Consolidated Financial Statements of

LORUS THERAPEUTICS INC.

Years ended May 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Lorus Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Lorus Therapeutics Inc., which comprise the consolidated statements of financial position as at May 31, 2013 and 2012, the consolidated statements of loss and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lorus Therapeutics Inc. as at May 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(b) in the consolidated financial statements, which indicates that Lorus Therapeutics Inc. is in the development stage and, as such, no substantial revenue has been generated from its operating activities and consequently, it is incurring losses and negative cash flows from its activities and has a deficit of $199,959,000 and negative working capital. Accordingly, Lorus Therapeutics Inc. depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that casts substantial doubt about Lorus Therapeutics Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

July 11, 2013

Toronto, Canada

LORUS THERAPEUTICS INC.

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	May 31, 2013	May 31, 2012
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 653	$ 320
Prepaid expenses and other assets	365	293
Total current assets	1,018	613
Non-current assets:		
Equipment (note 5)	17	55
Total non-current assets	17	55
Total assets	$ 1,035	$ 668
Liabilities and Shareholders' (Deficiency) Equity		
Current liabilities:		
Accounts payable	$ 713	$ 322
Accrued liabilities (notes 9(g) and 14)	1,103	1,474
Promissory notes payable (note 7)	–	900
Total current liabilities	1,816	2,696
Shareholders' (deficiency) equity:		
Share capital (note 9):		
Common shares	174,522	170,036
Stock options (note 10)	1,018	535
Contributed surplus	21,217	21,186
Warrants	2,421	609
Deficit	(199,959)	(194,394)
Total shareholders' (deficiency) equity	(781)	(2,028)
Going concern (note 2(b))		
Total liabilities and shareholders' (deficiency) equity	$ 1,035	$ 668

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Warren Whitehead" Director

"Jim Wright" Director

LORUS THERAPEUTICS INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of Canadian dollars, except for per common share data)

Years ended May 31, 2013 and 2012

	2013	2012
Revenue	$ –	$ –
Expenses:		
Research and development (notes 6 and 12)	3,317	2,170
General and administrative (note 12)	2,272	2,430
Operating expenses	5,589	4,600
Finance expense (note 11)	6	20
Finance income	(30)	(6)
Net finance (income) expense	(24)	14
Net loss and total comprehensive loss for the year	$ (5,565)	$ (4,614)
Basic and diluted loss per common share	$ (0.13)	$ (0.23)
Weighted average number of common shares outstanding used in the calculation of (in thousands):		
Basic and diluted loss per common share	42,251	20,260

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Years ended May 31, 2012 and 2012

	Common shares	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 9(b)(i))	4,263	–	1,855	–	–	6,118
Exercise of warrants (note 9(c)(ii)(a))	223	–	(43)	–	–	180
Stock-based compensation (note 10)	–	514	–	–	–	514
Forfeiture of stock options	–	(31)	–	31	–	–
Net loss for the year	–	–	–	–	(5,565)	(5,565)
Balance, May 31, 2013	$ 174,522	$ 1,018	$ 2,421	$ 21,217	$ (199,959)	$ (781)
Balance, June 1, 2011	$ 168,787	$ 1,212	$ 1,032	$ 18,988	$ (189,780)	$ 239
Issuance of units (note 9(b)(ii))	1,214	–	609	–	–	1,823
Repricing of warrants (note 9(c)(i))	–	–	239	(239)	–	–
Exercise of warrants (note 9(c)(ii)(b))	35	–	(18)	–	–	17
Expiry of warrants (note 9(c)(ii)(b))	–	–	(1,253)	1,253	–	–
Stock-based compensation (note 10)	–	507	–	–	–	507
Cancellation and forfeiture of stock options	–	(1,184)	–	1,184	–	–
Net loss for the year	–	–	–	–	(4,614)	(4,614)
Balance, May 31, 2012	$ 170,036	$ 535	$ 609	$ 21,186	$ (194,394)	$ (2,028)

See accompanying notes to consolidated financial statements.

