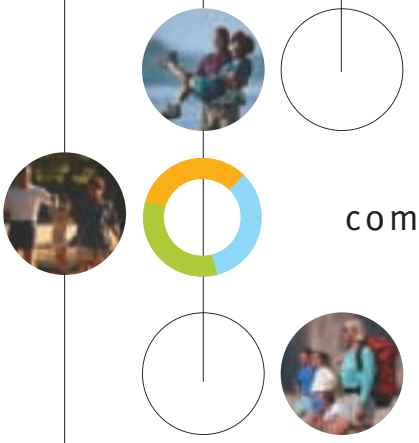


LORUS

committed to quality

for life

Enhancing the quality of life of cancer patients through the development of

mission for life

efficacious and well-tolerated drugs stands behind every activity undertaken at

Lorus. Our commitment to our business, to the oncology community and to

mission for life

our shareholders is a life long commitment, one that ensures we deliver products

with the potential to be used alone or in combination chemotherapy to manage

cancer. Our capable and experienced team of professionals remains focused

mission for life

on this mission.

LORUS committed to quality

for life

Lorus Therapeutics Inc.'s mission is the discovery, research and development of well-tolerated therapies that successfully manage cancer and promote improved quality of life. Our uniquely diversified product pipeline provides multiple opportunities for clinical success and increased shareholder value.

IMMUNOTHERAPY

Immunotherapy is a form of treatment that stimulates the body's immune system to fight diseases such as cancer.

Immunotherapy may help the immune system to fight cancer by recognizing the difference between healthy cells and cancer cells, or it might stimulate the production of certain cancer fighting cells. Virulizin® has been shown to be a non-toxic immunotherapy that recruits monocytes and macrophages to attack tumor cells. Since the drug works by encouraging the immune system to attack the cancer, rather than killing the cancerous cells itself, it can demonstrate fewer negative side effects than commonly used chemotherapy agents.

ANTISENSE

Since most human diseases, including cancer, can be traced to faulty protein activity, traditional therapeutics are designed to interact and therefore inhibit the activity of the disease causing proteins. Antisense therapeutics are designed to prevent the production of the proteins causing the disease. By acting at this earlier stage in the disease-causing process, antisense drugs have the potential to provide greater therapeutic benefit than traditional drugs. In addition, antisense treatment can be more selective, and as a result, more effective and less toxic than traditional therapies. Lorus' two lead antisense drugs, GTI-2040 and GTI-2501, are demonstrating their potential as anticancer agents in a broad range of cancers, and both have excellent safety profiles in studies performed.

SMALL MOLECULE CHEMOTHERAPHY

Chemotherapy is the treatment of cancer with systemic drugs that can destroy cancer cells, primarily by focusing on the proteins in actively reproducing cells. NC381, Lorus' lead small molecule compound, is demonstrating an effectiveness that complements its emerging favourable toxicity profile, helping it stand out from other current chemotherapeutic agents.

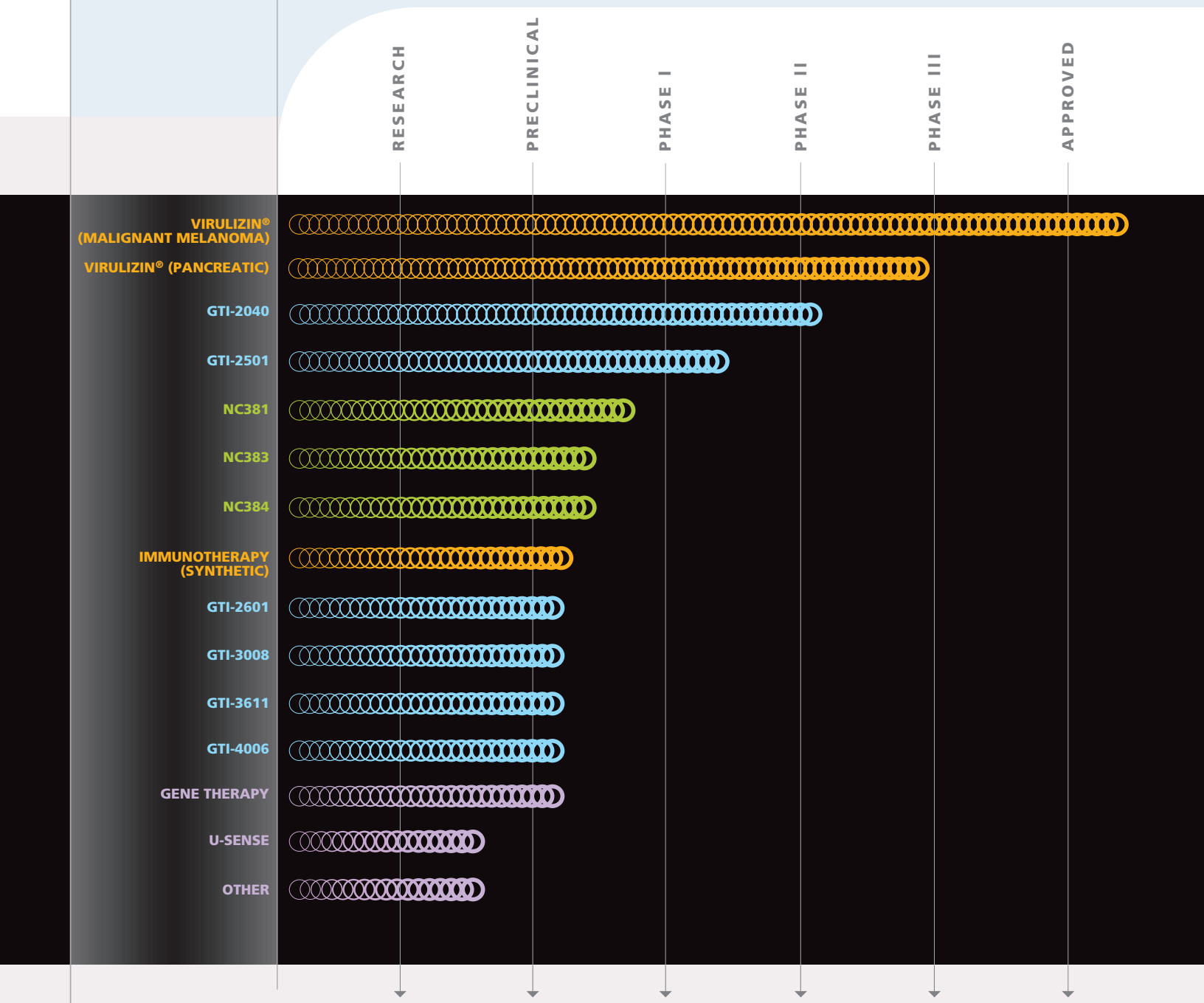
Chemotherapy drugs vary in their composition, route of administration, usefulness in treating specific forms of cancer, and side effects. A significant drawback to most chemotherapy agents is that they do not discriminate between normal cells and cancerous cells. A chemotherapeutic attack on normal cells can result in severe side effects, which vary in degree depending mainly on the characteristics of the drug and the dose the patient receives. Lorus is developing small molecule chemotherapy drugs that will diminish the severity of the side effects.

