CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 and 2014

(UNAUDITED)

.

Condensed Consolidated Interim Statements of Financial Position
Amounts in Canadian Dollars
(Unaudited)

	Note	As at September 30, 2015 $	As at December 31, 2014 $
ASSETS			
Current			
Cash		**187,996**	236,567
Amounts receivable	4	**9,069**	9,752
Prepaid expenses		**52,849**	62,501
Total current assets		**249,914**	308,820
Property and equipment	5	**17,146**	18,064
Total non-current assets		**17,146**	18,064
Total assets		**267,060**	326,884
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7	**1,192,011**	2,101,704
Total current liabilities		**1,192,011**	2,101,704
Other liabilities	8	**613,410**	-
Total non-current liabilities		**613,410**	-
Total liabilities		**1,805,421**	2,101,704
EQUITY			
Share capital	9	**38,686,546**	37,460,220
Warrants	9	**1,235,334**	1,261,678
Contributed surplus	9	**4,950,023**	4,619,504
Deficit		**(46,410,264)**	(45,116,222)
Total deficiency		**(1,538,361)**	(1,774,820)
Total liabilities and deficiency		**267,060**	326,884

Going concern (note 2(b))
Events after the balance sheet date (note 16)

Approved by the Board and authorized for issue on November 30, 2015:

(signed) Michael Giuffre, Director
(signed) James Parsons, Director

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Amounts in Canadian Dollars
(Unaudited)

	Note	**Three Months Ended September 30, 2015 $**	Three Months Ended September 30, 2014 $	**Nine Months Ended September 30, 2015 $**	Nine Months Ended September 30, 2014 $
EXPENSES					
Research and development	11	**196,656**	814,781	**835,419**	3,673,959
General and administrative	12	**42,784**	168,981	**320,430**	867,393
		239,440	983,762	**1,155,849**	4,541,352
Finance income	13	**(310)**	(2,303)	**(2,343)**	(54,339)
Finance costs	13	**72,105**	6,025	**126,823**	3,355
		71,795	3,722	**124,480**	(50,984)
Loss before income taxes		**311,235**	987,484	**1,280,329**	4,490,368
Income tax expense	10	**4,184**	(3,507)	**13,714**	48,630
Net loss and comprehensive loss for the period		**315,419**	983,977	**1,294,043**	4,538,998
Basic and diluted loss per common share		**0.00**	0.02	**0.02**	0.08

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Changes in Deficiency
Amounts in Canadian Dollars
(Unaudited)

	Share capital Number	Share capital Amount	Warrants Number	Warrants Amount	Contributed surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 9)		(note 9)				
Balance, December 31, 2013	58,654,595	35,667,758	5,562,734	1,193,744	4,133,123	(39,523,503)	1,471,122
Net loss and comprehensive loss for the period	-	-	-	-	-	(4,538,998)	(4,538,998)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	3,284,700	1,697,649	1,642,350	136,305	-	-	1,833,954
Compensation warrants issued	-	-	228,074	36,774	-	-	36,774
Shares issued on exercise of warrants	86,135	94,813	(86,135)	(17,291)	-	-	77,522
Warrants expired	-	-	(262,647)	(52,530)	52,530	-	-
Share-based compensation	-	-	-	-	326,260	-	326,260
Total transactions with owners of the Company	3,370,835	1,792,462	1,521,642	103,258	378,790	-	2,274,510
Balance, September 30, 2014	62,025,430	37,460,220	7,084,376	1,297,002	4,511,913	(44,062,551)	(793,366)

