BUILDING VALUE THROUGH PROGRESS

LORUS

A YEAR OF SUCCESS

VIRULIZIN® (MALIGNANT MELANOMA)*
VIRULIZIN® (PANCREATIC)

GTI-2040
GTI-2501

NC381
NC383
NC384

IMMUNOTHERAPY (2nd generation)

GTI-2601
GTI-3008
GTI-3611
GTI-4006

GENE THERAPY
U-SENSE
OTHER

IMMUNOTHERAPY
ANTISENSE
SMALL MOLECULE CHEMOTHERAPY
OTHER

*Approved in Mexico

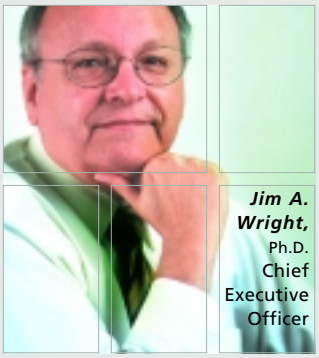
Mission

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.

Highlights

YEAR 2002 AND SUBSEQUENT HIGHLIGHTS

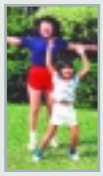
- Initiated the North American Phase III clinical trial of Virulizin® for the treatment of pancreatic cancer
- Received a commitment from the U.S. National Cancer Institute to fund an expanded Phase II clinical program with GTI-2040
- Received Fast Track designation from the U.S. FDA for Virulizin® for the treatment of pancreatic cancer
- Expanded the Phase II clinical program of GTI-2040 by initiating a Phase II clinical trial in combination with capecitabine for the treatment of renal cell carcinoma
- Initiated the Phase I clinical trial of GTI-2501 for the treatment of cancer
- Partnered with Mayne Pharma (formerly Faulding Canada) for the sales and distribution of Virulizin® in Mexico for the treatment of malignant melanoma. Mayne Pharma later exercised their option to enter into a similar agreement for Brazil
- Strengthened the scientific foundation of Virulizin® with data supporting both its mechanism of action and its biochemical characterization
- Demonstrated promising preclinical results in the inhibition of tumour growth using an innovative gene therapy program for the treatment of cancer. Allowed a U.S. patent protecting this intellectual property
- U.S. patent issued for our antisense drug targeting the insulin-like growth factor II gene sequence



Jim A. Wright, Ph.D.
Chief Executive Officer

BUILDING VALUE THROUGH PROGRESS

LETTER TO SHAREHOLDERS



Lorus has made great progress in major areas of our business, including our clinical trial program with three concurrent trials now underway and in our outreach programs aimed at potential partners and investors, regulatory authorities and industry leaders, such as the U.S. National Cancer Institute. We continued to advance our research, which has for example led to the issuance of new patents for our discoveries in antisense and gene therapy, and we continue to build a strong employee base through the appointment of experienced personnel.

The process of bringing a new drug to market is lengthy and complex, but with Virulizin® projected for a launch in Mexico to treat malignant melanoma, and in a Phase III clinical trial for pancreatic cancer in North America, we are well on our way to our goal of being a product-focused company delivering innovative new treatments to cancer patients worldwide.

Progress in Our Clinical Trials – Three Concurrent Trials

After meeting with the U.S. Food and Drug Administration last summer to discuss our intended protocol for Virulizin® in its Phase III clinical trial, we decided that our chances for success would be enhanced by a novel clinical trial design that included both first and second line therapies. So in November, 2001, Lorus initiated a randomized, double-blind, phase III

Lorus is committed to getting new and effective therapies to cancer patients as quickly as possible.

clinical trial to evaluate Virulizin® for the treatment of advanced pancreatic cancer. Study subjects are randomized to receive either treatment with gemcitabine or treatment with gemcitabine plus Virulizin®. Those patients who fail or become refractory to gemcitabine are treated with 5-Fluorouracil (5-FU) or with 5-FU in combination with Virulizin®.

