LORUS THERAPEUTICS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS and MANAGEMENT'S DISCUSSION AND ANALYSIS

As at and for the three and nine month periods ended February 28, 2013

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

For the interim period ended February 28, 2013

April 11, 2013

This interim Management's Discussion and Analysis ("MD&A") of Lorus Therapeutics Inc. ("Lorus", the "Company", "we", "us" and similar expressions) should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended February 28, 2013 and February 29, 2012. The February 28, 2013 unaudited condensed consolidated interim financial statements and additional information about the Company, including the annual audited financial statements and MD&A for the year ended May 31, 2012, and the most recent Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com."

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A is prepared as of April 11, 2013. This MD&A may contain forward-looking statements within the meaning of securities laws, and that involve known and unknown risks and uncertainties which are beyond the control of the Company. Such statements include, but are not limited to, statements relating to:

- *our business strategy;*
- *our ability to obtain the substantial capital we require to fund research and operations;*
- *our plans to secure and maintain strategic partnerships to assist in the further development of our product candidates;*
- *our plans to conduct clinical trials and pre-clinical programs;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of our drug discovery, pre-clinical and clinical studies and the regulatory approval process;*
- *our plans, objectives, expectations and intentions; and*
- *other statements including words such as "anticipate", "contemplate", "continue", "believe", "plan", "estimate", "expect", "intend", "will", "should", "may", and other similar expressions.*

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

There is substantial doubt about the Company's ability to continue as a going concern because management has forecasted that the Company's current level of cash and cash equivalents will not be sufficient to execute its current planned expenditures for the next 12 months without further financing being obtained. The Company is currently in discussion with several potential investors to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. The Company is also considering alternatives to delay its research programs or further reduce expenditures until financing is available. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is substantial doubt as to whether the Company will be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

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

OVERVIEW

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

We believe that the future of cancer treatment and improved patient quality of life lies in drugs that are not only effective with minimal side effects, but also approach the treatment of cancer in novel ways through drugs that offer a unique mechanism of action. Many drugs currently approved for the treatment and management of cancer are toxic with often limiting side effects, especially when used in combination. We therefore believe that a product development plan based on novel, effective drugs with minimal potential for toxicity alone or in combination will have broad applications in cancer treatment.

Lorus' strategy is to continue the development of our product pipeline using several therapeutic approaches. Each therapeutic approach is dependent on different technologies, which we believe mitigates the development risks associated with a single technology platform. We evaluate the merits of each product throughout the clinical trial process and consider commercial viability as appropriate. The most advanced anticancer drugs in our pipeline, each of which flow from different platform technologies, are small molecules and immunotherapeutics.

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

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

Our net loss for the three months ended February 28, 2013 was $1.4 million ($0.03 per share) compared to $1.0 million ($0.05 per share) in the same period in the prior year. The Company incurred a net loss of $4.2 million ($0.10 per share) for the nine month period ended February 28, 2013 compared to $3.6 million ($0.18 per share) during the same period in the prior year.

In the three month period ended February 28, 2013, research and development expenditures increased by $346 thousand compared with the same period in the prior year, due to the manufacture of additional quantities of LOR-253, increased clinical costs associated with the LOR-253 Phase I clinical trial as well as spending on our IL-17E and LOR-500 programs initiated and escalated in the current year. General and administrative expenses remained consistent in the current quarter in comparison with the same period in the prior year.

In the nine month period ended February 28, 2013, research and development expenditures increased by $678 thousand compared with the same period in the prior year, due to the manufacture of additional quantities of LOR-253, increased clinical costs associated with the LOR-253 Phase I clinical trial as well as spending on our IL-17E program initiated in the current year and escalated efforts on our LOR-500 program. General and administrative expenses remained consistent year over year in the nine months ended February 28, 2013 as increased legal costs associated with licensing activities were offset by a reduction in the deferred share unit liability.

We utilized cash of $1.3 million in our operating activities in the three-month period ended February 28, 2013 compared with $1.0 million during the same period the prior year. For the nine months ended February 28, 2013 we utilized cash of $4.2 million compared with $2.9 million in the same period last year. The increase in cash utilized is primarily due to increased research and development activities.

At February 28, 2013, we had cash and cash equivalents of $1.6 million compared to $320 thousand at May 31, 2012.

RESULTS OF OPERATIONS

Research and Development

Research and development expenses totaled $889 thousand in the three-month period ended February 28, 2013 compared to $543 thousand during the same period in the prior year and totaled $2.5 million in the nine month period ended February 28, 2013 as compared to $1.8 million in the same period in the prior year. Research and development expenses consisted of the following:

		Three months ended			Nine months ended	
		Feb 28, 2013		Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Stock based compensation	$	**58**	**$**	11	**142**	132
Depreciation of equipment		**8**		8	**24**	25
Program costs		**823**		524	**2,291**	1,622
	$	**889**		543	**2,457**	1,779

Program costs by program:

		Three months ended				Nine months ended		
		Feb 28, 2013		Feb 29, 2012		**Feb 28, 2013**		Feb 29, 2012
Small molecules	$	**705**	**$**	524	$	**1,968**	**$**	1,622
Immunotherapy		**118**		—		**323**		—
Total	$	**823**	**$**	524	**$**	**2,291**	**$**	1,622

The increase in research and development costs during the three months ended February 28, 2013 is primarily the result of increased activity on our LOR-253 program as we manufactured additional quantities of the drug and as the Biomarker portion of the Phase I clinical trial escalates and approaches completion. In addition during the current fiscal year we initiated development on our IL-17E program and costs associated with this program will escalate in the latter portion of the fiscal year as Lorus initiates the manufacturing program to support Cancer Research UK's development.