	Share capital Number	Share capital Amount	Warrants Number	Warrants Amount	Contributed surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 9)		(note 9)				
Balance, December 31, 2014	62,025,430	37,460,220	6,916,966	1,261,678	4,619,503	(45,116,221)	(1,774,820)
Net loss and comprehensive loss for the period	-	-	-	-	-	(1,294,043)	(1,294,043)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	15,750,000	1,226,326	4,875,000	215,454	-	-	1,441,780
Compensation warrants issued	-	-	647,350	36,831	-	-	36,831
Warrants expired	-	-	(1,066,730)	(278,629)	278,629	-	-
Share-based compensation	-	-	-	-	51,891	-	51,891
Total transactions with owners of the Company	15,750,000	1,226,326	4,455,620	(26,344)	330,520	-	1,530,502
Balance, September 30, 2015	77,775,430	38,686,546	11,372,586	1,235,334	4,950,023	(46,410,264)	(1,538,361)

See accompanying notes to the condensed consolidated interim financial statements

Condensed Consolidated Interim Statements of Cash Flows
Amounts in Canadian Dollars
(Unaudited)

	Note	**Nine Months Ended September 30, 2015 $**	Nine Months Ended September 30, 2014 $
OPERATING ACTIVITIES			
Net loss and comprehensive loss for the period		**(1,294,043)**	(4,538,998)
Adjustments for items not affecting cash			
Share-based compensation		**51,891**	326,260
Depreciation of property and equipment	5	**4,909**	2,683
Impairment loss on patents	6	**-**	323,077
Research and development		**(58,669)**	-
Unrealized foreign exchange loss on other liabilities		**54,998**	-
Changes in non-cash working capital items			
Amounts receivable		**683**	(70,642)
Prepaid expenses		**9,652**	(43,589)
Accounts payable and accrued liabilities		**(139,164)**	(52,187)
Cash used in operating activities		**(1,369,743)**	(4,053,396)
FINANCING ACTIVITIES			
Units issued, net of cash issue costs	9	**1,478,611**	1,870,728
Issue of common shares on exercise of warrants, net	9	**-**	77,522
Repayment of other liabilities	8	**(153,448)**	-
Cash provided by financing activities		**1,325,163**	1,948,250
INVESTING ACTIVITIES			
Acquisition of property and equipment	5	**(3,991)**	-
Acquisition of patents pending	6	**-**	(36,368)
Cash used in investing activities		**(3,991)**	(36,368)
Net decrease in cash during the period		**(48,571)**	(2,141,514)
Cash, beginning of the period		**236,567**	2,684,498
Cash, end of period		**187,996**	542,984
Supplemental cash flow information			
Common share purchase warrants issued as agents consideration	9	**36,831**	1,629
Deferred payments reclassified from accounts payable to other liabilities, net		**747,248**	-

See accompanying notes to the condensed consolidated interim financial statements

1. Corporate information

DiaMedica Inc. (the "Company" or "DiaMedica") is a clinical stage biopharmaceutical company focused on the discovery and development of novel approaches to treat unmet diseases.

The Company is a listed company incorporated under the Corporations Act (Manitoba) and domiciled in Manitoba, Canada whose shares are publicly traded on the TSX Venture Exchange in Canada under the symbol "DMA" and the OTCQB in the U.S. under the symbol "DMCAF". The Company's registered office is at 1700 – 360 Main Street, Winnipeg, Manitoba R3C 3Z3. The Company's U.S. office is DiaMedica Inc., c/o DiaMedica USA Inc., Two Carlson Parkway, Suite 165, Minneapolis, Minnesota 55447.

2. Basis of presentation

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting*. The notes presented in these unaudited condensed consolidated interim financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and in effect as of November 30, 2015, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS or their interpretation, that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2015 could result in restatement of these condensed consolidated interim financial statements.

(b) Basis of measurement and going concern

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for held-for-trading financial assets which are measured at fair value.

These unaudited condensed consolidated interim financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business as they come due. There is substantial doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since incorporation, has an accumulated deficit of $46.4 million, a net asset deficiency of $1.5 million and a working capital deficiency of $0.9 million as of September 30, 2015. Further, the Company's cash resources are not sufficient for the next twelve months of planned operations, additional funding will be required in order to continue its research and development and other operating activities and it has not reached successful commercialization of its products. The Company's ability to continue as a going concern is dependent on its ability to continue obtaining sufficient funds to conduct its research and development, and to successfully commercialize its products.

