Consolidated Financial Statements of

# APTOSE BIOSCIENCES INC.

Year ending December 31, 2015, Seven month period ending December 31, 2014, Year ending May 31, 2014

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# INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Aptose Biosciences Inc.

We have audited the accompanying consolidated financial statements of Aptose Biosciences Inc., which comprise the consolidated statements of financial position as of December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2015, the seven-month period ended December 31, 2014 and the year ended May 31, 2014, 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 referred to above present fairly, in all material respects, the consolidated financial position of Aptose Biosciences Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2015, the seven-month period ended December 31, 2014 and the year ended May 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 29, 2016
Toronto, Canada

# APTOSE BIOSCIENCES INC.

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 4(a)) | $ 11,503 | $ 14,365 |
| Investments (note 4(b)) | 8,245 | 16,180 |
| Prepaid expenses and other assets | 1,067 | 855 |
| Total current assets | 20,815 | 31,400 |
| Non-current assets: | | |
| Equipment and intangibles (note 5) | 434 | 200 |
| Total non-current assets | 434 | 200 |
| Total assets | $ 21,249 | $ 31,600 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 522 | $ 256 |
| Accrued liabilities | 1,834 | 1,662 |
| Convertible promissory notes (note 7) | – | 410 |
| Total current liabilities | 2,356 | 2,328 |
| Shareholders' equity: | | |
| Share capital (note 9): | | |
| Common shares | 223,425 | 221,259 |
| Equity portion of convertible promissory notes (note 7) | – | 64 |
| Stock options (notes 9(e) and 10) | 6,256 | 4,078 |
| Contributed surplus (note 9(d)) | 22,037 | 21,653 |
| Warrants (note 9(c)) | 84 | 501 |
| Deficit | (232,909) | (218,283) |
| Total shareholders' equity | 18,893 | 29,272 |
| Total liabilities and shareholders' equity | $ 21,249 | $ 31,600 |

See accompanying notes to consolidated financial statements.

*Commitments, contingencies and guarantees (Note 15)*

On behalf of the Board:

“Warren Whitehead” Director

“Bradley Thompson” Director

# APTOSE BIOSCIENCES INC.

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

Year ended December 31, 2015, 7 month period ended December 31, 2014 and
Year ended May 31, 2014

| | 12 months ended December 31, 2015 | 7 months ended December 31, 2014 | 12 months ended May 31, 2014 |
|---|---|---|---|
| | | (note 17) | (note 17) |
| Revenue | $ – | $ – | $ – |
| Expenses: | | | |
| Research and development (notes 11) | 6,254 | 2,404 | 3,015 |
| General and administrative (note 12) | 9,845 | 5,542 | 7,317 |
| Operating expenses | 16,099 | 7,946 | 10,332 |
| Finance expense (note 13) | 43 | 104 | 297 |
| Finance income (note 13) | (1,516) | (279) | (76) |
| Net finance (income) expense | (1,473) | (175) | 221 |
| Net loss and total comprehensive loss for the period | $ (14,626) | $ (7,771) | $ (10,553) |
| Basic and diluted loss per common share | $ (1.23) | $ (0.67) | $ (2.02) |
| Weighted average number of common shares outstanding used in the calculation of (in thousands) (note 9(f)): | | | |
| Basic and diluted loss per common share | 11,906 | 11,605 | 5,216 |

See accompanying notes to consolidated financial statements.

# APTOSE BIOSCIENCES INC.

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

Year ended December 31, 2015, 7 month period ended December 31, 2014 and Year ended May 31, 2014

| | Share capital | Stock options | Warrants | Contributed surplus | Equity portion of debt | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | $ 221,259 | $ 4,078 | $ 501 | $ 21,653 | $ 64 | $ (218,283) | $ 29,272 |
| Exercise of warrants (note 9(c)) | 503 | – | (155) | – | – | – | 348 |
| Exercise of stock options | 1,215 | (566) | – | – | – | – | 649 |
| Conversion of promissory notes (note 7) | 438 | – | – | 54 | (64) | – | 428 |
| Common shares issued under the ATM (note 9(b)(i)) | 10 | – | – | – | – | – | 10 |
| Expiry of warrants | – | – | (262) | 262 | – | – | – |
| Stock-based compensation (note 10) | – | 2,812 | – | – | – | – | 2,812 |
| Expiry of stock options | – | (68) | – | 68 | – | – | – |
| Net loss for the period | – | – | – | – | – | (14,626) | (14,626) |
| Balance, December 31, 2015 | $ 223,425 | $ 6,256 | $ 84 | $ 22,037 | $ – | $ (232,909) | $ 18,893 |
| | | | | | | | |
| Balance, May 31, 2014 | $ 212,938 | $ 2,658 | $ 1,857 | $ 21,410 | $ 88 | $ (210,512) | $ 28,439 |
| Exercise of warrants (note 9(c)) | 7,814 | – | (1,166) | – | – | – | 6,648 |
| Exercise of stock options | 345 | (162) | – | – | – | – | 183 |
| Conversion of promissory notes (note 7) | 162 | – | – | 8 | (24) | – | 146 |
| Expiry of warrants | – | – | (190) | 190 | – | – | – |
| Stock-based compensation (note 10) | – | 1,627 | – | – | – | – | 1,627 |
| Expiry of stock options | – | (45) | | 45 | | – | – |
| Net loss for the seven month period | – | – | – | – | – | (7,771) | (7,771) |
| Balance, December 31, 2014 | $ 221,259 | $ 4,078 | $ 501 | $ 21,653 | $ 64 | $ (218,283) | $ 29,272 |
| | | | | | | | |
| Balance, June 1, 2013 | $ 174,522 | $ 1,018 | $ 2,421 | $ 21,217 | $ – | $ (199,959) | $ (781) |
| Issuance of common shares (note 9(b)(ii)) | 6,927 | – | 350 | – | – | – | 7,277 |
| Issuance of common shares (note 9(b)(i)) | 25,584 | – | – | – | – | – | 25,584 |
| Issuance of warrants (note 9(b)(iii)) | – | – | 75 | – | – | – | 75 |
| Issuance of convertible notes (note 7) | – | – | – | – | 88 | – | 88 |
| Exercise of warrants (note 9(c)) | 5,422 | – | (964) | – | – | – | 4,458 |
| Exercise of options and DSU's (note 9(g)) | 483 | (18) | – | – | – | – | 465 |
| Expiry of warrants | – | – | (25) | 25 | – | – | – |
| Stock-based compensation (note 10) | – | 1,826 | – | – | – | – | 1,826 |
| Cancellation and forfeiture of stock options | – | (168) | – | 168 | – | – | – |
| Net loss for the year | – | – | – | – | – | (10,553) | (10,553) |
| Balance, May 31, 2014 | $ 212,938 | $ 2,658 | $ 1,857 | $ 21,410 | $ 88 | $ (210,512) | $ 28,439 |

