

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 and 2015

(UNAUDITED)

Two Carlson Parkway, Suite 165
Minneapolis, Minnesota, 55447
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These unaudited condensed consolidated interim financial statements of DiaMedica Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor.

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

	Note	As at June 30, 2016 $	As at December 31, 2015 $	As at June 30, 2016 $USD
				(note 2(c))
ASSETS				
Current				
Cash		**472,525**	229,930	363,229
Amounts receivable	4	**21,497**	13,309	16,525
Prepaid expenses		**44,259**	45,559	34,022
Total current assets		**538,281**	288,798	413,776
Property and equipment	5	**19,821**	19,835	15,236
Total non-current assets		**19,821**	19,835	15,236
Total assets		**558,102**	308,633	429,012
LIABILITIES				
Current				
Accounts payable and accrued liabilities	6,8	**1,882,640**	1,430,312	1,447,183
Deferred revenue	7	**20,833**	45,833	16,014
Total current liabilities		**1,903,473**	1,476,145	1,463,197
Other liabilities	8	**-**	538,664	-
Total non-current liabilities		**-**	538,664	-
Total liabilities		**1,903,473**	2,014,809	1,463,197
EQUITY				
Share capital	9	**40,234,897**	38,969,688	30,928,509
Warrants	9	**399,783**	1,048,765	307,313
Contributed surplus	9	**6,277,567**	5,393,416	4,825,557
Deficit		**(48,257,618)**	(47,118,045)	(37,095,564)
Total deficiency		**(1,345,371)**	(1,706,176)	(1,034,185)
Total liabilities and deficiency		**558,102**	308,633	429,012

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

Approved by the Board and authorized for issue on August 29, 2016:

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

See accompanying notes to the condensed consolidated interim financial statements

	Note	3 Months Ended June 30, 2016 $	3 Months Ended June 30, 2015 $	3 Months Ended June 30, 2016 $USD
				(note 2(c))
EXPENSES				
Research and development	11	**476,572**	252,124	366,340
General and administrative	12	**237,788**	150,421	182,787
		714,360	402,545	549,127
Finance costs (income)	13	**(23,080)**	10,580	(17,742)
Other income	7	**(12,500)**	-	(9,609)
Loss before income taxes		**678,780**	413,125	521,776
Income tax expense	10	**4,779**	3,395	3,674
Net loss and comprehensive loss for the period		**683,559**	416,520	525,450
Basic and diluted loss per common share		**0.01**	0.01	0.01

	Note	6 Months Ended June 30, 2016 $	6 Months Ended June 30, 2015 $	6 Months Ended June 30, 2016 $USD
				(note 2(c))
EXPENSES				
Research and development	11	**787,582**	638,763	605,413
General and administrative	12	**409,201**	277,646	314,552
		1,196,783	916,409	919,965
Finance costs (income)	13	**(40,918)**	52,685	(31,454)
Other income	7	**(25,000)**	-	(19,217)
Loss before income taxes		**1,130,865**	969,094	869,294
Income tax expense	10	**8,708**	9,530	6,694
Net loss and comprehensive loss for the period		**1,139,573**	978,624	875,988
Basic and diluted loss per common share		**0.01**	0.01	0.01

See accompanying notes to the condensed consolidated interim financial statements

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 9)		(note 9)				
Balance, December 31, 2014	62,025,430	37,460,220	6,916,966	1,261,678	4,619,504	(45,116,221)	(1,774,820)
Net loss and comprehensive loss for the period	-	-	-	-	-	(978,624)	(978,624)
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	-	-	642,735	36,831	-	-	36,831
Warrants expired	-	-	(1,066,730)	(278,629)	278,629	-	-
Share-based compensation	-	-	-	-	107,821	-	107,821
Total transactions with owners of the Company	15,750,000	1,226,326	4,451,005	(26,344)	386,450	-	1,586,432
Balance, June 30, 2015	77,775,430	38,686,546	11,367,971	1,235,334	5,005,953	(46,094,845)	(1,167,012)

