


# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED
## DECEMBER 31, 2015 and 2014

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of DiaMedica Inc.

We have audited the accompanying consolidated financial statements of DiaMedica Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of DiaMedica Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2(b) in the consolidated financial statements which indicates that DiaMedica Inc. has experienced operating losses and cash outflows from operations since incorporation, has an accumulated deficit of $47.1 million, a net asset deficiency of $1.7 million and a working capital deficiency of $1.1 million at December 31, 2015. These conditions, along with other matters as set forth in Note 2(b) in the consolidated financial statements, indicate the existence of material uncertainties that cast substantial doubt upon DiaMedica Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 27, 2016

Winnipeg, Canada

| | Note | **As at December 31, 2015 $** | As at December 31, 2014 $ | As at December 31, 2015 US$ |
|---|---|---|---|---|
| | | | | (note 3(b)) |
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | | **229,930** | 236,567 | 166,124 |
| Amounts receivable | 4 | **13,309** | 9,752 | 9,616 |
| Prepaid expenses | | **45,559** | 62,501 | 32,916 |
| **Total current assets** | | **288,798** | 308,820 | 208,656 |
| Property and equipment | 5 | **19,835** | 18,064 | 14,331 |
| **Total non-current assets** | | **19,835** | 18,064 | 14,331 |
| **Total assets** | | **308,633** | 326,884 | 222,987 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | 7 | **1,430,312** | 2,101,704 | 1,033,401 |
| Deferred Revenue | 8 | **45,833** | - | 33,114 |
| **Total current liabilities** | | **1,476,145** | 2,101,704 | 1,066.515 |
| Other liabilities | 9 | **538,664** | - | 389,185 |
| **Total non-current liabilities** | | **538,664** | - | 389,185 |
| **Total liabilities** | | **2,014,809** | 2,101,704 | 1,455,700 |
| **EQUITY** | | | | |
| Share capital | 10 | **38,969,688** | 37,460,220 | 28,155,600 |
| Warrants | 10 | **1,048,765** | 1,261,678 | 757,733 |
| Contributed surplus | 10 | **5,393,416** | 4,619,504 | 3,896,743 |
| Deficit | | **(47,118,045)** | (45,116,222) | (34,042,789) |
| **Total deficiency** | | **(1,706,176)** | (1,774,820) | (1,232,712) |
| **Total liabilities and deficiency** | | **308,633** | 326,884 | 222,987 |

Going concern (note 2(b))
Events after the balance sheet date (note 20)

Approved by the Board and authorized for issue on April 27, 2016:

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

*See accompanying notes to the consolidated financial statements*

| | Note | **Year Ended December 31, 2015** | Year Ended December 31, 2014 | Year Ended December 31, 2015 |
|---|---|---|---|---|
| | | **$** | $ | US$ |
| | | | | (note 3(b)) |
| **EXPENSES** | | | | |
| Research and development | 12 | **1,229,595** | 4,309,730 | 888,382 |
| General and administrative | 13 | **587,485** | 1,301,781 | 424,458 |
| | | **2,043,293** | 5,611,511 | 1,476,279 |
| Finance costs (income) | 14 | **171,633** | (67,878) | 124,055 |
| Other expenses (income) | 8 | **(4,167)** | - | (3,011) |
| **Loss before income taxes** | | **1,984,546** | 5,543,633 | 1,433,834 |
| Income tax expense | 11 | **17,277** | 49,086 | 12,483 |
| **Net loss and comprehensive loss for the period** | | **2,001,823** | 5,592,719 | 1,446,317 |
| **Basic and diluted loss per common share** | | **0.03** | 0.09 | 0.02 |