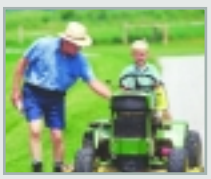
The unfortunate statistics for pancreatic cancer include a 99% mortality rate – the highest of any cancer – and no cure or early detection test. The need for an improved treatment for cancer is obvious, and Lorus is proud to have announced that the U.S. FDA has designated Virulizin® as a Fast Track drug development program for the treatment of pancreatic cancer. Drugs designated for Fast Track are intended for the treatment of a life-threatening condition and have demonstrated the potential to address an unmet medical need.

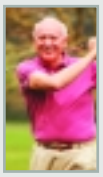
Another hard to treat cancer with an unmet medical need is kidney cancer. A Phase II clinical trial with our lead antisense drug, GTI-2040, was initiated this past year to investigate its effectiveness in patients with metastatic renal cell carcinoma. GTI-2040, which has previously shown its anticancer potential in *in vivo* studies for the treatment of twelve different cancers, is being evaluated in a clinical trial in combination with capecitabine. Capecitabine is an oral treatment and a derivative of the commonly used chemotherapy drug 5-FU. With only one approved drug on the market for this indication, Lorus has the objective to introduce an effective treatment that takes the patient's quality of life into consideration.

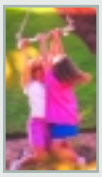
An exciting collaboration recently announced is with the U.S. National Cancer Institute ("NCI") for the development program of GTI-2040. Lorus will supply GTI-2040 for multiple clinical trials to evaluate its efficacy in a range of cancers. This allows us to evaluate our lead antisense drug in more clinical trials than we had originally

planned, saving us a considerable amount of money, and enhancing our potential for success.

We initiated a Phase I clinical trial for GTI-2501, another antisense drug and our third drug being evaluated for the treatment of cancer. GTI-2501 differs from GTI-2040 in its target, which means that while it is an antisense drug, it has a different mode of action than GTI-2040 and therefore has its own unique set of characteristics. This trial is expected to be complete in early 2003 and has shown no major adverse effects.







Time to market is an important concept in our business. Lorus is moving innovative drugs quickly and efficiently through the drug development stages of discovery, preclinical studies and clinical trials towards regulatory approval in a cost effective manner.

Progress in Our Path to Commercialization

Our business strategy has always been to evaluate the potential of each drug candidate as it makes its way through clinical development to allow us to maximize the value of our product pipeline. Our focus has been, and will continue to be, on forming alliances with international pharmaceutical companies that offer the best strategic and financial opportunities for Lorus. We have the capabilities to take our drugs through the clinical process but will rely on the expertise of larger biotechnology or pharmaceutical companies to take our drugs to market for the benefit of cancer patients worldwide.

We kept to this focus when signing an agreement with Mayne Pharma (*formerly Faulding*) as our sales and distribution partner for Virulizin® in Mexico. Mayne Pharma is represented in more than 50 countries worldwide covering oncology and several other therapeutic areas. The reporting of royalty revenue, albeit modest in its first year, from sales in Mexico will be a milestone event for Lorus. Mayne Pharma also extended their relationship with us by choosing to exercise their option to acquire the distribution rights for Virulizin® in Brazil. We look forward to building a strong relationship with them on both of these ventures, as well as on any other prospective markets.

We also strengthened our relationships with a number of companies interested in our technologies and we continue to work with them to discover new and innovative opportunities for strategic collaborations. We are fully committed to progressing these discussions to obtain the best possible corporate alliance, keeping the best interests of our shareholders in mind.

While Lorus remains focused on delivering new effective treatments that will improve the quality of life for cancer patients, our business activities continue to identify partners and collaborative opportunities.