The Company's future operations are dependent upon its ability to secure additional funding, generate product revenues, and negotiate license agreements with partners. There can be no assurance that the Company will be successful in commercializing its products, entering into strategic agreements with partners, or raising additional capital on favorable terms or at all. While the Company is taking measures to preserve cash while it continues to search for additional sources of funding, including negotiating deferred payment terms with vendors and reducing expenses, the Company will not have enough cash on hand to sustain operations beyond the end of February 2016 unless further funds have been raised. Further, there can be no assurance that the Company will be successful in raising additional capital on favourable terms or at all. The availability of financing will be affected by the results of scientific and clinical research, the ability to attain regulatory approvals, the state of the capital markets generally with particular reference to life sciences' companies and other relevant commercial considerations. If the Company cannot secure additional financing on favourable terms or at all, the Company will have to consider additional strategic alternatives beyond the cost saving measures described above. Such additional strategies may include delays of product development expenditures, exploring the monetization of certain intangible assets, as well as seeking to out-license and/or divest assets through a merger, sale or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and settle its liabilities and commitments when due is dependent on many factors, including, but not limited to the successful completion of the actions taken or planned, some of which are described above, which are intended to mitigate the adverse conditions and events which raise substantial doubt about the validity of the going concern assumption used in preparing these unaudited condensed consolidated interim financial statements. There can be no assurance that the Company will be able to obtain sufficient financing to meet future operational needs or that the above described and other strategies will be sufficient to permit the Company to continue as a going concern.

These unaudited condensed consolidated interim financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ materially from these estimates and assumptions. We review our estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

We have applied significant judgments, estimates and assumptions to the determination of functional currency, valuation of share-based compensation and warrants, and to the measurement, period of use and potential impairment of intangible assets as follows:

Functional currency

Judgment is required in determining the appropriate functional currency of DiaMedica USA Inc. The Canadian functional currency was determined by assessing the currency that mainly influences costs and the currency in which DiaMedica finances its operations. A change in the functional currency could result in material differences in the amounts recorded in the statements of loss and comprehensive loss for foreign exchange gains or losses.

Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

Measurement, period of use and potential impairment of intangible assets

Management reviews objective evidence each reporting period to assess whether there are indications of impairment of the intangible assets and make judgments about their period of use. These determinations and their individual assumptions require that management make a decision based on the best and most reliable information available at each reporting period.

3. Significant accounting policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2014 and have been applied consistently to all periods presented in these consolidated financial statements, except as noted below. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2014.

New standards and interpretations not yet effective

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 (2010) reflects the first phase of the IASBs work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is expected to be effective for annual periods beginning on or after January 1, 2018. The Company does not currently expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds currently.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers,* issued by the IASB in May 2014, is applicable to all revenue contracts and provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. The core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively [for example, service revenue and contract modifications] and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently evaluating the impact of the above standard on its financial statements.

Amendments to IAS 1, *Presentation of Financial Statements*

On December 18, 2014 the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Amounts in Canadian Dollars

4. Amounts receivable

	September 30, 2015 $	December 31, 2014 $
Other receivables	**-**	784
Taxes receivable	**9,069**	8,968
	9,069	9,752

5. Property and equipment

	Computer and office equipment $
Cost	
Balance, December 31, 2013	41,386
Additions	-
Balance, December 31, 2014	41,386
Additions	-
Disposals	3,991
Balance, September 30, 2015	**45,377**
Accumulated depreciation	
Balance, December 31, 2013	20,457
Depreciation	2,865
Balance, December 31, 2014	23,322
Depreciation	4,909
Balance, September 30, 2015	**28,231**
Net carrying amounts	
December 31, 2014	18,064
September 30, 2015	**17,146**

Amounts in Canadian Dollars

6. Intangible assets

	Acquired technology $	Patents $	Total $
Cost			
Balance, December 31, 2013	7,046,496	306,621	7,353,117
Additions	-	36,368	36,368
Impairments	-	(323,077)	(323,077)
Balance, December 31, 2014 and September 30, 2015	7,046,496	19,912	7,066,408
Accumulated amortization			
Balance, December 31, 2013, 2014 and September 30, 2015	7,046,496	19,912	7,066,408
Net carrying amounts			
December 31, 2014	-	-	-
September 30, 2015	-	-	-

The Company recorded an impairment loss totaling $323,077 on certain patents for the three and nine months ending September 30, 2014 (note 11). The write-down related to patent costs for filings on indications the Company no longer intends to pursue.

