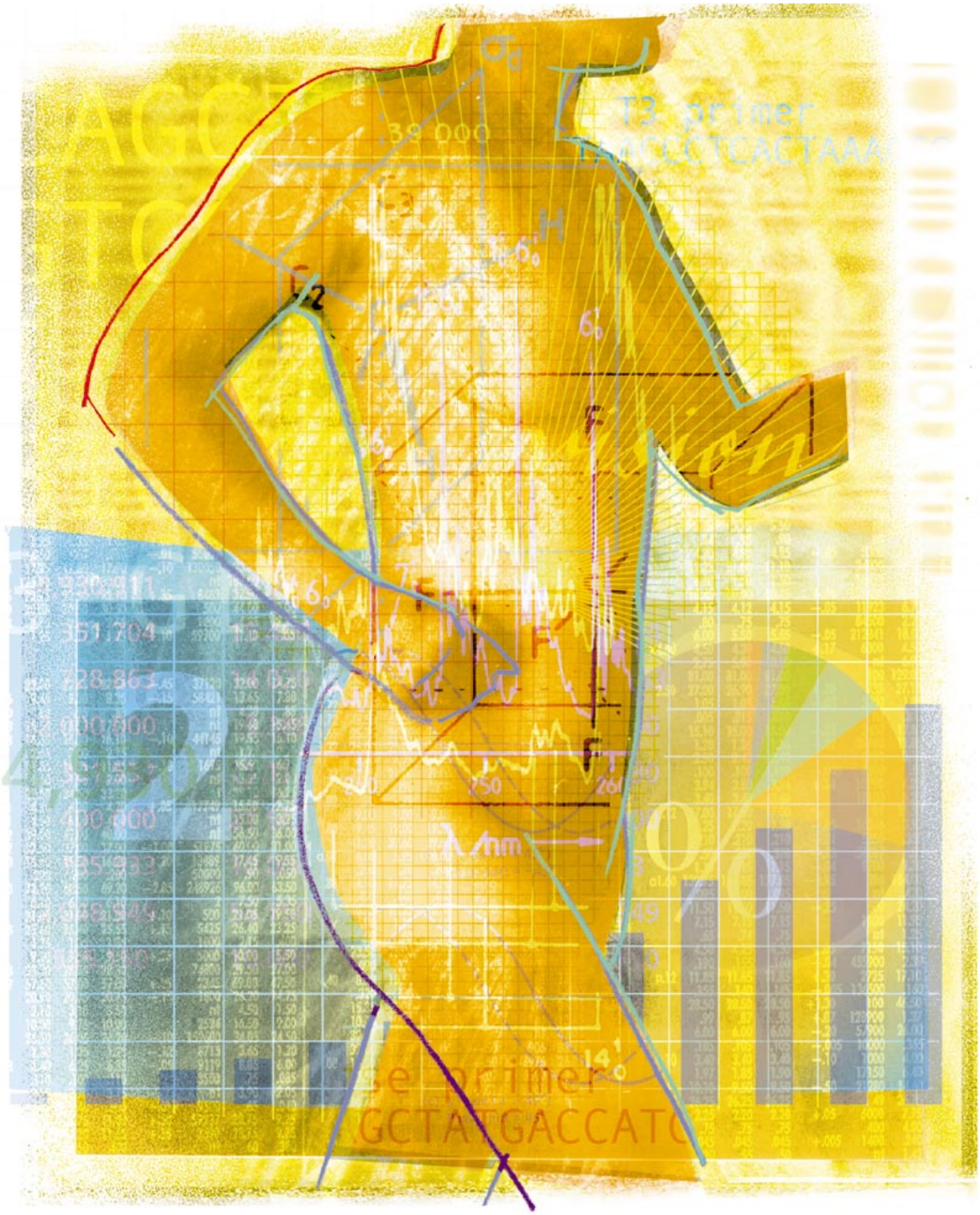
- The power of antisense to control disease has motivated us to screen antisense drug candidates against additional gene targets associated with cancer and we have identified several other potential lead compounds that act on other targets important in cancer development.
- U-sense compounds have the potential to work through a unique mechanism of action, proprietary to Lorus, to reduce levels of cancer-causing proteins.
- Lorus is developing antisense molecules against selected bacterial gene targets for use in treating infectious diseases.
- A functional genomics program has been initiated to discover new anti-cancer agents.

ON COURSE TO CLEAR NEW MILESTONES

By the summer of 2001 we expect to have at least four major products in clinical trials ranging across Phases I, II and III. We have set aggressive targets for the coming year and will apply the full force of our development resources to the successful completion of these trials.

ADVANCEMENT AS A CORE CAPABILITY

What does it take to achieve this kind of advancement and to sustain it over the long term? First, it requires a strong scientific team, in-house and in collaborations such as we have initiated with AVI Biopharma, through which we can identify and continually enhance product potential. In addition, it requires the business acumen to assess commercial potential and financial risk. More vital than either of these in isolation, it requires a collaborative process of teamwork at all levels of the organization – in the lab, in the boardroom and with development partners.



"Our collective goal is to see that effective therapies get to cancer patients sooner. Speed, without compromising the science, is everything."

Dr. Jim Wright
President and Chief Scientific Officer

Always **refining** – through science

The successful movement of products into and through the development process is in large part a matter of refinement; refining the technology, the formulations, the dosing, the treatment protocols, the combination therapies, and so on. We see the development process as an opportunity to continually refine the safety, efficacy, and economics of our products.

THE VALUE OF A STRONG SCIENTIFIC TEAM

Lorus has made a strategic decision to build and maintain a strong in-house scientific team to lead this refinement. Good science is good business and the more we can own and control the development activity, the more confidence we have in the speed, accuracy and cost of what we do. Lorus has a record of achieving its milestones because we control the process – and have proven skills as drug developers.

Lorus' scientific team at the Sunnybrook Health Science Centre, led by Dr. Aiping Young, supports both the clinic and the commercial potential of our product development programs. Our development group, led by Dr. Guy Ely, ensures that clinical and regulatory programs are conducted to the highest standards in the industry. In the coming year our development team will oversee at least four trials across phases and technologies.

The science at Lorus is very focused and product oriented. While there is a time and place for wide-ranging, curiosity-based research, Lorus is not that place. Our scientists fully engage and support the product development process in several ways:

Support drugs that are in, and advancing to clinical trials

- Increase drug efficacy in the clinic – thereby improving commercial potential.
- Carry out experiments designed to provide information important to the effective design of clinical trials.
- Examine alternative dosing schedules for cost management.
- Stay current with the scientific and medical literature to ensure best practices in the lab and the clinic, to find opportunities to improve our own formulations as they advance, and to understand the competitive field for our products.
- Manage external collaborations with other developers and technology providers.