*See accompanying notes to the consolidated financial statements*

| | Share capital | | Warrants | | Contributed | | |
|---|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | surplus | Deficit | Total |
| | # | $ | # | $ | $ | $ | $ |
| | (note 10) | | (note 10) | | | | |
| 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** | - | - | - | - | - | (5,592,719) | (5,592,719) |
| **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 | - | - | (430,057) | (87,854) | 87,854 | - | - |
| Share-based compensation | - | - | - | - | 398,527 | - | 398,527 |
| Total transactions with owners of the Company | 3,370,835 | 1,792,462 | 1,354,232 | 67,934 | 486,381 | - | 2,346,777 |
| Balance, December 31, 2014 | 62,025,430 | 37,460,220 | 6,916,966 | 1,261,678 | 4,619,504 | (45,116,222) | (1,774,820) |

| | Share capital | | Warrants | | Contributed | | |
|---|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | surplus | Deficit | Total |
| | # | $ | # | $ | $ | $ | $ |
| | (note 10) | | (note 10) | | | | |
| Balance, December 31, 2014 | 62,025,430 | 37,460,220 | 6,916,966 | 1,261,678 | 4,619,504 | (45,116,222) | (1,774,820) |
| **Net loss and comprehensive loss for the period** | - | - | - | - | - | (2,001,823) | (2,001,823) |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | | |
| Units issued, net of issue costs | 20,250,000 | 1,509,468 | 9,375,000 | 317,447 | - | - | 1,826,915 |
| Compensation warrants issued | - | - | 902,150 | 69,414 | - | - | 69,414 |
| Warrants expired | - | - | (2,820,879) | (599,774) | 599,774 | - | - |
| Share-based compensation | - | - | - | - | 174,138 | - | 174,138 |
| Total transactions with owners of the Company | 20,250,000 | 1,509,468 | 7,456,271 | (212,912) | 773,912 | - | 2,070,467 |
| Balance, December 31, 2015 | 82,275,430 | 38,969,688 | 14,373,237 | 1,048,766 | 5,393,416 | (47,118,045) | (1,706,176) |

*See accompanying notes to the consolidated financial statements*

| | Note | Year Ended December 31, 2015 $ | Year Ended December 31, 2014 $ |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net loss and comprehensive loss for the period | | **(2,001,823)** | (5,592,719) |
| Adjustments for items not affecting cash | | | |
| Share-based compensation | | **174,138** | 398,527 |
| Depreciation of property and equipment | 5 | **5,706** | 2,865 |
| Impairment loss on patents | 6 | **-** | 323,077 |
| Research and development | | **(58,669)** | - |
| Interest on other liabilities | | **28,778** | - |
| Unrealized foreign exchange loss on other liabilities | | **29,891** | - |
| Changes in non-cash working capital items | | | |
| Amounts receivable | | **(3,557)** | 5,522 |
| Prepaid expenses | | **16,942** | 24,461 |
| Accounts payable and accrued liabilities | 7 | **78,023** | 478,454 |
| Deferred revenue | 8 | **45,833** | - |
| Other liabilities | 9 | **(210,751)** | - |
| **Cash used in operating activities** | | **(1,895,489)** | (4,359,813) |
| **FINANCING ACTIVITIES** | | | |
| Units issued, net of cash issue costs | 10 | **1,896,329** | 1,870,728 |
| Issue of common shares on exercise of warrants, net | 10 | **-** | 77,522 |
| **Cash provided by financing activities** | | **1,896,329** | 1,948,250 |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of property and equipment | 5 | **(7,477)** | - |
| Acquisition of patents pending | 6 | **-** | (36,368) |
| **Cash used in investing activities** | | **(7,477)** | (36,368) |
| **Net decrease in cash during the period** | | **(6,637)** | (2,447,931) |
| Cash, beginning of the period | | **236,567** | 2,684,498 |
| **Cash, end of period** | | **229,930** | 236,567 |
| **Supplemental cash flow information** | | | |
| Common share purchase warrants issued as agents' consideration | 10 | **69,414** | 36,774 |

*See accompanying notes to the consolidated 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 *Canada Business Corporations Act* 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of April 27, 2016, the date the Board of Directors approved the financial statements.