Progress in Our Research and Intellectual Property

At Lorus, we believe it is key to our drug development plans to identify numerous potential indications for treatment with our drugs so as not to limit ourselves to only one or two different cancers. This year, preclinical research added to the potential of our three lead technologies, as well as introduced research in two new programs, gene therapy and a second generation immunotherapy program. While still in the research stages, we will continue the work on these novel approaches for the treatment of cancer. Much of our preclinical research was reported at international scientific meetings including the American Association of Cancer Research and the American Society for Gene Therapy.

The importance of strengthening our intellectual property is a critical part of our corporate strategy, and we continued to build our portfolio of patents. A patent protecting a tumor suppressor technology was allowed by the U.S. Patent and Trademark Office, adding to our already extensive patent estate. As well, a second technology received an issued patent this year for the design and use of antisense technology to develop anticancer drugs that target the insulin-like growth factor II ("IGF-II") gene sequence. An antisense molecule that targets IGF-II and shows promising anticancer activity, GTI-4006, has already advanced to the preclinical development stage.

Progress Paves the Way for Future Value

Looking ahead, it is clear that we must remain focused on delivering new, effective treatments that will assist the quality of life of cancer patients. And to do this, we will continue to work with potential partners to maximize the potential value of our products. Our clinical trial program will be augmented by the initiation of further Phase II clinical trials with GTI-2040 while the results from our Phase I clinical trial with GTI-2501 will be evaluated for further clinical development potential. We will continue enrolling pancreatic cancer patients in our Phase III clinical trial for Virulizin®. While all this is going on, our business development activities will continue to identify prospective partners and collaborative opportunities.

Lorus would like to extend a special thank you to our shareholders for their continued support. To our employees and to everyone who has worked diligently with us over the past year to bring us to this impressive point in our development, your contributions are greatly appreciated and are helping us achieve our goal of making a difference in the lives of cancer patients everywhere. Here's to another year of building value through progress.

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 Therapeutics Inc. is a biopharmaceutical company specializing in the research, development and commercialization of pharmaceutical products and technologies for the management of cancer. With products in all stages of evaluation, from preclinical through Phase III trials, and a product approved in Mexico for malignant melanoma, Lorus is a leader in the development of therapeutics that seek to manage cancer with efficacious non-toxic compounds that improve patients' quality of life.

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 anticancer 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 preclinical studies. Losses will continue as Lorus invests in these preclinical research and clinical drug development programs.

Research and Development

Research and development expenditures totaled $8.7 million in 2002 compared to $9.8 million in 2001 and $4.2 million in 2000. The decrease in 2002 from 2001 resulted from the cost of antisense drugs purchased in 2001 which are being used in fiscal 2002 and future years, but were expensed when purchased. This decrease in cost more than offset the increased expenditures in 2002 for an expanded clinical program including the Phase III Virulizin® clinical trial, Phase II GTI-2040 combination chemotherapy trial and Phase I GTI-2501 trial. Regulatory costs were also higher in 2002 due mainly to the initiation of the Phase III clinical trial in the United States. The increase in 2001 over 2000 was due mainly to the cost of antisense and Virulizin® 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.

General and Administrative

General and administrative expenses totaled $4.9 million in 2002 compared to $6.4 million in 2001 and $3.7 million in 2000. The decrease in 2002 expenses over 2001 was due mainly to lower spending on patent fees and advisory services as well as lower recruiting costs. 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, recruiting and advisory services, and licensing activities.

Depreciation and Amortization

Depreciation and amortization expenses totaled $2.0 million in 2002 compared to $1.9 million in 2001 and $1.2 million in 2000. The increase in 2002 and 2001 over 2000 related primarily to the amortization of goodwill established on the acquisition of GeneSense for twelve months in 2001 and seven months in 2000.

Consistent with the application of new accounting pronouncements the Company will not amortize goodwill in future periods and will be assessing acquired intangible assets to determine if continued amortization is appropriate.