LORUS THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

Years ended May 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net loss for the year	$ (5,565)	$ (4,614)
Items not involving cash:		
Stock-based compensation	514	507
Depreciation of equipment	38	44
Finance income	(30)	–
Finance expense	6	20
Change in non-cash operating working capital (note 11)	(52)	732
Cash used in operating activities	(5,089)	(3,311)
Cash flows from financing activities:		
Issuance of common shares and warrants, net of issuance costs (note 9)	6,118	1,823
Exercise of warrants (note 9)	180	17
Issuance of promissory notes (note 7)	–	900
Repayment of promissory notes (note 7)	(900)	–
Interest on promissory notes	(6)	(20)
Cash provided by financing activities	5,392	2,720
Cash flows from investing activities:		
Interest income	30	–
Cash provided by investing activities	30	–
Increase (decrease) in cash and cash equivalents	333	(591)
Cash and cash equivalents, beginning of year	320	911
Cash and cash equivalents, end of year	$ 653	$ 320

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

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 is a publicly listed company incorporated under the laws of Canada. 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 consolidated financial statements of the Company and its subsidiary as at May 31, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on July 11, 2013.

(b) Going concern:

These consolidated financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis.

Management has forecasted that the Company's current level of cash and cash equivalents, including the proceeds from the private placement completed subsequent to year end (note 16), 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 and partners to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is a 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.

2. Basis of presentation (continued):

These consolidated 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 consolidated 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. ("NuChem"), is the Canadian dollar.

(d) Significant accounting judgments, estimates and assumptions:

The preparation of these consolidated 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 consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from those estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 include:

(i) Valuation of contingent liabilities:

The Company utilizes considerable judgment in the measurement and recognition of provisions and the Company's exposure to contingent liabilities. Judgment is required to assess and determine the likelihood that any potential or pending litigation or any and all potential claims against the Company may be successful. The Company must estimate if an obligation is probable as well as quantify the possible economic cost of any claim or contingent liability. Such judgments and assumptions are inherently

2. Basis of presentation (continued):

uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of the liability and the associated expense.

(ii) Valuation of tax accounts:

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, the Company is accumulating tax loss carryforward balances creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. To date, the Company has determined that none of its deferred tax assets should be recognized. The Company's deferred tax assets are mainly comprised of its net operating losses from prior years, prior year research and development expenses, and investment tax credits. These tax pools relate to entities that have a history of losses, have varying expiry dates, and may not be used to offset taxable income. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. The generation of future taxable income could result in the recognition of some portion or all of the remaining benefits, which could result in an improvement in the Company's results of operations through the recovery of future income taxes.

(iii) Valuation of share-based compensation and share purchase warrants:

Management measures the costs for share-based payments and share purchase warrants using market-based option valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. The increase or decrease of one of these assumptions could materially increase or decrease the fair value of share-based payments and share purchase warrants issued and the associated expense.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its 80% owned subsidiary, NuChem. NuChem has limited activity and the non-controlling interest is not material to the financial statements of the Company. A subsidiary is an entity over which the Company has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. Accounting policies of the subsidiary are consistent with the Company's accounting policies. All intra-group transactions, balances, revenue and expenses are eliminated on consolidation.

(b) Foreign currency translation:

Foreign currency transactions are translated into Canadian dollars at rates prevailing on the transaction dates. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect at that date. Gains or losses resulting from the translation to Canadian dollars are presented in the statement of loss and comprehensive loss for the year within general and administrative expenses.

(c) Derecognition of financial assets and liabilities:

A financial asset is derecognized when the right to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(d) Financial assets and liabilities:

Financial assets within the scope of IAS 39, *Financial Instruments - Recognition and Measurement* ("IAS 39"), are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

3. Significant accounting policies (continued):

The Company's financial instruments are comprised of the following:

Financial assets	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost

Financial liabilities	Classification	Measurement
Accounts payable, accrued liabilities and promissory notes payable	Other liabilities	Amortized cost

The Company considers unrestricted cash on hand and term deposits and guaranteed investment certificates held by Canadian Schedule A banks with original maturities of three months or less as cash and cash equivalents.

Fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
- Level 3 - inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Company's financial assets as at May 31, 2013 and 2012 which include cash and cash equivalents are classified as a Level 1 measurement.