### (b) Basis of measurement and going concern

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

These consolidated 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. There are material uncertainties that cast significant 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 $47.1 million, a net asset deficiency of $1.7 million and a working capital deficiency of $1.1 million as of December 31, 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 the Company's research and development and other operating activities as 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 therefore dependent upon its ability to generate product revenues, negotiate license agreements with partners, and secure additional funds. 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 completed a private placement subsequent to year-end (note 20) and is taking measures to preserve cash while it continues to search for additional sources of funding, the Company will not have enough cash on hand to sustain operations until the end of fiscal 2016 unless further funds have been raised. During the fourth quarter of 2015 and subsequent, management has implemented various plans to reduce cash outflows. The success of management's planned initiatives and actions referred to above cannot be assured, and may be subject to material change or revision at any time. 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 pharmaceutical, biotechnology and medical 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 material uncertainties related to adverse conditions and events that cast significant doubt about the validity of the going concern assumption used in preparing these consolidated 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 consolidated 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 consolidated 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 set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

These financial statements include the accounts of the Company and its wholly-owned and controlled subsidiary, DiaMedica USA Inc. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. DiaMedica USA Inc. was incorporated May 15, 2012. All intercompany transactions and balances have been eliminated.

### (b) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the subsidiary of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

In preparing the financial statements of the subsidiary of the Company in its functional currency, transactions in currencies other than the subsidiary's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are recognized in profit or loss.

*Convenience Translation into US$*

The US$ amounts provided in the Consolidated Statements of Financial Position and Consolidated Statements of Loss and Comprehensive Loss represent supplementary information for the convenience of the reader. The financial information presented in US$ has been translated from CAD$ using a convenience of translation at the rate of 0.7225 CAD$ to 1 US$, which is the exchange rate published by the Bank of Canada as of December 31, 2015. Such presentation is not in accordance with IFRS and should not be construed as a representation that the CAD$ amounts shown could be readily converted, realized, or settled in US$ at this or any other rate.

## (c) Financial instruments

### Financial assets

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss where the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with its documented risk management and investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit and loss are measured at fair value and changes therein are recognized in profit or loss. The Company has classified cash at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method less any impairment losses. The Company has classified its amounts receivable as loans and receivables.

*Derecognition*

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

### Financial liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and subsequently at amortized cost using the effective interest method. The Company has classified its accounts payable, accrued liabilities, and other liabilities as other financial liabilities.

*Derecognition*

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

### Equity

Common shares and warrants to purchase common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

## (d) Property and equipment

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item or property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

*Subsequent costs*

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day

servicing of property and equipment are recognized in profit or loss as incurred.

*Depreciation*

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

| Asset | Basis |
|---|---|
| Computer equipment | Straight-line over 4 years |
| Office equipment | Diminishing balance at 20% |

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted if appropriate. Depreciation expense is recognized in research and development expenses.

## (e) Intangible assets

### Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are expenses as incurred. No development costs have been capitalized to date.

Research and development expenses include all direct and indirect operating expenses supporting the products in development.

### Intangible assets

Intangible assets that are acquired separately (acquired technology) and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use in the manner intended by management.

Patents are amortized on a straight-line basis over the shorter of their legal or estimated economic life. The costs of servicing the Company’s parents are expenses as incurred.

The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

## (f) Impairment

### Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that largely are independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses for intangible assets are recognized in research and development expenses.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has deceased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## (g) Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs. No provisions have been recognized.

### (h) Government assistance

Government assistance relating to research and development is recorded as a reduction of expenses when the related expenditures are incurred.

### (i) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees is recognized as personnel costs, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that met the related service and non-market performance conditions at the vesting date.

For equity-settled share-based payment transactions, including deferred share units and stock options granted to non-employees, the Company measures the goods or services received, and the corresponding increase in contributed surplus, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instruments granted. Transactions measured by reference to the fair value of the equity instruments granted, have their fair values remeasured each vesting and reporting date until fully vested.