Evaluate technology opportunities for purchase or in-licensing

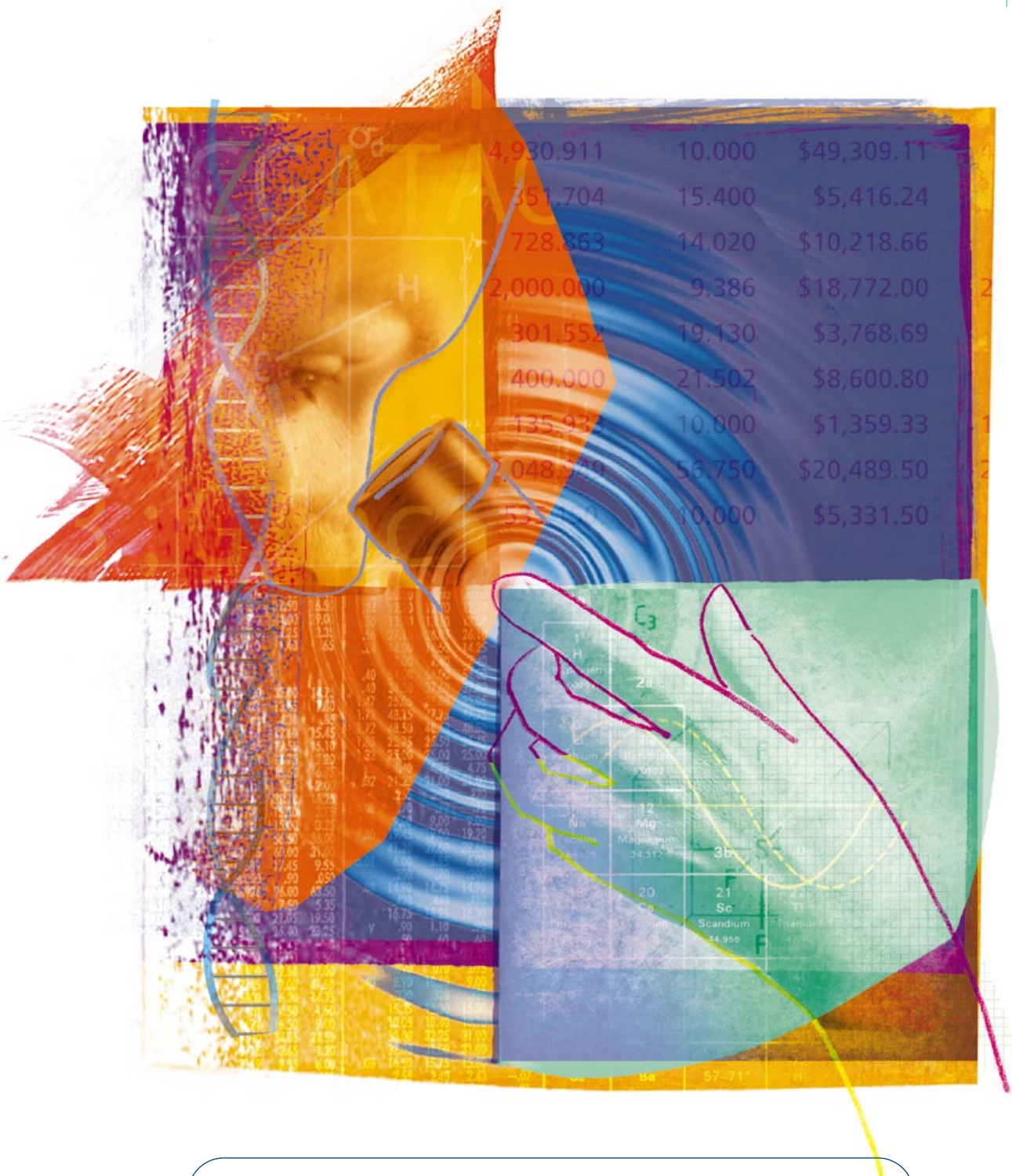
Mine existing technologies for new product opportunities, as is currently occurring with the second generation of antisense compounds, while continuously looking for additional complementary technologies.

Develop new platforms and anti-cancer products

As a biopharmaceutical company we know that the business decisions we make are dependent on the science we do. By refining the science, we build the business.

"Time to market and cost efficiencies drive our drug development efforts. We are always striving to take time and cost out of the process while still achieving clinical and regulatory success."

Dr. Guy Ely
Vice President, Drug Development



"Collaboration is what defines the Lorus culture – the scientists embrace the business issues and the business managers deeply respect the importance of the scientific process."

Dr. Aiping Young
Vice President, Research

Always **evolving** – with strategic intent

Throughout this annual report we have talked about being in motion. This is the theme behind our strategic intent as we reach for the next milestone of growth and value creation.

The need to consolidate around a strong science base to build critical mass has always been a Lorus objective; the single product platform technology company is simply not a sustainable business model; the risk is too high. The first stage of building this critical mass is complete as the promise in our three platform technologies has attracted significant capital with bright prospects for a healthy return on investment.

Our intent now is to manage our product pipeline and complement it through in-licencing or acquiring other technologies that reduce risk and increase the probability of significant value creation and retention. This will involve three key strategies:

KEY STRATEGIES

- Accelerate the advancement of our existing products along the development process through the effective application of our management capability.
- Explore the acquisition of late stage product opportunities where the revenue prospects are strong and there is synergy with our cancer focus.
- Continue to expand the pipeline with early stage products from existing and new technology platforms.

To maximize the value of the drugs we develop, we will carefully consider our late-stage development role in light of the cost and the expertise required to ensure success. We intend to build strong commercial marketing partnerships to ensure that our approved products reach the widest possible market coverage.

In summary, we will keep Lorus in motion as we advance our products, refine our science and continue to evolve our business model.

"Our product pipeline must balance early stage novel compounds with late-stage revenue generators. This smoothes our risk profile and signals our transition from a technology, to a product based company. That's good news for all our stakeholders."

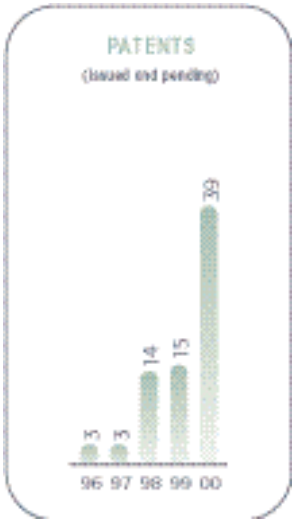
Geoffery Collett
Vice-President, Corporate Development

Management's Discussion and Analysis

The following discussion should be read in conjunction with the audited consolidated financial statements and notes prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Company also identifies significant differences between Canadian and United States GAAP in note 13 to the consolidated financial statements. All amounts are expressed in Canadian dollars unless otherwise noted. Annual references are to the Company's fiscal years which end on May 31.

Lorus is a biopharmaceutical company focused on the research and development of cancer therapies. Lorus' goal is to capitalize on its research, pre-clinical, clinical and regulatory expertise by developing new drug candidates that can be used, either alone, or in combination, to successfully manage cancer. Through its own discovery efforts and an active in-licensing and acquisition program, Lorus is building a portfolio of promising anti-cancer drugs. The year 2000 involved significant accomplishments in the financing of the Company and advancements in the building of a broad and diversified portfolio of oncology products.

The success of Lorus depends on the efficacy and safety of its products in clinical trials and on obtaining the necessary regulatory approvals to market its products. The Company believes that the treatment and management of cancer will continue to be made through combinations of different therapies. Lorus' strategic intent is to pursue the development of drug candidates using several therapeutic approaches. Lorus took additional steps in 2000 along its strategic path to build a diversified portfolio of anti-cancer drugs through the acquisition of GeneSense Technologies Inc. ("GeneSense").

