

PART I—FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS



Condensed Consolidated Interim Financial Statements

(Unaudited)

APTOSE BIOSCIENCES INC.

For the three months and nine months ended September 30, 2023 and 2022

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and “forward-looking information” within the meaning of applicable Canadian securities law, which we collectively refer to as “forward-looking statements”. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as “may,” “would,” “could,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” “hope,” “foresee” or the negative of these terms or other similar expressions concerning matters that are not historical facts.

Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- our lack of product revenues and net losses and a history of operating losses;
- our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;
- our need to raise substantial additional capital in the future and our ability to raise such funds when needed and on acceptable terms;
- further equity financing, which may substantially dilute the interests of our existing shareholders;
- clinical studies and regulatory approvals of our drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could substantially harm our business;
- our reliance on external contract research/manufacturing organizations for certain activities and if we are subject to quality, cost, or delivery issues with the preclinical and clinical grade materials supplied by contract manufacturers, our business operations could suffer significant harm;
- clinical studies are long, expensive and uncertain processes and the FDA, or other similar foreign regulatory agencies that we are required to report to, may ultimately not approve any of our product candidates;
- our ability to comply with applicable governmental regulations and standards;
- our inability to achieve our projected development goals in the time frames we announce and expect;
- our ability to meet certain milestones related to tuspentinib in order to complete the second tranche of the investment by Hanmi Pharmaceutical Co. Ltd. ("Hanmi") and our ability to find alternative financing if the full value of the investment is not received;
- difficulties in enrolling patients for clinical trials may lead to delays or cancellations of our clinical trials;
- our reliance on third parties to conduct and monitor our preclinical studies;
- our ability to attract and retain key personnel, including key executives and scientists;
- any misconduct or improper activities by our employees;
- our exposure to exchange rate risk;
- our ability to commercialize our business attributed to negative results from clinical trials;
- the marketplace may not accept our products or product candidates due to the intense competition and technological change in the biotechnical and pharmaceuticals, and we may not be able to compete successfully against other companies in our industries and achieve profitability;
- our ability to obtain and maintain patent protection;
- our ability to afford substantial costs incurred with defending our intellectual property;
- our ability to protect our intellectual property rights and not infringe on the intellectual property rights of others;
- our business is subject to potential product liability and other claims;
- potential exposure to legal actions and potential need to take action against other entities;
- commercialization limitations imposed by intellectual property rights owned or controlled by third parties;

- our ability to maintain adequate insurance at acceptable costs;
- our ability to find and enter into agreements with potential partners;
- extensive government regulation;
- data security incidents and privacy breaches could result in increased costs and reputational harm;
- our share price has been and is likely to continue to be volatile;
- future sales of our common shares (the "Common Shares") by us or by our existing shareholders could cause our share price to drop;
- changing global market and financial conditions;
- changes in an active trading market in our Common Shares;
- difficulties by non-Canadian investors to obtain and enforce judgments against us because of our Canadian incorporation and presence;
- potential adverse U.S. federal tax consequences for U.S. shareholders because we are a "passive foreign investment company";
- our "smaller reporting company" status;
- any failures to maintain an effective system of internal controls may result in material misstatements of our financial statements, or cause us to fail to meet our reporting obligations or fail to prevent fraud;
- our ability to issue and sell Common Shares under the 2022 ATM Facility, or the 2023 Committed Equity Facility (as defined below);
- our broad discretion in how we use the proceeds of the sale of Common Shares; and
- our ability to expand our business through the acquisition of companies or businesses.

More detailed information about risk factors and their underlying assumptions are included in our Annual Report on Form 10-K for the year ended December 31, 2022, under Item 1A – Risk Factors. Except as required under applicable securities legislation, we undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

APTOSE BIOSCIENCES INC.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in thousands of US dollars)

(unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,720	\$ 36,970
Investments	1,997	9,989
Prepaid expenses	1,693	2,303
Other current assets	261	257
Total current assets	<u>19,671</u>	<u>49,519</u>
Non-current assets:		
Property and equipment	170	211
Right-of-use assets, operating leases	1,035	1,297
Total non-current assets	<u>1,205</u>	<u>1,508</u>
Total assets	<u><u>\$ 20,876</u></u>	<u><u>\$ 51,027</u></u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,811	\$ 6,326
Accrued liabilities	9,129	5,657
Advance for equity issuances	50	-
Current portion of lease liability, operating leases	390	301
Total current liabilities	<u>12,380</u>	<u>12,284</u>
Non-current liabilities:		
Lease liability, operating leases	720	1,002
Total liabilities	<u>13,100</u>	<u>13,286</u>
Shareholders' equity:		
Share capital:		
Common shares, no par value, unlimited authorized shares, 7,542,760 and 6,157,749 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	443,938	437,520
Additional paid-in capital	71,735	68,869
Accumulated other comprehensive loss	(4,315)	(4,318)
Deficit	(503,582)	(464,330)
Total shareholders' equity	<u>7,776</u>	<u>37,741</u>
Total liabilities and shareholders' equity	<u><u>\$ 20,876</u></u>	<u><u>\$ 51,027</u></u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements (unaudited).