3. Significant accounting policies (continued):

(e) Equipment:

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Company records depreciation at rates that charge operations with the cost of the assets over their estimated useful lives on a straight-line basis as follows:

Furniture and equipment	3 - 5 years

The assets' residual value, useful life and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

(f) Research and development:

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized would include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditures which do not meet the criteria for capitalization are recognized in profit or loss as incurred.

Capitalized development costs are recognized at cost less accumulated amortization and accumulated impairment losses.

The Company has not capitalized any development costs to date.

3. Significant accounting policies (continued):

(g) Investment tax credits:

Research and development investment tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense or cost of the asset acquired when there is reasonable assurance that they will be realized.

The Company's claim for scientific research and experimental development ("SR&ED") deductions and related investment tax credits for income tax purposes are based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). These amounts are subject to review and acceptance by the Canada Revenue Agency or the Ontario Ministry of Finance prior to collection.

(h) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid in short-term cash bonuses if the Company expects to pay these amounts as approved by the Board of Directors as a result of past services provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies (continued):

(ii) Stock-based compensation:

The Company has a stock-based compensation plan (the "Plan") available to officers, directors, employees and consultants with grants under the Plan approved by the Company's Board of Directors. Under the Plan, the exercise price of each option equals the closing trading price of the Company's stock on the day prior to the grant. Vesting is provided for at the discretion of the Board of Directors and the expiration of options is to be no greater than 10 years from the date of grant.

Details regarding the determination of the fair value of equity settled share-based transactions are set out in note 10.

The Company uses the fair value based method of accounting for employee awards granted under the Plan. The Company calculates the fair value of each stock option grant using the Black-Scholes option pricing model at the grant date. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options using an estimate of the number of options that will eventually vest.

Stock options awarded to non-employees are accounted for at the fair value of the goods received or the services rendered. The fair value is measured at the date the Company obtains the goods or the date the counterparty renders the service. If the fair value of the goods or services cannot be reliably measured, the fair value of the options granted will be used.

The Company has an alternate compensation plan that provides directors and senior management with the option of receiving director's fees, salary, bonuses or other remuneration ("Remuneration") in common shares rather than cash. Under the plan, the participant receives an allotment from treasury of such number of shares as will be equivalent to the cash value of the Remuneration determined by dividing the Remuneration by the weighted average closing common share price for the five trading days prior to payment date (the "5-day VWAP"). The issue price of the shares is the 5-day VWAP. There are currently no shares allotted for issuance under this plan.

3. Significant accounting policies (continued):

The Company has a deferred share unit ("DSU") plan that provides directors the option of receiving payment for their services in the form of share units rather than common shares or cash. Officers may also receive compensation under the plan as determined by the Board of Directors. Share units entitle the director to elect to receive, on termination of his or her services with the Company, an equivalent number of common shares, or the cash equivalent of the market value of the common shares at that future date. 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 DSU plan has been treated as a cash settled liability.

For units issued under this plan, the Company records an expense and a liability equal to the market value of the shares issued. The accumulated liability is adjusted for market fluctuations on a quarterly basis.

As at May 31, 2013, 780,000 deferred share units have been issued and are outstanding (May 31, 2012 – 780,000).

(i) Loss per share:

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the year. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and, therefore, they have been excluded from the calculation of diluted loss per share.

3. Significant accounting policies (continued):

(j) Income taxes:

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a financial cost.

Employee entitlements to annual leave are recognized as the employee earns them. A provision, stated at current cost, is made for the estimated liability at the end of each reporting period.

The Company has recorded a provision as related to an indemnification as described in note 14.

3. Significant accounting policies (continued):

(l) Finance income and finance costs:

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss using the effective interest method.

Finance costs comprise interest expense on borrowings and are recognized in profit or loss using the effective interest method.

(m) Recent accounting pronouncements:

(i) IAS 1, *Presentation of Financial Statements* ("IAS 1"):

In June 2011, the IASB issued IAS 1. This amendment retains the "one or two statement" approach to presenting the statements of income and comprehensive income at the option of the entity and only revises the way other comprehensive income is presented. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

(ii) IFRS 9, *Financial Instruments* ("IFRS 9"):

In October 2010, the IASB issued IFRS 9, which replaces IAS 39, *Financial Instruments - Recognition and Measurement* and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

3. Significant accounting policies (continued):

(iii) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"):

This amendment establishes a single control that applies to all entities. These changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate any impact on its consolidated financial statements related to the adoption of this new standard.