### (j) Income taxes

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects accounting income, taxable income or loss.

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

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

### (k) Loss per share

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

### (l) New standards and interpretations not yet effective

IFRS 16, *Leases*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after January 1, 2019, which is when the Company intends to adopt IFRS 16 in its financial statements. The extent of the impact of adoption of the standard has not yet been determined.

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 is currently evaluating the impact of the above standard on its financial statements.

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.

## 4. Amounts receivable

| | **December 31, 2015** $ | December 31, 2014 $ |
|---|---|---|
| Other receivables | **525** | 784 |
| Taxes receivable | **12,784** | 8,968 |
| | **13,309** | 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 | 9,702 |
| Disposals | (2,225) |
| Balance, December 31, 2015 | **48,863** |
| **Accumulated depreciation** | |
| Balance, December 31, 2013 | 20,457 |
| Depreciation | 2,865 |
| Balance, December 31, 2014 | 23,322 |
| Depreciation | 5,706 |
| Balance, December 31, 2015 | **29,028** |
| **Net carrying amounts** | |
| December 31, 2014 | 18,064 |
| **December 31, 2015** | **19,835** |

## 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 December 31, 2015 | 7,046,496 | 19,912 | 7,066,408 |
| **Accumulated amortization** | | | |
| Balance, December 31, 2013, 2014 and December 31, 2015 | 7,046,496 | 19,912 | 7,066,408 |
| **Net carrying amounts** | | | |
| December 31, 2014 | - | - | - |
| December 31, 2015 | - | - | - |

The Company recorded an impairment loss totaling $323,077 in 2014 for patent filings the Company no longer intends to pursue.

## 7. Accounts payable and accrued liabilities

| | **December 31, 2015 $** | December 31, 2014 $ |
|---|---|---|
| Trade and other payables | **933,021** | 1,114,398 |
| Accrued liabilities | **305,464** | 942,471 |
| Due to related parties (note 16) | **191,827** | 44,835 |
| | **1,430,312** | 2,101,704 |

## 8. Deferred revenue

During 2015, the Company received a non-refundable upfront payment of $50,000 from a third party for a twelve-month exclusivity period related to certain patent and technology rights owned by the Company. The Company has recorded the $50,000 as deferred revenue and will recognize it in other income over the twelve-month exclusivity period. In accordance with the agreement, the third party also has an option to acquire the patent and technology rights during this exclusivity period for additional consideration.

## 9. Other liabilities

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 until the amount is paid in full. 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%.

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%. 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.

As at December 31, 2015, the current portion of the obligation above included in accounts payable and accrued liabilities is $363,148 (€241,631).

Future principal and interest payments on the liability as at December 31, 2015, based on the Company's fiscal year-end and reflecting the €379,922 at face value, are as follows:

| | € | $ |
|---|---|---|
| 2016 | 250,494 | 376,467 |
| 2017 | 379,922 | 570,985 |
| | 630,416 | 947,452 |
| Less interest | (30,368) | (45,640) |
| | 600,048 | 901,812 |
| Included in accounts payable | (241,631) | (363,148) |
| Other long-term liabilities | 358,417 | 538,664 |

## 10. 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 year ended December 31, 2015

On March 13, 2015, the Company completed a non-brokered private placement of 6,000,000 shares at a price of $0.10 per share for aggregate gross proceeds of approximately $600,000 ($554,205 net of issue costs). 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, $701,547 was allocated to common shares and $220,547 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.

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 ($417,719 net of issue costs). 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 on November 25, 2016. In connection with the financing, the Company issued 254,800 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 November 25, 2016.

The $0.10 unit issue price was allocated to common shares in the amount of $0.07 per common share and the unit warrants were allocated a price of $0.03 per warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $307,622 was allocated to common shares and $110,097 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 145%; 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 year ended December 31, 2015 was 72,494,608 (2014 – 60,756,215). 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 as amended and restated on October 31, 2012 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 for directors' fees and annual and special bonuses payable to senior officers and directors of the Corporation. No units were issued in the year ended December 31, 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.