See accompanying notes to consolidated financial statements.

# APTOSE BIOSCIENCES INC.

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

| | 12 months ended December 31, 2015 | 7 months ended December 31, 2014 | 12 months ended May 31, 2014 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss for the year | $ (14,626) | $ (7,771) | $ (10,553) |
| Items not involving cash: | | | |
| Stock-based compensation | 2,812 | 1,627 | 1,826 |
| Depreciation and amortisation | 96 | 22 | 21 |
| Interest income | (286) | (279) | (76) |
| Unrealized foreign exchange gain | (929) | – | – |
| Interest and accretion expense | 43 | 58 | 259 |
| Other | – | – | 1 |
| Change in non-cash operating working capital (note 6) | 226 | (374) | (14) |
| Cash used in operating activities | (12,664) | (6,717) | (8,536) |
| Cash flows from financing activities: | | | |
| Issuance of common shares and warrants, net of issuance costs (note 9(b)(i) and (ii)) | 10 | – | 32,861 |
| Exercise of warrants, options and DSU's (note 9) | 997 | 6,831 | 4,923 |
| Issuance of convertible notes | – | – | 600 |
| Debt issuance costs | – | – | (40) |
| Issuance of promissory notes and loans | – | – | 1,068 |
| Repayment of promissory notes and loans | – | – | (1,068) |
| Interest paid on notes and loans | (25) | (30) | (129) |
| Cash provided by financing activities | 982 | 6,801 | 38,215 |
| Cash flows from investing activities: | | | |
| Maturity (acquisition) of investments | 7,935 | (5,161) | (11,019) |
| Purchase of equipment | (330) | (204) | (22) |
| Interest received | 286 | 279 | 76 |
| Cash provided by (used in) investing activities | 7,891 | (5,086) | (10,965) |
| Effect of exchange rate fluctuations on cash and cash equivalents held | 929 | – | – |
| Increase (decrease) in cash and cash equivalents | (2,862) | (5,002) | 18,714 |
| Cash and cash equivalents, beginning of year | 14,365 | 19,367 | 653 |
| Cash and cash equivalents, end of year | $ 11,503 | $ 14,365 | $ 19,367 |

Supplemental cash flow information (note 6)

See accompanying notes to consolidated financial statements.

## 1. Reporting entity:

Aptose Biosciences Inc. ("Aptose" or the "Company") is a clinical-stage biotechnology company committed to discovering and developing personalized therapies addressing unmet medical needs in oncology. Aptose is a publicly listed company incorporated under the laws of Canada. The Company's shares are listed on the Nasdaq Capital Markets and the Toronto Stock Exchange. The head office, principal address and records of the Company are located at 5955 Airport Road, Mississauga, Ontario, Canada, L4V 1R9.

Aptose changed its name from Lorus Therapeutics Inc. effective August 28, 2014.

Effective July 17, 2014, the Company changed its fiscal year end from May 31 to December 31. As a result of that change, the current reporting fiscal period is for the twelve months ended December 31, 2015, while the prior year comparative periods are for the seven months ended December 31, 2014 and the twelve months ended May 31, 2014, and therefore are not directly comparable to the current twelve month period.

## 2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the Company and its subsidiaries 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 March 29, 2016.

(b) Functional and presentation currency:

The functional and presentation currency of the Company is the Canadian dollar.

(c) 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.

**2. Basis of presentation (continued):**

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 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 has deductible temporary differences which would create a deferred tax asset. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences 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 and prior year research and development expenses not yet deducted for income tax purposes. 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.

**2. Basis of presentation (continued):**

(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, and employee turnover rates. 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 its 80% owned subsidiary, NuChem Pharmaceuticals Inc. ("NuChem"), its 100% owned subsidiaries Aptose Biosciences Inc. USA ("Aptose USA") and Aptose Suisse GmbH ("Aptose Suisse"). 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 subsidiaries 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 period within finance income or expense.

(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.

## 3. Significant accounting policies (continued):

(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.