Finally, during the three months ended February 28, 2013 we have escalated our research efforts on our pre-clinical compound LOR-500 including additional personnel and some outsourced research costs.

The increase in research and development costs for the nine months ended February 28, 2013 again is due to the manufacturing of additional quantities of LOR-253 and increased activity in the Phase I clinical trial which completed the dose escalation part of the Phase I study in January 2013 as well as the initiation of activities to support the IL-17E program and the escalation of efforts to develop LOR-500.

General and Administrative

General and administrative expenses totaled $491 thousand in the three-month period ended February 28, 2013 compared to $479 thousand in same period in the prior year. For the nine month period ended February 28, 2013, general and administrative expenses were $1.8 million compared with $1.8 million in the same period in the prior year.

Components of general and administrative expenses:

	Three months ended		Nine months ended	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Stock based compensation	**$ 82**	$ 10	**$ 238**	$ 336
Depreciation of equipment	**1**	3	**4**	8
General and administrative excluding salaries	**309**	303	**1,138**	960
Salaries	**99**	163	**432**	521
	$ 491	$ 479	**$ 1,812**	$ 1,825

Stock based compensation expense was higher in the three months ended February 28, 2013 compared with the same period in the prior year due to increased grants in the current year as well as the vesting schedules of those grants (more up front vesting in the prior year) as well as all grants occuring in the first quarter in the current year compared with the second and fourth quarters in the prior year. Stock based compensation is lower for the nine month periods ended February 28, 2013 compared with the same period in the prior year due to certain one time grants in the prior year and the cancellation of certain outstanding options in the prior year (resulting in the acceleration of expense) which increased stock based compensation charges.

General and administrative expenses excluding salaries were consistent in the three months ended February 28, 2013 compared with the same period in the prior year. General and administrative expenses excluding salaries were higher in the nine months ended February 28, 2013 compared with the prior year due primarily to increased legal fees associated with licensing activities and higher investor relations costs due to increased activity in the current year. Salary costs in the three months ended February 28, 2013 were lower than the prior year due to a reduction in the Deferred Share Unit (“DSU”) liability (marked to market). During the nine month period ended February 28, 2013 salary costs were lower than the prior year due to a reduction in the DSU liability as well as reduced salary and benefit costs due to a lower headcount.

Finance Expense

Finance expense for the three months ended February 28, 2013 was $nil compared with $3 thousand for the three months ended February 29, 2012. For the nine months ended February 28, 2013 finance expense was $6 compared with $3 thousand in the same period in the prior year. Finance expense incurred in the nine months ended February 28, 2013 and February 29, 2012 relates to interest accrued at a rate of 10% on the related party promissory notes described below and repaid in June 2012. There were no interest-bearing liabilities outstanding at February 28, 2013 and $300 thousand outstanding at February 29, 2012.

Finance Income

Finance income totaled $9 thousand and $26 thousand in the three and nine month periods ended February 28, 2013, respectively, compared to $2 thousand and $6 thousand in the same periods in the prior year. Finance income represents interest earned on our cash and cash equivalent balances and is higher in the current periods due to higher average cash and cash equivalents balances in the current year compared with the prior year periods.

Net loss for the period

For the reasons discussed above, net loss for the three months ended February 28, 2013 was $1.4 million ($0.03 per share) compared to $1.0 million ($0.05 per share) in the same period in the prior year. The Company incurred a net loss of $4.2 million ($0.10 per share) for the nine months ended February 28, 2013 compared to $3.6 million ($0.18 per share) during the same period in the prior year.

PRIVATE PLACEMENT

On June 8, 2012 Lorus completed a private placement (the "**Private Placement**") of 20,625,000 units at a subscription price of $0.32 per unit, each unit ("**Unit**") consisting of one common share and one common share purchase warrant for gross proceeds to Lorus of $6.6 million.

Each warrant is exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45 (the "**Warrants**"). If after one year (the **"Accelerated Exercise Date**") the closing price of the common shares on the Toronto Stock Exchange equals or exceeds $0.90 for twenty consecutive days, then upon the Company sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of Warrants.

Lorus paid a cash finder's fee of $396 thousand based on 6% of the gross proceeds of the Private Placement and issued 1,237,500 finder's warrants at an exercise price of $0.32 each. Each finder's warrant is exercisable into Units consisting of 1,237,500 common shares and 1,237,500 Warrants.