(v) IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"):

In May 2011, the IASB issued IFRS 12. IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interest in other entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company does not expect that this new standard will have any effect on its consolidated financial statements.

(vi) IFRS 13, *Fair Value Measurement* ("IFRS 13"):

In May 2011, the IASB issued IFRS 13. IFRS 13, replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. This standard establishes a framework for measuring fair value and requires the fair value hierarchy, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured or based on fair value in the statement of financial position as well as non-recurring fair value measurements such as assets held-for-sale. Furthermore, IFRS 13 expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

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 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.

Pursuant to the commitment letter (described in note 7) provided by Mr. Herbert Abramson ("Mr. Abramson") a director of the Company and majority shareholder, the Company issued a grid promissory note to Mr. Abramson that allowed Lorus to borrow funds of up to $1.8 million. The funds could be borrowed at a rate of up to $300 thousand per month, incurred interest at a rate of 10% per year and were due and payable on November 28, 2012. As at May 31, 2012 the Company had borrowed $900 thousand under this promissory note.

As at May 31, 2013 there were no promissory notes outstanding. Subsequent to the year end (described in note 17) the Company issued additional promissory notes.

The Company is not subject to externally imposed capital requirements, and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2012.

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash of $144 thousand (May 31, 2012 - $76 thousand) and funds deposited into high interest savings accounts totalling $509 thousand (May 31, 2012 - $nil). The current interest rate earned on these deposits is 1.25% (May 31, 2012 - nil).

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

4. Capital disclosures (cont'd):

At May 31, 2012, the Company had received $244 thousand in deposits related to subscription agreements for the Private Placement (note 9(b)(i)). The Company recorded a liability related to these funds at May 31, 2012 and on June 8, 2012; the Company reversed the liability with the credit to share capital when the shares were issued.

5. Equipment:

May 31, 2013	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,914	$ 2,897	$ 17

May 31, 2012	Cost	Accumulated depreciation	Net book value
Furniture and equipment	$ 2,914	$ 2,859	$ 55

6. Research and development programs:

The Company has product candidates in two classes of anticancer therapies:

- small molecule therapies based on anti-proliferative and anti-metastatic properties that act at novel cancer specific targets;
- immunotherapy, based on stimulating anticancer properties of the immune system and by direct tumour cell killing; and

(a) Small molecule program:

The Company is developing small molecule cancer therapies that target solid tumours with indications addressing large cancer markets. The Company's proprietary group of small molecule compounds includes lead drug LOR-253 for which Phase I clinical trial results were announced in July 2013 and LOR-500 program, which is in the pre-clinical stage of development.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

6. Research and development programs (continued):

(b) Immunotherapy:

The Company's immunotherapy product candidate is Interleukin-17E ("IL-17E"). IL-17E is a protein-based therapeutic in the pre-clinical stage of development. 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 non-clinical toxicology studies and should those studies be successful, a Phase I clinical trial. The non-clinical toxicology studies will only be carried out upon the successful completion of a preclinical program as determined by Cancer Research UK.

Program costs by product class are as follows:

	2013	2012
Small molecule program	$ 2,701	$ 1,900
Immunotherapy	425	–
	$ 3,126	$ 1,900

See note 12 for all components of research and development expenditures.

7. Promissory notes payable:

Pursuant to the commitment letter (described in note 9(b)(ii)) provided by Mr. Abramson, the Company issued a grid promissory note to Mr. Abramson that allowed Lorus to borrow funds up to $1.8 million. The funds could be borrowed at a rate of up to $300 thousand per month, incurred interest at a rate of 10% per year were due and payable in full no later than November 28, 2012.

As at May 31, 2012, the Company had drawn $900 thousand on this promissory note and in June 2012, the note and all accrued interest was repaid.

Subsequent to the year ended May 31, 2013, on June 19, 2013 the Company issued additional promissory notes for cash proceeds of $893 thousand which are due in June 2014 (see note 17).

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

8. Financial instruments:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	May 31, 2013	May 31, 2012
Financial assets:		
Cash and cash equivalents, consisting of high interest savings account, measured at amortized cost	$ 653	$ 320
Financial liabilities:		
Accounts payable, measured at amortized cost	713	322
Accrued liabilities, measured at amortized cost	1,103	1,474
Promissory notes payable, measured at amortized cost	–	900

At May 31, 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.