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

| Financial assets | Classification | Measurement |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Investments | Loans and receivables | Amortized cost |
| **Financial liabilities** | **Classification** | **Measurement** |
| Accounts payable, accrued liabilities and convertible promissory notes payable | Other liabilities | Amortized cost |

The Company considers unrestricted cash on hand 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

**3. Significant accounting policies (continued):**

- 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.

(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 | 3 years |
| Laboratory Equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | Life of lease |

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

(f) Intangible assets:

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The Company's intangible assets consist of computer application software that is not an integral part of related hardware. Subsequent expenditures that increase application software functionality are recognized in the carrying amount of intangible assets if they embody future economic benefit to the Company. All other costs including the costs of day-to-day servicing of intangible assets are expensed as incurred. Amortization is recognized in expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

(g) 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

**3. Significant accounting policies (continued):**

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.

(h) 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 prior to collection.

(i) 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.

(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

**3. Significant accounting policies (continued):**

Company's stock on the day prior to the grant if the grant is made during the trading day or the closing trading price on the day of grant if the grant is issued after markets have closed. 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 a stock incentive plan pursuant to which the Board may grant stock-based awards comprised of restricted stock units or dividend equivalents to employees, officers, consultants, independent contractors, advisors and non-employee directors of the Corporation or any affiliate. No units have been issued under this plan to date.

(j) 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 similarly 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):**

(k) 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.

(l) 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 finance cost.

(m) 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.

(n) Standards and Interpretations Adopted in the Twelve Months Ended December 31, 2015:

No new accounting policies were adopted in the twelve months ended December 31, 2015.

**3. Significant accounting policies (continued):**

(o) Recent accounting pronouncements:

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

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The impact of adoption of the amendments is not expected to have a material impact on the financial statements.

(ii) IFRS 16, *Leases* ("IFRS 16")

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The extent of the impact of adoption of the standard has not yet been determined.

**4. Capital disclosures:**

The Company's objectives when managing capital are to:

- Maintain its ability to continue as a going concern;
- Maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and

**4. Capital disclosures (continued):**

- 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.

In December 2014, Aptose filed a short form base shelf prospectus (the “Base Shelf”) that qualifies for the distribution of up to US$100,000,000 of common shares, warrants, or units comprising any combination of common shares and warrants (“Securities”). The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying prospectus supplement, including transactions that are deemed to be “at-the-market” distributions. The Base Shelf provides the Company with additional flexibility when managing cash resources as, under certain circumstances, it shortens the time period required to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our Company. Funds received from a Prospectus Supplement will be used in line with our Board approved budget and multi-year plan. The Base Shelf expires in December, 2017. The Base Shelf allowed the Company to enter into an “At-The-Market” Facility (“ATM”) equity distribution agreement (see Note 9). Aptose intends to use this equity arrangement as an additional option to assist in achieving the Company’s capital objectives. The ATM provides the Company with the opportunity to regularly raise capital on the Nasdaq Capital Market, at prevailing market prices, at its sole discretion providing the ability to better manage cash resources.

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 December 31, 2014.

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash of $761 thousand (December 31, 2014 - $293 thousand) and funds deposited into high interest savings accounts totalling $10.742 million (December 31, 2014 - $14.072 million). The current interest rate earned on these deposits is between 0.2% and 0.75% (December 31, 2014 – 1.2-1.25%).

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

**4. Capital disclosures (continued):**

(b) Investments:

As at December 31, 2015 and 2014, investments consist of guaranteed investment certificates with Canadian financial institutions having high credit ratings. Investments include six investments (December 31, 2014 – twelve investments) with maturity dates from April 22, 2016 to June 19, 2016 (December 31, 2014 – April 22, 2015 to June 19, 2016), bearing an interest rate from 1.80% to 2.10% (December 31, 2014 – 1.50% to 2.10%) per annum.

**5. Equipment and intangible assets:**

**Equipment:**

| December 31, 2015 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Equipment | $ 229 | $ 34 | $ 195 |
| Computer hardware | 49 | 20 | 29 |
| Office furniture | 61 | 9 | 52 |
| Leasehold improvements | 110 | 18 | 92 |
| | $ 449 | $ 81 | $ 368 |

| December 31, 2014 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Equipment | $ 545 | $ 481 | $ 64 |
| Computer hardware | 36 | 14 | 22 |
| Office furniture | 38 | 37 | 1 |
| Leasehold improvements | 25 | 1 | 24 |
| | $ 644 | $ 533 | $ 111 |

During the year ended December 31, 2015, the Company disposed of $476 thousand in fully depreciated equipment, $12 thousand in fully depreciated computer hardware and $37 thousand in fully depreciated furniture no longer in use.

During the seven months ended December 31, 2014, the Company disposed of $1.5 million in fully depreciated equipment, $437 thousand in fully depreciated computer hardware and $147 in fully depreciated office furniture no longer in use.

**Intangible assets:**

| December 31, 2015 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer software | $ 105 | $ 39 | $ 66 |
| | $ 105 | $ 39 | $ 66 |

**5. Equipment and intangible assets (continued):**

| December 31, 2014 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer software | $ 105 | $ 16 | $ 89 |
| | $ 105 | $ 16 | $ 89 |

During the seven months ended December 31, 2014, the Company disposed of $325 thousand in fully amortized computer software.