The total costs associated with the transaction were approximately $616 thousand which included the $135 thousand which represented the estimated fair value of the finders warrants issued as part of the Private Placement. Each such finder warrant is exercisable for one Unit at a price of $0.32 per Unit for a period of 24 months following the closing of the Offering. The Company has allocated the net proceeds of the Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $4.3 million of the net proceeds were allocated to the common shares and $1.7 million to the common share purchase warrants.

WARRANT EXERCISES

During the nine months ended February 28, 2013, 398,000 warrants related to the August 2011 unit offering were exercised for proceeds of $179 thousand. The carrying amount related to these warrants was $43 thousand and was transferred from warrants to share capital. There were no warrants exercised in the three months ended February 28, 2013 or the three months ended February 29, 2012.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Research and development expenditures in the quarters ended February 28, 2013 and November 30, 2012 increased over the prior quarters due the manufacture of additional quantities of LOR-253 and increased activity in the Phase I clinical trial. Expenditures were lower in the quarter ended May 31, 2012 due to income tax credits earned.

The increased general and administrative costs in the quarter ended November 30, 2011 was due to stock option grants and cancellations during the quarter which resulted in higher than normal option expense. Increased spending in the three months ended November 30, 2012 was due to increase legal costs associated with licensing activities.

Cash used in operating activities fluctuates significantly due primarily to timing of payments and increases and decreases in the accounts payables and accrued liabilities balances. The lower use of cash in the quarter ended May 31, 2012 was due to delaying payments which resulted in an increase in accounts payable and accrued liabilities balances as the Company waited for the private placement to close. A subsequent use of cash can be seen in the quarter ended August 31, 2012 as these balances were reduced.

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
(Amounts in 000's except for per common share data)	**Feb 28, 2013**	**Nov 30, 2012**	**Aug 31, 2012**	**May 31, 2012**	**Feb 29, 2012**	**Nov 30, 2011**	**Aug 31, 2011**	**May 31, 2011**
Revenue	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Research and development expense	889	910	658	391	543	648	588	536
General and administrative expense	491	714	605	605	479	811	535	545
Net loss	(1,371)	(1,613)	(1,263)	(1,013)	(1,023)	(1,457)	(1,121)	(1,077)
Basic and diluted								
net loss per share	$(0.03)	$(0.04)	$(0.03)	$(0.05)	$(0.05)	$(0.07)	$(0.06)	$ (0.07)
Cash (used in) operating activities	$(1,273)	$(1,336)	$(1,576)	$(400)	$(1,040)	$(811)	$(1,077)	$(926)

CASH POSITION AND OUTLOOK

At February 28, 2013, we had cash and cash equivalents of $1.6 million compared to $320 thousand at May 31, 2012. The Company invests in highly rated and liquid debt instruments. Investment decisions are made in accordance with an established investment policy administered by senior management and overseen by the board of directors. Working capital (representing primarily cash, cash equivalents and other current assets less current liabilities) at February 28, 2013 was $374 thousand (May 31, 2012 – negative $2.1 million).

As discussed above, management has forecasted that the Company's current level of cash and cash equivalents will not be sufficient to execute its current planned expenditures for the next twelve months without further investment. The Company is currently investigating various alternatives to obtain sufficient capital to continue its operations and has implemented a series of strategies to reduce research, development and overhead expenditures until such time as it can obtain additional capital to fund its operations.

If we are able to secure additional financing, we intend to use these resources to fund our existing drug development programs and develop new programs from our portfolio of preclinical research technologies. The amounts actually expended for research and drug development activities and the timing of such expenditures will depend on many factors, including the ability of the Company to raise additional capital, the progress of the Company's research and drug development programs, the results of preclinical and clinical trials, the timing of regulatory submissions and approvals, the impact of any internally developed, licensed or acquired technologies, our ability to find suitable partnership agreements to assist financially with future development, the impact from technological advances, determinations as to the commercial potential of the Company's compounds and the timing and development status of competitive products.

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

Until one of our drug candidates receives regulatory approval and is successfully licensed or commercialized, Lorus will continue to incur operating losses. The magnitude of these operating losses will be largely affected by the timing and scope of future research and development, clinical trials and the Company's ability to raise additional working capital and/or establish effective partnerships to share the costs of development and clinical trials.

Contractual Obligations and Off-Balance Sheet Financing

The Company has entered into various contracts with service providers with respect to the LOR-253 phase I clinical trial. These contracts could result in future payment commitments of approximately $1.4 million. Of this amount, $737 thousand has been paid and $165 thousand has been accrued at February 28, 2013 (May 31, 2012 - $439 thousand paid and $70 thousand accrued). The payments are based on estimated services performed and final amounts maybe higher or lower based on actual services performed.

On November 27, 2012 the Company announced it had entered into a collaboration agreement with Cancer Research UK for the future development of immunotherapy IL-17E. Under this collaboration agreement Lorus has committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. It is expected that this will result in costs of approximately $4 million over a two year period. The Company has not yet entered into any contracts related to the drug manufacturing.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to:

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

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

The Company is not subject to externally imposed capital requirements.