Interest Income

Interest income totaled $2.0 million in 2002 compared to $2.9 million in 2001 and $0.5 million in 2000. The decrease in 2002 compared to 2001 was due to lower cash and short-term investment balances in 2002 and the decline in market

interest rates. The increase in 2001 over 2000 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.

Loss for the Period

The loss for the year totaled $13.5 million in 2002 compared to $15.2 million in 2001 and $8.6 million in 2000. The decrease in 2002 from 2001 was primarily due to reduced spending on general and administrative expenses and net spending reductions on research and development activities due to lower drug purchases partially offset by lower interest income. The increase in 2001 over 2000 resulted mainly from higher clinical development costs, which included higher trial initiation and monitoring costs, manufacturing and regulatory costs in preparation for the Virulizin® phase III trial and antisense drug costs. 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 loss per common share was $0.09 in 2002 compared to $0.11 in 2001 and $0.10 in 2000. The loss per share in each year was comparable although the average number of shares increased significantly in 2001 over 2000.

Financial Summary

The following table summarizes selected unaudited quarterly financial data over the past two fiscal years. The information should be read in conjunction with our consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of results for any future period.

Fiscal 2002

	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**
Net loss	**$ 3,720**	**$ 3,028**	**$ 3,683**	**$ 3,056**
Basic and diluted loss per share	**$ 0.02**	**$ 0.02**	**$ 0.03**	**$ 0.02**

Fiscal 2001

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net loss	$ 6,133	$ 2,738	$ 3,806	$ 2,536
Basic and diluted loss per share	$ 0.04	$ 0.02	$ 0.03	$ 0.02

Liquidity and Capital Resources

Since inception, Lorus has financed its operations and technology acquisitions primarily from equity financing, the exercise of warrants and stock options, and interest income on funds held for future investment. The Company believes that its available cash, cash equivalents and short-term investments, and the interest earned thereon, should be sufficient to finance its operations and capital needs for at least the next twelve months.

Financing

In 2002, Lorus issued common shares on the exercise of stock options and warrants for proceeds of $1.4 million. 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 May 2000, Lorus issued 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 $11.9 million in 2002 compared to $9.7 million in 2001 and $5.4 million in 2000. The cash burn increased in 2002 over 2001 mainly due to changes in the timing of accounts payable

partially offset by reduced expenditures in operating activities. The cash burn increased in 2001 over 2000 due mainly to a higher level of research and development activity and higher clinical development costs. In 2001 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 Company's cash burn is expected to increase in 2003 due to increased clinical development activity.

Cash Position

At May 31, 2002 Lorus had cash and cash equivalents and short-term investments totaling $37.8 million compared to $48.8 million at the end of 2001. 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) at May 31, 2002 was $35.6 million ($44.5 million in 2001). 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, preclinical 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. 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 use its resources to fund its existing drug development programs and develop new programs from its portfolio of preclinical research technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the progress of the Company's research and drug development programs, the results of preclinical and clinical trials, the timing of regulatory submissions and approvals, the 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

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 products.

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 2003 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.

Recent Accounting Pronouncements

Refer to Note 2 of the audited consolidated financial statements for discussion on recent accounting pronouncements.

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. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements in this annual report might not occur.

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)
Chief Executive Officer

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

June 28, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Lorus Therapeutics Inc. as at May 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended May 31, 2002 and the related consolidated statement of loss and deficit and cash flows for the period from inception on September 5, 1986 to May 31, 2002. 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, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2002 and for the period from inception on September 5, 1986 to May 31, 2002 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.