Going concern, see Note 2.

Commitments, see Note 9.

Related party transactions, see Note 10.

Subsequent events, see Note 13.

APTOSE BIOSCIENCES INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Expressed in thousands of US dollars, except for per common share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses:				
Research and development	8,256	6,578	27,649	21,312
General and administrative	3,425	3,448	12,580	10,887
Operating expenses	11,681	10,026	40,229	32,199
Other income/(expense):				
Interest income	232	254	980	387
Foreign exchange gain/(loss)	2	(5)	(3)	(11)
Total other income	234	249	977	376
Net loss	\$ (11,447)	\$ (9,777)	\$ (39,252)	\$ (31,823)
Other comprehensive loss:				
Unrealized gain/(loss) on available-for-sale securities	-	20	3	(17)
Total comprehensive loss	\$ (11,447)	\$ (9,757)	\$ (39,249)	\$ (31,840)
Basic and diluted loss per common share	\$ (1.76)	\$ (1.59)	\$ (6.14)	\$ (5.17)
Weighted average number of common shares outstanding used in the calculation of (in thousands)				
Basic and diluted loss per common share	6,495	6,153	6,391	6,150

The accompanying notes are an integral part of these condensed consolidated interim financial statements (unaudited).

APTOSE BIOSCIENCES INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in thousands of US dollars, except for per common share data)

(unaudited)

	Common Shares		Additional paid-in capital	Accumulated other		Total
	Shares (in thousands)	Amount		comprehensive loss	Deficit	
Balance, December 31, 2022	6,158	\$ 437,520	\$ 68,869	\$ (4,318)	\$ (464,330)	\$ 37,741
Common shares issued under the Hanmi Subscription Agreement	668	3,000	-	-	-	3,000
Common shares issued in exchange for RSUs	38	376	(376)	-	-	-
Common shares issued under the 2023 Committed Equity Facility	336	1,185	-	-	-	1,185
Common shares issued under the 2022 ATM Facility	337	1,828	-	-	-	1,828
Stock-based compensation	-	-	3,242	-	-	3,242
Common shares issued under the ESPP plan	6	29	-	-	-	29
Other comprehensive gain	-	-	-	3	-	3
Net loss	-	-	-	-	(39,252)	(39,252)
Balance, September 30, 2023	7,543	\$ 443,938	\$ 71,735	\$ (4,315)	\$ (503,582)	\$ 7,776
Balance, December 31, 2021	6,148	\$ 437,386	\$ 63,673	\$ (4,316)	\$ (422,507)	\$ 74,236
Common shares issued under the 2020 ATM Facility	4	50	-	-	-	50
Common shares issued upon exercise of stock options	1	26	(11)	-	-	15
Common shares issued under the ESPP plan	1	7	-	-	-	7
Stock-based compensation	-	-	4,346	-	-	4,346
Other comprehensive loss	-	-	-	(17)	-	(17)
Net loss	-	-	-	-	(31,823)	(31,823)
Balance, September 30, 2022	6,154	\$ 437,469	\$ 68,008	\$ (4,333)	\$ (454,330)	\$ 46,814

The accompanying notes are an integral part of these condensed consolidated interim financial statements (unaudited).

APTOSE BIOSCIENCES INC.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in thousands of US dollars)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Cash flows used in operating activities:				
Net loss for the period	\$ (11,447)	\$ (9,777)	\$ (39,252)	\$ (31,823)
Items not involving cash:				
Stock-based compensation	599	1,053	3,242	4,346
Depreciation and amortization	20	30	70	92
Loss on disposal of property and equipment	-	-	-	4
Amortization of right-of-use assets	91	111	286	336
Interest on lease liabilities	23	4	73	17
Unrealized (gain)/loss on short-term investment	(1)	7	(3)	10
Accrued interest on investments	(44)	78	(56)	85
Changes in non-cash operating assets and liabilities:				
Prepaid expenses	29	825	646	1,638
Other current assets	(44)	(225)	(4)	(213)
Operating lease liabilities	(117)	(134)	(290)	(411)
Accounts payable	(690)	23	(3,515)	717
Accrued liabilities	1,045	1,026	3,472	1,531
Cash used in operating activities	<u>(10,536)</u>	<u>(6,979)</u>	<u>(35,331)</u>	<u>(23,671)</u>
Cash flows from financing activities:				
Shares issuances to Hanmi under subscription agreement	3,000	-	3,000	-
Issuance of common shares under 2022 ATM Facility	694	-	1,837	-
Issuance of common shares under 2023 Committed Equity Facility	1,150	-	1,150	-
Share subscription advance under the 2023 Committed Equity Facility	50	-	50	-
Cost of offering	(5)	-	(10)	-
Issuance of common shares under the ESPP plan	13	-	29	-
Issuance of common shares under 2020 ATM Facility	-	21	-	50
Issuance of common shares upon exercise of stock options	-	-	-	15
Cash from financing activities	<u>4,902</u>	<u>21</u>	<u>6,056</u>	<u>65</u>
Cash flows from/(used in) investing activities:				
Maturity /(acquisition) of investments, net	12,953	(5,078)	8,051	12,517
Purchase of property and equipment	-	-	(29)	(24)
Cash from/(used in) investing activities	<u>12,953</u>	<u>(5,078)</u>	<u>8,022</u>	<u>12,493</u>
Effect of exchange rate fluctuations on cash and cash equivalents	1	(7)	3	(10)
Increase /(decrease) in cash and cash equivalents	<u>\$ 7,320</u>	<u>\$ (12,043)</u>	<u>\$ (21,250)</u>	<u>\$ (11,123)</u>
Cash and cash equivalents, beginning of period	<u>\$ 8,400</u>	<u>\$ 40,034</u>	<u>\$ 36,970</u>	<u>\$ 39,114</u>
Cash and cash equivalents, end of period	<u>\$ 15,720</u>	<u>\$ 27,991</u>	<u>\$ 15,720</u>	<u>\$ 27,991</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements (unaudited).