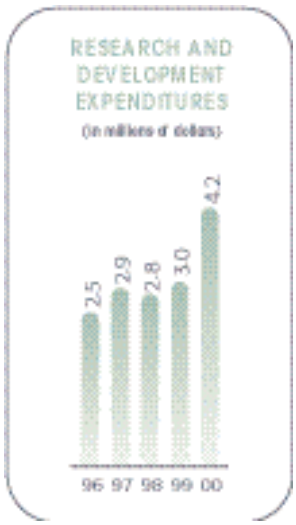


In October 1999, Lorus acquired all the outstanding shares of GeneSense, a molecular genetic drug development company specializing in oligonucleotide therapies for the treatment of cancer and infectious diseases. The assets purchased consisted primarily of patents and other intellectual property. With this acquisition, Lorus added a new line of anti-cancer products (antisense) with a strong intellectual property position, talented management, a dedicated team of researchers, and strengthened its pipeline of pre-clinical research compounds.

RESULTS OF OPERATIONS

Lorus has incurred annual operating losses since inception related to the research, manufacturing, and clinical development of its proprietary compounds. The Company has not received any revenue from the sales of products to date. Losses will continue as Lorus invests in its expanded pre-clinical research and clinical drug development programs. Lorus' portfolio of anti-cancer compounds now flows from three platform technologies: Immunotherapeutics (Virulizin®); small molecule or Chemotherapeutics (NC compounds); and Antisense (GTI compounds).

Research and Development



Research and development expenditures totaled $4.2 million in 2000 compared to $3.0 million in 1999 and $2.8 million in 1998. The increase in 2000 resulted primarily from the cost of manufactured antisense drugs in the fourth quarter, the amortization of acquired research and development relating to the GeneSense acquisition, and pre-clinical and clinical costs of the antisense compounds. The antisense drugs selected for clinical development were chosen based on their superior efficacy in *in vitro* and *in vivo* models. GTI-2040, Lorus' first antisense drug in development successfully completed toxicology and pharmacokinetic studies leading to an Investigational New Drug ("IND") submission in November 1999. On approval of the IND a Phase I/II clinical trial headed by Dr. Richard Schilsky at the University of Chicago began in January 2000. GTI-2501 is following a similar development plan to our first oligonucleotide compound GTI-2040, and is progressing rapidly with the knowledge gained over the last year. Lorus expenses all drug costs on receipt of the manufactured product. Late in the year the Company received shipments of both GTI-2040 and GTI-2501 for use in clinical trials and pre-clinical development respectively, which led to higher costs in 2000.

The increase in costs for 2000 was partially offset by lower costs expended on the NuChem compounds which included the finalization of a large research contract initiated in 1999, and less Virulizin® drug manufacturing costs. Successful integration of the GeneSense research team within Lorus was demonstrated in a critical NuChem pre-clinical program in 2000. The new in-house expertise quickly advanced the current research resulting in the selection of NC-381 as the lead compound.

The increase in 1999 over 1998 reflected higher expenditures on the NuChem clotrimazole analogues including pre-clinical development at the Harvard Medical School, net of lower Virulizin® development program spending and investment tax credit refunds.

General and Administrative

General and administrative expenses totaled $3.7 million compared to $1.7 million in 1999 and $1.9 million in 1998. The increase in 2000 resulted primarily from added salaries and operating costs for seven months subsequent to the GeneSense acquisition and higher legal and regulatory expenses resulting from increased corporate activity.

The decrease in general and administrative expenses from 1998 to 1999 resulted from savings on the divestiture of the manufacturing operations in December 1999 and other cost reduction programs net of higher legal, regulatory and investor relations expenses.

Depreciation and Amortization

Depreciation and amortization expenses totaled $1.2 million in 2000 compared to $0.2 million in 1999 and $0.3 million in 1998. The increase in 2000 was due mainly to the amortization of goodwill established on the

Management's Discussion and Analysis (continued)

acquisition of GeneSense and expenses for stock-based compensation. Stock-based compensation is recorded if, on the measurement date of a stock option grant, the fair value of an underlying common share exceeds the exercise price per share. Stock-based compensation expense is recognized over the vesting period of the option.

The decrease from 1998 to 1999 resulted mainly from lower depreciation expense on manufacturing equipment sold during 1999. The net gain on the divestiture was $0.1 million in 1999.

Interest Income

Interest income totaled $0.5 in 2000 compared to $0.1 million in 1999 and $0.3 million in 1998. Interest income was higher in 2000 due primarily to the large cash and investment balance resulting from the net cash proceeds of $61.1 million raised on the issue of common shares and exercise of warrants in 2000. In 1999 a lower average cash balance generated less interest income than in 1998.

Loss

The loss for the year totaled $8.6 million in 2000 compared to $4.6 million in 1999 and $4.7 million in 1998. The increase in 2000 resulted mainly from higher non-cash charges including the amortization of acquired research and development and goodwill of $1.9 million, and stock-based compensation charges of $0.3 million. Higher cash charges included salary and administrative costs resulting from the GeneSense acquisition, and drug cost and trial expenses for the antisense compounds. The loss per common share was $0.10 in 2000 compared to $0.12 in 1999 and $0.13 in 1998. The loss per share in 2000 was smaller as a result of a significantly higher average number of common shares outstanding in 2000 compared to 1999.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, Lorus has financed its operations and technology acquisitions primarily from public and private sales of equity, the exercise of warrants and stock options, interest income on funds held for future investments, and refundable tax credits.

Financing

For the year ended May 31, 2000, the Company raised gross proceeds of $64.5 million from two public offerings and the exercise of outstanding warrants, and completed a major acquisition through the issuance of common shares. In October 1999, Lorus issued 36,050,000 common shares and converted existing GeneSense warrants to new Lorus warrants for the acquisition of GeneSense valued at $14.8 million. These new warrants were exercised in early 2000 for gross proceeds of $5.0 million. Cash paid on the acquisition of GeneSense net of cash received totaled $0.5 million.

In October 1999, through a public offering of special warrants (subsequently converted to common shares) Lorus issued 30,303,031 common shares at $0.33 per share for gross proceeds of $10.0 million. In May 2000, Lorus was offered a bought deal by a syndicate of underwriters for the issuance of 15,333,334 common shares at $3.00 per share for gross proceeds of $46.0 million. Additional warrant exercises during the year provided an additional $3.5 million in cash proceeds.

For the year ended May 31, 1999 the Company raised net cash proceeds of $1.2 million primarily through the issuance of special warrants. There were no significant equity financing activities in 1998.

The total number of shares outstanding increased from 42.7 million at the end of 1999 to 139.7 million at May 31, 2000 as a result of the above transactions. The year's activity created substantial dilution to existing shareholders although this was more than offset through appreciation of Lorus' market valuation which increased from $19 million at May 31, 1999 to $346 million at May 31, 2000.

Operating Cash Requirements

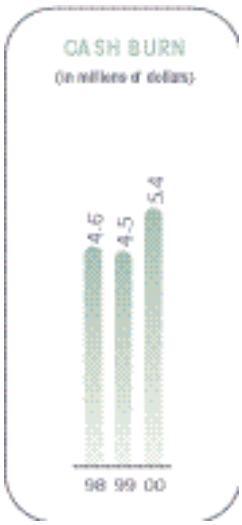
Lorus' operating cash requirements, or cash burn (cash used in operating activities plus additions to capital assets), totaled $5.4 million in 2000 compared to $4.5 million in 1999 and $4.6 million in 1998. The cash burn in 2000 increased as a result of seven months of post-acquisition GeneSense costs which included the doubling of the number of employees, the initiation of a Phase I/II trial for GTI-2040, and pre-clinical development of GTI-2501. The increase in operating cash requirements was modest compared to the level of activity post-acquisition due to strict cost control measures early in the year and synergistic benefits from our new in-house research capabilities where internal testing and analysis costs were more economical than using outside contractors. Operating cash requirements in 1999 were comparable to 1998.