7. Accounts payable and accrued liabilities

	September 30, 2015 $	December 31, 2014 $
Trade and other payables	**758,673**	1,114,398
Accrued liabilities	**234,387**	942,471
Due to related parties (note 15)	**198,951**	44,835
	1,192,011	2,101,704

8. Other liabilities

	September 30, 2015 $	December 31, 2014 $
Other liabilities	**613,410**	-
	613,410	-

During the first quarter of 2015, the Company negotiated deferred payment terms with a vendor for the payment of services which occurred prior to January 1, 2015. In accordance with the agreement, the Company will pay the vendor €381,860 over a period of 2 years commencing with a payment of €15,000 in February 2015 and then €18,000 per month, all of which include principal and interest, until the amount is paid in full, being December 2016. This liability carries an interest rate of 0.5% per month compounded annually.

Additionally, €379,922 which is non-interest bearing is due and payable to the vendor on or about February 2017. On initial recognition, the payable was measured at its fair value of €338,129 using a market interest rate of 6.0 percent. The payable will be measured at amortized cost at the end of each reporting period and accredited to its face value using the market interest rate of 6.0 percent. These payment terms may be accelerated under the terms of the agreement if the Company was to raise specified amounts of equity through a financing during the term of the agreement. The deferred payments are unsecured.

Amounts in Canadian Dollars

As at September 30, 2015, current portion of the obligation above included in accounts payable and accrued liabilities is $322,142 (€216,000).

Future principal and interest payments on the liability as at September 30, 2015, based on the Company's fiscal year-end and reflecting the €379,922 at face value, are as follows:

	€	$
2015 (for remaining three months)	72,000	107,381
2016	212,178	316,442
2017	379,922	566,616
	664,100	990,439
Less interest	(36,802)	(54,887)
	627,298	935,552
Included in accounts payable	(216,000)	(322,142)
	411,298	**613,410**

9. Share capital

(a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

(b) Common shares issued – for the nine months ended September 30, 2015

On March 13, 2015, the Company completed a non-brokered private placement of 6,000,000 units at a price of $0.10 per unit for aggregate gross proceeds of approximately $600,000 ($572,728 net of issue costs). Each unit consisted of one common share. In connection with the financing, the Company issued 227,350 compensation warrants and paid a finder's fee of 5% of the aggregate gross proceeds. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.10 prior to expiry on March 13, 2016.

On June 19, 2015, the Company completed a non-brokered private placement of 9,750,000 units at a price of $0.10 per unit for aggregate gross proceeds of approximately $975,000 ($922,094 net of issue costs). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $0.20 at any time prior to expiry on June 19, 2016. In connection with the financing, the Company issued 420,000 compensation warrants and paid a finder's fee of 5% of the aggregate gross proceeds. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.10 prior to expiry on June 19, 2016.

The $0.10 unit issue price was allocated to common shares in the amount of $0.08 per common share and the unit warrants were allocated a price of $0.02 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $685,535 was allocated to common shares and $215,454 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants and compensation warrants were: dividend yield 0%; risk-free interest rate 0.6%; expected volatility 202%; and average expected life of 12 months.

Common shares issued – for the year ended December 31, 2014

On January 3, 2014, the Company completed a non-brokered private placement of 154,500 units at a price of $0.90 per unit for aggregate gross proceeds of $139,050 ($116,046 net of issue costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one additional common share for the price of $1.10 at any time prior to expiry on December 23, 2015, subject to acceleration of the expiry date of such warrants in certain circumstances. In connection with the financing, the Company issued 9,270 compensation warrants and paid a finder's fee of 6% of the aggregate gross proceeds. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $1.10 prior to expiry on January 3, 2015.