APTOSE BIOSCIENCES INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

Three months and nine months ended September 30, 2023 and 2022

(Tabular amounts in thousands of United States dollars, except as otherwise noted)

1. Reporting entity:

Aptose Biosciences Inc. (“Aptose,” “the Company,” “we,” “us,” or “our”) is a science-driven, clinical-stage biotechnology company committed to the development and commercialization of precision medicines addressing unmet clinical needs in oncology, with an initial focus on hematology. The Company's small molecule cancer therapeutics pipeline includes products designed to provide single agent efficacy and to enhance the efficacy of other anti-cancer therapies and regimens without overlapping toxicities. The Company's executive offices are located in San Diego, California, and our head office is located in Toronto, Canada.

We are advancing targeted agents to treat life-threatening hematologic cancers that, in most cases, are not elective for patients and require immediate treatment. We have two clinical-stage investigational products for hematological malignancies: tuspentinib, an oral, potent myeloid kinase inhibitor, and luxepetinib, an oral, dual lymphoid and myeloid kinase inhibitor.

Since our inception, we have financed our operations and technology acquisitions primarily from equity financing, proceeds from the exercise of warrants and stock options, and interest income on funds held for future investment. Our uses of cash for operating activities have primarily consisted of salaries and wages for our employees, facility and facility-related costs for our offices and laboratories, fees paid in connection with preclinical and clinical studies, licensing fees, drug manufacturing costs, laboratory supplies and materials, and professional fees.

Management recognizes that in order for us to meet our capital requirements, and continue to operate, additional financing will be necessary. We plan to raise additional funds to fund our business operations but there is no assurance that such additional funds will be available for us to finance our operations on acceptable terms, if at all. The Company's current cash, cash equivalents and investments will enable the support of operations through March 2024. These conditions raise substantial doubt about the Company's ability to continue as a going concern, see Note 2(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our ability to raise additional funds could be affected by adverse market conditions, the status of our product pipeline, possible delays in enrollment in our trial, and various other factors and we may be unable to raise capital when needed, or on terms favorable to us. If necessary funds are not available, we may have to delay, reduce the scope of, or eliminate some of our development programs, potentially delaying the time to market for any of our product candidates.

We do not expect to generate positive cash flow from operations for the foreseeable future due to the early stage of our clinical trials. It is expected that negative cash flow will continue until such time, if ever, that we receive regulatory approval to commercialize any of our products under development and/or royalty or milestone revenue from any such products exceeds expenses.

Our cash needs for the next twelve months include estimates of the number of patients and rate of enrollment of our clinical trials, the amount of drug product that we will require to support our clinical trials, and our general corporate overhead costs to support our operations, and our reliance on our manufacturers. We have based these estimates on assumptions and plans which may change and which could impact the magnitude and/or timing of operating expenses and our cash runway, See Note 2(a).