With the strength of our cash position, Lorus will reduce the time to market for its drugs by accelerating its pre-clinical and clinical development programs. The Company's cash burn will increase in 2001 as Lorus commences a Phase III trial for Virulizin®, multiple Phase II trials for GTI-2040, and a Phase I trial for GTI-2501. Lorus will also invest in expanding the research team to support clinical trial activities and to continue to promote pre-clinical products into the clinical pipeline. Business development activity will also increase as Lorus explores collaborative and partnering opportunities. Partially offsetting the increase in operating cash requirements in 2001 will be significantly higher interest earned from cash and cash equivalents and short-term investments.

Cash Position

At May 31, 2000 Lorus had cash and cash equivalents and short-term investments totaling $56.6 million compared to $1.3 million at the end of 1999. The Company invests in highly rated and liquid government and corporate 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) of $54.1 million at May 31, 2000 ($0.2 million in 1999) will be sufficient to fund current and planned operations for the foreseeable future. The Company does not expect to generate a positive cash flow from operations for several years due to substantial additional research and development costs, including costs related to drug discovery, pre-clinical testing, clinical trials, manufacturing costs and operating expenses associated with supporting these activities. The Company may need to raise additional capital to fund operations over the long-term.



Management's Discussion and Analysis (continued)

Lorus intends to raise additional funds through equity financings, collaborative arrangements, acquisitions or otherwise. Although its cash position is very strong, the Company may seek to access the public or private equity markets from time to time, even if it does not have an immediate need for additional capital at that time. Lorus intends to pursue relationships with U.S. investment partners to increase the Company's profile with U.S. institutions and other investors. Our goal is to secure the opportunity for future equity financings when we need them.

At May 31, 2000 there are two warrant issues that remain outstanding that may provide future cash flow for the Company. There are outstanding warrants exercisable at $0.41 per common share prior to October 27, 2001 (potential gross proceeds of $264,000), and at $3.30 per common share prior to November 2, 2001 (potential gross proceeds of $2,530,000).

Lorus intends to use its resources to fund its existing research and drug development programs, develop new drugs from its portfolio of pre-clinical research technologies and to support programs of in-licensed and acquired 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 pre-clinical and clinical trials, the timing of regulatory submissions and approvals, the impact of any in-licensed or acquired technologies, the ability of the Company to establish collaborative research or drug development arrangements with other organizations, the impact from technological advances, determinations as to the commercial potential of the Company's compounds, and the timing and status of competitive products.

RISKS AND UNCERTAINTIES

Lorus has sufficient cash for several years of operations. Funding needs may vary depending on many factors including: the progress and number of research and drug development programs; costs associated with clinical trials and the regulatory process; costs related to maintaining reliable drug manufacturing sources; costs of prosecuting or enforcing patent claims and other intellectual property rights; collaborative and license agreements with third parties; and opportunities to in-license or acquire new anti-cancer technologies.

Lorus' interest income is subject to fluctuations due to changes in interest rates in its investment portfolio of debt securities. Investments are held to maturity and have staggered maturities to minimize interest rate risk.

The Company purchases some services and manufactured drugs in U.S. currency, and conducts clinical trials in the United States. U.S. dollar expenditures are expected to increase in 2001 with additional clinical trials beginning in the United States. Lorus does not currently engage in hedging its U.S. currency requirements to reduce exchange rate risk, but may do so in the future if conditions warrant.

FORWARD-LOOKING STATEMENTS

This discussion and analysis and other sections of the annual report contain forward-looking statements, which are based on the Company's current expectations and assumptions, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks and uncertainties include, but are not limited to, general business and economic conditions, the successful and timely completion of clinical studies, the ability to continue to source appropriate drug manufacturing, decisions and timing of decisions made by health regulatory agencies regarding approval of the Company's products, the establishment of corporate alliances, the competitive environment, and other risks detailed from time to time in the Company's quarterly filings, annual reports, Annual Information Form and 20-F filings.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and all information in this annual report have been prepared by management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on the best estimates and judgements of management. Financial information presented elsewhere in the annual report is consistent with that in the financial statements.

The integrity and objectivity of these financial statements are the responsibility of management. In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee, which consists of three directors not involved in the daily operations of the Company, reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls. These financial statements have been audited by the shareholders' independent auditors, KPMG LLP.

Philippe G. Lacaille (signed)
Chairman and Chief Executive Officer

James T. Parsons (signed)
VP Finance and Administration and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Lorus Therapeutics Inc. as at May 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended May 31, 2000 and the related consolidated statement of loss and deficit and cash flows for the period from inception on September 5, 1986 to May 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2000 and for the period from inception on September 5, 1986 to May 31, 2000 in accordance with Canadian generally accepted accounting principles.

We did not audit the consolidated financial statements of Lorus Therapeutics Inc. for the period from inception on September 5, 1986 to May 31, 1994. Those consolidated financial statements were audited by other auditors who issued a report without reservation on July 8, 1994.

KPMG LLP (signed)
Chartered Accountants (signed)
Toronto, Canada
July 18, 2000

Consolidated Balance Sheets

AS AT MAY 31 (AMOUNTS IN 000'S) (CANADIAN DOLLARS)	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 50,928	$ 1,287
Short-term investments	5,659	–
Prepaid expenses and amounts receivable (note 4)	1,095	194
Total current assets	57,682	1,481
Deferred charges	–	221
Capital assets (note 5)	257	547
Acquired research and development (notes 3 and 6)	10,909	1,001
Goodwill (note 3(a))	3,515	–
	$ 72,363	$ 3,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,140	$ 168
Accrued liabilities	1,468	1,162
Total current liabilities	3,608	1,330
Shareholders' equity		
Share capital (note 7)		
Common shares		
Authorized: unlimited number of shares		
Issued and outstanding:		
May 31, 2000 – 139,665		
May 31, 1999 – 42,747	114,709	38,955
Warrants	754	535
Deferred stock-based compensation (note 7(j))	(539)	–
Deficit accumulated during development stage	(46,169)	(37,570)
Total shareholders' equity	68,755	1,920
	$ 72,363	$ 3,250

Commitments (notes 3(b) and 10)

Canada and United States accounting policy differences (note 13)

See accompanying notes to consolidated financial statements

On behalf of the Board:

Donald W. Paterson (signed)
Director

Philippe G. Lacaille (signed)
Director

Consolidated Statements of Loss and Deficit

(AMOUNTS IN 000'S EXCEPT FOR PER COMMON SHARE DATA)	Years Ended May 31			Period from inception Sept. 5, 1986 to May 31
(CANADIAN DOLLARS)	**2000**	1999	1998	2000
EXPENSES				
Research and development	**$ 4,244**	$ 3,005	$ 2,758	$ 28,053
General and administrative	**3,652**	1,701	1,912	17,434
Depreciation and amortization	**1,245**	188	340	3,541
Net gain on sale of capital assets (note 4)	**–**	(126)	–	(126)
Interest income	**(542)**	(145)	(268)	(2,733)
Loss for the period	**8,599**	4,623	4,742	46,169
Deficit, beginning of period	**37,570**	32,947	28,205	–
Deficit, end of period	**$ 46,169**	$ 37,570	$ 32,947	$ 46,169
Loss per common share	**$ 0.10**	$ 0.12	$ 0.13	
Weighted average number of common shares outstanding	**86,121**	37,858	36,567	