The $0.90 unit issue price was allocated to common shares in the amount of $0.80 per common share and the unit warrants were allocated a price of $0.10 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $103,152 was allocated to common shares and $12,894 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 59%; and average expected life of 24 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 57%; and average expected life of 12 months.

On January 22, 2014, the agent in connection with the offering completed on December 23, 2013, partially exercised its over-allotment option resulting in the issuance of an additional 31,000 units at a price of $0.90 per unit for aggregate gross proceeds of $27,900 ($24,598 net of issue costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on December 23, 2015, subject to acceleration of the expiry date of such warrants in certain circumstances. In connection with exercising of the over-allotment option, the Company issued 1,860 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on January 30, 2015.

The $0.90 unit issue price was allocated to common shares in the amount of $0.81 per common share and the unit warrants were allocated a price of $0.09 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $22,138 was allocated to common shares and $2,460 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 54%; and average expected life of 24 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.0%; expected volatility 60%; and average expected life of 12 months.

On May 27, 2014, the Company completed a prospectus offering of 3,099,200 units at a price of $0.70 per unit, for aggregate gross proceeds to the Company of $2,169,440 ($1,693,310 net of issuance costs). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.00 at any time prior to expiry on May 27, 2016. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.75 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 216,944 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.70 prior to expiry on November 27, 2015.

The $0.70 unit issue price was allocated to common shares in the amount of $0.65 per common share and the unit warrants were allocated a price of $0.05 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $1,572,359 was allocated to common shares and $120,951 to the unit warrants, net of issue costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 53%; and average expected life of 24 months. Assumptions used to determine the value of the compensation warrants were: dividend yield 0%; risk-free interest rate 1.1%; expected volatility 56%, respectively; and average expected life of 18 months.

During the year ended December 31, 2014, 86,135 common shares were issued on the exercise of warrants for gross proceeds of $77,522.

(c) Weighted average number of shares

The weighted average number of shares for the three and nine months ended September 30, 2015 was 69,204,001 and 66,231,231, respectively (2014 – 63,621,708 and 60,328,494). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options, warrants or deferred share units would be anti-dilutive.

(d) Shareholder rights plan

The shareholders of the Company approved the adoption of a shareholder rights plan agreement (the “Plan”) on September 22, 2011. The Plan is designed to provide adequate time for the Board of Directors and the shareholders to assess an unsolicited takeover bid for DiaMedica, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, and to provide shareholders with an equal opportunity to participate in a takeover bid and receive full and fair value for their Common Shares. The Plan had been set to expire at the close of the Company's annual meeting of shareholders in 2014. At the Company’s Annual General and Special Meeting of Shareholders on July 24, 2014, shareholders approved a resolution to renew the Plan and extend the expiration date to the close of the Company’s annual meeting of shareholders in 2017.

The rights issued under the Plan will initially attach to and trade with the Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. The rights will become exercisable only when a person, including any party related to it, acquires or attempts to acquire 20 percent or more of the outstanding Common Shares without complying with the "Permitted Bid" provisions of the Plan or without approval of the Board of Directors. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase Common Shares at a 50 percent discount to the market price at the time.

Under the Plan, a Permitted Bid is a bid made to all holders of the Common Shares and which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50 percent of the outstanding Common Shares, other than those owned by the offeror and certain related parties have been tendered, the offeror may take up and pay for the Common Shares but must extend the bid for a further 10 days to allow other shareholders to tender.

The issuance of Common Shares upon the exercise of the rights is subject to receipt of certain regulatory approvals.