While the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2012, the Company has forecasted that its current capital resources are not sufficient to carry out its research and development plans and operations for the next twelve months and continues to investigate various alternatives to obtain sufficient capital to continue its operations.

RISK FACTORS

Before making an investment decision with respect to our common shares, you should carefully consider the following risk factors, in addition to the other information included or incorporated by reference into this report. The risks set out below are not the only risks we face. If any of the following risks should be realized, our business, financial condition, prospects or results of operations would likely suffer. In that case, the trading price of our common shares could decline and you may lose all or part of the money you paid to buy our common shares.

Please refer to our MD&A for the year ended May 31, 2012 for a complete discussion of risks and uncertainties.

- We are at an early stage of development. Significant additional investment will be necessary to complete the development of any of our products.
- Our ability to continue as a going concern.
- We need to raise additional capital. The cash and cash equivalents on hand are not sufficient to execute our operating strategies for the next twelve months and we may not be able to raise sufficient funds to continue operations.
- We have a history of operating losses. We expect to incur net losses for several years and we may never achieve or maintain profitability.
- We may be unable to obtain partnerships for one or more of our product candidates which could curtail future development and negatively impact our share price.
- We maybe unable to satisfy the conditions or our partnership or collaboration agreements or contracts which could result in the forfeit of those agreements or contracts.
- There is no assurance that an active trading market in our common shares will be sustained.
- Clinical trials are long, expensive and uncertain processes and Health Canada or the FDA may ultimately not approve any of our product candidates. We may never develop any commercial drugs or other products that generate revenues.
- We have indemnified Old Lorus and its directors, officers and employees in respect of the Arrangement.
- As a result of intense competition and technological change in the pharmaceutical industry, the marketplace may not accept our products or product candidates, and we may not be able to compete successfully against other companies in our industry and achieve profitability.
- We may be unable to obtain patents to protect our technologies from other companies with competitive products, and patents of other companies could prevent us from manufacturing, developing or marketing our products.
- Our products and product candidates may infringe the intellectual property rights of others.
- Our share price has been and may continue to be volatile and an investment in our common shares could suffer a decline in value.
- Future sales of our common shares by us or by our existing shareholders could cause our share price to fall.

FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

	As at February 28, 2013	As at May 31, 2012
Financial assets		
Cash and cash equivalents, consisting of high interest savings accounts measured at amortized cost	**1,552**	320
Financial liabilities		
Accounts payable, measured at amortized cost	**211**	322
Accrued liabilities, measured at amortized cost	**1,222**	1,474
Promissory note payable, measured at amortized cost	–	900

At February 28, 2013, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature.

Financial risk management

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

(i) Credit risk

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

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

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board considers securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. Refer to note 2(b) of the condensed consolidated interim financial statements for further discussion on the Company's ability to continue as a going concern.

(iii) Market risk

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

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

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of accounts payable and accrued liabilities. The Company holds minimal amounts of U.S. dollar denominated cash, purchasing on an as needed basis to cover U.S. dollar denominated payments. At February 28, 2013, U.S. dollar denominated accounts payable and accrued liabilities amounted to $249 thousand (May 31, 2012 - $148 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss for the year and comprehensive loss of $25 thousand (May 31, 2012 - $15 thousand). The Company does not have any forward exchange contracts to hedge this risk.

The Company has issued deferred share units. The Company has determined that these units represent a cash liability as it is expected that they will be settled in cash. The value of these units is tied to the share price of the Company and as such is subject to significant variation as the Company’s stock price is highly volatile. As at February 28, 2013 the Company had issued 780,000 (May 31, 2012 – 780,000) deferred share units and at February 28, 2013 that represents a cash liability of $207 thousand (May 31, 2012 - $304 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Company’s share price would result in an increase or decrease in loss for the year and comprehensive loss of $21 thousand (May 31, 2012 - $30 thousand).

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

EVALUATION OF DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There have been no changes in the Company’s internal control over financial reporting that occurred during the quarter ended February 28, 2013 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

UPDATED SHARE INFORMATION

As at April 11, 2013, the Company had issued and outstanding 42.3 million common shares and common share purchase warrants convertible into 27.1 million common shares and an additional 1.4 million shares issuable upon exercise of warrants underlying the broker warrants. In addition, the Company had issued and outstanding 3.4 million stock options to purchase an equal number of common shares and 780 thousand DSU’s which may be redeemed for common shares of the Company.

ADDITIONAL INFORMATION

Additional information relating to Lorus, including Lorus' 2012 annual information form and other disclosure documents, is available on SEDAR at www.sedar.com.