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As of September 30, 2023, the Company had an accumulated deficit of approximately \$503.6 million (December 31, 2022, \$464.3 million); cash and cash equivalents and investment balances of approximately \$17.7 million (December 31, 2022, \$47.0 million); and working capital of approximately \$7.3 million (December 31, 2022, \$37.2 million). Management recognizes that in order to meet the capital requirements, and continue to operate, additional financing will be necessary. The Company plans to raise additional funds to fund our business operations through equity financing under the 2022 ATM Facility, 2023 Committed Equity Facility and the Hanmi Subscription Agreement, as further described in note 10. Management continues considering other options for raising capital including debt, equity, collaborations, and reorganization to reduce operational expenses. However, given the impact of the financial markets, the Company may be unable to access financing when needed. As such, there can be no assurance that the Company will be able to obtain additional liquidity when needed or under acceptable terms, if at all. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On May 23, 2023, during the Aptose Annual and Special Meeting of Shareholders, our shareholders voted to approve special resolutions providing for an amendment to our articles of incorporation to effect a reverse share split of our outstanding Common Shares, at a ratio in the range of 1-for-10 to 1-for-20. Our Board of Directors then approved a ratio of 1-for-15 on May 23, 2023. On May 24, 2023, we filed articles of amendment under the *Canada Business Corporations Act* ("CBCA") to give effect to the reverse stock split (consolidation) of our Common Shares on the basis of one post-consolidation Common Share for each 15 pre-consolidation Common Shares (the "Reverse Stock Split"). The Common Shares commenced trading on a post-Reverse Stock Split basis at market open on Tuesday, June 6, 2023. All references in this report to historical Common Share prices, numbers of Common Shares, and earnings per share calculations have been presented to reflect the effect of the Reverse Stock Split.

2. Significant accounting policies:

a. Basis of presentation - Going concern

These unaudited consolidated condensed financial statements have been prepared in conformity with generally accepted accounting principles in the United States, or GAAP and the rules and regulations of the Securities and Exchange Commission, or SEC, related to quarterly reports filed on Form 10-Q, assuming the Company will continue as a going concern. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, substantial doubt about the Company's ability to continue as a going concern exists.

As of September 30, 2023, the Company had an accumulated deficit of approximately \$503.6 million (December 31, 2022, \$464.3 million); cash and cash equivalents and investment balances of approximately \$17.7 million (December 31, 2022, \$47.0 million); and working capital of approximately \$7.3 million (December 31, 2022, \$37.2 million). In order for the Company to meet its capital requirements, and continue to operate, additional financing will be necessary. The Company is evaluating strategies to obtain the required additional funding for future operations. These strategies may include, but are not limited to, obtaining equity financing, debt financing, committed equity facilities or other financing instruments and restructuring of operations to decrease expenses. However, given the impact of the economic downturn on the U.S. and global financial markets, the Company may be unable to access further equity when needed. As such, there can be no assurance that the Company will be able to obtain additional liquidity when needed or under acceptable terms, if at all. The Company's current cash, cash equivalents and investments will enable the support of operations through March 2024. The consolidated financial statements do not reflect any adjustments to the carrying amounts and classification of assets, liabilities, and reported expenses that may be necessary if the Company were unable to continue as a going concern. Such adjustments may be material.

b. Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions, balances, revenue, and expenses are eliminated on consolidation.

c. Significant accounting policies, estimates and judgments:

During the nine months ended September 30, 2023, there have been no changes to our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 24, 2023.

The preparation of the condensed consolidated interim financial statements 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 condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain.

The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences.

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

d. Recent Accounting Pronouncements

We have adopted no new accounting pronouncements during the nine months ended September 30, 2023. There were various accounting standards and interpretations issued recently, none of which are expected to have a material impact on our financial position, operations or cash flows.

e. Foreign currency:

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

f. Concentration of risk:

The Company is subject to credit risk from the Company's cash and cash equivalents and investments. The carrying amount of the financial assets represents the maximum credit exposure. The Company manages credit risk associated with its cash and cash equivalents and investments by maintaining minimum standards of R1-low or A-low investments and the Company invests only in highly rated corporations and treasury bills, which are capable of prompt liquidation.

3. Cash and cash equivalents:

Cash and cash equivalents as of September 30, 2023, consist of cash of \$1.691 million (December 31, 2022 - \$596 thousand), deposits in high interest savings accounts, money market funds and accounts with maturities of less than 90 days totaling of \$14.029 million (December 31, 2022 - \$36.374 million).

4. Prepaid expenses:

Prepaid expenses as of September 30, 2023 and December 31, 2022 are shown below. Other prepaid expenses primarily consist of subscriptions, software, conference deposits and deposits for general and administrative items.

	September 30, 2023	December 31, 2022
Prepaid research and development expenses	\$ 1,069	\$ 1,271
Prepaid insurance	108	893
Deferred financing expenses	248	5
Other prepaid operating expenses	268	134
Total	\$ 1,693	\$ 2,303

5. Right-of-use assets:

	September 30, 2023	December 31, 2022
Right-of-use assets, beginning of period	\$ 3,100	\$ 1,860
Additions to right-of-use assets	24	1,240
Right-of-use assets, end of period	3,124	3,100
Accumulated amortization	(2,089)	(1,803)
Right-of use assets, NBV	\$ 1,035	\$ 1,297

6. Investments:

Investments consisted of the following as of September 30, 2023 and December 31, 2022:

	September 30, 2023		
	Cost	Unrealized gain/(loss)	Market value
Commercial Notes	1,996	1	1,997
Total	\$ 1,996	\$ 1	\$ 1,997

	December 31, 2022		
	Cost	Unrealized gain/(loss)	Market value
United States Treasury Bills	\$ 9,991	\$ (2)	\$ 9,989
Total	\$ 9,991	\$ (2)	\$ 9,989

7. Fair value measurements and financial instruments:

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 following table presents the fair value of Company's assets that are measured at fair value on a recurring basis for the periods presented:

	September 30, 2023	Level 1	Level 2	Level 3
Assets				
Money Market funds	\$ 2,005	\$ -	\$ 2,005	\$ -
High interest savings account	4,565	-	4,565	-
United States Treasury Bills	7,459	-	7,459	-
Commercial Note, classified as short-term investments	1,997	-	1,997	-
Total	<u>\$ 16,026</u>	<u>\$ -</u>	<u>\$ 16,026</u>	<u>\$ -</u>

	December 31, 2022	Level 1	Level 2	Level 3
Assets				
Money Market accounts	\$ 165	\$ -	\$ 165	\$ -
Money Market funds	22,343	-	22,343	-
High interest savings accounts	13,866	-	13,866	-
United States Treasury Bills	9,989	-	9,989	-
Total	<u>\$ 46,363</u>	<u>\$ -</u>	<u>\$ 46,363</u>	<u>\$ -</u>

8. Accrued liabilities:

Accrued liabilities as of September 30, 2023 and December 31, 2022 consisted of the following:

	September 30, 2023	December 31, 2022
Accrued personnel related costs	\$ 2,020	\$ 2,302
Accrued research and development expenses	6,830	3,122
Other accrued expenses	279	233
Total	<u>\$ 9,129</u>	<u>\$ 5,657</u>

9. Lease liability:

Aptose leases office space in San Diego, California and Toronto, Canada. On November 4, 2022, the lease for the San Diego office space was extended through May 31, 2026 (the "Third Amendment"). Management has determined that the Third Amendment represents a lease modification, as defined by ASC 842, *Leases*, does not meet the requirements for accounting as a separate contract and continues to meet the definition of an operating lease. The lease for the Toronto, Canada office space was extended for one year on February 23, 2023, with this extension expiring on September 30, 2024. The Company has not included any extension periods in calculating its right-to-use assets and lease liabilities. Aptose previously leased lab space in San Diego, which we exited prior to the expiration of the lease on February 28, 2023. The costs incurred in exiting this laboratory space were not material. The Company also enters into leases for small office equipment.

Minimum payments, undiscounted, under our operating leases are as follows:

Years ending December 31,		
2023	\$	116
2024		459
2025		462
2026		197
Total	\$	<u>1,234</u>

The following table presents the weighted average remaining term of the leases and the weighted average discount rate:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Weighted-average remaining term – operating leases (years)	2.6	3.3
Weighted-average discount rate – operating leases	7.38%	6.62%
Lease liability, current portion	\$ 390	\$ 301
Lease liability, long-term portion	720	1,002
Total	<u>\$ 1,110</u>	<u>\$ 1,303</u>

Operating lease costs and operating cash flows from our operating leases are as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 114	\$ 115	\$ 359	\$ 353
Operating cash flows from operating leases	\$ 117	\$ 134	\$ 290	\$ 411

10. Related party transactions:

Hanmi Pharmaceutical Co. Ltd.

On November 4, 2021, Aptose entered a licensing agreement with the South Korean company Hanmi for the clinical and commercial development of tuspetinib (formerly HM43239). Under the terms of the agreement, Hanmi granted Aptose exclusive worldwide rights to tuspetinib for all indications. Hanmi received an upfront payment of \$12.5 million, including \$5 million in cash and \$7.5 million in Common Shares. Aptose issued Hanmi 215,703 Common Shares in this upfront licensing payment. Hanmi will also receive up to \$407.5 million in future milestone payments contingent upon achieving certain clinical, regulatory and sales milestones across several potential indications, as well as tiered royalties on net sales. The Hanmi milestone payments based on progression of research as outlined in Note 13 to the Annual report on Form 10-K for the year ended December 31, 2022. The term of the agreement will continue on a product-by-product and country-by-country basis until the expiration of the royalty period for such product in such country. The licenses to Aptose will survive and become non-exclusive, perpetual, irrevocable and fully paid-up on a product-by-product and country-by-country basis, upon their natural expiration under the terms of the agreement.

In 2022, the Company and Hanmi also entered into a separate supply agreement for additional production of new drug substance ("API") and drug product to support further tuspetinib clinical development, for which the Company pays Hanmi per batch of production. Expenses related to this supply agreement have been recognized by the Company, amounting to \$3.1 million and \$1.8 million for the nine months ended September 30, 2023 and 2022, respectively. Since inception to September 30, 2023, \$6.7 million have been recognized for the period under the supply agreement.