**6. Additional cash flow disclosures:**

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

| (in thousands) | 12 months ended Dec 31, 2015 | 7 months ended Dec 31, 2014 | 12 months ended May 31,2014 |
|---|---|---|---|
| Prepaid expenses and other assets | $ (212) | $ (360) | $ (130) |
| Accounts payable | 266 | (393) | (64) |
| Accrued liabilities | 172 | 379 | 180 |
| Balance, end of period | $ 226 | $ (374) | $ (14) |

During the year ended December 31, 2015, the Company incurred and paid interest on the convertible promissory notes described in note 7 of $25 thousand. In addition the Company recorded accretion expense of $18 thousand as described in note 7. The notes were all converted by September 30, 2015.

During the seven months ended December 31, 2014, the Company incurred interest on the convertible promissory notes described in note 7 of $30 thousand of which $3 thousand was accrued and unpaid at December 31, 2014. The interest accrues at a rate of 10% per annum and is paid quarterly. In addition the Company recorded accretion expense of $28 thousand as described in note 7.

During the year ended May 31, 2014, the Company paid $75 thousand in interest expense on $918 thousand in promissory notes and recorded accretion expense of $100 thousand related to the same promissory notes. These notes and all unpaid interest were repaid in April 2014. The interest accrued at a rate of 10% per annum. In addition the Company incurred interest in the year ended May 31, 2014 on certain loan agreements and convertible promissory notes described in note 7 of $51 thousand of which $14 thousand was accrued and unpaid at May 31, 2014. The Company also recorded $33 thousand of accretion expense related to the convertible promissory notes. Interest accrued at a rate of 10% per annum and was paid quarterly. The loan agreements and all interest accrued thereon were repaid in April 2014. The Company also paid interest of $3 thousand at a rate of 10% per annum to the withheld pay of employees. All amounts withheld from employees had been repaid by December 2013.

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

## 7. Convertible promissory notes payable:

In September 2013, the Company completed a private placement of convertible promissory notes for aggregate gross proceeds of $600 thousand. Each convertible promissory note consisted of a $1 thousand principal amount of unsecured promissory note convertible into common shares of the Company at a price per share of $3.60. The promissory notes bore interest at a rate of 10% per annum, payable quarterly and were due September 26, 2015.

The promissory notes were a compound financial instrument containing a liability component and an equity component represented by the conversion feature. The fair value of the liability component upon issuance was estimated by discounting the future cash flows associated with the debt at a discounted rate of approximately 19% which represented the estimated borrowing cost to the Company for similar promissory notes with no conversion feature. The residual value of $88 thousand was allocated to the conversion feature.

Subsequent to initial recognition, the promissory notes were accounted for at amortized cost using the effective interest rate method. The Company incurred costs associated with the financing of $17 thousand. These costs along with the adjustment for the conversion feature were being accreted using the effective interest rate method over the 24 month life of the notes.

During the year ended December 31, 2015, all of the outstanding promissory notes were converted into common shares of the Company.

## 8. Financial instruments:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents, consisting of high interest savings account, measured at amortized cost | $ 11,503 | $ 14,365 |
| Investments, consisting of guaranteed investment certificates, measured at amortized cost | 8,245 | 16,180 |
| Financial liabilities: | | |
| Accounts payable, measured at amortized cost | 522 | 256 |
| Accrued liabilities, measured at amortized cost | 1,834 | 1,662 |
| Convertible promissory notes, measured at amortized cost | − | 410 |

At December 31, 2015, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term nature.

**8. Financial instruments (continued):**

(b) Financial risk management:

The Company has exposure to credit risk, liquidity risk, foreign currency 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 associated with 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, 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.

(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 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 interest bearing liabilities subject to interest rate fluctuations.

## 8. Financial instruments (continued):

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to currency risk from employee costs as well as the purchase of goods and services primarily in the United States and the cash balances held in foreign currencies. Fluctuations in the US dollar exchange rate could have a significant impact on the Company's results. Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase or decrease in loss for the year and comprehensive loss of $576 thousand (December 31, 2014- $50 thousand, May 31, 2014 - $18 thousand). Balances in foreign currencies are as follows:

| | US$ Balances | | |
|---|---|---|---|
| | December 31, | | May 31, |
| (in thousands) | 2015 | 2014 | 2014 |
| Cash and cash equivalents | $ 5,000 | $ 66 | 594 |
| Accounts payable and accrued liabilities | (838) | (565) | (769) |
| Balance, end of period | $ 4,162 | $ (499) | $ (175) |

The Company does not have any forward exchange contracts to hedge this risk.

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

## 9. Share capital:

**Share consolidation**:
In accordance with the authority granted by shareholders at the Company's annual and special meeting on August 19, 2014 to permit it to implement a consolidation of the Company's outstanding common shares in a ratio of between 1-for-5 and 1-for-15, the Company's Board of Directors approved a 1-for-12 share consolidation which became effective October 1, 2014. The share consolidation affected all of the Company's common shares, stock options and warrants outstanding at the effective time. Fractional shares were not issued. Prior to consolidation the Company had approximately 139 million shares outstanding. Following the share consolidation, the Company has approximately 11.6 million common shares outstanding. Similarly, prior to consolidation, the Company had approximately 17.1 million stock options and 2.6 million warrants to purchase common shares outstanding. Following the share consolidation, the Company had approximately 1.4 million stock options and 218 thousand warrants to purchase common shares outstanding. In these consolidated financial statements, all references to number of shares, stock options and warrants in the current and past periods have been adjusted to reflect the impact of the share consolidation. All amounts based on the number of shares, stock options or warrants, unless otherwise specified, such as earnings (loss) per share and weighted average issuance price in the case of stock options have been adjusted to reflect the impact of 1-for-12 share consolidation.