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statements of Financial Position
(unaudited)

(amounts in 000's of Canadian Dollars)		**February 28, 2013**		May 31, 2012
ASSETS				
Current				
Cash and cash equivalents (note 4 (a))	**$**	**1,552**	$	320
Prepaid expenses and other assets		**255**		293
Total Current Assets		**1,807**		613
Non-current				
Equipment		**27**		55
Total Non-Current Assets		**27**		55
Total Assets	**$**	**1,834**	**$**	668
LIABILITIES				
Current				
Accounts payable	**$**	**211**	$	322
Accrued liabilities		**1,222**		1,474
Promissory note payable		**-**		900
Total Current Liabilities		**1,433**		2,696
SHAREHOLDERS' EQUITY				
Share capital (note 6)				
Common shares		**174,522**		170,036
Stock options (note 7)		**884**		535
Contributed surplus		**21,217**		21,186
Warrants		**2,421**		609
Deficit		**(198,643)**		(194,394)
Total Equity		**401**		(2,028)
Total Liabilities and Equity	**$**	**1,834**	$	668

See accompanying notes to the consolidated interim financial statements (unaudited)
Commitments, contingencies and guarantees (Note 11)

Lorus Therapeutics Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(unaudited)

(amounts in 000's of Canadian Dollars except for per common share data)	**Three months ended Feb. 28, 2013**	Three months ended Feb. 29, 2012	**Nine months ended Feb. 28, 2013**	Nine months ended Feb. 29, 2012
REVENUE	**$ -**	$ -	**$ -**	$ -
EXPENSES				
Research and development (notes 9 and 10)	**889**	543	**2,457**	1,779
General and administrative (note 9)	**491**	479	**1,812**	1,825
Operating expenses	**1,380**	1,022	**4,269**	3,604
Finance expense	**-**	3	**6**	3
Finance income	**(9)**	(2)	**(26)**	(6)
Net financing (income) expense	**(9)**	1	**(20)**	(3)
Net loss and total comprehensive loss for the period	**1,371**	1,023	**4,249**	3,601
Basic and diluted loss per common share	**$ 0.03**	$ 0.05	**$ 0.10**	$ 0.18
Weighted average number of common shares (000's) outstanding used in the calculation of basic and diluted loss per common share	**42,251**	21,169	**42,251**	19,950

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

Lorus Therapeutics Inc.
Condensed Consolidated Interim Statement of Changes in Equity
(unaudited)

(amounts in 000's of Canadian Dollars)	**Share Capital**	**Stock Options**	**Warrants**	**Contributed Surplus**	**Deficit**	**Total**
Balance, June 1, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ (194,394)	$ (2,028)
Issuance of units (note 6(a))	4,263	-	1,855	-	-	6,118
Warrant exercises (note 6(b))	223	-	(43)	-	-	180
Stock-based compensation (note 7)	-	380	-	-	-	380
Expiry of stock options	-	(31)	-	31	-	-
Net loss	-	-	-	-	(4,249)	(4,249)
Balance, February 28, 2013	**$ 174,522**	**$ 884**	**$ 2,421**	**$ 21,217**	**$ (198,643)**	**$ 401**
Balance, June 1, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ (189,780)	$ 239
Issuance of units	1,214	-	609	-	-	1,823
Repricing of warrants	-	-	239	(239)	-	-
Stock-based compensation	-	468	-	-	-	468
Expiry of stock options	-	(1,184)	-	1,184	-	-
Net loss	-	-	-	-	(3,601)	(3,601)
Balance, February 29, 2012	**$ 170,001**	**$ 496**	**$ 1,880**	**$ 19,933**	**$ (193,381)**	**$ (1,071)**

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

Lorus Therapeutics Inc.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(amounts in 000's of Canadian Dollars)	**Three months ended Feb. 28, 2013**	Three months ended Feb. 29, 2012	**Nine months ended Feb. 28, 2013**	Nine months ended Feb. 29, 2012
Cash flows from operating activities:				
Net loss for the period	**$ (1,371)**	$ (1,023)	**$ (4,249)**	$ (3,601)
Items not involving cash:				
Stock-based compensation	**140**	21	**380**	468
Depreciation of equipment	**9**	11	**28**	33
Finance income	**(9)**	-	**(26)**	-
Finance expense	**-**	3	**6**	3
Change in non-cash operating working capital (note 8)	**(42)**	(52)	**(325)**	169
Cash used in operating activities	**(1,273)**	(1,040)	**(4,186)**	(2,928)
Cash flows from financing activities:				
Issuance of common shares and warrants, net of issuance costs (note 6)	**-**	-	**6,118**	1,823
Exercise of warrants	**-**	-	**180**	-
Issuance of promissory notes	**-**	300	**-**	300
Repayment of promissory notes	**-**	-	**(900)**	-
Interest on promissory notes	**-**	(3)	**(6)**	(3)
Cash provided by financing activities	**-**	297	**5,392**	2,120
Cash flows from investing activities:				
Interest income	**9**	-	**26**	-
Cash provided by investing activities	**9**	-	**26**	-
(Decrease) increase in cash and cash equivalents during the period	**(1,264)**	(743)	**1,232**	(808)
Cash and cash equivalents, beginning of period	**2,816**	846	**320**	911
Cash and cash equivalents, end of period	**$ 1,552**	$ 103	**$ 1,552**	$ 103

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

1. Reporting Entity

Lorus Therapeutics Inc. ("Lorus" or the "Company") is a biopharmaceutical company focused on the discovery, research and development of anticancer therapies. Lorus has worked to establish a diverse anticancer product pipeline, with products in various stages of development ranging from discovery and pre-clinical to clinical stage development. The Company's shares are listed on the Toronto Stock Exchange. The head office, principal address and records of the Company are located at 2 Meridian Road, Toronto, Ontario, Canada, M9W 4Z7.