	Share capital		Warrants		Contributed		
	Number	Amount	Number	Amount	surplus	Deficit	Total
	#	$	#	$	$	$	$
	(note 9)		(note 9)				
Balance, December 31, 2015	82,275,430	38,969,688	14,373,237	1,048,765	5,393,416	(47,118,045)	(1,706,176)
Net loss and comprehensive loss for the period	-	-	-	-	-	(1,139,573)	(1,139,573)
Transactions with owners of the Company, recognized directly in equity							
Units issued, net of issue costs	4,687,500	486,981	2,343,750	191,017	-	-	677,998
Units issued, settlement of debt	50,000	10,000	-	-	-	-	10,000
Compensation warrants issued	-	-	218,300	30,239	-	-	30,239
Shares issued on exercise of warrants	3,319,050	768,228	(3,319,050)	(172,073)	-	-	596,155
Warrants expired	-	-	(6,328,587)	(698,165)	698,165	-	-
Share-based compensation	-	-	-	-	185,986	-	185,986
Total transactions with owners of the Company	8,056,550	1,265,209	(7,085,587)	(648,982)	884,151	-	1,500,378
Balance, June 30, 2016	90,331,980	40,234,897	7,287,650	399,783	6,277,567	(48,257,618)	(1,345,371)

See accompanying notes to the condensed consolidated interim financial statements

	Note	Six Months Ended June 30, 2016 $	Six Months Ended June 30, 2015 $
OPERATING ACTIVITIES			
Net loss and comprehensive loss for the period		**(1,139,573)**	(978,624)
Adjustments for items not affecting cash			
Share-based compensation		**185,986**	107,821
Depreciation of property and equipment	5	**1,279**	3,640
Gain on sale of property and equipment		**(507)**	-
Interest on other liabilities		**16,196**	-
Unrealized foreign exchange loss (gain) on other liabilities		**(23,921)**	20,871
Changes in non-cash working capital items			
Amounts receivable		**(8,188)**	(6,470)
Prepaid expenses		**1,300**	6,605
Accounts payable and accrued liabilities	6,8	**(68,611)**	(194,102)
Deferred revenue	7	**(25,000)**	-
Cash used in operating activities		**(1,061,039)**	(1,040,259)
FINANCING ACTIVITIES			
Units issued, net of cash issue costs	9	**708,237**	1,478,611
Issue of common shares on exercise of warrants	9	**596,155**	-
Repayment of other liabilities	8	**-**	(103,806)
Cash provided by financing activities		**1,304,392**	1,374,805
INVESTING ACTIVITIES			
Proceeds on disposition of property and equipment	5	**(758)**	(2,354)
Cash used in investing activities		**(758)**	(2,354)
Net increase in cash during the period		**242,595**	332,192
Cash, beginning of the period		**229,930**	236,567
Cash, end of period		**472,525**	568,759
Supplemental cash flow information			
Common share purchase warrants issued as agent's consideration	9	**30,239**	36,831

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 *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 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 accordance with International Accounting Standard 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS have been omitted or condensed. As a result, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited comparative consolidated financial statements as at and for the year ended December 31, 2015 (the "annual consolidated financial statements").

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors of the Company for issuance on August 29, 2016.

(b) Basis of measurement and going concern

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis.

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. 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 $48.3 million, a net asset deficiency of $1.3 million and a working capital deficiency of $1.3 million as of June 30, 2016. 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 has taken 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. 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. 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 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 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 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 statement of financial position 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.

Convenience translation into US$

The US$ amounts provided in the Condensed Consolidated Interim Statements of Financial Position and Condensed Consolidated Interim 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 0.7742 CAD$ to 1 US$, which is the exchange rate published by the Bank of Canada as of June 30, 2016. Such presentation is not in accordance with IFRS and should not be construed as a representation that the CAD$ amounts shown could be readily converted, realized, or settled in US$ at this or any other rate.

(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, and the valuation of share-based compensation and warrants.

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.

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, 2015 and have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements, except as noted below.

New standards and interpretations not yet effective

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1")

The IASB issued amendments to IAS 1 as part of its initiative to improve presentation and disclosure in financial reports. These amendments do not require any significant change to current practice, but are intended to facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016 and were adopted by the Company in these condensed consolidated interim financial statements. The adoption of the amendments was not material to these condensed consolidated interim financial statements.

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.