## 9. Share capital (continued):

(a) Continuity of common shares and warrants:

| | Common shares | | Warrants | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| | (In thousands) | | (In thousands) | |
| Balance, May 31, 2013 | 3,521 | $ 174,522 | 2,262 | $ 2,421 |
| Expiry of broker warrants | – | – | (16) | (25) |
| Issuance of warrants (b)(iv) | – | – | 76 | 75 |
| Warrant exercises | 868 | 5,422 | (868) | (964) |
| Finders warrants | – | – | 103 | – |
| Option exercises | 6 | 39 | – | – |
| December equity offering and overallotment (b)(iii) | 1,220 | 6,927 | 73 | 350 |
| April equity offering and overallotment (b)(ii) | 4,708 | 25,584 | – | – |
| DSU exercise | 65 | 444 | – | – |
| **Balance, May 31, 2014** | **10,388** | **$ 212,938** | **1,630** | **$ 1,857** |
| Warrant exercises | 1,231 | 7,814 | (1,231) | (1,166) |
| Warrant expiry | – | – | (190) | (190) |
| Option exercises | 36 | 345 | – | – |
| Promissory note conversion | 45 | 162 | – | – |
| **Balance, December 31, 2014** | **11,700** | **$ 221,259** | **209** | **$ 501** |
| Warrant exercises | 81 | 503 | (81) | (155) |
| Warrant expiry | – | – | (55) | (262) |
| Option exercises | 143 | 1,215 | – | – |
| Common shares under the ATM(b)(i) | 2 | 10 | – | – |
| Promissory note conversion | 122 | 438 | – | – |
| **Balance, December 31, 2015** | **12,048** | **$ 223,425** | **73** | **$ 84** |

(b) Equity issuances:

(i) At-The-Market ("ATM") Facility

On April 2, 2015, we entered into an ATM equity facility with Cowen and Company, LLC, acting as sole agent. Under the terms of this facility, we may, from time to time, sell shares of our common stock having an aggregate offering value of up to US$20 million through Cowen and Company, LLC on the Nasdaq Capital Market. We determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility. During the twelve months ended December 31, 2015, the Company issued 1,504 common shares under the ATM at a price of US$5.20 per share for gross proceeds of approximately Cdn $10 thousand.

(ii) April 2014 Public Equity Offering and Overallotment

In April 2014, the Company completed a public offering of common shares. The Company issued 4,166,667 (pre-consolidation 50,000,000) common shares at a purchase price of $6.00 ($0.50 pre-consolidation) per common share and an additional 541,667 (pre consolidation 6,500,000) common shares upon the partial exercise of the over-allotment option for aggregate gross proceeds of $28.3

**9. Share capital (continued):**

million. The total costs associated with the transaction were approximately $2.7 million which includes a cash commission of $2.0 million based on 7% of the gross proceeds received as part of the offering.

(iii) December 2013 Public Equity Offering and Overallotment

In December 2013, Aptose completed a public offering of common shares. Aptose issued 1,060,833 (pre-consolidation 12,730,000) common shares at a price of $6.60 (pre-consolidation $0.55) per common share and an additional 159,125 (pre-consolidation 1,909,500) common shares upon the exercise of the overallotment option for aggregate gross proceeds of $8.1 million.

The total costs associated with the transaction were approximately $1.1 million which include a cash commission of $483 thousand based on 6% of the gross proceeds received as part of the offering, and the issuance of 73,198 (pre-consolidation 878,370) broker warrants with an estimated fair value of $350 thousand. The fair value of these warrants was determined using the Black Scholes model with a 24 month time to maturity, an assumed volatility of 130% and a risk free interest rate of 1.5%. Each broker warrant was exercisable into one common share of the Company at a price of $6.60 (pre-consolidation $0.55) for a period of twenty four months following closing of the offering.

(iv) June 2013 Private Placement

In June 2013, the Company completed a private placement of units (“Units” in this section) at a price of $1 thousand per unit, for aggregate gross proceeds of $918 thousand.

Each Unit consisted of (i) a $1 thousand principal amount of unsecured promissory note and (ii) 83 (pre-consolidation 1,000) common share purchase warrants. The promissory notes bore interest at a rate of 10% per annum, payable monthly and were due June 19, 2014. Each warrant entitled the holder thereof to acquire one common share of the Company at a price per common share equal to $3.00 (pre-consolidation $0.25) at any time until June 19, 2015.

The Units contained a liability component and an equity component represented by the warrants to purchase common shares. The fair value of the liability component of $843 thousand was estimated by discounting the future cash flows associated with the debt at a discounted rate of approximately 19% which represents the estimated borrowing cost to the Company for similar promissory notes with no warrants. The residual value of $75 thousand was allocated to the warrants. The Company incurred costs associated with the financing of $23 thousand. These costs were amortized using the effective interest rate method over the 12 month life of the notes.

These notes and any interest accrued thereon were repaid in full in April 2014.

**9. Share capital (continued):**

(c) Warrants:

*Warrants exercised during the twelve months ended December 31, 2015:*

| (in thousands) | Number | Proceeds |
|---|---|---|
| August 2011 warrants (i) | 16 | $ 86 |
| June 2013 private placement warrants (ii) | 47 | 141 |
| December 2013 broker warrants (iii) | 18 | 121 |
| Total | 81 | $ 348 |

In addition to the cash proceeds received, the original fair value related to these warrants of $155 thousand was transferred from warrants to share capital. This resulted in a total amount of $503 thousand credited to share capital.