### (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. The shareholders approved the adoption of a stock option plan on September 22, 2011 as amended and restated on October 23, 2015 reserving for issuance up to 10% of the Company's issued and outstanding common shares. The aggregate number of shares reserved includes all compensation and incentive plans, including the stock option plan and 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 years ended December 31, 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 | **4,404,000** | **$0.14** | 350,000 | $0.77 |
| Expired/cancelled | **(3,145,000)** | **$0.85** | (215,000) | $0.74 |
| Balance, end of period | **6,412,000** | **$0.49** | 5,153,000 | $1.01 |
| Options exercisable, end of period | **1,899,167** | **$1.26** | 4,291,914 | $1.01 |

For the year ended December 31, 2015, 1,250,000 (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 December 31, 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 | 4,404,000 | 9.8years | $0.14 | 87,500 | $0.12 |
| $0.51-$1.00 | 250,000 | 7.5years | $0.76 | 129,168 | $0.78 |
| $1.01-$1.50 | 1,108,000 | 5.2years | $1.14 | 1,032,499 | $1.15 |
| $1.51-$1.70 | 650,000 | 5.3years | $1.69 | 650,000 | $1.69 |
| | 6,412,000 | 8.5years | $0.49 | 1,899,167 | $1.26 |

The following table reflects stock options outstanding at December 31, 2014:

| | 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 |
| $0.42-$0.56 | 447,500 | 0.5years | $0.42 | 447,500 | $0.42 |
| $0.57-$0.76 | 1,312,500 | 0.8years | $0.68 | 1,312,500 | $0.68 |
| $0.77-$1.09 | 1,298,000 | 8.8years | $0.97 | 603,165 | $1.05 |
| $1.10-$1.23 | 1,005,000 | 4.7years | $1.14 | 1,005,000 | $1.14 |
| $1.24-$1.70 | 1,090,000 | 6.6years | $1.59 | 923,749 | $1.60 |
| | 5,153,000 | 4.8years | $1.01 | 4,291,914 | $1.01 |

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:

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Expected option life | **4.4 years** | 4.3 years |
| Risk free interest rate | **0.8%** | 1.5% |
| Dividend yield | nil | nil |
| Expected volatility | **113%** | 68% |

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 year ended December 31, 2015, the Company issued 4,404,000 (2014 – 350,000) stock options with a fair value of $446,781 (2014 – $143,577). The weighted average grant-date fair value of the stock options granted during the year ended December 31, 2015 was $0.14 (2014 – $0.41).

## 11. Income taxes

Tax expense is recognized based on management's best estimate of the weighted-average annual income tax rate expected for the full year multiplied by the pre-tax income of each legal entity during the reporting period. The income tax recognized by the Company for the year ended December 31, 2015 represents estimated taxes owed in the United States.

### (a) Unrecognized deferred tax assets:

As at December 31, deferred tax assets have not been recognized with respect to the following items:

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Non-capital losses carried forward | **8,406,282** | 7,871,412 |
| Research and development expenditures | **936,720** | 936,720 |
| Share issue costs | **217,305** | 287,155 |
| Intangible assets and other | **334,820** | 341,087 |
| Property and equipment | **890** | 779 |
| | **9,896,017** | 9,437,153 |

**(b)** As at December 31, 2015, the company has available research and development expenditures for income purposes of approximately $4,129,643 (2014 – $4,129,643), which may be carried forward indefinitely to reduce future years' taxable income.

**(c)** As at December 31, 2015, the company has non-capital income tax loss carry-forwards of approximately $31,134,376 (2014 – $29,153,378), available to reduce future years' taxable income with expiry dates ranging from 2026 to 2035.