Chartered Accountants

Toronto, Canada
June 28, 2002

CONSOLIDATED BALANCE SHEETS

As at May 31 (amounts in 000's) (Canadian dollars)	**2002**	2001
Assets		
Current assets		
Cash and cash equivalents	**$ 1,165**	$ 2,783
Short-term investments	**36,657**	46,035
Prepaid expenses and amounts receivable	**1,195**	1,504
Total current assets	**39,017**	50,322
Fixed assets (note 4)	**533**	262
Goodwill (note 3 (a))	**606**	2,060
Acquired research and development (notes 5 and 8)	**7,416**	9,163
	$ 47,572	$ 61,807
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**$ 442**	$ 3,128
Accrued liabilities	**2,990**	2,737
Total current liabilities	**3,432**	5,865
Shareholders' equity		
Share capital (note 6)		
Common shares		
Authorized: unlimited number of shares;		
Issued and outstanding (000's):		
May 31, 2002 – 144,412		
May 31, 2001 – 142,411	**119,168**	117,150
Warrants	**–**	729
Deferred stock-based compensation (note 6 (h))	**(159)**	(555)
Deficit accumulated during development stage	**(74,869)**	(61,382)
Total shareholders' equity	**44,140**	55,942
	$ 47,572	$ 61,807

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 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)	Year ended May 31 2002	2001	2000	Period from inception Sept. 5, 1986 to May 31, 2002
Expenses				
Research and development (note 8)	**$ 8,659**	$ 9,797	$ 4,244	$ 46,509
General and administrative	**4,867**	6,414	3,652	28,588
Depreciation and amortization	**1,956**	1,903	1,245	7,401
Interest income	**(1,995)**	(2,901)	(542)	(7,629)
Loss for the period	**13,487**	15,213	8,599	74,869
Deficit, beginning of period	**61,382**	46,169	37,570	–
Deficit, end of period	**$ 74,869**	$ 61,382	$ 46,169	$ 74,869
Basic and diluted loss per common share (note 2)	**$ 0.09**	$ 0.11	$ 0.10	
Weighted average number of common shares outstanding used in the calculation of basic and diluted loss per share	**143,480**	140,776	86,121	

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in 000's) (Canadian dollars)	Year ended May 31 2002	2001	2000	Period from inception Sept. 5, 1986 to May 31, 2002
Operating Activities				
Loss for the period	**$ (13,487)**	$ (15,213)	$ (8,599)	$ (74,869)
Add items not requiring a current outlay of cash:				
Depreciation and amortization	**3,703**	3,703	2,662	12,590
Other	**–**	–	–	500
Net change in non-cash working capital balances related to operations (note 9)	**(2,124)**	1,848	575	1,330
Cash used in operating activities	**(11,908)**	(9,662)	(5,362)	(60,449)
Investing Activities				
Sale (purchase) of short-term investments, net	**9,378**	(40,376)	(5,659)	(36,657)
Acquisition, net of cash received (note 3(a))	**–**	–	(539)	(539)
Acquired research and development	**–**	–	–	(715)
Additions to fixed assets	**(477)**	(172)	(19)	(3,732)
Cash proceeds on sale of fixed assets	**–**	–	116	348
Cash provided by (used in) investing activities	**8,901**	(40,548)	(6,101)	(41,295)
Financing Activities				
Issuance of warrants	**–**	–	9,512	31,877
Issuance of common shares	**1,389**	2,065	51,592	71,032
Cash provided by financing activities	**1,389**	2,065	61,104	102,909
Increase (decrease) in cash and cash equivalents during the period	**(1,618)**	(48,145)	49,641	1,165
Cash and cash equivalents, beginning of period	**2,783**	50,928	1,287	–
Cash and cash equivalents, end of period	**$ 1,165**	$ 2,783	$ 50,928	$ 1,165

See accompanying notes to consolidated financial statements

For the years ended May 31, 2002, 2001 and 2000

1. Description of Business

Lorus Therapeutics Inc. ("Lorus" or "the Company") is a biopharmaceutical company specializing in the research, development and commercialization of pharmaceutical products and technologies for the management of cancer. With products in all stages of evaluation, from preclinical through Phase III trials, and a product approved in Mexico for malignant melanoma, Lorus develops therapeutics that seek to manage cancer with efficacious non-toxic compounds that improve patients' quality of life.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Lorus, its 80% owned subsidiary NuChem Pharmaceuticals Inc. ("NuChem"), and its wholly-owned subsidiary GeneSense Technologies Inc. ("GeneSense"). 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 below under "Recent Accounting Pronouncements" and 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.

