

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

OF LORUS THERAPEUTICS INC. (the “Company”)

I. PURPOSE

The Audit Committee is a committee of the board of directors of the Company (the “Board”). The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

1. Serve as an independent and objective party to oversee the integrity of the Company’s financial reporting process, audits of the Company’s financial statements and systems of internal controls regarding finance, accounting, and legal compliance;
2. Identify and monitor the management of the principal risks that could impact the financial reporting of the Company;
3. Monitor the independence and performance of the Company’s independent auditors;
4. Provide an avenue of communication among the independent auditors, management, and the Board; and
5. Encourage continuous improvement of, and foster adherence to, the Company’s policies, procedures and practices at all levels.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the Company. The Audit Committee has the ability to retain, at the Company’s expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. The Company shall also provide appropriate funding, as determined by the Audit Committee, for payment of compensation to any external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

II. COMPOSITION AND MEETINGS

Audit Committee members shall meet the requirements of the Canadian securities regulatory authorities, United States securities laws and applicable stock exchange requirements.

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent as defined by MI 52-110-Audit Committees, U.S. securities laws and applicable stock exchange rules. All members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flows statement and at least one member of the Committee shall have accounting or related financial management expertise and be “financially sophisticated” within the meaning of applicable stock exchange rules.

Audit Committee members shall be appointed by the Board. If an Audit Committee Chair is not

designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee membership.

The Audit Committee shall meet at least four times annually, or more frequently as circumstances require. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting.

The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. The Audit Committee should meet privately in executive session at least annually with management, the independent auditors, and as a committee to discuss any matters that the Audit Committee or each of these groups believe should be discussed. In addition, the Audit Committee should communicate with management and the external auditors at least quarterly to review the Company's financial statements.

III RESPONSIBILITIES AND DUTIES

A. Review Procedures

- 1) Maintain a Charter that sets out the Audit Committees mandate and responsibilities. Review and reassess the adequacy of this Charter at least annually.
- 2) Review and discuss with management and the external auditors the Company's financial statements, MD&A and annual and interim results press releases prior to filing or distribution. The Audit Committee must be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements (other than public disclosure of financial statements, MD&A and annual and interim results press releases), and must periodically assess the adequacy of those procedures. Consider the independent auditors' judgements about the quality and appropriateness, not just the acceptability, of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or minority practices.
- 3) Consider and approve, if appropriate, major changes to the Company's accounting principles and practices as suggested by the independent auditors or management and assure that the reasoning is described in determining the appropriateness of changes in accounting principles and disclosures.
- 4) In consultation with the management and the independent auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
- 5) The Audit Committee is directly responsible for overseeing the work of the independent auditors including the review of any disagreements among management and the independent auditors in connection with financial statements, and overseeing the resolution of any such disagreements.
- 6) Annually review policies and procedures as well as audit results associated with directors' and officers expense accounts and perquisites. Annually review a summary of director and officers' related party transactions and potential conflicts of interest.

- 7) Annually conduct self-assessment of Audit Committee performance including a review and discussion of the Audit Committee roles and responsibilities, seeking input from senior management, the full Board and others if needed.

B. Independent Auditors

- 1) The independent auditors are accountable to the Audit Committee and the Board and shall report directly to the Audit Committee. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board:
 - 1) The external auditor to be nominated for the purpose of preparing or issuing an auditor's report and performing other audit, review and attest services for the Company as required;
 - 2) The compensation of such external auditor; and
 - 3) To approve any discharge of such external auditors when circumstances warrant.
- 2) Pre-approve all audit fees and terms and all permitted non-audit services (including the fees and terms thereof) to be provided by the external auditor, and consider whether these services are compatible with the auditors' independence. Any member of the Audit Committee may approve additional proposed non-audit services that arise between Audit Committee meetings provided that the decision to pre-approve the services is presented at the next scheduled Audit Committee meeting. The approval of all non-audit services will be evidenced by the completion and approval of the Non-Audit Services Request Form (attached as Schedule "A" hereto).
- 3) On an annual basis, the Audit Committee should review and discuss with the external auditors all relationships they have with the Company that could impair the auditors' independence. In particular, the Audit Committee is responsible for ensuring its receipt from the external auditors of a formal written statement delineating all relationships between the external auditors and the Company, consistent with applicable regulations, actively engaging in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors, and taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditors.
- 4) Review the external auditors' audit plan – discuss scope, staffing, locations, reliance upon management and general audit approach.
- 5) Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
- 6) Prior to releasing the year-end results, discuss the results of the audit with the external auditors. Discuss with management and the external auditors matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
- 7) Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former independent auditors of the Company.
- 8) Review and discuss quarterly reports from the external auditors on:

- a. All critical accounting policies and practices to be used;
- b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and
- c. Other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences.

C. Ethical and Legal Compliance

- 1) On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
- 2) Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Audit Committee or the Board deems necessary or appropriate.

D. Whistle Blowing

The Audit Committee shall put in place procedures for:

- 1) The receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
- 2) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

E. Other Audit Committee Responsibilities

- 1) Create an agenda for the ensuing year.
- 2) Describe in the Company's annual information form the Audit Committee's composition and responsibilities and how they were discharged in accordance with the requirements of 52-110F1.
- 3) Submit the minutes of all meetings of the Audit Committee to the Board.
- 4) Provide any other disclosure required to be included with respect to the Audit Committee or the Company's securities law filings.

Schedule "A"

Non-Audit Services Request Form

LORUS THERAPEUTICS INC.

NON-AUDIT SERVICES REQUEST FORM

The Audit Committee pre-approves all audit fees and terms and all permitted non-audit services (including the fees and terms thereof) to be provided by the independent auditor and considers whether these services are compatible with the auditor's independence. Any member of the Audit Committee, subject to appropriate delegation, may approve additional proposed non-audit services that arise between Audit Committee meetings provided that the decision to approve the service is presented at the next scheduled Audit Committee meeting. This form documents the member's approval of the non-audit service in a form suitable for distribution at meetings of the Audit Committee.

REQUEST MADE BY

Name, Title, Date:

DETAILED DESCRIPTION OF NON-AUDIT SERVICE REQUESTED *(including a general description of the nature of the services that may make up the project)*

ENGAGEMENT FEE OR RANGE OF FEES FOR THIS SERVICE

PROHIBITED SERVICES

In this section please confirm that these services are not "prohibited services" under section 201 of the Sarbanes-Oxley Act of 2002 and other related rules or regulations.

These services would not be considered prohibited services

Issues considered in forming the conclusion above that should be considered by the Audit Committee

COMPATIBILITY WITH AUDITORS' INDEPENDENCE

In this section please state whether these services are compatible with the auditors' independence.

These services are compatible with the auditors' independence

Issues considered in forming the conclusion above that should be considered by the audit committee

Management Approval

This form must be reviewed and approved by one authorized member of management (either the CEO, CFO or Director of Finance before submitting this form to an Audit Committee member for final approval.

Name, Title, Date: _____

AUDIT COMMITTEE MEMBER APPROVAL

Name, Date: _____