(e) Deferred Share Units Plan

The shareholders of the Company approved the adoption of a deferred share units plan (the “DSU Plan”) on September 22, 2011 reserving for issuance up to 2,000,000 common shares under the DSU Plan. The purpose of the DSU Plan is to provide an alternative form of compensation to satisfy directors’ fees and annual and special bonuses payable to senior officers and Directors of the Corporation. No units were issued in the nine months ended September 30, 2015 (2014 – no units issued). A total of 74,556 units have been issued since inception of the DSU Plan. The DSU Plan is equity-settled and the fair value of units granted, which vest upon issuance, is included in share-based compensation expense.

Amounts in Canadian Dollars

(f) Stock option plan

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees and consultants as a form of compensation. At the Company's Annual General and Special Meeting of the Shareholders on October 23, 2015, shareholders approved a resolution to amend the stock option plan to change the amount of common shares reserved for issuance under the plan from a fixed 7,000,000 to up to an aggregate of 10% of the Company's issued and outstanding common shares minus 2,000,000 reserved under the DSU Plan. Options granted vest at various rates and have terms of up to 10 years.

Changes in the number of options outstanding during the nine months ended September 30, 2015 and 2014 were as follows:

			2015			2014
	Number of Options		**Weighted average exercise price**	Number of Options		Weighted average exercise price
Balance, beginning of period	**5,153,000**	**$**	**1.01**	5,018,000	$	1.02
Granted	**350,000**		**0.12**	350,000		0.77
Expired/cancelled	**(2,070,000)**		**0.89**	(155,000)		0.76
Balance, September 30, 2015	**3,433,000**		**0.97**	5,213,000		1.01
Options exercisable, end of period	**2,857,250**		**1.07**	4,127,919		0.99

For the nine months ended September 30, 2015, 250,000 (2014 – no options issued) options were granted to non-employees for services. The weighted average grant date fair value of these options was $0.12 (2014 – $*nil*).

The contributed surplus balance represents accumulated share-based compensation expenses and the fair value of warrants that have expired.

The following table reflects stock options outstanding at September 30, 2015:

	Stock options outstanding				Stock options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life		Weighted average exercise price	Exercisable number		Weighted average exercise price
$0.10-$0.50	350,000	9.5 years	$	0.12	37,500	$	0.12
$0.51-$1.00	1,325,000	1.7 years	$	0.69	1,183,332	$	0.69
$1.01-$1.50	1,108,000	5.7 years	$	1.14	994,750	$	1.15
$1.51-$1.70	650,000	6.1 years	$	1.69	641,668	$	1.69
	3,433,000	4.6 years	$	0.97	2,857,250	$	1.07

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2015	September 30, 2014
Expected option life	**3.9 years**	4.3 years
Risk free interest rate	**1.6%**	1.5%
Dividend yield	*nil*	*nil*
Expected volatility	**97%**	68%

Amounts in Canadian Dollars

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values. The risk-free interest rate is based on the yield of a Canadian Government bond with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The dividend yield is assumed to be nil since it is the present policy of the Company to retain all earnings to finance operations and future growth.

During the nine months ended September 30, 2015, the Company issued 350,000 (2014 – 350,000) stock options with a fair value of $38,443 (2014 – $143,577). The weighted average grant-date fair value of the stock options granted during the nine months ended September 30, 2015 was $0.10 (2014 – $0.41).

10. Income taxes

The income tax expense recognized by the Company for the three and nine months ended September 30, 2015 and 2014 represents estimated taxes owed in the United States.

11. Research and development

Components of research and development expenses for the three months ended September 30, 2015 and 2014 were as follows:

	2015 **$**	2014 $
Research and development programs, excluding the below	**44,660**	399,605
Salaries, fees and short-term benefits	**189,698**	42,886
Share-based compensation	**(38,971)**	48,922
Depreciation of property and equipment	**1,269**	291
Impairment of intangible assets	**-**	323,077
	196,656	814,781

Components of research and development expenses for the nine months ended September 30, 2015 and 2014 were as follows:

	2015 **$**	2014 $
Research and development programs, excluding the below	**244,265**	2,441,707
Salaries, fees and short-term benefits	**565,373**	750,500
Share-based compensation	**20,872**	192,245
Depreciation of property and equipment	**4,909**	2,683
Impairment of intangible assets	**-**	323,077
Government assistance	**-**	(36,253)
	835,419	3,673,959

Quarterly research and development expenses may vary due to the timing of costs for manufacturing, initiating and completing pre-clinical and clinical trials, granting of stock options, and recognizing government assistance.