8. Financial instruments (continued):

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 which 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 management and the Board consider securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. All of the Company's financial liabilities are due within the current operating period. 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 and short-term investments. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relative short-term nature of the investments. The Company does not have any material interest bearing liabilities subject to interest rate fluctuations.

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of accounts payable and accrued liabilities. The Company holds minimal amounts of U.S. dollar denominated cash, purchasing on an as-needed basis to cover U.S. dollar denominated payments. At May 31, 2013, U.S. dollar denominated accounts payable and accrued liabilities amounted to $448 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 $45 thousand (May 31, 2012 - $15 thousand). The Company does not have any forward exchange contracts to hedge this risk.

8. Financial instruments (continued):

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 May 31, 2013 the Company had issued 780,000 (May 31, 2012 – 780,000) deferred share units and at May 31, 2013 that represents a cash liability of $172 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 $17 thousand (May 31, 2012 - $30 thousand).

9. Share capital:

(a) Continuity of common shares and warrants:

	Common shares		Warrants	
	Number	Amount	Number	Amount
	(In thousands)		(In thousands)	
Balance, May 31, 2011	15,685	168,787	4,170	1,032
Issuance of units (b)(ii)	5,484	1,214	5,678	609
Warrant repricing (c)(i)	–	–	–	239
Exercise of warrants (c)(ii)(b)	59	35	(59)	(18)
Expiry of warrants (c)(ii)(b)	–	–	(4,111)	(1,253)
Balance, May 31, 2012	21,228	$ 170,036	5,678	$ 609
Issuance of units (b)(i)	20,625	4,263	20,625	1,720
Issuance of finders warrants (b)(i)	–	–	1,238	135
Exercise of warrants (c)(ii)(a)	398	223	(398)	(43)
Balance, May 31, 2013	**42,251**	**$ 174,522**	**27,143**	**$ 2,421**

9. Share capital (continued):

(b) Equity issuances:

(i) June 2012 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 $6,600,000.

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 (“TSX”) 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.

(ii) August 2011 Unit Offering:

On July 22, 2011, the Company filed a final short-form prospectus in connection with a best efforts offering (the "Offering") of units of the Company at a price of $0.40 per unit.

9. Share capital (continued):

Each unit consisted of one common share of Lorus and one common share purchase warrant of Lorus. Each warrant entitles the holder to purchase one common share for five years after the closing of the Offering at an exercise price of $0.45 per common share (the "Exercise Price"). If on any date (the "Accelerated Exercise Date") the 10-day VWAP of the common shares on the TSX equals or exceeds 200% of the Exercise Price, 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.

In connection with the Offering, Mr. Abramson, a director of the Company, entered into an irrevocable commitment letter on June 20, 2011, and amended July 11, 2011, to purchase, directly or indirectly, common shares and common share purchase warrants (or as may otherwise be agreed) in the capital of Lorus having an aggregate subscription price equal to the difference (the "Commitment Amount"), if any, between: (a) the sum of: (i) the gross proceeds realized by Lorus in the Offering; and (ii) the gross proceeds received by Lorus in respect of all financings completed by Lorus from the date of the final short-form prospectus to November 30, 2011; and (b) $4 million.

The Offering closed on August 15, 2011 for total gross proceeds of $2.2 million. In connection with the Offering, Lorus issued 5.484 million common shares and 5.678 million warrants including the broker warrants.

Mr. Abramson purchased 2.4 million units as part of the Offering.

The total costs associated with the transaction were approximately $395 thousand, which included the $25 thousand which represented the fair value of the brokers' services provided as part of the Offering. Each such broker warrant is exercisable for one unit at a price of $0.40 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, $1.2 million of the net proceeds were allocated to the common shares and $609 thousand to the common share purchase warrants.