2. Basis of presentation

(a) Statement of Compliance
These unaudited condensed consolidated interim financial statements of the Company and its subsidiary as at February 28, 2013 were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and may not include all of the information required for full annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes.

The unaudited condensed consolidated interim financial statements of the Company were approved and authorized for issue by the Board of Directors on April 11, 2013.

(b) Basis of measurement – Going concern
These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis except for deferred share units which are measured at fair value.

There is substantial doubt about the Company's ability to continue as a going concern because management has forecast that the Company's current level of cash and cash equivalents will not be sufficient to execute its current planned expenditures for the next 12 months without further financing being obtained. The Company is currently in discussion with several potential investors to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. The Company is also considering alternatives to delay its research programs or further reduce expenditures until financing is available. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is substantial doubt as to whether the Company will be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

These unaudited condensed consolidated interim financial statements do not reflect the adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and settle its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed consolidated interim financial statements. Such amounts could be material.

(c) Functional and presentation currency
The functional and presentation currency of the Company and its Canadian subsidiary Nuchem Pharmaceuticals Inc. is the Canadian dollar ("$").

(d) Significant accounting judgments, estimates and assumptions
The preparation of these unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future, and other key sources of estimation uncertainty as of the date of the statement of financial position that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year arise in connection with the use of the going concern assumption, the determination of impairment of equipment, the valuation of contingent liabilities, the valuation of tax accounts and the determination of development costs which qualify for capitalization. Significant estimates also take place in connection with the valuation of share-based compensation, share purchase warrants and finders' warrants.

(Tabular amounts are in 000s)

3. Significant accounting policies

The accompanying unaudited condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ending May 31, 2012. They do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed consolidated interim financial statements. Operating results for the three and nine month periods ended February 28, 2013 are not necessarily indicative of the results that may be expected for the full year ended May 31, 2013. For further information, see the Company's audited consolidated financial statements including notes thereto for the year ended May 31, 2012.

4. Capital disclosures

The Company's objectives when managing capital are to:

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

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

The Company is not subject to externally imposed capital requirements.

While the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2012, the Company has forecasted that its current capital resources are not sufficient to carry out its research and development plans and operations for more than the next twelve months and continues to investigate various alternatives to obtain sufficient capital to continue its operations (note 2b).

(a) Cash and cash equivalents

Cash and cash equivalents consists of cash of $77 thousand (May 31, 2012 - $76 thousand) and funds deposited into High Interest Savings Accounts totaling $1.475 million (May 31, 2012 – nil). The current interest rate earned on these deposits is 1.25% (May 31, 2012 – nil)

At May 31, 2012, the Company had received $244 thousand in deposits related to subscription agreements for the Private Placement (note 6 (a)) completed during the quarter. The Company recorded a liability related to these funds at May 31, 2012 and on June 8, 2012, the Company issued the shares and derecognized the liability.

5. Financial instruments

(a) Financial instruments

The Company has classified its financial instruments as follows:

	As at Feb 28, 2013	As at May 31, 2012
Financial assets		
Cash and cash equivalents, consisting of high interest savings accounts, measured at amortized cost	**$ 1,552**	$ 320
Financial liabilities		
Accounts payable, measured at amortized cost	**211**	322
Accrued liabilities, measured at amortized cost	**1,222**	1,474

(Tabular amounts are in 000s)

Promissory note payable, measured at amortized cost	–	900

At February 28, 2013, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature.

(b) Financial risk management

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

(i) Credit risk

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

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

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board considers securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. Refer to note 2(b) for further discussion on the Company's ability to continue as a going concern.

(iii) Market risk

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

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

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of accounts payable and accrued liabilities. The Company holds minimal amounts of U.S. dollar denominated cash, purchasing on an as needed basis to cover U.S. dollar denominated payments. At February 28, 2013, U.S. dollar denominated accounts payable and accrued liabilities amounted to $249 thousand (May 31, 2012 - $148 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss for the year and comprehensive loss of $25 thousand (May 31, 2012 - $15 thousand). The Company does not have any forward exchange contracts to hedge this risk.

The Company has issued deferred share units. The Company has determined that these units represent a cash liability as it is expected that they will be settled in cash. The value of these units is tied to the share price of the Company and as such is subject to significant variation as the Company’s stock price is highly volatile. As at February 28, 2013 the Company had issued 780,000 (May 31, 2012 – 780,000) deferred share units and at February 28, 2013 that represents a cash liability of $207 thousand (May 31, 2012 - $304 thousand). Assuming all other variables remain constant, a 10% depreciation or appreciation of the Company’s share price would result in an increase or decrease in loss for the year and comprehensive loss of $21 thousand (May 31, 2012 - $30 thousand).