**(d)** As at December 31, 2015, the company has approximately $660,311 (2014 – $660,311) for non-refundable Federal investment tax credits available to offset future income taxes with expiry dates ranging from 2020 to 2033.

**(e)** The reconciliation of the Canadian statutory income tax rate applied to the net loss for the period to the income tax recovery is as follows:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Statutory income tax rate | **27.0%** | 27.0% |
| Income tax recovery based on statutory rate | **(535,827)** | (1,496,781) |
| Stock-based compensation | **47,018** | 107,630 |
| Scientific research and experimental development | **-** | (5,435) |
| Share issue costs | **(50,914)** | (125,729) |
| Other | **98,136** | 172,706 |
| Change in unrecognized temporary difference | **458,864** | 1,396,695 |
| Income tax expense | **17,277** | 49,086 |

## 12. Research and development

Components of research and development expenses for the years ended December 31, 2015 and 2014 were as follows:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Research and development programs, excluding the below | **522,094** | 2,756,467 |
| Salaries, fees and short-term benefits | **577,186** | 1,036,648 |
| Share-based compensation | **124,609** | 226,926 |
| Depreciation of property and equipment | **5,706** | 2,865 |
| Impairment of intangible assets | **-** | 323,077 |
| Government assistance | **-** | (36,253) |
| | **1,229,595** | 4,309,730 |

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.

## 13. General and Administrative

Components of general and administrative expenses for the years ended December 31, 2015 and 2014 were as follows:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| General and administrative, excluding the below | **451,466** | 940,757 |
| Salaries, fees and short-term benefits | **86,490** | 189,423 |
| Share-based compensation | **49,529** | 171,601 |
| | **587,485** | 1,301,781 |

## 14. Finance costs (income)

Finance costs (income) for the years ended December 31, 2015 and 2014 was as follows:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Interest expense | **54,932** | - |
| Interest income | **(2,414)** | (60,197) |
| Bank charges | **6,065** | 4,550 |
| Net foreign currency loss (gain) | **113,050** | (12,231) |
| | **171,633** | (67,878) |

## 15. Commitments and contingencies

As at December 31, 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 $228,475 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 $27,958 over the next 12 months, $34,547 from 13-24 months, $35,491 from 25 to 36 months and $6,181 beyond. As at December 31, 2015, the Company has future commitments totaling $104,177 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.

## 16. 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 years ended December 31, 2015 and 2014 was as follows:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Salaries, fees and short-term benefits | **641,179** | 965,666 |
| Share-based compensation | **44,913** | 339,812 |
| Total personnel expenses | **586,092** | 1,305,478 |

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 December 31, 2015, the key management personnel control approximately 4.1% (2014 – approximately 2%) of the voting shares of the Company.

Amounts due to related parties, including amounts due to key management personnel are unsecured and 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.

## 17. Operating segment

The Company has a single operating segment, the discovery and development of novel recombinant proteins and monoclonal antibody technology applications to treat large unmet diseases including acute vascular disease of the brain, kidneys, and heart. Most of the Company's operations and employees are in the United States, while the intellectual property resides in Canada.

*Geographic information – Non-current assets*

As at December 31, non-current assets by country were as follows:

| (In CAD$) | **2015 $** | 2014 $ |
|---|---|---|
| Canada | **-** | 411 |
| United States | **19,835** | 17,653 |
| | **19,835** | 18,064 |

## 18. Management of capital

The Company defines its capital as capital stock, warrants and contributed surplus. The Company's objectives when managing capital are to ensure there are sufficient funds available to carry out its research and development programs. To date, these programs have been funded primarily through the sale of equity securities and the conversion of common share purchase warrants. The Company also sources non-dilutive funding by accessing grants, government assistance and tax incentives, and through partnerships with corporations and research institutions. The Company uses budgets and purchasing controls to manage its costs. There has been no change to the capital management strategy during the year.

The Company is not exposed to any externally imposed capital requirements.