OTHER TECHNOLOGIES

Several promising new product opportunities have been introduced to the Lorus portfolio and are being assessed for their potential as new drug candidates. They include platform technologies in areas of tumor suppressor gene therapy, and U-Sense compounds that have the potential to work through a unique mechanism of action and decrease the expression of cancer relevant genes. Further antisense approaches for the treatment of cancer and drug resistant bacteria are also being investigated in the Lorus laboratory. In addition, Lorus has a functional genomics research program with the aim of identifying unique drugs with anti-cancer or antibacterial activity.

TABLE OF CONTENTS

LORUS AT A GLANCE



IMMUNOTHERAPY

ANTISENSE

SMALL MOLECULE CHEMOTHERAPY

OTHER

A company's research and discovery efforts are crucial to identifying promising leads for potential drug candidates.

A drug's toxic and pharmacologic effects are evaluated through *in vitro* testing and *in vivo* laboratory animal testing.

Phase I clinical trials evaluate the safety characteristics of a new drug and determine the drug dose that could be used in future clinical trials.

Phase II clinical trials continue to test the safety of the drug, and begin to evaluate how well the new drug works. Phase II studies usually focus on a particular type of cancer.

Phase III studies test a new drug, or a new combination of drugs in comparison to the current standard of treatment. A participant will usually be assigned to the standard treatment group or to the new treatment group at random.

On completion of clinical trials demonstrating the safety and efficacy of a new drug, a submission for marketing approval is made to the regulatory agency in the country where the approval is being sought.

Highlights

Year 2001 highlights

- The GTI-2040 Phase I clinical trial reached its clinical endpoints of safety and tolerability, and the recommended Phase II dose was identified. Plans for Phase II clinical trials are underway.
- GTI-2501 completed toxicology studies and received FDA approval for a Phase I clinical trial.
- An antisense research collaboration was established with AVI BioPharma Inc.
- An antisense strategic drug supply alliance with Proligo was established.
- Virulizin® demonstrated positive pre-clinical anti-tumor activity in human breast cancer tumors in mouse models.
- Virulizin® was awarded Orphan Drug Status by the FDA in the U.S.
- Dalton Chemical Laboratories Inc. was secured as manufacturer of Virulizin®.
- Management expertise was added in key clinical and regulatory areas, and two new directors joined the Board bringing U.S. and Canadian pharmaceutical and biotechnology expertise.

Subsequent to year-end

- First patients treated in Phase I clinical trial with GTI-2501.
- GTI-2040 prolonged survival rates of mouse models with lymphoma in pre-clinical testing.
- Expansion of Virulizin® Phase III clinical trial program to include both first and second line indications for pancreatic cancer treatment.
- Virulizin® showed promise in lung, ovarian and prostate cancers in pre-clinical testing.
- Dr. Jim A. Wright is appointed to the position of Chief Executive Officer and Dr. Raafat Fahim is appointed to the position of President and Chief Operating Officer.

Letter to Shareholders

- The year 2001 was an important one for Lorus. We broke new ground in our clinical program advancements, regulatory achievements, and introductions to potential partners and investors. Above all, though, it was a year of commitment. As this annual report will reflect, Lorus remains committed to success across all areas of the business to ensure superior returns for our shareholders.

Effective October 1, 2001, Dr. Jim A. Wright was appointed to Chief Executive Officer of Lorus. Dr. Raafat Fahim joined the Company in the position of President and Chief Operating Officer.

Dr. Jim A. Wright
President

The expertise of our scientific and management team has been essential to achieving our mission of developing well-tolerated and efficacious drugs. The team worked exhaustively in 2001 to advance the company to the important stage that we are in today, which is a company with drugs in, or entering, all phases of research and clinical development.

With an immunotherapeutic Phase III program, two antisense drugs in Phase I and Phase II clinical trials, and a promising small molecule research program, Lorus is in the challenging position of quickly bringing these drugs through clinical trials and onto the market. We are proud of the fact that very few biotechnology companies in the world can match the depth and strength of our product pipeline.

Encouraging pre-clinical results announced over the past 16 months enhanced the value of our product pipeline. For example Virulizin®, already recognized for its potential as an anti-cancer drug in pancreatic cancer, malignant melanoma and kaposi's sarcoma, was also discovered in pre-clinical studies to have promise with other cancers such as breast, lung, prostate and ovarian cancers. The potential of GTI-2040 was further strengthened as demonstrated in pre-clinical studies involving human lymphoma tumors.

Major advancements were made that contribute to the Phase III clinical trial program for Virulizin®. One of the most exciting announcements, further validating our research and clinical efforts involving Virulizin®, outlined our plans to expand the Phase III clinical trial program to include first and second line therapy treatments for pancreatic cancer. Having received Orphan Drug designation by the U.S. Food and Drug Administration (FDA) earlier in the year for the treatment of pancreatic cancer, the expanded protocol broadens the potential effectiveness and marketability of Virulizin®.

We significantly advanced our antisense development program. Upon completing toxicology studies for GTI-2501 and receiving FDA approval for a Phase I Investigational New Drug (IND) in February, the first patients were treated with GTI-2501 in June. GTI-2040 progressed to its Phase II clinical trial program as the endpoints of safety and tolerability were met for the Phase I study and the recommended dose for Phase II was identified. A Phase II program is underway.

Additional research and manufacturing alliances established in 2001 include a five-year agreement with AVI BioPharma Inc. for antisense research, and a strategic supply alliance with Proligo for the production of our antisense drugs. An agreement with Dalton Chemical Laboratories was secured for the manufacturing of Virulizin®. A successful collaborative agreement with the U.S. National Cancer Institute to investigate the toxicology of NC381, our lead small molecule compound, continued to add value to that research project.

The market conditions in fiscal 2001 certainly provided some highs and lows for shareholders of biotechnology companies. The unpredictable market environment only served to instill a deeper commitment to our business strategies and to building shareholder value. We are in a stable financial position, capable of implementing the robust clinical program to which we are committed for the upcoming years. We will continue to aggressively plan and achieve clinical trial program targets and optimal drug development times.