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(AMOUNTS IN 000'S)	Years Ended May 31			Period from inception Sept. 5, 1986 to May 31
(CANADIAN DOLLARS)	**2000**	1999	1998	2000
OPERATING ACTIVITIES				
Loss for the period	**$ (8,599)**	$ (4,623)	$ (4,742)	$ (46,169)
Add items not requiring a current outlay of cash:				
Depreciation and amortization	**2,662**	363	391	5,184
Net gain on sale of capital assets	**–**	(126)	–	(126)
Restructuring costs	**–**	–	–	626
Net change in non-cash working capital balances related to operations (note 9)	**575**	366	(29)	1,606
Cash used in operating activities	**(5,362)**	(4,020)	(4,380)	(38,879)
INVESTING ACTIVITIES				
Sale (purchase) of short-term investments	**(5,659)**	3,000	4,781	(5,659)
Acquisition, net of cash received (note 3(a))	**(539)**	–	–	(539)
Acquired research and development	**–**	–	(715)	(715)
Additions to capital assets	**(19)**	(465)	(202)	(3,083)
Cash proceeds on sale of capital assets	**116**	232	–	348
Cash provided by (used in) investing activities	**(6,101)**	2,767	3,864	(9,648)
FINANCING ACTIVITIES				
Issuance of warrants	**9,512**	1,217	–	31,877
Issuance of common shares	**51,592**	28	20	67,578
Cash provided by financing activities	**61,104**	1,245	20	99,455
Increase (decrease) in cash and cash equivalents during the period	**49,641**	(8)	(496)	50,928
Cash and cash equivalents, beginning of period	**1,287**	1,295	1,791	–
Cash and cash equivalents, end of period	**$ 50,928**	$ 1,287	$ 1,295	$ 50,928

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED MAY 31, 2000, 1999 AND 1998

1. DESCRIPTION OF BUSINESS

Lorus Therapeutics Inc. ("Lorus" or the "Company") is a biopharmaceutical Company focused on the research and development of cancer therapies. The Company's goal is to capitalize on its research, pre-clinical, clinical and regulatory expertise by developing new drug candidates that can be used, either alone, or in combination, to successfully manage cancer. Through its own discovery efforts and an active in-licensing program, Lorus is building a portfolio of promising anti-cancer drugs.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Lorus Therapeutics Inc., its 80% owned subsidiary NuChem Pharmaceuticals Inc., ("NuChem"), and its wholly-owned subsidiary GeneSense Technologies Inc. ("GeneSense") from the date of acquisition on October 29, 1999 (note 3(a)). All significant intercompany balances and transactions have been eliminated on consolidation. Certain comparative figures have been restated to conform with the presentation adopted in 2000.

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 13 "Canada and United States Accounting Policy Differences".

Cash Equivalents and Short-Term Investments

Lorus invests in high quality government and corporate issuers with low credit risk. Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase.

Short-term investments, which consist of fixed income securities with a maturity of three months or more, are recorded at their accreted value as they are held to maturity instruments.

Capital Assets

Capital assets are recorded at cost. The Company provides 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 five years
Leasehold improvements	straight-line over the lease term
Patents	straight-line over seven years

The Company regularly reviews the carrying value of its capital assets by comparing the carrying amount of the assets to the expected future cash flows to be generated by the asset. If the carrying value exceeds the amount recoverable, a write-down is charged to the statement of operations.

Research and Development

Research costs are charged to expense as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. No development costs have been deferred to date.

The Company capitalized the cost of acquired research and development on the acquisitions of GeneSense and the NuChem compounds and is amortizing these costs on a straight-line basis over seven years. Management reviews the carrying value of acquired research and development and accounts for any permanent impairment in value as a charge to operations in the year incurred.

Notes to Consolidated Financial Statements (continued)

The carrying value of acquired research and development 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.

Goodwill

Goodwill represents the excess of the cost of the GeneSense acquisition over the fair value of the net assets acquired and is being amortized on a straight line basis over three years. Management reviews the carrying value of goodwill and accounts for any permanent impairment in value as a charge to operations in the year incurred.

Stock-Based Compensation

The Company uses the intrinsic value method to account for stock-based compensation. Deferred stock-based compensation is recorded if, on the measurement date of the grant, the fair value of an underlying common share exceeds the exercise price per share. Deferred stock-based compensation is recognized as an expense over the vesting period of the option.

Income Taxes

Income taxes are reported using the asset and liability method, where future tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating loss and research and development expenditure carryforwards. A valuation allowance is recorded for the portion of the future tax assets where the realization of any value is uncertain.

Segmented Information

The Company is organized and operates as one operating segment, the research and development of cancer therapies.

Uses of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements and the accompanying notes. Actual results could differ from these estimates.

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.

Statement of Cash Flows

In 2000, the Company adopted the new accounting requirements for cash flow statements. The consolidated statement of cash flows provides information with respect to changes in cash and cash equivalents and classifies cash flows during the period arising from operating, financing and investing activities. Previously, the Company presented a consolidated statement of changes in financial position that provided information classified in a similar manner to the new consolidated statement of cash flows, except that non-cash transactions were included in the statement of changes in financial position. The results of prior years have been restated to conform with the presentation adopted in the current year.

3. ACQUISITIONS

(a) In October 1999, the Company completed the acquisition of all of the issued and outstanding shares of GeneSense Technologies Inc. a molecular genetic drug development company specializing in oligonucleotide therapies for the treatment of cancer and infectious diseases.

The acquisition has been accounted for using the purchase method. The total cost of the acquisition of $14,775,000 has been allocated to the fair value of the net assets acquired as follows:

(AMOUNTS IN 000'S)	
Current assets	$ 822
Capital assets	83
Acquired research and development	11,000
Goodwill	4,363
Current liabilities	(1,493)
	$ 14,775

The purchase price was satisfied by the issuance of 36,050,000 Lorus common shares. In addition, the Company issued 7,210,000 common share purchase warrants and 903,825 employee stock options in exchange for 1,400,000 common share purchase warrants and 175,500 employee stock options of GeneSense which were outstanding immediately prior to the acquisition. The purchase warrants entitle the holder to acquire one common share of Lorus for $0.6932 per share prior to July 31, 2002. The employee stock options have an exercise price of $0.40 per common share and maintain their original vesting terms. The total purchase price includes $775,000 in cash paid for costs related to the acquisition. All common share purchase warrants issued in connection with the acquisition were exercised in the year for proceeds of $4,998,000.

(b) In December 1997, NuChem acquired certain patent rights and a sub-license to develop and commercialize the anti-cancer application of certain compounds in exchange for a 20% share interest in NuChem, the payment of US$350,000 in shares of Lorus, and up to US$3,500,000 in cash. In 1999, the Company issued 583,188 common shares from treasury in settlement of the US$350,000 and made cash payments of US$500,000 (CDN$715,000). The remaining balance of up to US$3,000,000 remains payable upon the achievement of certain milestones based on the commencement and completion of clinical trials. The payments made to date of $1,228,000 have been classified as acquired research and development. Lorus funds all research and development expenses of NuChem.

4. NOTE RECEIVABLE

Included in the May 31, 1999 balance of prepaid expenses and amounts receivable is a note receivable in the amount of $116,000. The note receivable arose in December 1998 when the Company sold substantially all of its manufacturing assets for proceeds of $699,000 consisting of $150,000 in cash and a note receivable for $549,000. The Company recorded a gain on the sale of $443,000. Subsequent to the asset sale, the debtor of the note receivable filed for bankruptcy. At May 31, 1999 a provision for bad debts of $318,000 was recorded. The remaining estimated net recoverable amount of $116,000 was received in 2000.