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

(c) Capital management

The Company's primary objective when managing capital is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company includes cash and cash equivalents and short-term deposits in the definition of capital.

(Tabular amounts are in 000s)

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the three months ended February 28, 2013.

6. Share capital

The Company is authorized to issue an unlimited number of common shares.

Continuity of common shares and warrants

	Common Shares		Warrants	
(amounts in 000's)	Number	Amount	Number	Amount
Balance at May 31, 2012	**21,228**	**$ 170,036**	**5,678**	**$ 609**
Issuance of units (a)	20,625	4,263	20,625	1,720
Issuance of finder's warrants (a)	—	—	1,237	135
Exercise of warrants (c)	398	223	(398)	(43)
Balance at February 28, 2013	**42,251**	**$ 174,522**	**27,142**	**$ 2,421**

(a) Equity issuances

On June 8, 2012 Lorus completed a private placement (the "**Private Placement**") of 20,625,000 units at a subscription price of $0.32 per unit, each unit ("**Unit**") consisting of one common share and one common share purchase warrant for gross proceeds to Lorus of $6,600,000.

Each warrant is exercisable for a period of 24 months from the date of issuance at an exercise price of $0.45 (the "**Warrants**"). If after one year (the **"Accelerated Exercise Date**") the closing price of the common shares on the Toronto Stock Exchange equals or exceeds $0.90 for twenty consecutive days, then upon the Company sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the date on which such written notice is sent to holders of Warrants.

Lorus paid a cash finder's fee of $396 thousand based on 6% of the gross proceeds of the Private Placement and issued 1,237,500 finder's warrants with an exercise price of $0.32 each. Each finder's warrant is exercisable into Units consisting of 1,237,500 common shares and 1,237,500 Warrants.

The total costs associated with the transaction were approximately $617 thousand which includes the $135 thousand which represented the estimated fair value of the finders warrants issued as part of the Private Placement. Each such finder warrant is exercisable for one Unit at a price of $0.32 per Unit for a period of 24 months following the closing of the Offering. The Company has allocated the net proceeds of the Offering to the common shares and the common share purchase warrants based on their estimated relative fair values. Based on relative fair values, $4.3 million of the net proceeds were allocated to the common shares and $1.7 million to the common share purchase warrants.

(b) Warrants

During the nine months ended February 28, 2013, 398 thousand warrants related to the August 2011 unit offering were exercised for proceeds of $180 thousand. The fair value related to these warrants was $43 thousand and transferred from warrants to share capital. There were no warrants exercised in the three months ended February 28, 2013 or in the three and nine month periods ended February 29, 2012.

(c) Continuity of contributed surplus

Contributed surplus is comprised of the cumulative grant date fair value of expired share purchase warrants and expired stock options as well as the cumulative amount of previously expensed and unexercised equity settled share-based payment transactions.

	Nine months ended February 28, 2013	Nine months ended February 29, 2012
Balance, Beginning of year	**$ 21,186**	$ 18,988
Repricing of warrants	—	(239)
Expiry and cancellation of stock options	**31**	1,184
Balance, end of period	**$ 21,217**	$ 19,933

(Tabular amounts are in 000s)

(d) Continuity of stock options

	Nine months ended February 28, 2013	Nine months ended February 29, 2012
Balance, Beginning of year	**$ 535**	$ 1,212
Stock option expense	**380**	468
Expiry and cancellation of stock options	**(31)**	(1,184)
Balance, end of period	**$ 884**	$ 496

(e) Loss per share

Loss per common share is calculated using the weighted average number of common shares outstanding as follows:

	Three months ended		**Nine months ended**	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Issued common shares, beginning of period	**42,251**	21,169	**21,228**	15,685
Effect of private placement (note 6(a))	**—**	—	**—**	—
Effect of warrant exercises	**—**	—	**20,625**	—
Effect of unit offering	**—**	—	**398**	4,265
	42,251	21,169	**42,251**	19,950

The effect of any potential exercise of our stock options and warrants outstanding during the year has been excluded from the calculation of diluted loss per common share as it would be anti-dilutive.

7. Stock options

(a) Stock options transactions for the period:

	Nine months ended February 28, 2013		Nine months ended February 29, 2012	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, Beginning of year	**1,611**	**$ 0.44**	1,186	$ 1.58
Granted	**1,780**	**0.48**	1,215	0.22
Exercised	—	—	—	—
Expired	**(33)**	**0.54**	(29)	6.03
Cancelled	**—**	**—**	(1,083)	1.21
Outstanding, end of period	**3,358**	**$ 0.46**	1,289	$ 0.51

(b) Stock options outstanding at February 28, 2013:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Options	Weighted average exercise price
\$ 0.18 - \$ 0.22	1,506	8.8	$ 0.21	1,046	$ 0.21
\$ 0.23 - \$ 0.48	1,780	9.4	0.48	80	0.48
\$ 0.49 - \$ 9.90	72	4.8	5.25	72	5.25
	3,358	9.1	$ 0.46	1,198	$ 0.54

(c) Fair value assumptions

(Tabular amounts are in 000s)

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

	Nine months ended February 28, 2013	Nine months ended February 29, 2012
Exercise price	**$ 0.475**	$ 0.215
Grant date share price	**$ 0.475**	$ 0.215
Risk free interest rate	**3.0%**	1.5%
Expected dividend yield	**—**	—
Expected volatility	**135%**	123%
Expected life of options	**5 years**	5 years
Weighted average fair value of options granted in the period	**$ 0.42**	$ 0.18

There were no options granted during the three months ended February 28, 2013.