The Company paid supply costs to Hanmi of \$4.5 million and nil in the nine months ended September 30, 2023 and 2022, respectively. Since inception to September 30, 2023, payments of \$4.5 million have been made under the supply agreement. At September 30, 2023, there was \$2.2 million in accrued liabilities related to the supply agreement. (At December 31, 2022, there was \$3 million in accounts payable and \$572 thousand in accrued liabilities).

On August 10, 2023, the Company entered into a binding term sheet with Hanmi whereby Hanmi agreed at their sole discretion to invest, up to a maximum of \$7 million in Aptose up to a total ownership of 19.99 percent of Aptose by Hanmi. On September 6, 2023, the Company entered into a subscription agreement with Hanmi, pursuant to which the Corporation agreed to sell 668,449 Common Shares to Hanmi for proceeds of \$3 million. The issuance of shares, in exchange for proceeds of \$3 million, is recorded in Common Shares on the balance sheet as of September 30, 2023. The second investment of up to \$4 million or a maximum of 19.99

percent ownership interest in the Company by Hanmi is contingent on Aptose meeting certain manufacturing and data milestones related to tuspetinib by June 30, 2024.

Hanmi held 884,152 Common Shares of Aptose as of September 30, 2023.

11. Share capital:

On May 23, 2023, during the Aptose Annual and Special Meeting of Shareholders, our shareholders voted to approve special resolutions providing for an amendment to our articles of incorporation to effect a reverse share split of our outstanding Common Shares at a ratio in the range of 1-for-10 to 1-for-20. Our Board of Directors then approved a ratio of 1-for-15 on May 23, 2023. On May 24, 2023, we filed articles of amendment under the CBCA to give effect to the Reverse Stock Split. The Common Shares commenced trading on a post-Reverse Stock Split basis at market open on Tuesday, June 6, 2023. All references in this report to historical Common Share prices, numbers of Common Shares, and earnings per share calculations have been presented to reflect the effect of the Reverse Stock Split.

The Company has authorized share capital of an unlimited number of Common Shares.

a. Equity issuances:

(i) Hanmi

On August 10, 2023, the Company entered into a binding term sheet with Hanmi whereby Hanmi agreed at their sole discretion to invest, up to a maximum of \$7 million in Aptose up to a total ownership of 19.99 percent of Aptose by Hanmi. On September 6, 2023, the Company entered into a subscription agreement with Hanmi, pursuant to which the Corporation agreed to sell 668,449 Common Shares to Hanmi for proceeds of \$3 million. The second investment of up to \$4 million or a maximum of 19.99 percent ownership interest in the Company by Hanmi is contingent on Aptose meeting certain manufacturing and data milestones related to tuspetinib by June 30, 2024. Hanmi held 884,152 Common Shares of Aptose as of September 30, 2023.

(ii) 2023 Committed Equity Facility

On May 25, 2023, the Company and Keystone Capital Partners, LLC ("Keystone") entered into a committed equity facility, (the "2023 Committed Equity Facility"), which provides that subject to the terms and conditions set forth therein, we may sell to Keystone up to the lesser of (i) \$25.0 million of the Common Shares and (ii) a number of Common Shares equal to 19.99% of the Common Shares outstanding immediately prior to the execution of the 2023 Committed Equity Facility Agreement with Keystone which respect to the 2023 Committed Equity Facility (subject to certain exceptions) (the "Total Commitment"), from time to time during the 24-month term of the 2023 Committed Equity Facility. Additionally, on May 25, 2023, the Company entered into a Registration Rights Agreement with Keystone, pursuant to which the Company agreed to file a registration statement with the SEC covering the resale of Common Shares that are issued to Keystone under the 2023 Committed Equity Facility. This registration statement became effective on June 30, 2023 and the 2023 Committed Equity Facility commencement date was July 12, 2023 (the "Commencement Date").

Upon entering into the 2023 Committed Equity Facility, the Company agreed to issue to Keystone an aggregate of 25,156 Common Shares (the "Commitment Shares") as consideration for Keystone's commitment to purchase Common Shares upon the Company's direction under the 2023 Committed Equity Facility. The Company issued 7,547 Common Shares, or 30% of the Commitment Shares, on the date of the 2023 Committed Equity Facility Agreement (the "Initial Commitment Shares"). An additional 7,547 Common Shares, or 30% of the Commitment Shares, were to be issued to Keystone 90 days following the Commencement Date (the "First Back-End Commitment Shares"). The remaining 10,062 Common Shares, or 40% of the Commitment Shares, shall be issued to Keystone 180 days following the Commencement Date (the "Second Back-End Commitment Shares", together with the First Back-End Commitment Shares, the "Back-End Commitment Shares").