## 19. Financial instruments

### Fair value

Certain of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Financial instruments of the Company consist of cash amounts receivable and accounts payable and accrued liabilities. As at December 31, 2015, there were no significant differences between the carrying values of these amounts and their estimated fair values due to their short-term nature. The Company has classified its cash as Level 1 as fair values are determined by quoted prices of identical assets in active markets.

### Risk

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee of the board is responsible to review the Company's risk management policies.

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and amounts receivable. The carrying amount of these financial assets represents the maximum credit exposure. The Company follows an investment policy to mitigate against the deterioration of principal and to enhance the Company's ability to meet its liquidity needs. Cash is on deposit with a credit union and guaranteed by the Credit Union Deposit Guarantee Corporation of Manitoba in Canada, and in bank accounts in the United States guaranteed by the Federal Deposit Insurance Corporation. Amounts receivable are primarily comprised of amounts due from the Federal government.

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external sources of capital to support its operations. Once funds have been raised, usually through equity offerings, the Company manages its liquidity risk by investing its cash to provide regular cash flow for current operations. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions not in the ordinary course of business. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months (see also note 2(b)).

### (c) Market risk

#### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is in highly liquid holdings in bank accounts or high interest savings accounts which have a variable rate of interest. The Company manages its interest rate risk by holding highly liquid short-term instruments and by holding its investments to maturity, where possible.

#### (ii) Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar which are primarily expenses in US dollars and the Euro. The Company manages its exposure to US currency fluctuations by holding cash denominated in US dollars in amounts approximating current US dollar financial liabilities and US dollar planned expenditures. As at December 31, 2015 the Company held US dollar cash in the amount of US$138,285 (2014 – US$158,040) and had US dollar denominated accounts payable in the amount of US$259,881 (2014 – US$273,053). Therefore, a 1% change in the foreign exchange rate would have had a net impact on the consolidated financial statements of $1,682 (2014 – $1,334). As at December 31, 2015 the Company held euro dollar denominated accounts payable in the amount of €642,120 (2014 – €451,524). Therefore, a 1% change in the foreign exchange rate would have had a net impact on the consolidated financial statements of $9,651 (2014 – $6,338).

Expenses in US dollars for the year ended December 31, 2015 were approximately $873,240 (2014 – $1,814,555). Varying the US exchange rate for the year to reflect a 1% strengthening of the Canadian dollar would have decreased the net loss by approximately $12,085 (2014 – $20,045) assuming that all other variables remained constant. Expenses in euro dollars for the year ended December 31, 2015 were approximately €26,048 (2014 – €1,315,956). Varying the euro exchange rate for the year to reflect a 1% strengthening of the Canadian dollar would have decreased the net loss by approximately $391 (2014 –

$19,306) assuming that all other variables remained constant.

## 20. Events after the balance sheet date

On February 18, 2016, the Company completed the first tranche of a non-brokered private placement of 3,812,500 units at a price of $0.16 per unit for aggregate gross proceeds of approximately $610,000. 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 $0.25 at any time prior to expiry of two years from the closing date. In connection with the financing, the Company issued 148,300 compensation warrants and paid a finder's fee of 4% of the aggregate gross proceeds. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.25 prior to expiry on February 18, 2018.

On February 23, 2016, 120,000 common shares were issued on the exercise of warrants for gross proceeds of $12,000.

On February 25, 2016, the Company completed the second tranche of a non-brokered private placement of 875,000 units at a price of $0.16 per unit for aggregate gross proceeds of approximately $140,000. 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 $0.25 at any time prior to expiry of two years from the closing date. In connection with the financing, the Company issued 70,000 compensation warrants and paid a finder's fee of 8% of the aggregate gross proceeds. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.25 prior to expiry on February 25, 2018.

On March 13, 2016, 227,350 common shares were issued on the exercise of warrants for gross proceeds of $22,735.

On April 22, 2016, the Company issued 50,000 shares for settlement of a debt to a vendor at an issue price of $0.20 per share.