Stock options granted by the Company during the nine months ended February 28, 2013 have various vesting schedules. Options granted during the nine months ended February 28, 2013 to directors consisted of 160,000 options that vested 50% upon issuance and 50% one year later. Options granted to the CEO of 1,050,000 and vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015. Options granted to certain members of management totaled 325,000 and vested 50% upon certain performance criteria measured as of May 31, 2012 and 25% May 31, 2013 and 25% on May 31, 2014. Options granted to employees totaled 245,000 and vest 50% after one year and 25% on each of August 2, 2014 and August 2, 2015.

Refer to note 9 for a breakdown of stock option expense by function.

The Company has reserved up to 6,300,000 common shares for issuance relating to outstanding options, rights and other entitlements under the stock based compensation plans of the Company as of February 28, 2013.

(d) Deferred share units (DSU)

On November 29, 2012, shareholders of Lorus voted in favour of certain amendments to the DSU plan of Lorus which included providing Lorus with the ability to issue shares of Lorus from treasury in order to satisfy current and future liabilities under the DSU plan. The plan gives the holder of the DSU's the option between settlement in cash or shares of Lorus and the Board of Directors of Lorus has the final determination as to the method of settlement. It is currently the intention of the Board of Directors to comply with the wishes of the holder in terms of settlement method. It is also anticipated that the settlement method of the currently outstanding DSU's will be in the form of cash and as such the liability has been treated as a cash settled liability.

As at February 28, 2013, 780,000 deferred share units have been issued (May 31, 2012 – 780,000), with a carrying amount of $207 thousand representing the fair market value of the units as of February 28, 2013 (May 31, 2012 - $304 thousand) recorded in accrued liabilities.

8. Additional cash flow disclosures

Sources (uses) of cash from changes in the following items:

	Three months ended		**Nine months ended**	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Prepaid expenses and other assets	**110**	129	**38**	51
Accounts payable	**(119)**	(239)	**(111)**	(98)
Accrued liabilities	**(33)**	58	**(252)**	216
	(42)	(52)	**(325)**	169

During the three months ended August 31, 2012 the Company accrued and paid $6 thousand in interest expense on the $900 thousand promissory note due to Mr. Abramson repaid on June 25, 2012. The interest accrued at a rate of 10%. There were no promissory notes outstanding during the three month periods ended November 30, 2012 and February 29, 2013. During the three months ended February 29, 2012 the Company accrued $3 thousand in interest expense on $300 thousand in promissory notes outstanding at that time.

(Tabular amounts are in 000s)

9. Other expenses

Components of research and development expenses:

	Three months ended		Nine months ended	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Stock based compensation	**58**	11	**142**	132
Depreciation of equipment	**8**	8	**24**	25
Program costs (note 10)	**823**	524	**2,291**	1,622
	889	543	**2,457**	1,779

Components of general and administrative expenses:

	Three months ended		Nine months ended	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Stock based compensation	**82**	10	**238**	336
Depreciation of equipment	**1**	3	**4**	8
General and administrative excluding salaries	**309**	303	**1,138**	960
Salaries	**99**	163	**432**	521
	491	479	**1,812**	1,825

10. Research and development programs:

Program costs by product class are as follows:

	Three months ended		Nine months ended	
	Feb 28, 2013	Feb 29, 2012	**Feb 28, 2013**	Feb 29, 2012
Small molecules	$ **705**	**$** 524	$ **1,968**	**$** 1,622
Immunotherapy	**118**	—	**323**	—
Total	$ **823**	**$** 524	**$** **2,291**	**$** 1,622

11. Commitments, contingencies and guarantees.

The Company has entered into various contracts with service providers with respect to the LOR-253 phase I clinical trial. These contracts could result in future payment commitments of approximately $1.4 million. Of this amount, $737 thousand has been paid and $165 thousand has been accrued at February 28, 2013 (May 31, 2012 - $439 thousand paid and $70 thousand accrued). The payments are based on estimated services performed and final amounts maybe higher or lower based on actual services performed.

On November 27, 2012 the Company announced it had entered into a collaboration agreement with Cancer Research UK for the future development of immunotherapy IL-17E. Under this collaboration agreement Lorus has committed to provide sufficient quantity of the drug IL-17E, for no cash consideration, to be used by Cancer Research UK in pre-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. It is expected that this will result in costs of approximately $4 million over a two year period. The Company has not yet entered into any contracts related to the drug manufacturing.