Looking ahead, our strategy is very clear: to continue to rapidly advance our clinical trial programs in the most cost-efficient manner. This will include the treatment of pancreatic cancer patients with Virulizin® in our Phase III clinical trial, the treatment of cancer patients with GTI-2040 in separate Phase II clinical trials, and the treatment of cancer patients with a variety of solid tumors or lymphoma with GTI-2501 in our Phase I clinical study. In addition, our research and pre-clinical programs will move ahead at full speed.

We will enhance the value of each of our drugs as they move through trials to ensure partnering and collaboration opportunities properly reflect the commercial potential of our products. Indeed, forming strategic partnerships and alliances that create greater value and new opportunities for Lorus will be a high priority in the coming year.

The support of our employees, Board members and shareholders was fundamental to our success this year and is integral to the growth and development of our business in 2002. Your dedication to Lorus, as we strive to achieve our mission, is the driving force behind our commitment to quality for life.

Jim A. Wright (signed)

- Our efficacious and well-tolerated drugs that improve quality of life are attractive to oncology professionals, patients, partners and investors.

committed to
LEADERSHIP

Cancer is a leading cause of death in North America. It is estimated that by 2010, the global cancer drug market will top US$56 billion. To meet the needs of this large and growing market, Lorus focuses its efforts on developing cancer therapeutics using various mechanisms of action that may be effective against a broad range of cancers. With a focus solely on cancer, which includes more than 100 diseases, our drugs have the potential to treat a multitude of cancer indications.

- Lorus is focused on developing products for the management of cancer. We approach this mission through a uniquely diversified product pipeline that provides multiple opportunities to successfully develop effective cancer therapies and mitigates the risks associated with the drug development process.

Our three most advanced platform technologies – immunotherapy, antisense and small molecule chemotherapy – have been developed to ensure they exhibit low levels of toxicity to improve quality of life. Realizing there will be an emergence of many treatment regimes to help those afflicted with cancer, the low toxicities of our drugs will enable us to test their potential both alone and in combination with other standard therapies. Through this approach to anti-cancer drug development, we are at the forefront of the new approach to treating cancer that will effectively manage the disease while improving patients' lives.

To be a leader in the biotechnology industry, a company needs an experienced management team who not only works together to achieve the goals of the business, but whose members are sought after throughout the industry as specialists in their field. A company must identify how its products will contribute to the needs of its sector. And a company needs to have a solid business plan, based on a successful drug development program, that defines how the company will reach profitability as fast as possible. We have spent 2001 solidifying these components of success. We are now positioned to deliver quality drugs, based on first-class research and clinical trial programs, to meet the unmet needs of the oncology community. This is our commitment.

We have seen a resurgence of interest in immunotherapy because of its impact on the quality of life of patients. In its pre-clinical and clinical programs, Virulizin® has proven to be a well-tolerated and effective multi-purpose drug capable of anti-tumor activity in a range of cancer types. Our Phase III program, expanded to include first and second line therapy treatments, is now more patient focused and commercially attractive.

IMMUNOTHERAPY for life

Immunotherapy

- **Multi-centre, randomized, controlled Phase III study**
- **First line therapy in combination with gemcitabine vs. gemcitabine**
- **Second line therapy for patients who become resistant/intolerant to gemcitabine (Virulizin® plus 5-Fluorouracil vs. 5-Fluorouracil alone)**
- **Approximately 350 patients**
- **Endpoints: Survival and clinical benefits**
- **Duration: Approximately 3 years**

A promising synthetic research program is underway that will augment the value of our immunotherapeutic platform.

Virulizin® is already approved for the treatment of malignant melanoma in Mexico. Marketing and distribution of Virulizin® in this market will be done in collaboration with an experienced partner.

Virulizin® could emerge as the least toxic drug approved for the treatment of pancreatic cancer.

- Virulizin® is entering its pivotal Phase III clinical trial program for patients with pancreatic cancer. The potential for revenue in North America from the approval of this drug will be realized upon completion of the Phase III program which includes first and second line treatment indications.

committed to **PRODUCTS**

As we began the expansion from a research-based company to a clinical development company, we recognized that more experience was needed in our regulatory and clinical drug development operations. With additions to our management team to satisfy these needs, as well as new Board members bringing biotechnology and pharmaceutical experience from both Canada and the U.S., we are ready to build on the promising drug development program already underway.

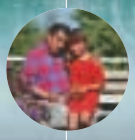
- Our antisense program is rapidly advancing, with some outstanding pre-clinical data to support the growing promise of the low toxicity and anti-tumor activity of both GTI-2040 and GTI-2501.

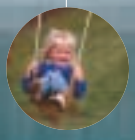
Our team of researchers is at the cutting edge of oncology drug development. Their innovations have led the advancement of our antisense and immunotherapeutic products to clinical trials while still generating a healthy number of pre-clinical drug candidates. They have developed platform technologies in areas of tumor suppressor gene therapy, and U-sense approaches to altering gene expression in tumors. Four other anti-cancer antisense drugs are being evaluated, as well as additional antisense compounds for the treatment of drug resistant bacteria. Further small molecule compounds are being studied as is an expanded synthetic immunotherapeutics program. We will continue to explore these projects and aggressively protect our research and science through a strong patent position.

We will work to quickly identify new drug candidates for clinical trials as our three lead drugs make their way to market. Our efforts are focused on minimizing the time-to-market of our efficacious, well-tolerated anti-cancer therapies. This is our commitment.

Antisense technology has gained increased visibility recently, thanks in part to announcements involving large pharmaceutical companies as well as the successful advancement of antisense drugs to late stage trials. We will continue to build on this momentum through our innovative scientific and clinical programs and our strong patent position.

ANTISENSE for life





Antisense

GTI-2040:	• **Phase I endpoints of safety and tolerability were met**
	• **Recommended Phase II dose was identified**
	• **Phase II program underway**
GTI-2501:	• **Completed toxicology studies and received FDA approval for Phase I IND**
	• **First patients treated in a Phase I clinical trial**

Research to date indicates that GTI-2040 is non-toxic and potentially effective against a broad range of tumors, including lung, breast, prostate, colon, liver, brain, ovary, cervical, skin, kidney, pancreatic and lymphoma.

In pre-clinical studies, treatment with GTI-2501 resulted in complete tumor regression in mice containing human kidney and breast cancers. Following tumor regression, no kidney tumor re-growth occurred, even after the treatment was stopped.

Our antisense drugs are demonstrating their potential across a broad range of cancers.