*Warrants exercised during the seven months ended December 31, 2014:*

| (in thousands) | Number | Proceeds |
|---|---|---|
| August 2011 warrants (i) | 8 | $ 48 |
| June 2012 private placement warrants (iv) | 1,223 | 6,600 |
| Total | 1,231 | $ 6,648 |

In addition to the cash proceeds received the original fair value related to these warrants of $1.2 million was transferred from warrants to share capital. This resulted in a total amount of $7.8 million credited to share capital.

*Warrants exercised during the year ended May 31, 2014:*

| (in thousands) | Number | Proceeds |
|---|---|---|
| August 2011 warrants (i) | 327 | $ 1,764 |
| June 2012 private placement warrants (iv) | 409 | 2,210 |
| June 2012 finder warrants | 103 | 396 |
| June 2013 private placement warrants (iii) | 29 | 88 |
| Total | 868 | $ 4,458 |

In addition to the cash proceeds received the original fair value related to these warrants of $964 thousand was transferred from warrants to share capital. This resulted in a total amount of $5.4 million credited to share capital.

*Summary of outstanding warrants:*

| (in thousands) | December 31, 2015 | December 31, 2014 |
|---|---|---|
| August 2011 warrants (i) | 73 | 89 |
| June 2013 private placement warrants (ii) | – | 47 |
| December 2013 broker warrants (iii) | – | 73 |
| Number of warrants outstanding, end of year | 73 | 209 |

**9. Share capital (continued):**

(i) August 2011 warrants are exercisable into common shares of Aptose at a price per share of $5.40 and expire in August 2016.

(ii) June 2013 private placement warrants were exercisable into common shares of Aptose at a price per share of $3.00 and expired in June 2015.

(iii) December 2013 broker warrants were exercisable into common shares of Aptose at a price per share of $6.60 and expired in December 2015.

(iv) June 2012 private placement warrants were exercisable into common shares of Aptose at a price per share of $5.40 ($0.45 pre-consolidation) and expired on June 8, 2014

(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.

| (in thousands) | 12 months ended Dec 31, 2015 | 7 months ended Dec 31, 2014 | 12 months ended May 31,2014 |
|---|---|---|---|
| Balance, beginning of period | $ 21,653 | $ 21,410 | $ 21,217 |
| Expiry of warrants (c) | 262 | 190 | 25 |
| Expiry of stock options | 68 | 45 | 65 |
| Conversion of promissory notes | 54 | 8 | – |
| Cancellation of stock options | – | – | 103 |
| Balance, end of period | $ 22,037 | $ 21,653 | $ 21,410 |

(e) Continuity of stock options:

| (in thousands) | 12 months ended Dec 31, 2015 | 7 months ended Dec 31, 2014 | 12 months ended May 31,2014 |
|---|---|---|---|
| Balance, beginning of period | $ 4,078 | $ 2,658 | $ 1,018 |
| Stock option expense | 2,812 | 1,627 | 1,826 |
| Exercise of stock options | (566) | (162) | (18) |
| Expiry of stock options | (68) | (45) | (65) |
| Cancellation of stock options | – | – | (103) |
| Balance, end of period | $ 6,256 | $ 4,078 | $ 2,658 |

**9. Share capital (continued):**

(f) Loss per share:

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ended December 31, 2015 of 11.906 million, the seven months ending December 31, 2014 of 11.605 million and the year ending May 31, 2014 of 5.216 million, calculated as follows:

| (in thousands) | Year ended Dec 31, 2015 | 7 months ended Dec 31, 2014 | Year ended May 31,2014 |
|---|---|---|---|
| Issued common shares beginning of period | 11,700 | 10,388 | 3,521 |
| Effect of ATM issuances | – | – | – |
| Effect of April 2014 public offering | – | – | 785 |
| Effect of December 2013 public offering | – | – | 597 |
| Effect of warrant exercises | 49 | 1,200 | 301 |
| Effect of option and DSU exercises | 103 | 4 | 12 |
| Effect of promissory note conversions | 54 | 13 | – |
| Balance, end of period | 11,906 | 11,605 | 5,216 |

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 December 31, 2015 nil deferred share units are outstanding (December 31, 2014 – nil, May 31, 2014 – nil). 65,000 common shares of the Company were issued in April 2014 in satisfaction of the outstanding deferred share unit liability. The shares issued had a fair value of $444 thousand.

**10. Stock-based compensation:**

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 17.5% of the total number of outstanding common shares, estimated at 2,108,000 options, rights and other entitlements as at December 31, 2015. Options are granted at the fair market value of the common shares on the closing trading price of the Company's stock on the day prior to the grant if the grant is made during the trading day or the closing trading price on the day of grant if the grant is issued after markets have closed. Options vest at various rates (immediate to four years) and have a term of 10 years. Stock option transactions for the twelve month period ended December 31, 2015, the seven month period ended December 31, 2014 twelve months ended May 31, 2014 are summarized as follows:

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

## 10. Stock-based compensation (continued):

*Option numbers are in (000's)*

| | Year ended December 31, 2015 | |
|---|---|---|
| | Options | Weighted average exercise price |
| Outstanding, beginning of period | 1,374 | $ 5.95 |
| Granted | 478 | 6.92 |
| Exercised | (143) | 4.53 |
| Forfeited/Expired | (20) | 9.85 |
| Outstanding, end of the period | 1,689 | 6.31 |