9. Share capital (continued):

(c) Warrants:

(i) Repricing:

On November 29, 2011, shareholders of the Company (excluding insiders who also held warrants) approved a resolution to amend the exercise price of certain outstanding warrants from $1.33 to the 5-day volume weighted average trading price on the Toronto Stock Exchange five days prior to approval plus a 10% premium. The revised warrant exercise price was $0.28. The Company calculated an increased value attributed to the warrants of $239 thousand related to the amendment. This increase was calculated by taking the Black-Scholes value of the warrants immediately before the amendment and immediately after the amendment. The increased value was accounted for by an increase in the warrant equity value and a corresponding reduction in contributed surplus. There were 4.2 million warrants which were amended and of those 3.6 million were held by Mr. Abramson, a director of the Company.

(ii) Exercises and expiry:

(a) During the year ended May 31, 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.

(b) The warrants issued in November 2010 and for which the price was amended in November 2011 ((i) repricing described above), expired May 8, 2012. A total of 59,384 warrants were exercised for cash proceeds of $17 thousand. The balance of the 4.2 million warrants expired unexercised, resulting in a transfer of the amount attributed to the expired warrants of $1.253 million to contributed surplus.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

9. Share capital (continued):

(d) 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.

	2013	2012
Balance, beginning of year	$ 21,186	$ 18,988
Expiry of warrants (c)	–	1,253
Warrant repricing (c)	–	(239)
Forfeiture and cancellation of stock options	31	1,184
Balance, end of year	$ 21,217	$ 21,186

(e) Continuity of stock options:

	2013	2012
Balance, beginning of year	$ 535	$ 1,212
Stock option expense	514	507
Cancellation and forfeiture of stock options	(31)	(1,184)
Balance, end of year	$ 1,018	$ 535

(f) Loss per share:

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ending May 31, 2013 of 42.251 million and 20.260 million as of May 31, 2012 calculated as follows:

	2013	2012
Issued common shares, beginning of year	21,228	15,685
Effect of private placement (note 9(b)(i))	20,625	–
Effect of unit offering (note 9(b)(ii))	–	4,570
Effect of Warrant exercises (note 9(c)(ii)(a))	398	5
Issued weighted average common shares, end of year	42,251	20,260

9. Share capital (continued):

The effect of any potential exercise of the Company's 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.

(g) Deferred share unit plan:

As at May 31, 2013, 780,000 deferred share units have been issued (May 31, 2012 – 780,000), with a carrying amount of $172 thousand representing the fair market value of the units as of May 31, 2013 (May 31, 2012 - $304 thousand) recorded in accrued liabilities.

(h) Employee share purchase plan:

The Company has an employee share purchase plan ("ESPP"). The purpose of the ESPP is to assist the Company in retaining the services of its employees, to secure and retain the services of new employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. The ESPP provides a means by which employees of the Company may purchase common shares of the Company at a discount through accumulated payroll deductions with each offering having a three-month duration. Participants may authorize payroll deductions of up to 15% of their base compensation for the purchase of common shares under the ESPP. For the year ended May 31, 2013, nil (May 31, 2012 – 14,120) common shares have been purchased under the ESPP, and the Company has recognized an expense of $nil (May 31, 2012 - $1 thousand) related to this plan in these consolidated financial statements. The ESPP is not active as of May 31, 2013.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

10. Stock-based compensation:

Stock option plan:

Under the Company's stock option plan, options, rights and other entitlements may be granted to directors, officers, employees and consultants of the Company to purchase up to a maximum of 15% of the total number of outstanding common shares, estimated at 6,338,000 options, rights and other entitlements as at May 31, 2013. Options are granted at the fair market value of the common shares on the date immediately preceding the date of the grant. Options vest at various rates (immediate to three years) and have a term of 10 years. Stock option transactions for the two years ended May 31, 2013 are summarized as follows:

Option numbers are in (000's)

	2013		2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,612	$ 0.44	1,186	$ 1.58
Granted	1,780	0.48	1,538	0.21
Forfeited	(33)	0.54	(29)	6.03
Cancelled	–	–	(1,083)	1.21
Outstanding, end of year	3,359	0.46	1,612	0.44

The following table summarizes information about stock options outstanding at May 31, 2013:

Option numbers are in (000's)

	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	1,507	8.6	$ 0.21	1,343	$ 0.21
$0.23 - $ 0.48	1,780	9.2	0.48	243	0.48
$0.49 - $ 9.90	72	4.6	5.25	72	5.25
	3,359	8.8	0.46	1,658	0.47