Fixed Assets

Fixed 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 fixed 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.

The Company has not earned revenues from its drug candidates and is therefore considered to be in the development stage.

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. Commencing June 1, 2002, the Company will adopt the new accounting standard related to goodwill as described below under "Recent Accounting Pronouncements".

Stock-Based Compensation

Stock options granted to employees are accounted for using the intrinsic value method. Under the intrinsic value method, compensation cost is recorded if, on the measurement date of the grant, the fair value of an underlying common share exceeds the exercise price per share. For options with contingent vesting criteria, the option is treated as a variable award and is revalued, using the intrinsic value method of accounting, at the end of each reporting period until the final measurement date. Compensation cost is amortized over the vesting period of the option.

The Company has a deferred share unit plan that provides directors the alternative to receive payment for their current services in the form of share units rather than common shares or cash. Share units entitle the holder to receive, in the future, either an equivalent number of common shares or the cash equivalent of the shares at the date the units are exercised. As the award entitles the holder to settle the award through the receipt of cash, the value of the share units are recorded as a liability and the share units are revalued each reporting date with any increase or decrease in value being recorded in the consolidated statement of loss.

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/or 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. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. A valuation allowance is recorded for the portion of the future tax assets where the realization of any value is uncertain.

Earnings Per Share

On June 1, 2001, the Company adopted, on a retroactive basis, the new accounting recommendations of the Canadian Institute of Chartered Accountants with respect to calculating loss per share. Basic net loss per common share is based on the weighted average number of shares outstanding during each period. Under the new recommendations, the treasury stock method is used in the calculation of dilutive loss per common share instead of the previously applied imputed earnings approach for determining the effect of all dilutive elements. The adoption of the new method had no effect on the diluted loss per share because there are no dilutive elements under either standard. Stock options and warrants are not included in the computation of the weighted average number of shares outstanding for dilutive net loss per common share when the effect would be anti-dilutive.

Segmented Information

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

Use 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.

Recent Accounting Pronouncements

In August 2001, the Canadian Accounting Standards board ("AcSB") issued Handbook Section 1581, "Business Combinations", and Handbook Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires that all business combinations be accounted for by the purchase method and it sets out criteria in determining the valuation and allocation of the purchase price in a business combination to tangible assets, intangible assets and goodwill. Section 3062 requires that goodwill no longer be amortized to earnings, but instead be periodically reviewed for impairment. Section 3062 also requires that

intangible assets be assessed to determine if they have an estimated useful life or whether they have an indefinite life. Intangible assets that have an estimated useful life will continue to be amortized systematically over the useful life. Intangible assets with indefinite useful lives are not to be amortized but are instead to be tested for impairment annually. Upon adoption of the new Section 3062 in fiscal 2003, the Company must perform transitional impairment tests on goodwill and intangible assets with indefinite lives. Any impairment losses are to be measured as of the date of adoption. Impairment losses assessed on transition, if any, will be recorded as an adjustment to retained earnings. The impact of adopting Section 1581 and 3062 has not yet been determined.

In July 2001, the U.S. Financial Accounting Standards Board ("AcSB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets" which are consistent with Sections 1581 and 3062, respectively, except for certain remaining generally accepted accounting principles ("GAAP") differences, including the accounting for purchased in-process research and development and the recording of any impairment charge determined on transition as a period cost which are required under U.S. GAAP.

In December 2001, the AcSB issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which common shares, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

The Company will adopt Section 3870 for its fiscal year beginning June 1, 2002. The Company does not believe that the adoption of this standard will have a material impact on the Company's financial condition or results of operations as the Company's current accounting policies, as disclosed above, comply with the new standard.