- Our strategy of evaluating each drug candidate throughout its clinical development will allow us to maximize the value of our product pipeline.

committed to SHAREHOLDER VALUE

Our strategy of developing cancer therapeutics which have different mechanisms of action that may be efficacious against a wide variety of cancers maximizes our opportunity to address multiple cancer therapeutic markets. The low toxicity of our drugs also adds to the value of our pipeline. This strategy means opportunities to help more people afflicted with cancer, and opportunities for greater revenues from increased product sales.

- We believe the value of our products, and hence, our Company, will be unlocked as advancements are made in our clinical trial program and alliances are made with significant partners.

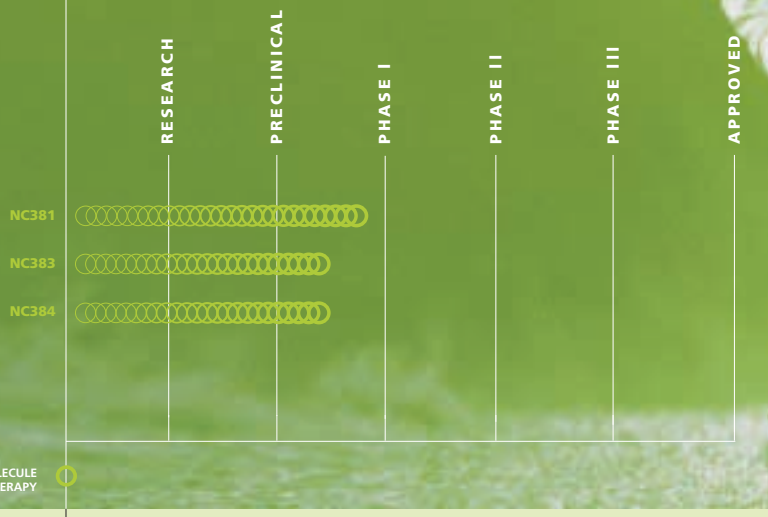
Soon to be a Phase III biotechnology company, we continue to build the commercial value of all our drugs as they advance through their clinical trial programs by broadening the range of cancer indications via pre-clinical studies. We also evaluate the drugs' strengths and weaknesses so that we can exploit the full commercial potential of each product, leveraging our success in clinical trials to secure advantageous strategic alliances that maximize the return for our shareholders.

Our commitment to increasing our share price includes building our network of partners and alliances. The establishment of a marketing and distribution partner for Virulizin® in Mexico will give Lorus its first commercialized product. This significant relationship will assist us in our ongoing discussions with partners for Virulizin® in other markets. Partnership interest in our antisense program is also increasing as we advance our products through clinical studies.

We will continue to nurture our ties with renowned academic and medical institutions and respected oncology professionals throughout the world. Our global presence will be enhanced by presenting at industry conferences and reporting the data from our research and clinical activities. These endeavors, combined with our dedication to the achievement of all clinical milestones, will help provide a superior return for our shareholders. This is our commitment.

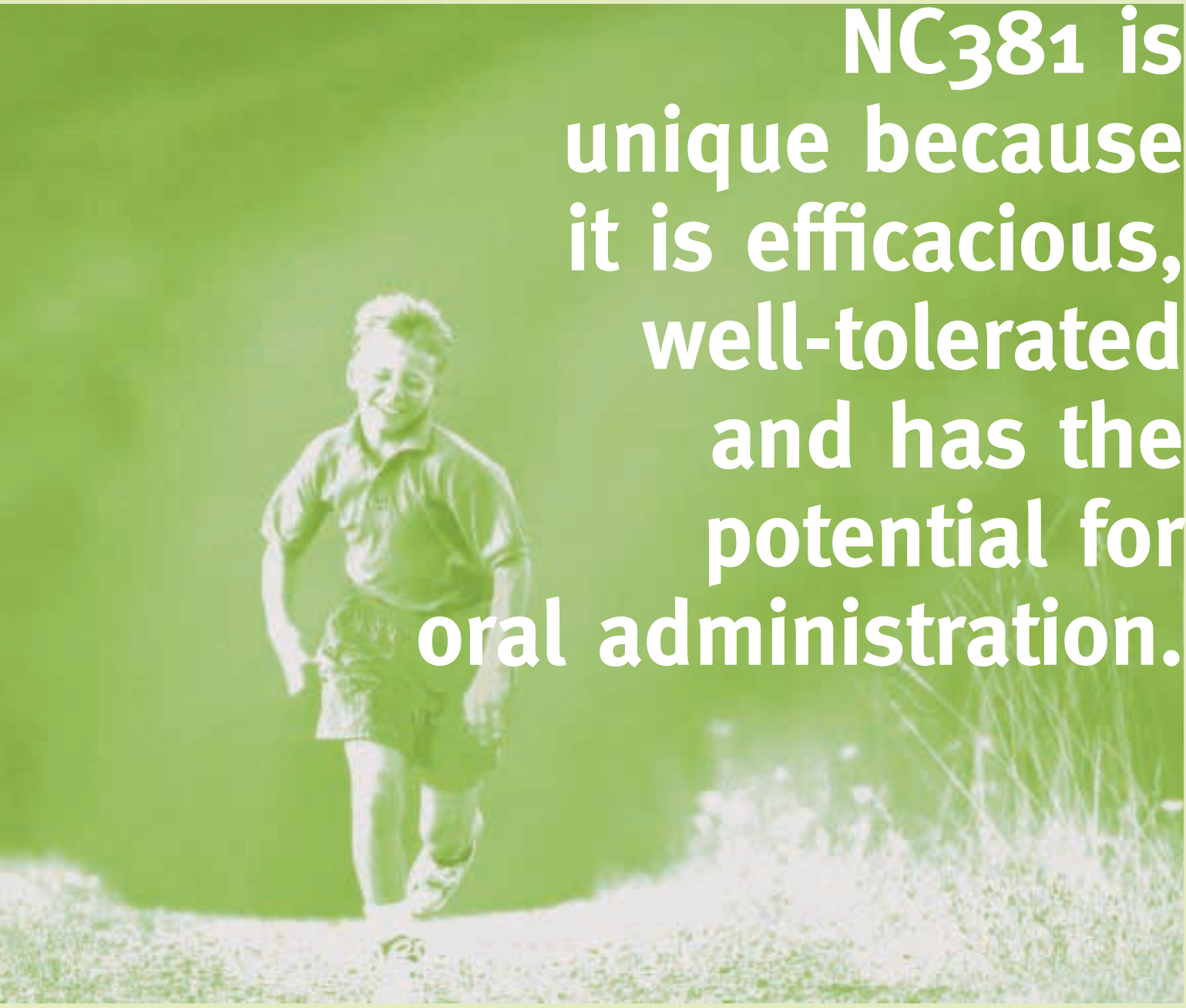
Clotrimazole (CLT) is a well-known anti-fungal agent that inhibits cell proliferation by blocking the cell cycle. Through a library of CLT analogs obtained from Harvard Medical School, Lorus has developed more effective and safer analogs of CLT for the treatment of cancer. Preliminary toxicology studies have been completed and pharmacokinetic studies are being conducted through a cooperative arrangement between Lorus and the U.S. National Cancer Institute.