*Option numbers are in (000's)*

| | 7 months ended December 31, 2014 | | Year May 31, 2014 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding, beginning of year | 824 | $ 6.22 | 280 | $ 5.50 |
| Granted | 604 | 5.57 | 573 | 6.63 |
| Exercised | (36) | 5.14 | (6) | 3.70 |
| Forfeited | (18) | 6.96 | (3) | 22.16 |
| Cancelled | – | – | (20) | 6.00 |
| Outstanding, end of year | 1,374 | 5.95 | 824 | 6.22 |

The following table summarizes information about stock options outstanding at December 31, 2015:

*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 |
| \$2.16 - \$ 5.49 | 266 | 7.7 | $ 4.26 | 188 | $ 3.85 |
| \$5.50 - \$ 5.85 | 477 | 8.3 | 5.70 | 257 | 5.70 |
| \$5.86 - \$ 6.87 | 354 | 8.5 | 6.24 | 134 | 6.00 |
| \$6.88 - \$ 6.98 | 343 | 9.4 | 6.96 | 3 | 6.96 |
| \$6.99 - \$118.80 | 249 | 7.9 | 8.85 | 203 | 9.22 |
| | 1,689 | 8.4 | 6.31 | 785 | 6.23 |

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

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

## 10. Stock-based compensation (continued):

| | Year ended Dec 31, 2015 | 7 months ended Dec 31, 2014 | Year ended May 31,2014 |
|---|---|---|---|
| Exercise price | $ 6.77-7.14 | $ 5.16-5.70 | $ 3.48-9.36 |
| Grant date share price | 6.77-7.14 | 5.16-5.70 | 3.48-9.36 |
| Risk-free interest rate | 0.75-1.5% | 1.5% | 1.5-3% |
| Expected dividend yield | – | – | – |
| Expected volatility | 103-113% | 53-122% | 125-135% |
| Expected life of options | 5 years | 3 months-5 years | 5 years |
| Weighted average fair value of options granted or modified during the period | $ 5.34 | $ 4.56 | $ 6.60 |

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 twelve months ended December 31, 2015, consist of 128,000 options that vest 50%, 25% and 25% on each of the next three anniversaries and 350,000 options that vest 50% on the first anniversary and 16.67% on each of the next three anniversaries (total four year vesting).

Stock options granted by the Company during the seven months ended December 31, 2014 vest 50% upon the first anniversary and 25% on each of the second and third anniversaries.

Stock options granted by the Company during the year ended May 31, 2014 consisted of 151,708 options which vested immediately, 70,833 options that vested 50% upon issuance and 25% on each of the next two anniversaries, 276,667 options which vest 50%, 25% and 25% on each of the next three anniversaries, 70,833 options which vest in equal installments over 36 months and 3,125 options which vest in October 2014.

Refer to note 11 and 12 for a breakdown of stock option expense by function.

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

## 11. Research and Development:

Components of research and development expense are as follows:

| | Year ended December 31, 2015 | 7 months ended December 31, 2014 | Year ended May 31, 2014 |
|---|---|---|---|
| Research and Development costs | $ 6,015 | $ 2,371 | $ 2,287 |
| Severance costs to a former officer | – | – | 326 |
| Deferred share unit costs | – | – | 90 |
| Stock-based compensation | 210 | 29 | 296 |
| Depreciation of equipment | 29 | 4 | 16 |
| | $ 6,254 | $ 2,404 | $ 3,015 |

## 12. General and Administrative:

Components of general and administrative expenses:

| | Year ended December 31, 2015 | 7 months ended December 31, 2014 | Year ended May 31, 2014 |
|---|---|---|---|
| | | (note 17) | (note 17) |
| General and administrative excluding salaries | $ 4,327 | $ 2,421 | $ 2,620 |
| Salaries | 2,849 | 1,505 | 2,217 |
| Severance costs to a former officer | – | – | 762 |
| Deferred share unit costs | – | – | 183 |
| Stock-based compensation | 2,602 | 1,598 | 1,530 |
| Depreciation of equipment and amortisation | 67 | 18 | 5 |
| | $ 9,845 | $ 5,542 | $ 7,317 |

## 13. Finance income and expense:

Components of finance income:

| | Year ended December 31, 2015 | 7 months ended December 31, 2014 | Year ended May 31, 2014 |
|---|---|---|---|
| Interest income | $ 286 | $ 279 | $ 76 |
| Foreign exchange gain on cash and cash equivalents | 1,230 | – | – |
| | $ 1,516 | $ 279 | $ 76 |

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

## 13. Finance income and expense (continued):

Components of finance expense:

| | Year ended December 31, 2015 | 7 months ended December 31, 2014 | Year ended May 31, 2014 |
|---|---|---|---|
| | | (note 17) | (note 17) |
| Interest expense | $ 25 | $ 30 | $ 129 |
| Accretion expense | 18 | 28 | 130 |
| Foreign exchange loss on cash and cash equivalents | – | 46 | 38 |
| | $ 43 | $ 104 | $ 297 |

## 14. Related party transactions:

In March 2015, the Company entered into an agreement with the Moores Cancer Center at the University of California San Diego (UCSD) to provide pharmacology lab services to the Company. Dr. Stephen Howell is the Acting Chief Medical Officer of Aptose and is also a Professor of Medicine at UCSD and will be overseeing the laboratory work. The research services will be provided from April 1, 2015 to March 31, 2016 for an annual fee of US$154,456 to be paid to UCSD in monthly installments.