5. CAPITAL ASSETS

AS AT MAY 31 (AMOUNTS IN 000'S)	2000	1999
Furniture and equipment	$ 593	$ 457
Leasehold improvements and pilot plant	68	64
Patents	53	389
	714	910
Accumulated depreciation and amortization	(457)	(363)
	$ 257	$ 547

During the year ended May 31, 2000, the Company wrote off $336,000 of capitalized patent costs relating to pending patent applications, in accordance with the Company's stated accounting policy.

6. ACQUIRED RESEARCH AND DEVELOPMENT

AS AT MAY 31 (AMOUNTS IN 000'S)	2000	1999
Cost	$ 12,228	$ 1,228
Accumulated amortization	(1,319)	(227)
	$ 10,909	$ 1,001

Notes to Consolidated Financial Statements (continued)

7. SHARE CAPITAL

(a) Continuity of common shares and warrants

(AMOUNTS IN 000'S)	Note 7	Common Shares Number	Common Shares Amount	Warrants Number	Warrants Amount
Balance at May 31, 1997		34,317	$ 34,243	3,644	$ 3,468
Exercise of purchase warrants	(b)	37	37	(37)	(4)
Expiry of purchase warrants	(b)	–	12	(285)	(11)
Exercise of special warrants	(c)	2,429	2,899	(2,429)	(3,132)
Issuance of purchase warrants on exercise of special warrants	(c)	–	–	607	219
Exercise of stock options		2	1	–	–
Balance at May 31, 1998		36,785	37,192	1,500	540
Expiry of purchase warrants	(c)	–	218	(607)	(218)
Issuance of special warrants	(e)	–	–	5,333	1,217
Exercise of special warrants	(e)	5,333	1,004	(5,333)	(1,217)
Issuance of purchase warrants on exercise of special warrants	(e)	–	–	3,200	213
Issuance in payment for acquired research and development (note 3 (b))		583	493	–	–
Exercise of stock options		46	48	–	–
Balance at May 31, 1999		42,747	38,955	4,093	535
Exercise of units	(d)	893	1,821	(893)	(321)
Exercise of purchase warrants	(e)	3,200	1,333	(3,200)	(213)
Issuance of special and purchase warrants	(f)	–	–	33,128	8,853
Exercise of special warrants	(f)	30,303	8,438	(30,303)	(8,438)
Exercise of purchase warrants	(f)	2,181	1,215	(2,181)	(321)
Issuance in public offering	(g)	15,333	41,952	766	659
Issued on acquisition of GeneSense (note 3 (a))		36,050	14,000	7,210	–
Exercise of purchase warrants (note 3 (a))		7,210	4,998	(7,210)	–
Issuance under alternate compensation plan		18	15	–	–
Exercise of stock options		1,730	1,113	–	–
Stock-based compensation		–	869	–	–
Balance at May 31, 2000		139,665	$ 114,709	1,410	$ 754

(b) 1996 Special Warrant Offering

During 1998, 37,150 dealer purchase warrants related to the 1996 special warrant offering were exercised for $33,000 and the remaining 285,450 purchase warrants expired, unexercised.

(c) 1997 Special Warrant Offering

On April 30, 1997, the Company completed a private placement of 2,428,571 special warrants for gross proceeds of $3,400,000 ($1.40 per special warrant) before deducting expenses of $268,000. Each special warrant granted the holder the right to acquire, without additional payment, one common share (stated capital $1.31 per common share) and one-quarter common share purchase warrant (stated capital $0.09 per one-quarter common share purchase warrant). Each whole common share purchase warrant entitled the holder to acquire one common share for $1.68 at any time on or before April 30, 1999. On July 8, 1997 the special warrants were converted into 2,428,571 common shares and 607,142 purchase warrants. The purchase warrants expired, unexercised, on April 30, 1999.

(d) 1997 Private Placement

On April 30, 1997, the Company completed a private placement of 3,571,429 units for gross proceeds of $5,000,000 ($1.40 per unit) before deducting expenses of $129,000. Each unit granted the holder the right to acquire, without

additional payment, one common share (stated capital $1.31 per common share) and one-quarter common share purchase warrant (stated capital $0.09 per one-quarter common share purchase warrant). Each whole common share purchase warrant entitled the holder to acquire one common share for $1.68 on or before April 30, 2002. On April 30, 1997 the units were converted into 3,571,429 common shares and 892,857 purchase warrants. In May 2000 the holder of the purchase warrants exercised all outstanding warrants for cash proceeds of $1,500,000.

(e) January 1999 Private Placement of Special Warrants

On January 8, 1999, the Company completed a private placement of 5,333,333 special warrants for gross proceeds of $1,600,000 ($0.30 per special warrant) before deducting expenses of $383,000. Each special warrant granted the holder the right to acquire, without additional payment, one common share (stated capital $0.272 per common share) and one-half of one Series A purchase warrant (stated capital $0.028 per one-half common share purchase warrant). Each whole common share purchase warrant entitled the holder to acquire one common share for $0.36 at any time on or before January 8, 2000. On May 7, 1999 the special warrants were converted into 5,333,333 common shares and 2,666,667 purchase warrants. In addition, the Company granted 483,333 broker warrants and 50,000 compensation options (stated capital $0.12 per broker warrant and compensation option) to agents of the Company in connection with the completion of the offering. Each broker warrant and compensation option entitled the holder to acquire one common share for $0.30. During the year ended May 31, 2000 all of the purchase warrants, broker warrants and compensation options related to this offering were exercised.

(f) October 1999 Private Placement of Special Warrants

On October 27, 1999 the Company issued 30,303,031 special warrants for gross proceeds of $10,000,000 ($0.33 per special warrant) before deducting expenses of $1,562,000. The special warrants grant the holder the right to acquire, without additional payment, one common share of the Company (stated capital $0.316 per common share). The expenses include the issuance of 2,824,849 compensation warrants (stated capital $0.147 per warrant) for services in connection with the completion of the offering. Each compensation warrant entitles the holder to acquire one common share for $0.41 at any time prior to October 27, 2001. In the third quarter, the special warrants were converted into 30,303,031 common shares. As at May 31, 2000, 643,450 compensation warrants remain outstanding.

(g) May 2000 Common Share Issue

On May 2, 2000 the Company issued 15,333,334 common shares for gross proceeds of $46,000,000 ($3.00 per common share) before deducting expenses of $4,048,000. The expenses include the issuance of 766,666 compensation warrants (stated capital $0.86 per warrant) for services in connection with the completion of the offering. Each compensation warrant entitles the holder to acquire one common share for $3.30. The warrants vest 50% on November 2, 2000, and 50% on May 2, 2001 and may be exercised at any time prior to November 2, 2001.

(h) Alternate Compensation Plans

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. As of May 31, 2000 18,291 shares were issued under this plan.

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 receive, on termination of their services to the Company, an equivalent number of common shares, or the cash equivalent of the fair market value of the common shares at that future date. The share units are granted at the fair market value of the common shares at the time of each annual election. As of May 31, 2000 no deferred share units had been issued.