SMALL MOLECULE CHEMOTHERAPY for life



Small Molecule Chemotherapy

- NC381 has been identified as one of Lorus' lead small molecule compounds
- Shown pre-clinical activity in lung, pancreatic and skin cancers
- Anti-angiogenic, anti-proliferative, and anti-metastatic properties
- Oral route of administration – potential to contribute to maintenance therapy
- US NCI collaboration agreement



NC381 is unique because it is efficacious, well-tolerated and has the potential for oral administration.

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 innovative cancer therapies with low toxicity. Lorus' goal is to capitalize on its research, pre-clinical, clinical and regulatory expertise by developing proprietary drug candidates that can be used, either alone or in combination, to successfully manage cancer. Through its own discovery efforts and an in-licensing and product acquisition program, Lorus is building a portfolio of promising anti-cancer drugs.

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 addressed through combinations of different therapies. Many cancer drugs currently approved for use are very toxic with severe side effects. Lorus is a leader in the development of cancer drugs with low toxicity. Effective drugs with lower toxicity and fewer side effects could have broad application in cancer treatment while improving the quality of life of a patient with cancer.

Lorus' strategy is to pursue the development of drug candidates using several therapeutic approaches, dependent upon different technologies, which mitigates the development risks associated with a single technology platform. Lorus' most advanced anti-cancer drugs in its pipeline flow from three platform technologies: Immunotherapeutics (Virulizin®); Antisense (GTI compounds); and small molecule or Chemotherapeutics (NuChem 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. Three products are in the clinical trial stage of development and several potential compounds exist in pre-clinical studies. Losses will continue as Lorus invests in these pre-clinical research and clinical drug development programs.

Research and Development

Research and development expenditures totaled $9.8 million in 2001 compared to $4.2 million in 2000 and $3.0 million in 1999. The increase in 2001 over 2000 is due mainly to the cost of antisense and immunotherapeutic drug development programs, the operating costs of our research facilities and the amortization of acquired research and development for a full year in 2001 compared to seven months post-acquisition of GeneSense Technologies Inc. (GeneSense) in 2000. Program expenditures for 2001 included manufacturing, regulatory and trial preparation costs for the Virulizin Phase III clinical trial for the treatment of pancreatic cancer patients, and costs to advance the antisense development program including drug costs to support the GTI-2040 Phase II combination therapy program and the GTI-2501 Phase I clinical trial.

The GTI-2040 Phase I/II trial demonstrated that the drug was well tolerated, the dosing level was determined for Phase II, and the trial continued into its Phase II component late in the year enrolling patients in renal cell carcinoma using GTI-2040 in a monotherapy treatment. GTI-2501, Lorus' second antisense drug in development, successfully completed toxicology and pharmacokinetic studies leading to an Investigational New Drug (IND) submission in January 2001. On approval of the IND a Phase I clinical trial was initiated, headed by Dr. Richard Schilsky at the University of Chicago. Pre-clinical investigation centered on the further development of NC381, our lead small molecule drug, selected from a library of drug candidates originally researched at the Harvard Medical School.

The increase in 2000 over 1999 resulted primarily from the cost of manufactured antisense drugs, the amortization of acquired research and development relating to the GeneSense acquisition, and pre-clinical and clinical costs of the

antisense compounds. Lorus expenses all drug costs on receipt of the manufactured product. The Company received drug shipments in the fourth quarter of 2000 for both GTI-2040 and GTI-2501 for use in clinical trials which led to higher costs in that year. The increase in 2000 over 1999 was partially offset by reduced Virulizin® drug manufacturing costs in 2000 and cost savings on the NuChem drugs as a result of bringing the research activities in-house by using the new expertise gained in the GeneSense acquisition.

General and Administrative

General and administrative expenses totaled $6.4 million in 2001 compared to $3.7 million in 2000 and $1.7 million in 1999. The 2001 results include a full year of administration costs related to GeneSense compared to seven months in 2000, with higher costs relating to intellectual property management, recruiting and advisory services, and licensing activities.

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.

Depreciation and Amortization

Depreciation and amortization expenses totaled $1.9 million in 2001 compared to $1.2 million in 2000 and $0.2 million in 1999. The increase in 2001 and 2000 over 1999 related primarily to the amortization of goodwill established on the acquisition of GeneSense for twelve months in 2001 and seven months in 2000. Stock-based compensation expenses were also incurred in 2001 and 2000 to recognize modifications to stock option awards and measurement differences between the fair value of an underlying common share and the exercise price per share on the option grant date. Stock-based compensation expense is recognized over the vesting period of the option.

Interest Income

Interest income totaled $2.9 million in 2001 compared to $0.5 million in 2000 and $0.1 million in 1999. The increase each year was due primarily to a higher average cash and investment balance than the previous year. Net cash proceeds of $61.1 million were raised from the issue of common shares and the exercise of warrants in 2000, with $42.0 million of this raised in the last month of 2000.

The loss for the year totaled $15.2 million in 2001 compared to $8.6 million in 2000 and $4.6 million in 1999. The increase in 2001 over 2000 resulted mainly from advances in the clinical development of the portfolio of cancer drugs, which included higher trial initiation and monitoring costs, manufacturing and regulatory costs in preparation for the Virulizin® phase III trial and antisense drug costs for current and future trials. Additionally, 2001 results included twelve months of research and development costs, amortization of acquired research and development and goodwill, and administration costs related to the October 1999 GeneSense acquisition compared to seven months in 2000.

The increase in 2000 over 1999 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 $0.11 in 2001 compared to $0.10 in 2000 and $0.12 in 1999. The loss per share in each year was comparable although the average number of shares increased significantly each year.

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

In 2001, Lorus issued common shares on the exercise of warrants and stock options, and under the alternate compensation plan in the aggregate amount of $2.0 million. In 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 2000 provided an additional $3.5 million in cash proceeds.