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

10. Stock-based compensation (continued):

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

	2013	2012
Exercise price	$0.475	$0.18 - $0.215
Grant date share price	$0.475	$0.18 - $0.215
Risk-free interest rate	3.0%	1.5%
Expected dividend yield	–	–
Expected volatility	135%	123% - 125%
Expected life of options	5 years	5 years
Weighted average fair value of options granted or modified during the year	$0.42	$0.17

The Company uses historical data to estimate the expected dividend yield and expected volatility of its common shares in determining the fair value of stock options. The expected life of the options represents the estimated length of time the options are expected to remain outstanding.

Stock options granted by the Company during the year ended May 31, 2013 have various vesting schedules. Options granted 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 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 vest 50% upon certain performance criteria measured as of May 31, 2013 and 25% May 31, 2014 and 25% on May 31, 2015. Options granted to employees totaled 245,000 and vest 50% after one year and 25% on each of August 2, 2015 and August 2, 2016.

Stock options granted by the Company during the year ended May 31, 2012 also have various vesting schedules. Options granted to directors consisted of 221,000 options that vested 50% upon issuance and 50% one year later. Two directors received options that totalled 550,000 options which vested immediately. Options granted to the Chief Executive Officer ("CEO") of 275,000 vested 50% immediately and 25% on each of November 29, 2012 and 2013. Options granted to certain members of management totalled 300,000 and vested 50% upon certain performance criteria measured as of May 31, 2012 and 25% May 31, 2013 and 25% on May 31, 2014. An additional 192,000 options were granted to these members of management which vest 50% on March 9, 2013, 25% on March 9, 2014 and 25% on March 9, 2015.

Refer to note 12 for a breakdown of stock option expense by function.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

11. Additional cash flow disclosures:

Net change in non-cash operating working capital is summarized as follows:

	2013	2012
Prepaid expenses and other assets	$ (72)	$ 95
Accounts payable	391	107
Accrued liabilities	(371)	530
	$ (52)	$ 732

During the year ended May 31, 2013, the Company incurred $6 thousand (2012 - $20 thousand) in interest expense on a $900 thousand promissory note due to Mr. Abramson. The interest was paid at a rate of 10%.

12. Other expenses:

Components of research and development expenses:

	2013	2012
Program costs (note 6)	$ 3,126	$ 1,900
Deferred share unit costs	(40)	91
Stock-based compensation	198	146
Depreciation of equipment	33	33
	$ 3,317	$ 2,170

Components of general and administrative expenses:

	2013	2012
General and administrative excluding salaries	$ 1,368	$ 1,240
Salaries	675	605
Deferred share unit costs	(92)	213
Stock-based compensation	316	361
Depreciation of equipment	5	11
	$ 2,272	$ 2,430

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

13. Related party transactions:

See also notes 7, 9 and 17 for related party transactions.

These transactions were in the normal course of business and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Company's activities as a whole. The Company has determined that key management personnel consists of the members of the Board of Directors along with the officers of the Company.

Officer compensation:

	2013	2012
Salaries and short-term employee benefits	$ 727	$ 567
Deferred share units	(132)	304
Stock-based compensation	358	343
	$ 953	$ 1,214

Director compensation:

	2013	2012
Directors' fees	$ 180	$ 186
Stock-based compensation	73	131
	$ 253	$ 317

Included in accounts payable and accrued liabilities is $26 thousand (May 31, 2012 - $160 thousand) due to directors and officers of the Company relating to directors' fees, and reimbursements for employment expenses. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

14. Commitments, contingencies and guarantees:

(a) Operating lease commitments:

The Company has entered into operating leases for premises and equipment under which it is obligated to make minimum annual payments as described below:

	Less than 1 year	1 - 3 years	3 - 5 years	Total
Operating leases	$ 152	$ 137	$ nil	$ 289

The Company's current facility lease expires in March 2015.

(b) Other contractual commitments:

The Company holds a non-exclusive license from Genentech Inc. to certain patent rights to develop and sub-license a certain polypeptide. The Company does not expect to make any milestone or royalty payments under this agreement in fiscal years ended May 31, 2014 or 2015, and cannot reasonably predict when such milestones and royalties will become payable, if at all.