Amounts in Canadian Dollars

12. General and Administrative

Components of general and administrative expenses for the three months ended September 30, 2015 and 2014 were as follows:

	2015 $	2014 $
General and administrative, excluding the below	**57,424**	114,045
Salaries, fees and short-term benefits	**2,320**	5,112
Share-based compensation	**(16,960)**	49,824
	42,784	168,981

Components of general and administrative expenses for the nine months ended September 30, 2015 and 2014 were as follows:

	2015 $	2014 $
General and administrative, excluding the below	**253,164**	687,193
Salaries, fees and short-term benefits	**36,247**	46,185
Share-based compensation	**31,019**	134,015
	320,430	867,393

13. Finance income and finance costs

Finance income for the three months ended September 30, 2015 and 2014 was as follows:

	2015 $	2014 $
Interest income	**310**	2,303
Net foreign currency gain	**-**	-
	310	2,303

Finance income for the nine months ended September 30, 2015 and 2014 was as follows:

	2015 $	2014 $
Interest income	**2,343**	11,734
Net foreign currency gain	**-**	42,605
	2,343	54,339

Amounts in Canadian Dollars

Finance costs for the three months ended September 30, 2015 and 2014 were as follows:

	2015	2014
	$	$
Bank charges	**1,195**	1,167
Interest expense	**42,662**	-
Net foreign exchange loss	**28,248**	4,858
	72,105	6,025

Finance costs for the nine months ended September 30, 2015 and 2014 were as follows:

	2015	2014
	$	$
Bank charges	**4,872**	3,355
Interest expense	**42,662**	-
Net foreign exchange loss	**79,289**	-
	126,823	3,355

14. Commitments and contingencies

As at September 30, 2015 and in the normal course of business, the Company had obligations to make future payments, representing research and development contracts and other commitments that are known and committed in the amount of $294,733 over the next 12 months. The Company has renewed its commitment with the leasing company of its U.S. office for a term through February 2019 with payments aggregating $18,815 over the next 12 months, $33,066 from 13-24 months, $34,056 from 25 to 36 months and $14,515 beyond. As at September 30, 2015, the Company has future commitments totaling $100,452 to this company.

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.

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken by or on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Amounts in Canadian Dollars

15. Related parties

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Vice Presidents.

Compensation for key management personnel of the Company for the three months ended September 30, 2015 and 2014 was as follows:

	2015	2014
	$	$
Salaries, fees and short-term benefits	**135,957**	175,803
Share-based compensation	**12,873**	88,072
Total personnel expenses	**148,830**	263,875

Compensation for key management personnel of the Company for the nine months ended September 30, 2015 and 2014 was as follows:

	2015	2014
	$	$
Salaries, fees and short-term benefits	**426,852**	748,587
Share-based compensation	**6,135**	285,730
Total personnel expenses	**432,987**	1,034,317

Executive officers and directors participate in the stock option plan and certain officers participate in the Company's health plan. Directors receive annual and meeting fees for their services. As at September 30, 2015, the key management personnel control approximately 4.3% (December 31, 2014 – approximately 1.8%) of the voting shares of the Company.

Amounts due to related parties, including amounts due to key management personnel are unsecured, interest free and settlement occurs in cash. Additionally, amounts due to related parties in note 7 relate to accrued bonuses, vacation payable and accounts payable. There have been no guarantees provided or received for any related party receivables or payables.

16. Events after the balance sheet date

On November 25, 2015, the Company completed a non-brokered private placement of 4,500,000 units at a price of $0.10 per unit for aggregate gross proceeds of approximately $450,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.20 at any time prior to expiry of twelve months from the closing date.