Operating Cash Requirements

Lorus' cash burn (cash used in operating activities) totaled $9.7 million in 2001 compared to $5.4 million in 2000 and $4.0 million in 1999. The cash burn increased in 2001 over 2000 due mainly to a higher level of research and development activity and higher clinical development costs as the products progress though clinical trials. Research and development expenses and general and administrative costs increased also due to a full year of costs related to GeneSense activities compared to seven months in 2000.

The cash burn in 2000 increased from 1999 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.

Lorus maintains a strong cash position and will continue to direct these resources to minimize the time to market for its drugs through management of our pre-clinical and clinical development programs. The Company's cash burn will increase in 2002 as our products advance clinically through the Phase III trial for Virulizin®, multiple Phase II trials for GTI-2040 and the Phase I trial for GTI-2501.

Cash Position

At May 31, 2001 Lorus had cash and cash equivalents and short-term investments totaling $48.8 million compared to $56.6 million at the end of 2000. 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 $44.5 million at May 31, 2001 ($54.1 million in 2000) 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.

Lorus intends to raise additional funds through equity financings, collaborative arrangements, acquisitions or otherwise. Although its cash position is 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 will continue 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, 2001 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 $195,000), 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 and develop new programs from its portfolio of pre-clinical research technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the progress of the Company's research and drug development programs, the results of pre-clinical and clinical trials, the timing of regulatory submissions and approvals, the ability of the Company to establish collaborative research or drug development arrangements with other organizations, the impact of any in-licensed or acquired technologies, 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 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 products.

Lorus' interest income is subject to fluctuations due to changes in interest rates in its investment portfolio of debt securities. Rates of return on cash and investment balances are expected to decline in 2002 due to lower market interest rates. 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 2002 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 40-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.

Jim A. Wright (signed)
President
July 6, 2001

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, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended May 31, 2001 and the related consolidated statement of loss and deficit and cash flows for the period from inception on September 5, 1986 to May 31, 2001. 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, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2001 and for the period from inception on September 5, 1986 to May 31, 2001 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 (signed)
Chartered Accountants
Toronto, Canada
July 6, 2001

CONSOLIDATED BALANCE SHEETS

As at May 31 (amounts in 000's) (Canadian dollars)	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents	**$ 2,783**	$ 50,928
Short-term investments	**46,035**	5,659
Prepaid expenses and amounts receivable	**1,504**	1,095
Total current assets	**50,322**	57,682
Capital assets (note 4)	**262**	257
Goodwill (note 3(a))	**2,060**	3,515
Acquired research and development (notes 5 and 8)	**9,163**	10,909
	$ 61,807	$ 72,363
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 3,128**	$ 2,140
Accrued liabilities	**2,737**	1,468
Total current liabilities	**5,865**	3,608
Shareholders' equity		
Share capital (note 6)		
Common shares		
Authorized: unlimited number of shares;		
Issued and outstanding (000's): May 31, 2001 – 142,411		
May 31, 2000 – 139,665	**117,150**	114,709
Warrants	**729**	754
Deferred stock-based compensation (note 6(h))	**(555)**	(539)
Deficit accumulated during development stage	**(61,382)**	(46,169)
Total shareholders' equity	**55,942**	68,755
	$ 61,807	$ 72,363

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

Jim A. Wright (signed) Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(amounts in 000's except for per common share data) (Canadian dollars)	Years ended May 31			Period from inception Sept. 5, 1986 to May 31,
	2001	2000	1999	2001
EXPENSES				
Research and development (note 8)	**$ 9,797**	$ 4,244	$ 3,005	$ 37,850
General and administrative	**6,414**	3,652	1,701	23,848
Depreciation and amortization	**1,903**	1,245	188	5,444
Net gain on sale of capital assets	**–**	–	(126)	(126)
Interest income	**(2,901)**	(542)	(145)	(5,634)
Loss for the period	**15,213**	8,599	4,623	61,382
Deficit, beginning of period	**46,169**	37,570	32,947	–
Deficit, end of period	**$ 61,382**	$ 46,169	$ 37,570	$ 61,382
Loss per common share	**$ 0.11**	$ 0.10	$ 0.12	
Weighted average number of common shares outstanding	**140,776**	86,121	37,858	

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in 000's) (Canadian dollars)	Years ended May 31			Period from inception Sept. 5, 1986 to May 31,
	2001	2000	1999	2001
OPERATING ACTIVITIES				
Loss for the period	**$ (15,213)**	$ (8,599)	$ (4,623)	$ (61,382)
Add items not requiring a current outlay of cash:				
Depreciation and amortization	**3,703**	2,662	363	8,887
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)	**1,848**	575	366	3,454
Cash used in operating activities	**(9,662)**	(5,362)	(4,020)	(48,541)
INVESTING ACTIVITIES				
Sale (purchase) of short-term investments	**(40,376)**	(5,659)	3,000	(46,035)
Acquisition, net of cash received (note 3(a))	**–**	(539)	–	(539)
Acquired research and development	**–**	–	–	(715)
Additions to capital assets	**(172)**	(19)	(465)	(3,255)
Cash proceeds on sale of capital assets	**–**	116	232	348
Cash provided by (used in) investing activities	**(40,548)**	(6,101)	2,767	(50,196)
FINANCING ACTIVITIES				
Issuance of warrants	**–**	9,512	1,217	31,877
Issuance of common shares	**2,065**	51,592	28	69,643
Cash provided by financing activities	**2,065**	61,104	1,245	101,520
Increase (decrease) in cash and cash equivalents during the period	**(48,145)**	49,641	(8)	2,783
Cash and cash equivalents, beginning of period	**50,928**	1,287	1,295	–
Cash and cash equivalents, end of period	**$ 2,783**	$ 50,928	$ 1,287	$ 2,783

See accompanying notes to consolidated financial statements

For the years ended May 31, 2001, 2000 and 1999

1. Description of Business

Lorus Therapeutics Inc. ("Lorus" or "the Company") is a biopharmaceutical Company focused on the research and development of efficacious and well-tolerated cancer therapies. The Company's goal is to capitalize on its research, pre-clinical, clinical and regulatory expertise by developing proprietary drug candidates that can be used, either alone or in combination, to successfully manage cancer. Through its own discovery efforts and an 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"). The results of operations for acquisitions are included in these consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated on consolidation.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and comply in all material respects with accounting principles generally accepted in the United States, except as disclosed in note 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 three to five years
Leasehold improvements	straight-line over the lease term

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 assets. 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, including the cost of drugs for use in clinical trials, 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.

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.