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
Fixed 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 entitled the holder to acquire one common share of Lorus for $0.6932 per share. 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 2001 fiscal 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 anticancer 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. Fixed Assets

As at May 31 (amounts in 000's)	2002	2001
Furniture and equipment	**$ 1,171**	$ 765
Leasehold improvements	**139**	68
	1,310	833
Accumulated depreciation and amortization	**(777)**	(571)
	$ 533	$ 262

5. Acquired Research and Development

As at May 31 (amounts in 000's)	2002	2001
Cost	**$ 12,228**	$ 12,228
Accumulated amortization	**(4,812)**	(3,065)
	$ 7,416	$ 9,163

6. Share Capital

(a) Continuity of Common Shares and Warrants

		Common Shares		Warrants	
(amounts in 000's)	Note 6	Number	Amount	Number	Amount
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
Exercise of compensation warrants	(d)	476	265	(476)	(70)
Expiry of compensation warrants	(e)	–	659	(766)	(659)
Exercise of stock options		1,525	1,194	–	–
Stock-based compensation		–	(100)	–	–
Balance at May 31, 2002		144,412	$ 119,168	0	$ 0

(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 were exercised in the 2000 fiscal year.

(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. During 2002, 475,700 compensation warrants were exercised. (2001 – 167,750 and 2000 – 2,181,399). As at May 31, 2002, no 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. All compensation warrants expired unexercised on November 2, 2001.

(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. Since inception, 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, 2002 83,057 deferred share units have been issued, with a cash value of $62,000 being recorded in accrued liabilities.

(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, 2002 are summarized as follows:

	2002		2001		2000	
	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	**4,144**	**$ 1.19**	6,310	$ 0.80	3,094	$ 1.00
Granted	**3,188**	**$ 0.98**	1,281	$ 2.08	5,135	$ 0.75
Exercised	**(1,525)**	**$ 0.78**	(2,550)	$ 0.73	(1,730)	$ 0.64
Forfeited	**(382)**	**$ 1.39**	(897)	$ 1.00	(189)	$ 1.10
Outstanding at end of year	**5,425**	**$ 1.17**	4,144	$ 1.19	6,310	$ 0.80
Exercisable at end of year	**2,183**	**$ 1.32**	2,486	$ 0.95	3,515	$ 0.78

The following table summarizes information about stock options outstanding at May 31, 2002:

	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	609	2.3	$ 0.39	519	$ 0.39
$0.50 to $0.99	3,368	4.0	$ 0.89	825	$ 0.86
$1.00 to $1.99	625	3.4	$ 1.52	449	$ 1.50
$2.00 to $3.63	823	3.3	$ 2.59	565	$ 2.58
	5,425		$ 1.17	2,358	$ 1.29

(h) Deferred Stock-based Compensation

The Company recorded deferred stock-based compensation recovery relating to options issued under the Company's stock option plan amounting to $100,000 for the year ended May 31, 2002 (2001 – charge $351,000 and 2000 – charge $869,000). Amortization of deferred stock-based compensation was $296,000 for the year ended May 31, 2002 (2001 – $335,000 and 2000 – $330,000).

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)	**2002**	2001
Non-capital loss carryforwards	**$ 7,870**	$ 9,976
Research and development expenditures	**11,218**	12,770
Book over tax depreciation	**1,537**	1,819
Other	**787**	1,984
Future tax assets	**21,412**	26,549
Valuation allowance	**(21,412)**	(26,549)
	$ –	$ –

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
2003	$ 2,140
2004	2,022
2005	2,295
2006	3,633
2007	3,630
2008	5,977
2009	5,627
	$ 25,324

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's lead drug Virulizin® is currently in a North American Phase III clinical trial for the treatment of pancreatic cancer.

(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 preclinical anticancer activity across a broad range of cancers and are currently in phase II and phase I trials, respectively.