In the nine months ended September 30, 2023, the Company's issuance of Common Shares to Keystone comprised 328,438 Common shares sold to Keystone at an average price of \$3.5 per Common share for cash proceeds of \$ 1.15 million and the 7,547 Common Shares issued for nil cash proceeds as the Initial Commitment Shares on the Commencement Date. The Company raised a total of \$1,150,000 in cash proceeds from issuing Common Shares to Keystone as of September 30, 2023. In addition, the Company received \$50,000 in September for 17,857 Common Shares that were issued subsequent to September 30, 2023. See Note 13, Subsequent events.

(iii) 2022 At-The-Market Facility

On December 9, 2022, the Company entered into an equity distribution agreement pursuant to which the Company may, from time to time, sell Common Shares having an aggregate offering value of up to \$50 million through Jones Trading Institutional Services LLC ("Jones Trading") on Nasdaq (the "2022 ATM Facility"). During the year ended December 31, 2022, the Company issued 4,836 Common Shares under this 2022 ATM Facility at an average price of \$10.81 per Common Share for gross proceeds of \$52 thousand (\$51 thousand net of share issuance costs). During the nine months ended September 30, 2023, the Company issued 336,690 Common Shares under this 2022 ATM Facility at an average price of \$5.62 for gross proceeds of \$1.9 million (\$1.8 million net of share issuance costs). The Company raised a total of \$1.94 million in cash proceeds from issuing Common Shares under the 2022 ATM Facility as of September 30, 2023. Costs associated with the proceeds consisted of 3% cash commission.

(iv) 2020 At-The-Market Facility

On May 5, 2020, the Company entered an "at-the-market" equity distribution agreement with Piper Sandler & Co. ("Piper Sandler") and Canaccord Genuity LLC ("Canaccord Genuity") acting as co-agents (the "2020 ATM Facility"). Under the terms of the 2020 ATM Facility, the Company could, from time to time, sell Common Shares having an aggregate offering value of up to \$75 million through Piper Sandler and Canaccord Genuity on Nasdaq. During the nine months ended September 30, 2022, the Company issued 3,646 Common Shares under the 2020 ATM Facility at an average price of \$14.25 per Common Share for gross proceeds of \$52 thousand (\$50 thousand net of share issuance costs). As of October 31, 2022, the date the 2020 ATM Facility was terminated, the Company had raised a total of \$89 thousand gross proceeds (\$86 thousand net of share issuance costs) under the 2020 ATM Facility. Costs associated with the proceeds consisted of a 3% cash commission.

b. Loss per share:

Loss per share is calculated using the weighted average number of Common Shares outstanding and is presented in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net loss	\$ (11,447)	\$ (9,777)	\$ (39,252)	\$ (31,823)
Weighted-average common shares – basic and diluted (in thousands)	6,495	6,153	6,391	6,150
Net loss per share – basic and diluted	<u>\$ (1.76)</u>	<u>\$ (1.59)</u>	<u>\$ (6.14)</u>	<u>\$ (5.17)</u>

The effects of any potential exercise of the Company's stock options outstanding during the three-month and nine-month periods ended September 30, 2023, and September 30, 2022 have been excluded from the calculation of diluted loss per share, since such securities would be anti-dilutive.

12. Stock-based compensation:

All references in this report to historical Common Share prices, numbers of Common Shares, and earnings per share calculations have been presented to reflect the effect of the Reverse Stock Split.

a. Stock option plan and employee stock purchase plan

Effective June 1, 2021, the Company adopted a new stock incentive plan ("New Incentive Plan") and an employee stock purchase plan ("ESPP").

The New Incentive Plan authorizes the Board of Directors to administer the New Incentive Plan to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents.

The Company currently maintains its existing Share Option Plan. Effective June 1, 2021, no further grants have been made under the Share Option Plan, though existing grants under the Share Option Plan remain in effect in accordance with their terms.

The aggregate number of our Common Shares, no par value, that may be issued under all awards under the New Incentive Plan is (i) 691,400, plus (ii) any of our Common Shares subject to any outstanding award under our prior plans that, after June 1, 2021, are not purchased or are forfeited or reacquired by us, or otherwise not delivered to the participant due to termination, cancellation or cash settlement of such award subject to the share counting provisions of the New Incentive Plan.

Under both the Share Option Plan and the New Incentive Plan, the exercise price of each option equals 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. Vesting is provided for at the discretion of the Board of Directors and the expiration of options is to be no greater than ten years from the date of grant.

The Company uses the fair value-based method of accounting for employee awards granted under both plans. 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.