This transaction is in the normal course of business and will be measured at 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. For the year ended December 31, 2015, and for the seven month period ended December 31, 2014, the officers were the Chairman, President and Chief Executive Officer, the Chief Financial Officer as well as the Chief Business Officer. For the twelve months ended May 31, 2014, the officers were the Chairman, President and Chief Executive Officer, the Chief Financial Officer and the Chief Business Officer as well as the Director of Finance, the former Vice President of Research and the former President and Chief Operating Officer.

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

## 14. Related party transactions (continued):

Officer compensation:

| | 12 months ended December 31, 2015 | 7 months ended December 31, 2014 | 12 months ended May 31, 2014 |
|---|---|---|---|
| Salaries and short-term employee benefits | $ 1,863 | $ 1,029 | $ 2,357 |
| Severance payment | – | – | 1,088 |
| Deferred share units | – | – | 273 |
| Stock-based compensation | 2,101 | 1,452 | 1,475 |
| | $ 3,964 | $ 2,481 | $ 5,193 |

Director compensation:

| | 12 months ended December 31, 2015 | 7 months ended December 31, 2014 | 12 months ended May 31, 2014 |
|---|---|---|---|
| Directors' fees | $ 328 | $ 118 | $ 386 |
| Stock-based compensation | 307 | 117 | 179 |
| | $ 635 | $ 235 | $ 565 |

Included in accounts payable and accrued liabilities at December 31, 2015 is $13 thousand (December 31, 2014 – $29 thousand, May 31, 2014 - $268 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.

## 15. 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 | $ 587 | $ 907 | $ 319 | $ 1,813 |

**15. Commitments, contingencies and guarantees (continued):**

(b) Other contractual commitments:

The Company has entered into various contracts with service providers with respect to the clinical development of APTO-253. These contracts will result in future payment commitments of up to approximately $4 million over the related service period. Of this amount, $544 thousand has been paid and $574 thousand has been accrued at December 31, 2015. The payments are based on services performed and amounts may be higher or lower based on actual services performed.

The Company enters into research, development and license agreements in the ordinary course of business where the Company receives research services and rights to proprietary technologies. Milestone and royalty payments that may become due under various agreements are dependent on, among other factors, clinical trials, regulatory approvals and ultimately the successful development of a new drug, the outcome and timing of which is uncertain. Under the license agreement with the Moffitt Cancer Centre, the Company has future contingent milestones payable totalling US$9 million relating to the first patient dosed in a phase I, II and III clinical trial and regulatory and commercial milestones totalling US$16 million. The Company does not anticipate making any payments under this license agreement in 2016. Under the Laxai-Avanti Life Science agreement the Company has total future contingent milestones payable of US$5.3 million related to certain research achievements as well as upon the first patient dosed in a phase I, II and III clinical trial and regulatory milestones totalling US$5 million. The Company expects to make payments totalling US$300 thousand under this agreement in 2016.

(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.

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

## 16. 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% (December 31, 2014 – 26.5%, May 31, 2014 - 26.5%) are as follows:

| | Year ended December 31, 2015 | 7 months ended December 31, 2014 | Year ended May 31, 2014 |
|---|---|---|---|
| Loss before income taxes | $ (14,626) | $ (7,771) | $ (10,553) |
| Statutory Canadian corporate tax rate | 26.5% | 26.5% | 26.5% |
| Anticipated tax recovery | $ (3,876) | $ (2,059) | $ (2,797) |
| Non-deductible permanent differences | 754 | 441 | 599 |
| Change in deferred tax benefits deemed not probable to be recovered | 3,255 | 1,643 | 2,839 |
| Undeducted financing costs | – | – | (730) |
| Other | (133) | (25) | 89 |
| | $ – | $ – | $ – |

The Company has undeducted research and development expenditures, totaling $25.8 million that can be carried forward indefinitely. The Company also has non-refundable federal investment tax credits of approximately $5.5 million which are available to reduce future federal taxes payable and begin to expire in 2019, as well as non-refundable Ontario research and development tax credits of approximately $537 thousand which are available to reduce future Ontario taxes payable and begin to expire in 2028.

In addition, the Company has non-capital loss carryforwards of $42.2 million. To the extent that the non-capital loss carryforwards are not used, they expire as follows:

| | |
|---|---|
| 2026 | $ 11 |
| 2027 | 4,349 |
| 2028 | 3,744 |
| 2029 | 657 |
| 2030 | 2,907 |
| 2031 | 2,581 |
| 2032 | 3,479 |
| 2033 | 7,513 |
| 2034 | 5,756 |
| 2035 | 11,160 |
| | $ 42,157 |

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

## 16. Income taxes (continued):

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Net operating losses carried forward | $ 11,209 | $ 8,148 |
| Research and development expenditures | 6,845 | 6,478 |
| Equipment book over tax depreciation | 490 | 459 |
| Intangible asset | 3,097 | 3,097 |
| Undeducted financing costs | 389 | 740 |
| Ontario Research and Development Tax Credit | 537 | 442 |
| Cumulative eligible capital | 398 | 346 |
| Unrecognized deferred tax asset | $ 22,965 | $ 19,710 |

## 17. Comparative figures:

Certain comparative figures in the seven months ended December 31, 2014 and year ended May 31, 2014 have been reclassified in order to conform to the presentation in the current year.

In the seven months ended December 31, 2014, $46 thousand was deducted from general and administrative expense and reclassified to finance expense. This $46 thousand related to foreign exchange losses on cash and cash equivalent balances.

In the year ended May 31, 2014, $38 thousand was deducted from general and administrative expense and reclassified to finance expense. This $38 thousand related to foreign exchange losses on cash and cash equivalent balances.