(i) 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 12,000,000 common shares. Options are granted at the fair market value of the common shares on the date of grant. Options vest at various rates and have a term of five years. Stock option transactions for the three years ended May 31, 2000 are summarized as follows:

Notes to Consolidated Financial Statements (continued)

	2000		1999		1998	
	Options (000's)	Weighted-avg. exercise price	Options (000's)	Weighted-avg. exercise price	Options (000's)	Weighted-avg. exercise price
Outstanding at beginning of year	3,094	$ 1.00	2,128	$ 1.06	1,991	$ 1.16
Granted	5,135	0.75	1,248	0.49	538	0.89
Exercised	(1,730)	0.64	(45)	1.06	(2)	0.68
Forfeited	(189)	1.10	(237)	1.25	(399)	1.37
Outstanding at end of year	6,310	$ 0.80	3,094	$ 0.81	2,128	$ 1.06
Exercisable at end of year	3,515	$ 0.78	1,774	$ 1.00	1,573	$ 1.09

The following table summarizes information about stock options outstanding at May 31, 2000:

	Options outstanding			Options exercisable	
Range of Exercise prices	Options Outstanding (000's)	Weighted-Avg. Remaining Contractual Life (years)	Weighted-Avg. Exercise Price	Options Exercisable (000's)	Weighted-Avg. Exercise Price
$ 0.33 to $ 0.50	2,052	4.2	$ 0.39	775	$ 0.37
$ 0.51 to $ 0.99	3,317	4.0	0.81	2,039	0.81
$ 1.00 to $ 1.75	721	1.2	1.15	701	1.16
$ 2.70 to $ 3.63	220	4.7	3.21	–	–
	6,310	3.8	$ 0.80	3,515	$ 0.78

(j) Deferred Stock-based Compensation

The Company recorded deferred stock-based compensation relating to options issued under the Company's stock option plan amounting to $869,000 for the year ended May 31, 2000 (1999 – nil). Amortization of deferred stock-based compensation was $330,000 for the year ended May 31, 2000 (1999 and 1998 – nil).

8. INCOME TAXES

(a) 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 pretax 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)	2000	1999
Non-capital loss carryforwards	$ 10,011	$ 5,801
Research and development expenditures	9,357	8,358
Book over tax depreciation	1,002	488
Other	268	236
Future tax assets	20,638	14,883
Valuation allowance	(20,638)	(14,883)
	$ –	$ –

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 carried forward amounts have been completely offset by a valuation allowance.

(b) Research and development expenditures can be carried forward indefinitely. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

Year of expiry (AMOUNTS IN 000'S)	Non-capital losses
2001	$ 15
2002	3,215
2003	1,679
2004	2,607
2005	5,440
2006	4,720
2007	3,440
2008	1,330
	$ 22,446

9. 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			Period from inception Sept. 5, 1986 to May 31
(AMOUNTS IN 000'S)	**2000**	1999	1998	2000
(Increase) decrease				
Prepaid expenses and amounts receivable	**$ (440)**	$ 389	$ (71)	$ (518)
Deferred charges	**221**	(221)	–	–
Increase (decrease)				
Accounts payable	**728**	144	(159)	896
Accrued liabilities	**66**	54	201	1,228
	$ 575	$ 366	$ (29)	$ 1,606

10. COMMITMENTS

Under operating leases for premises and equipment, the Company is obligated to make minimum annual payments as follows:

(AMOUNTS IN 000'S)	
2001	$ 157
2002	83
2003	67
2004	38
	$ 345

During the year ended May 31, 2000, operating lease expenses were $146,000 (1999 – $117,000 and 1998 – $162,000).

11. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2000, there were no consulting fees paid to individuals (or companies controlled by those individuals) who were either officers or directors of the Company (1999 – $86,000 and 1998 – $104,000).

The Company received services from a law firm in which a director of the Company is a partner. Fees related primarily to the issuance of common shares, the acquisition of GeneSense, and consultations in the normal course of business, for an aggregate of $425,000 for the year ended May 31, 2000 (1999 – $279,000 and 1998 – $162,000).

Notes to Consolidated Financial Statements (continued)

The amount payable to related parties as at May 31, 2000 was $179,000 (1999 – $78,000 and 1998 – $15,000).

12. FINANCIAL INSTRUMENTS

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

13. CANADA AND UNITED STATES ACCOUNTING POLICY DIFFERENCES

These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In certain respects, GAAP as applied in the United States differs from that applied in Canada.

(a) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for fiscal years beginning after January 1, 2001. Management believes the adoption of SFAS No. 133 will not have a material effect on the Company's financial position or results of operations.

(b) SFAS 123 Employee Stock Compensation

SFAS No. 123 encourages, but does not require, the recording of compensation costs for stock options to be valued at fair value. For companies choosing not to adopt the fair value measurement for stock based compensation, the pronouncement requires the Company to disclose pro forma net income and earnings per share information as if the Company had accounted for its stock options under the fair value method since 1995. The Company has elected not to adopt the recording of compensation costs for stock options at fair value and, accordingly, a summary of the pro forma impact on the statement of loss is presented in the table below:

(AMOUNTS IN 000'S)	2000	1999	1998
Loss for the year	$ 8,599	$ 4,623	$ 4,742
Compensation expense related to the fair value of stock options	1,285	217	305
Pro forma loss for the period	$ 9,884	$ 4,840	$ 5,047
Pro forma loss per common share	$ 0.11	$ 0.13	$ 0.14

The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for options granted in the years ended May 31, 2000, 1999 and 1998: (i) dividend yield of 0%; (ii) expected volatility of 95% (1999 – 60%, 1998 – 60%); (iii) risk-free interest rate of 6.0% (1999 – 5.3%, 1998 – 4.5%) and (iv) expected lives of 5 years. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. The weighted-average grant-date fair value of options issued in the years ended May 31, 2000, 1999 and 1998 was $0.60, $0.28 and $0.49, respectively.

(c) SFAS 130 Reporting Comprehensive Income

SFAS No. 130 establishes standards for reporting and presentation of comprehensive income. This standard defines comprehensive income as the changes in equity of an enterprise except those resulting from shareholder transactions. Comprehensive loss for the periods presented in these financial statements equaled the loss for the period.

Corporate Governance

The Board of the Company believes that sound corporate governance practices are essential to the well being of the Company and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. The following is a description of the Company's corporate governance practices prepared by the Board.

In this Statement, the term "unrelated director" means a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests arising from shareholding. All unrelated directors of the Company are also "independent directors" given that the Company does not have a significant shareholder.

MANDATE OF THE BOARD

The mandate of the Board is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company. In fulfilling its mandate, the Board, among other matters, is responsible for: overseeing the strategic planning process; implementing appropriate systems to manage the Company's principal risks; ensuring that the Company operates within all applicable laws and regulations, and to the highest ethical and moral standards; appointing and evaluating senior management; developing the Company's communications policy; ensuring adequate and timely reporting of financial results and other significant developments and matters to the Company's shareholders; and ensuring the integrity of the Company's internal controls and management information systems.

Ten meetings of the Board were scheduled for fiscal 2000. There were ten meetings of the Board during fiscal 1999. The frequency of meetings change depending upon the state of the Company's affairs and in light of the opportunities or risks which the Company faces.

BOARD COMPOSITION

The Board is currently composed of seven members. The Board believes that five of the current directors are "unrelated directors" and that two directors are "related directors". Accordingly, the Board is and will be constituted with a majority of individuals who qualify as "unrelated directors". In deciding whether a particular director is a "related director" or an "unrelated director", the Board examined the factual circumstances of each director and considered them in the context of all relevant factors. In the case of Mr. Reiter the Board concluded that Mr. Reiter, a partner at the Company's primary law firm, is unrelated. Mr. Philippe Lacaille, the Chairman and Chief Executive Officer of the Company and Dr. Jim Wright, President and Chief Scientific Officer are directors. The Board believes that their extensive knowledge of the Company's business is beneficial to the other directors and that their participation as directors contributes to the effectiveness of the Board. Given that the membership of the Board includes only two directors who are executive officers of the Company, the Board believes that it is sufficiently independent of management.