(c) Small Molecules

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

(amounts in 000's)	Year ended May 31			Period from inception Sept. 5, 1986 to May 31,
Research and Development	**2002**	2001	2000	2002
Immunotherapy				
Acquired	**$ –**	$ –	$ –	$ –
Expensed	**4,612**	2,161	887	29,488
Antisense				
Acquired	**–**	–	11,000	11,000
Expensed	**3,410**	7,116	2,772	13,298
Small Molecules				
Acquired	**–**	–	–	1,228
Expensed	**637**	520	585	3,723
Total acquired	**$ –**	$ –	$ 11,000	$ 12,228
Total expensed	**$ 8,659**	$ 9,797	$ 4,244	$ 46,509

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)	Year ended May 31			Period from inception Sept. 5, 1986 to May 31,
	2002	2001	2000	2002
(Increase) decrease				
Prepaid expenses and amounts receivable	**$ 309**	$ (409)	$ (440)	$ (618)
Deferred charges	**–**	–	221	–
Increase (decrease)				
Accounts payable	**(2,686)**	988	728	(802)
Accrued liabilities	**253**	1,269	66	2,750
	$ (2,124)	$ 1,848	$ 575	$ 1,330

During the year ended May 31, 2002, the Company received interest of $2,488,000 (2001 – $2,607,000 and 2000 – $542,000).

10. Commitments

The Company has entered into operating leases for premises under which it is obligated to make minimum annual payments of approximately $210,000 in 2003, $230,000 in 2004 and $100,000 in 2005.

During the year ended May 31, 2002, operating lease expenses were $118,000 (2001 – $206,000 and 2000 – $146,000).

11. Related Party Transactions

During the year ended May 31, 2002, consulting fees of $68,000 were paid to individuals (or companies controlled by those individuals) who were either officers or directors of the Company (2001 – nil and 2000 – nil).

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 $376,000 for the year ended May 31, 2002 (2001 – $357,000 and 2000 – $425,000).

The amount payable to related parties as at May 31, 2002 was $46,000 (2001 – $140,000 and 2000 – $179,000).

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.

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

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:

(amounts in 000's)	**2002**	2001	2000
Loss for the year	**$ 13,487**	$ 15,213	$ 8,599
Compensation expense related to the fair value of stock options	**1,278**	1,059	1,285
Pro forma loss for the period	**$ 14,765**	$ 16,272	$ 9,884
Pro forma loss per common share	**$ 0.10**	$ 0.12	$ 0.11

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, 2002, 2001, and 2000: (i) dividend yield of 0%; (ii) expected volatility of 80% (2001 – 95%, 2000 – 95%); (iii) risk-free interest rate of 3.6% (2001 – 5.4%, 2000 – 6.0%) 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, 2002, 2001, and 2000 were $ 0.71, $1.56, and $0.60 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.

DIRECTORS AND OFFICERS

Executive Staff

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Vice President, Regulatory Affairs and Compliance

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.
Chief Executive Officer

Aiping Young, M.D., Ph.D.
Senior Vice President, Research and Development
and Chief Technology Officer

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Executive Advisor, Health Care Industry, Toronto

Robert Bechard
Partner, Royal Bank Capital Partners, Montreal

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

Graham Strachan
President, GLS Business Development Inc., Toronto

Jim A. Wright
Chief Executive Officer, Lorus Therapeutics Inc.

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Chairman, Lorus Therapeutics Inc.'s MSAB
Director Emeritus, Samuel Lunenfeld Research Institute,
Toronto, Ontario

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Torys, Toronto
Marusyk Miller & Swain, Ottawa

Auditors

KPMG LLP
Yonge Corporate Centre
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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.
Tel: 416 798 1200
Fax: 416 798 2200
e-mail: ir@lorusthera.com
website: www.lorusthera.com

Annual Meeting

The 2002 Annual Meeting of Shareholders will be held on Thursday November 14, 2002 at 4 p.m. at:

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

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