In March 2000, the Canadian Institute of Chartered Accountants issued Accounting Guideline 11 ("AcG11") "Enterprises in the Development Stage" which provides guidance on recognition, measurement, presentation and disclosure by enterprises in the development stage. To date, the Company has not earned revenues from its drug candidates and is therefore considered to be in the development stage. The Company has adopted AcG11 effective June 1, 2000 on a retroactive basis. There are no retroactive recognition or measurement adjustments resulting from adopting AcG11 because the Company had not previously deferred pre-operating assets or development costs.

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 employee 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.

Stock options granted to consultants and other non-employees are accounted for using the fair value method. Under this method, options granted are recognized at their fair value as services are performed and options are earned.

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 efficacious and well-tolerated 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.

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 was accounted for using the purchase method. The total cost of the acquisition of $14,775,000 was 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. Capital Assets

As at May 31 (amounts in 000's)	**2001**	2000
Furniture and equipment	**$ 765**	$ 646
Leasehold improvements	**68**	68
	833	714
Accumulated depreciation and amortization	**(571)**	(457)
	$ 262	$ 257

5. Acquired Research and Development

As at May 31 (amounts in 000's)	**2001**	2000
Cost	**$ 12,228**	$ 12,228
Accumulated amortization	**(3,065)**	(1,319)
	$ 9,163	$ 10,909

6. Share Capital

(a) ***Continuity of Common Shares and Warrants***

(amounts in 000's)	Note 6	Common shares Number	Common shares Amount	Warrants Number	Warrants Amount
Balance at May 31, 1998		36,785	$ 37,192	1,500	$ 540
Expiry of purchase warrants		–	218	(607)	(218)
Issuance of special warrants	(c)	–	–	5,333	1,217
Exercise of special warrants	(c)	5,333	1,004	(5,333)	(1,217)
Issuance of purchase warrants on exercise of special warrants	(c)	–	–	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 purchase warrants	(b)	893	1,821	(893)	(321)
Exercise of purchase warrants	(c)	3,200	1,333	(3,200)	(213)
Issuance of special and purchase warrants	(d)	–	–	33,128	8,853
Exercise of special warrants	(d)	30,303	8,438	(30,303)	(8,438)
Exercise of purchase warrants	(d)	2,181	1,215	(2,181)	(321)
Issuance in public offering	(e)	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	(f)	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
Exercise of purchase warrants	(d)	168	93	(168)	(25)
Issuance under alternate compensation plan	(f)	28	49	–	–
Exercise of stock options		2,550	1,866	–	–
Stock-based compensation		–	351	–	–
Other		–	82	–	–
Balance at May 31, 2001		142,411	$117,150	1,242	$ 729

(b) ***1997 Private Placement***

In May 2000, 892,857 common share purchase warrants related to an April 30, 1997 private placement were exercised to acquire 892,857 common shares at $1.68 per common share for aggregate cash proceeds of $1,500,000.

(c) ***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. All purchase warrants, broker warrants and compensation options related to this offering have been exercised.

(d) ***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 of 2000, the special warrants were converted into 30,303,031 common shares. As at May 31, 2001, 475,700 compensation warrants remain outstanding.

(e) ***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 vested 50% on November 2, 2000 and 50% on May 2, 2001 and may be exercised at any time prior to November 2, 2001. As at May 31, 2001, all compensation warrants remain outstanding.

(f) ***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, 2001, 46,000 shares have been 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 market value of the common shares at that future date. The share units are granted based on the market value of the common shares on the date of issue. As of May 31, 2001 no deferred share units have been issued.

(g) ***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, 2001 are summarized as follows:

	2001		2000		1999	
	Options (000's)	**Weighted-average exercise price**	Options (000's)	Weighted-average exercise price	Options (000's)	Weighted-average exercise price
Outstanding at beginning of year	**6,310**	**$ 0.80**	3,094	$ 0.81	2,128	$ 1.06
Granted	**1,281**	**$ 2.08**	5,135	$ 0.75	1,248	$ 0.49
Exercised	**(2,550)**	**$ 0.73**	(1,730)	$ 0.64	(45)	$ 1.06
Forfeited	**(897)**	**$ 1.00**	(189)	$ 1.10	(237)	$ 1.25
Outstanding at end of year	**4,144**	**$ 1.19**	6,310	$ 0.80	3,094	$ 0.81
Exercisable at end of year	**2,486**	**$ 0.95**	3,515	$ 0.78	1,774	$ 1.00

The following table summarizes information about stock options outstanding at May 31, 2001:

	Options outstanding			Options exercisable	
Range of Exercise prices	Options outstanding (000's)	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Options exercisable (000's)	Weighted-average exercise price
$ 0.33 to $ 0.49	914	3.2	$ 0.40	561	$ 0.40
$ 0.50 to $ 0.99	1,884	1.6	$ 0.83	1,547	$ 0.83
$ 1.00 to $ 1.99	466	3.1	$ 1.59	103	$ 1.47
$ 2.00 to $ 3.63	880	4.3	$ 2.59	275	$ 2.57
	4,144	2.7	$ 1.19	2,486	$ 0.95

(h) ***Deferred Stock-based Compensation***

The Company recorded deferred stock-based compensation relating to options issued under the Company's stock option plan amounting to $351,000 for the year ended May 31, 2001 (2000 – $869,000 and 1999 – nil). Amortization of deferred stock-based compensation was $335,000 for the year ended May 31, 2001 (2000 – $330,000 and 1999 – nil).

7. Income Taxes

Income tax recoveries attributable to losses from operations differ from the amounts computed by applying the combined Canadian federal and provincial income tax rates to 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)	**2001**	2000
Non-capital loss carryforwards	**$ 9,976**	$ 10,011
Research and development expenditures	**12,770**	9,357
Book over tax depreciation	**1,819**	1,002
Other	**1,984**	268
Future tax assets	**26,549**	20,638
Valuation allowance	**(26,549)**	(20,638)
	$ –	$ –

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.

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
2002	$ 3,339
2003	2,140
2004	2,022
2005	2,295
2006	3,633
2007	4,264
2008	5,977
	$ 23,670

8. Research and Development Program

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

(a) ***Immunotherapy***

This clinical approach stimulates the body's natural defenses against cancer. The Company plans to enter its lead drug Virulizin® in a phase III clinical trial with pancreatic cancer patients in fiscal 2002.

(b) ***Antisense***

Antisense drugs are genetic molecules that inhibit the production of disease-causing proteins. GTI-2040 and GTI-2501, our lead antisense drugs, have shown pre-clinical anti-cancer activity across a broad range of cancers and are currently entering into phase II and phase I trials, respectively.