Given the absence of a significant shareholder of the Company, the Board believes that the membership of the Board fairly reflects the investment in the Company by all of its shareholders. The Board believes that all directors make a valuable contribution to the Board and the Company.

BOARD COMMITTEES

During fiscal 2000, the Board had three committees: an Audit Committee, a Corporate Governance and Compensation Committee and an Environmental Committee. Ad hoc committees have also been established from time to time. The Environmental Committee was formed in January, 2000 subsequent to the Company's acquisition of GeneSense Technologies Inc. and its premises consisting of laboratories at Sunnybrook Hospital in Toronto, Canada.

AUDIT COMMITTEE [MR. PATERSON, MR. REITER AND MR. BÉCHARD]

The Audit Committee is composed entirely of unrelated directors. The committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the Company's external auditors. The committee is also responsible for reviewing quarterly and annual financial statements prior to their approval by the Board. The Audit Committee met four times during the past year. Mr. Béchard replaced Mr. Diamond as a member of the Audit Committee as of October, 1999, when Mr. Diamond resigned and Mr. Béchard was appointed a director of the Company.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE [MR. CAMPBELL AND MR. REITER]

The Corporate Governance and Compensation Committee is composed entirely of unrelated directors. The Committee is responsible for reviewing and making recommendations to the Board on, among other things, the compensation policies and practices for employees and senior executives of the Company, the implementation of succession plans, the evaluation of the performance of the Board and the adequacy of compensation of directors to reflect the responsibilities and risks involved in being an effective director. The Corporate Governance and Compensation Committee held three meetings in fiscal 2000.

ENVIRONMENTAL COMMITTEE [MR. CAMPBELL AND MR. HARJEE, V.P. INDUSTRIAL OPERATIONS]

The Environmental Committee's mandate is to ensure that the Company's management and employees are aware of and comply with environmental laws, as well as good management practices, to promote environmental awareness among employees, and to encourage practices that protect the environment. The Environmental Committee meets and reports monthly to the Company, and on a quarterly basis provides a written report to the Board.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any material expenditure. Management is also required to consult with the Board before pursuing capital projects or strategic ventures which are beyond the Company's existing businesses.

BOARD PERFORMANCE

It is the responsibility of the Chairman to ensure the effective operation of the Board. The Chairman is responsible for ensuring the effectiveness of the process the Board follows and the quality of information provided to directors by management. The Chairman will also meet at least once each year on an individual basis with every member of the Board to discuss that director's contribution to Board and committee deliberations and any other matters which the individual directors wish to raise with the Chairman. The Chairman also oversees the orientation of new directors.

For the first half of fiscal 2000, Mr. Paterson held the office of Chairman. As of November 1999, Mr. Lacaille a "related director" was appointed to the office of Chairman.

SHAREHOLDER FEEDBACK

The Company maintains an investor relations capability which the Board believes is important and highly effective. Every shareholder inquiry receives a prompt response from an appropriate officer of the Company.

EXPECTATIONS OF MANAGEMENT

The information which management provides to the Board is highly important to the ability of the Board to function effectively. Directors must have confidence in the data gathering, analysis and reporting functions of management. The Chairman monitors the nature of the information requested by and provided to the Board. Periodically, the Board meets without the presence of the directors who are members of senior management. The Board also meets regularly with the senior officers responsible for the Company's operations to discuss key issues or strategies related to their areas of responsibility. From time to time, the Board has engaged outside advisers at the Company's expense to provide advice to the Board on matters relevant to the Company's activities.

Directors and Officers

EXECUTIVE STAFF

Geoffrey Collett
Vice President, Corporate Development

Shane Ellis
Vice President, Legal Affairs and Corporate Secretary

Guy Ely, M.D.
Vice President, Drug Development

Nadir Harjee
Vice President, Industrial Operations

Philippe Lacaille
Chairman and Chief Executive Officer

James Parsons
Vice President, Finance & Administration
and Chief Financial Officer

Jim Wright, Ph.D.
President and Chief Scientific Officer

Aiping Young, M.D., Ph.D.
Vice President, Research

BOARD OF DIRECTORS

Philippe Lacaille, Chairman and
Chief Executive Officer,
Lorus Therapeutics Inc., Toronto

Robert Béchard
Director, Royal Bank Capital Partners, Montreal

Peter Campbell
Executive Advisor, Health Care Industry, Toronto

Donald W. Paterson
President, Cavandale Corporation, Toronto

Elly Reisman
Chief Executive Officer, The Great Gulf Group, Toronto

Barry Reiter
Chairman, Technology Group, Torys, Toronto

Dr. Jim A. Wright
President and Chief Scientific Officer,
Lorus Therapeutics Inc., Toronto

MEDICAL AND SCIENTIFIC ADVISORY BOARD (MSAB)

Dr. Donald Braun, Ph.D.
Professor/Administrative Director of
The Cancer Institute, Medical College of Ohio, Toledo

Dr. Gregory Curt, M.D.
US Department of Health and Human Services, Betheseda, Maryland

Dr. Robert Kerbel, Ph.D.
Director, Division of Cancer Biology Research, Sunnybrook and Women's College Health Sciences Centre, Toronto

Dr. Jamie De la Garza Salazar, M.D.
Director General, National Cancer Institute,
Mexico City, Mexico

Dr. Malcolm Moore, M.D., FRCPC
Staff Oncologist, Princess Margaret Hospital, Toronto

MEDICAL AND SCIENTIFIC ADVISORY BOARD (MSAB), CONTINUED

Dr. Lesley Seymour, MBBCH, FCP(SA)
Clinical Trials Group, National Cancer Institute
of Canada, Kingston, Ontario

Dr. Bishnu Sanwal, Ph.D.
Professor Emeritus, Department of Biochemistry, University of Western Ontario, London, Ontario

Dr. George R. Stark, Ph.D.
Chairman, Lerner Institute, The Cleveland Clinic
Foundation, Cleveland, Ohio

Dr. L. Siminovitch, Ph.D., DSC, CC, FRS, FRSC
Chairman, Lorus Therapeutics Inc.'s, MSAB
Director Emeritus, Mount Sinai Hospital, Toronto

Shareholder Information

CORPORATE COUNSEL

Torys, Toronto

Marusyk Miller & Swain, Ottawa

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Fax: (416) 228-7123

TRANSFER AGENT AND REGISTRAR

Inquiries regarding transfer requirements, lost certificates and changes of address should be directed to the transfer agent.

Montreal Trust Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1
Tel: (416) 981-9500
Fax: (416) 981-9800

INQUIRIES, ANNUAL AND QUARTERLY REPORTS

Shareholders and prospective shareholders are invited to call or e-mail us with questions or requests for additional information.
Lorus can be reached at:
Tel: (905) 305-1100
Fax: (905) 305-1584
e-mail: ir@lorusthera.com
Website: www.lorusthera.com

ANNUAL MEETING

The 2000 Annual Meeting of Shareholders will be held on Wednesday November 15, 2000 at 4p.m. at:
Canadian Bar Association – Ontario
Education and Meeting Centre
Salon 1, 2 & 3
200 – 20 Toronto Street
Toronto, Ontario

LORUS

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