The ESPP allows eligible employees of the Company to purchase Common Shares through accumulated payroll deductions up to a maximum 15% of eligible compensation. The ESPP was implemented by consecutive offering periods with a new offering period commencing on the first trading day on or after February 1 and August 1 each year, or on such other date as the Board of Directors will determine and continuing thereafter until terminated in accordance with the Plan. Unless the Board of Directors provides otherwise, the purchase price will be equal to eighty-five percent (85%) of the fair market value of a Common Share on the offering date or the exercise date, whichever is lower. The maximum number of Common Shares available for sale under the ESPP is 113,333 Common Shares. The first six-month offering period began on February 1, 2022, and ended on August 1, 2022. There were 724 Common Shares issued under the ESPP as of December 31, 2022. The second six-month period began on August 1, 2022, and ended on February 1, 2023. The third six-month period began on February 2, 2023, and ended on August 1, 2023. There were 5,991 and 724 Common Shares issued under the ESPP during the nine months ended September 30, 2023 and September 30, 2022, respectively.

Stock option transactions for the nine months ended September 30, 2023 and September 30, 2022 are summarized as follows:

	Nine months ended September 30, 2023		Weighted average remaining contractual life (years)
	Options (in thousands)	Weighted average exercise price	
Outstanding, beginning of period	1,100	\$ 52.22	
Granted	217	9.87	
Exercised	-	-	
Forfeited	(125)	49.58	
Outstanding, end of the period	1,192	\$ 44.76	7.1
Exercisable, end of the period	718	58.98	6.1
Vested and expected to vest, end of period	1,107	\$ 46.42	7.0

	Nine months ended September 30, 2022		Weighted average remaining contractual life (years)
	Options (in thousands)	Weighted average exercise price	
Outstanding, beginning of period	1,007	\$ 68.30	
Granted	420	17.82	
Exercised	(1)	16.25	
Forfeited	(155)	47.42	
Outstanding, end of the period	1,271	\$ 54.00	6.3
Exercisable, end of the period	704	67.95	4.5
Vested and expected to vest, end of period	1,186	\$ 55.20	6.1

During the nine months ended September 30, 2022, the option agreements of one Company officer were modified as part of a separation and release agreement. 56,765 vested options, with exercise prices ranging from \$20.10 to \$103.65, were allowed to continue to be exercisable for an additional 12-month period, and also 31,810 options that would have expired unvested, were allowed to continue to vest for a 12-month period. As there was no service requirement, during the nine months ended September 30, 2022, the Company recorded \$67 thousand in additional compensation related to these modifications.

As of September 30, 2023, there was \$1.61 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over an estimated weighted-average period of 1.47 years. As of September 30, 2023, total compensation cost not yet recognized related to grants under the ESPP was approximately \$4 thousand, which is expected to be recognized over four months.

The following table presents the weighted average assumptions that were used in the Black-Scholes option pricing model to determine the fair value of stock options granted during the period, and the resulting weighted-average fair values:

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Risk-free interest rate	3.42%	2.17%
Expected dividend yield	-	-
Expected volatility	80.3%	82.7%
Expected life of options (years)	5	5
Grant date fair value	\$ 6.53	\$ 11.85

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.

The following table presents the vesting terms of options granted in the period:

	Nine months ended September 30, 2023 Number of options (in thousands)	Nine months ended September 30, 2022 Number of options (in thousands)
3-year vesting (50%-25%-25%)	48	348
4-year vesting (50%-16 2/3%-16 2/3%-16 2/3%)	169	32
Performance-based vesting	-	40
Total stock options granted in the period	<u>217</u>	<u>420</u>

The Company has a stock incentive plan (SIP) 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 Company. Each restricted stock unit ("RSU") is automatically redeemed for one Common Share of the Company upon vesting. During the nine-month period ended September 30, 2023, the Company granted 38,000 RSUs with immediate vesting and an exercise price of \$9.90 (the "2023 RSU Grant"). On February 6, 2023, all of these RSUs were redeemed for 38,000 Common Shares. No RSUs were granted in the nine months ended September 30, 2022. The following table presents the vesting and redemption of the RSUs granted in the three months and nine months ended September 30, 2023 and September 30, 2022.

	Nine months ended September 30, 2023		Nine months ended September 30, 2022	
	Number of options (in thousands)	Weighted average grant date fair value	Number of options (in thousands)	Weighted average grant date fair value
Outstanding, beginning of period	-	\$ -	-	\$ -
Granted	38	9.90	-	-
Vested and redeemed	(38)	(9.90)	-	-
Outstanding, ending of period	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

b. Share-based payment expense

The Company recorded share-based payment expense related to stock options and RSUs as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Research and development	\$ 259	\$ 440	\$ 1,182	\$ 1,923
General and administrative	340	613	2,060	2,423
	<u>\$ 599</u>	<u>\$ 1,053</u>	<u>\$ 3,242</u>	<u>\$ 4,346</u>

13. Subsequent events

Subsequent to September 30, 2023, the Company issued 274,163 Common Shares to Keystone under the 2023 Committed Equity Facility. 248,759 Common Shares were issued for \$600,000 in cash proceeds received in October, 17,857 Common Shares were issued in October in exchange for \$50,000 in cash proceeds received in September. The issuance of 7,547 First Back-End Commitment Shares was initiated in September and completed in October.