(c) ***Small Molecules***

Anti-cancer activity was discovered with an anti-fungal agent Clotrimazole ("CLT"). Based on the structural feature found to be responsible for the anti-cancer effect of CLT, chemical analogues of CLT have been designed and tested. The lead analogue NC381 is in the pre-clinical research stage of development.

The following table outlines research and development costs acquired and expensed for the Company's most advanced technology platforms:

(amounts in 000's)	Years ended May 31			Period from inception Sept. 5, 1986 to May 31,
Research and development	**2001**	2000	1999	2001
Immunotherapy				
Acquired	**$ –**	$ –	$ –	$ –
Expensed	**2,161**	887	1,200	24,876
Antisense				
Acquired	**–**	11,000	–	11,000
Expensed	**7,116**	2,772	–	9,888
Small Molecules				
Acquired	**–**	–	513	1,228
Expensed	**520**	585	1,805	3,086
Total acquired	**$ –**	$ 11,000	$ 513	$ 12,228
Total expensed	**$ 9,797**	$ 4,244	$ 3,005	$ 37,850

9. Supplementary Cash Flow Information

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

(amounts in 000's)	Years ended May 31			Period from inception Sept. 5, 1986 to May 31,
	2001	2000	1999	2001
(Increase) decrease				
Prepaid expenses and amounts receivable	**$ (409)**	$ (440)	$ 389	$ (927)
Deferred charges	**_**	221	(221)	–
Increase (decrease)				
Accounts payable	**988**	728	144	1,884
Accrued liabilities	**1,269**	66	54	2,497
	$ 1,848	$ 575	$ 366	$ 3,454

During the year ended May 31, 2001, the Company received interest of $2,607,000 (2000 – $542,000 and 1999 – $145,000).

10. Commitments

The Company has entered into operating leases for premises and equipment under which it is obligated to make minimum annual payments of less than $200,000 per year.

During the year ended May 31, 2001, operating lease expenses were $206,000 (2000 – $146,000 and 1999 – $117,000).

11. Related Party Transactions

During the year ended May 31, 2001, there were no consulting fees paid to individuals (or companies controlled by those individuals) who were either officers or directors of the Company (2000 – nil and 1999 – $86,000).

The Company received services from a law firm in which a director of the Company is a partner. Fees related primarily to consultations in the normal course of business for an aggregate of $357,000 for the year ended May 31, 2001 (2000 – $425,000 and 1999 – $279,000).

The amount payable to related parties as at May 31, 2001 was $140,000 (2000 – $179,000 and 1999 – $78,000).

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) ***SFAS 123 Employee Stock Compensation***

SFAS No. 123 encourages, but does not require, the recording of compensation costs for stock options issued to employees 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:

	Years ended May 31		
(amounts in 000's)	**2001**	2000	1999
Loss for the year	**$ 15,213**	$ 8,599	$ 4,623
Compensation expense related to the fair value of stock options	**1,059**	1,285	217
Pro forma loss for the year	**$ 16,272**	$ 9,884	$ 4,840
Pro forma loss per common share	**$ 0.12**	$ 0.11	$ 0.13

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, 2001, 2000, and 1999: (i) dividend yield of 0%; (ii) expected volatility of 95% (2000 – 95%, 1999 – 60%); (iii) risk-free interest rate of 5.4% (2000 – 6.0%, 1999 – 5.3%) 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 values of options issued in the years ended May 31, 2001, 2000, and 1999 were $1.56, $0.60, and $0.28 respectively.

(b) ***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.

(c) ***Recent Accounting Pronouncement***

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 June 15, 2000. Management believes the adoption of SFAS No. 133 will not have a material effect on the Company's financial position or results of operations.

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 description, 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.

Eleven meetings of the Board were scheduled for fiscal 2001. There were ten meetings of the Board during fiscal 2000. 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 eight members. The Board believes that seven of the current directors are "unrelated directors" and that one director is a "related director". 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. The Board concluded that Dr. Jim Wright who is President and Chief Scientific Officer as well as a director, is related. The Board believes that his extensive knowledge of the Company's business is beneficial to the other directors and that his participation as a director contributes to the effectiveness of the Board. Given that the membership of the Board includes only one director who is an executive officer 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 2001, 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.

Audit Committee

[Mr. Paterson, Mr. Reisman 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 five times during the past year. Mr. Reisman replaced Mr. Reiter as a member of the Audit Committee as of November 2000.

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 five meetings in fiscal 2001.

Environmental Committee

[Mr. Campbell and Dr. Yoon Lee, Senior Scientist, Head of Molecular Biology]

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. Dr. Lee replaced Mr. Harjee as the management, non-voting member of the Environmental Committee as of January 2001 when Mr. Harjee resigned.

Decisions Requiring Board Approval

In addition to those matters which must by law be approved by the Board, management is 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 2001, Mr. Lacaille a "related director" was held to the office of Chairman. As of January 2001, Mr. Campbell, an unrelated director, was appointed to the office of interim 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 director who is a member 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

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

Jim A. Wright, Ph.D.
President

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

Board of Directors

Robert Béchard
Director, Royal Bank Capital Partners,
Montreal

Peter J. 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

Alan Steigrod
Managing Director,
Newport HealthCare Ventures, Newport
Beach, California

Graham Strachan
President,
GLS Business Development Inc., Toronto

Jim A. Wright
President

Medical and Scientific Advisory Board (MSAB)

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Professor/Administrative Director
of The Cancer Institute,
Medical College of Ohio

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US Department of Health
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Betheseda, Maryland

Dr. Robert Kerbel, Ph.D.
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Research, Sunnybrook and Women's College
Health Sciences Centre, Toronto

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Director General, National Cancer Institute,
Mexico City, Mexico

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

Dr. Lesley Seymour, Ph.D., MBBCH, FCP(SA)
Co-Director, Investigational New Drug
Program, National Cancer Institute of
Canada, Kingston, Ontario

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

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

Dr. L. Siminovitch, Ph.D., DSC, CC, FRS, FRSC
Chairman, Lorus Therapeutics Inc.'s MSAB,
Director Emeritus, Samuel Lunenfeld
Research Institute, Toronto

SHAREHOLDER INFORMATION

Corporate Counsel

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Marusyk Miller & Swain, Ottawa

Auditors

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North York, Ontario
M2P 2B8

Transfer Agent and Registrar

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

Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario
M5J 2Y1
Tel: 416 981 9500

Inquiries, Annual and Quarterly Reports

Shareholders and prospective shareholders are invited to call or e-mail us with questions or requests for additional information.

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Annual Meeting

The 2001 Annual Meeting of Shareholders will be held on Tuesday November 27, 2001 at 4 p.m. at:

TSE Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2

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