4. Amounts receivable

	June 30, 2016	December 31, 2015
	$	$
Other receivables	**-**	525
Taxes receivable	**21,497**	12,784
	21,497	13,309

5. Property and equipment

	Computer and office equipment
	$
Cost	
Balance, December 31, 2014	41,386
Additions	9,702
Disposals	(2,225)
Balance, December 31, 2015	48,863
Additions	2,834
Disposals	(2,076)
Balance, June 30, 2016	49,621
Accumulated depreciation	
Balance, December 31, 2014	23,322
Depreciation	5,706
Balance, December 31, 2015	29,028
Disposals	(507)
Depreciation	1,279
Balance, June 30, 2016	29,800
Net carrying amounts	
December 31, 2015	19,835
June 30, 2016	19,821

6. Accounts payable and accrued liabilities

	June 30, 2016	December 31, 2015
	$	$
Trade and other payables (note 8)	**1,283,255**	933,021
Accrued liabilities	**378,765**	305,464
Due to related parties (note 15)	**220,620**	191,827
	1,882,640	1,430,312

7. 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.

8. 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 accreted 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.

Future principal and interest payments on the liability as at June 30, 2016 and December 31, 2015 and reflecting the €379,922 at face value, are as follows:

	June30, 2016 €	**June30, 2016 $**	December31, 2015 €	December31, 2015 $
Amounts due in 2016	**255,175**	**366,279**	250,494	376,467
Amounts due in 2017	**379,922**	**545,340**	379,922	570,985
	635,097	**911,619**	630,416	947,452
Less unrecognized interest	**(16,237)**	**(23,307)**	(30,368)	(45,640)
Total principle and interest	**618,860**	**888,312**	600,048	901,812
Amounts were recorded in financial statements as follows:				
Included in accounts payable	**618,860**	**888,312**	241,631	363,148
Included in other liabilities	-	-	358,417	538,664
	618,860	**888,312**	600,048	901,812

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 six months ended June 30, 2016

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

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 ($560,188 net of cash 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 $0.25 at any time prior to expiry on February 18, 2018. 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.

The $0.16 unit issue price was allocated to common shares in the amount of $0.12 per common share and the unit warrants were allocated a price of $0.04 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $403,335 was allocated to common shares and $156,853 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 0.4%; expected volatility 192%; and average expected life of 24 months.

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 ($117,810 net of cash 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 $0.25 at any time prior to expiry of February 25, 2018. 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.

The $0.16 unit issue price was allocated to common shares in the amount of $0.11 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, $83,645 was allocated to common shares and $34,165 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 0.5%; expected volatility 192%; and average expected life of 24 months.

During the six months ended June 30, 2016, 3,319,050 common shares were issued on the exercise of warrants for gross proceeds of $596,155 and 6,328,587 warrants expired unexercised.

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.

(c) Weighted average number of shares

The weighted average number of shares for the three and six months ended June 30, 2016 was 87,794,038 and 86,114,280 respectively (2015 – 69,204,001 and 66,231,231, respectively). 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) Warrants

The following table shows the number of warrants outstanding, the exercise prices, and the number of common shares issuable on exercise of the warrants as at June 30, 2016:

Expiry Date	Exercise Price $	Warrants End of Period #
November 25, 2016	$0.20	4,500,000
November 25, 2016	$0.10	225,600
February 18, 2018	$0.25	2,054,550
February 25, 2018	$0.25	507,500
		7,287,650

(e) 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.

(f) 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 six months ended June 30, 2016 (2015 – 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.

(g) 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 six months ended June 30, 2016 and 2015 were as follows:

	2016 Number of Options	**2016 Weighted average exercise price**	2015 Number of Options	2015 Weighted average exercise price
Balance, beginning of period	**6,412,000**	**$0.49**	4,573,000	$0.99
Granted	**500,000**	**$0.16**	-	-
Expired/cancelled	**(380,000)**	**$1.35**	(400,000)	$0.42
Forfeited	**-**	**-**	(642,500)	$1.10
Balance, end of period	**6,532,000**	**$0.42**	3,530,500	$1.04
Options exercisable, end of period	**3,353,666**	**$0.66**	3,088,666	$1.07

For the six months ended June 30, 2016, 500,000 (2015 – *nil*) options were granted to non-employees for services. The weighted average grant date fair value of these options was $0.07 (2015 – $*nil*).