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 $1.5 million. Of this amount, $740 thousand has been paid and $253 thousand has been accrued at May 31, 2013 (2012 - $439 thousand paid and $70 thousand accrued). The payments will be based on services performed and amounts may be 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.

14. Commitments, contingencies and guarantees (continued):

(c) Guarantees:

The Company entered into various contracts, whereby contractors perform certain services for the Company. The Company indemnifies the contractors against costs, charges and expenses in respect of legal actions or proceedings against the contractors in their capacity of servicing the Company. The maximum amounts payable from these guarantees cannot be reasonably estimated. Historically, the Company has not made significant payments related to these guarantees.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers. The fair value of this indemnification is not determinable.

(d) Indemnification on plan of arrangement:

On July 10, 2007, Lorus completed a plan of arrangement and corporate reorganization whereby the assets and liabilities of Lorus were transferred from one corporate entity into a new corporate entity which continued to operate as Lorus Therapeutics Inc. Under the arrangement, the Company agreed to indemnify the old entity and its directors, officers and employees from and against all damages, losses, expenses, other third party costs and legal expenses, to which any of them may be subject arising out of any matter occurring:

(i) prior to, at or after the effective time of the arrangement ("Effective Time") and directly or indirectly relating to any of the assets transferred to the Company pursuant to the arrangement (including losses for income, sales, excise and other taxes arising in connection with the transfer of any such asset) or conduct of the business prior to the Effective Time;

(ii) prior to, at or after the Effective Time as a result of any and all interests, rights, liabilities and other matters relating to the assets transferred to the Company pursuant to the arrangement; and

(iii) prior to or at the Effective Time and directly or indirectly relating to, with certain exceptions, any of the activities of the old entity or the arrangement.

The Company recorded a liability of $75 thousand, which it believes to be a reasonable estimate of the fair value of the obligation for the indemnifications provided as at May 31, 2013. There have been no claims on this indemnification to date.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

15. Income taxes:

Provision for income taxes:

Major items causing the Company's income tax rate to differ from the statutory rate of approximately 26.5% (2012 - 27.4%) are as follows:

	2013	2012
Loss before income taxes	$ (5,565)	$ (4,614)
Statutory Canadian corporate tax rate	26.5%	27.4%
Anticipated tax recovery	$ (1,475)	$ (1,264)
Non-deductible stock-based compensation	138	141
Change in deferred tax benefits deemed not probable to be recovered	1,553	1,963
Change in substantively enacted tax rates	–	(627)
Other	(216)	(213)
	$ –	$ –

The Company has undeducted research and development expenditures, totalling $21.6 million that can be carried forward indefinitely. In addition, the Company has non-capital loss carryforwards of $17.7 million. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

2015	$ 10
2026	11
2027	4
2028	4,359
2029	3,753
2030	650
2031	2,908
2032	2,571
2033	3,473
	$ 17,739

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

15. Income taxes (continued):

Deferred tax assets have not been recognized in respect of the following items:

	2013	2012
Net operating losses carried forward	$ 4,701	$ 3,822
Research and development expenditures	5,731	5,207
Fixed assets book over tax depreciation	448	438
Intangible asset	3,097	3,097
Ontario harmonization tax credit	287	287
Ontario Research and Development Tax Credit	327	239
Cumulative eligible capital	358	357
Other	279	228
Unrecognized deferred tax asset	$ 15,228	$ 13,675

16. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

17. Subsequent event:

On June 19, 2013 the Company completed a private placement of units at a price of $1,000 per unit, for aggregate gross proceeds of $893,000. Each Unit consisted of (i) a $1,000 principal amount of unsecured promissory notes; and (ii) 1,000 common share purchase warrants. The Promissory Notes bear interest at a rate of 10% per annum, payable monthly and are due June 19, 2014. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price per common share equal to $0.25 at any time until June 19, 2015. Certain related parties participated in the transaction including Dr. Aiping Young our President and CEO and two Directors, Dr. Wright and Dr. Vincent for combined proceeds of $68 thousand. Trapeze Capital Corporation ("Trapeze") also participated in the transaction for proceeds of $250 thousand. Mr. Abramson, a director of the Company, is a co-founder, Chairman and portfolio manager at Trapeze.