The following table reflects stock options outstanding at June 30, 2016:

	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	4,904,000	8.5 years	$0.14	1,800,667	$0.12
$0.51-$1.00	225,000	7.8 years	$0.75	149,999	$0.76
$1.01-$1.50	853,000	6.1 years	$1.11	853,000	$1.11
$1.51-$1.70	550,000	5.8 years	$1.69	550,000	$1.69
	6,532,000	7.9 years	$0.42	3,353,666	$0.66

During the six months ended June 30, 2016, the Company issued 500,000 (2015 – 100,000) stock options with a fair value of $33,406 (2015 – $8,005). The weighted average grant-date fair value of the stock options granted during the six months ended June 30, 2016 was $0.07 (2015 – $*nil).*

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2016	December 31, 2015
Expected option life	**4.6 years**	4.4 years
Risk free interest rate	**0.6%**	0.8%
Dividend yield	***nil***	*nil*
Expected volatility	**115%**	113%

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.

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

10. 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 six months ended June 30, 2016 represents estimated taxes owed in the United States.

11. Research and development

Components of research and development expenses for the three months ended June 30, 2016 and 2015 were as follows:

	2016	2015
	$	$
Research and development programs, excluding the below	**287,603**	87,912
Salaries, fees, and short-term benefits	**158,653**	128,918
Share-based compensation	**28,511**	34,825
Depreciation of property and equipment	**1,805**	469
	476,572	252,124

Components of research and development expenses for the six months ended June 30, 2016 and 2015 were as follows:

	2016	2015
	$	$
Research and development programs, excluding the below	**418,859**	199,605
Salaries, fees, and short-term benefits	**296,739**	375,675
Share-based compensation	**70,705**	59,843
Depreciation of property and equipment	**1,279**	3,640
	787,582	638,763

12. General and Administrative

Components of general and administrative expenses for the three months ended June 30, 2016 and 2015 were as follows:

	2016	2015
	$	$
General and administrative, excluding the below	**154,629**	112,636
Salaries, fees, and short-term benefits	**29,249**	19,484
Share-based compensation	**53,910**	18,301
	237,788	150,421

Components of general and administrative expenses for the six months ended June 30, 2016 and 2015 were as follows:

	2016	2015
	$	$
General and administrative, excluding the below	**231,128**	195,740
Salaries, fees, and short-term benefits	**62,791**	33,927
Share-based compensation	**115,282**	47,979
	409,201	277,646

13. Finance costs (income)

Finance costs (income) for the three months ended June 30, 2016 and 2015 was as follows:

	2016	2015
	$	$
Interest expense	**9,310**	-
Interest income	**(347)**	(162)
Bank charges	**1,842**	2,613
Net foreign currency loss (gain)	**(33,885)**	8,129
	(23,080)	10,580

Finance costs (income) for the six months ended June 30, 2016 and 2015 was as follows:

	2016	2015
	$	$
Interest expense	**31,638**	-
Interest income	**(755)**	(2,033)
Bank charges	**2,948**	3,677
Net foreign currency loss (gain)	**(74,749)**	51,041
	(40,918)	52,685

14. Commitments and contingencies

As at June 30, 2016 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 $214,717 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 $31,995 over the next 12 months, $32,957 from 13-24 months, and $22,404 from 25 to 36 months. As at June 30, 2016, the Company has future commitments totaling $87,356 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 condensed consolidated interim financial statements with respect to these indemnification obligations.

15. Related parties

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

Compensation for key management personnel of the Company for the three months ended June 30, 2016 and 2015 was as follows:

	2016	2015
	$	$
Salaries, fees, and short-term benefits	**134,411**	153,447
Share-based compensation	**52,516**	(47,608)
	186,927	105,839

Compensation for key management personnel of the Company for the six months ended June 30, 2016 and 2015 was as follows:

	2016	2015
	$	$
Salaries, fees, and short-term benefits	**255,105**	290,895
Share-based compensation	**119,733**	(6,738)
	374,838	284,157

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 June 30, 2016, the key management personnel control 3.9% (2015 – 4.3%) 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 6 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 August 22, 2016, the Company completed the first tranche of a USD$4 million non-brokered private placement of 20,000,000 common shares. The first tranche consists of 5,000,000 common shares at a price of USD$0.20 (approximately CAD$0.26) per common share for aggregate gross proceeds of USD$1,000,000 (approximately CAD$1,293,700).