CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 and 2016

DiaMedica THERAPEUTICS

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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 THERAPEUTICS INC.
Condensed Consolidated Interim Statements of Financial Position
Amounts in United States Dollars
(Unaudited)

	Note	As at June 30, 2017 $	As at December 31, 2016 $
ASSETS			
Current			
Cash		**1,530,227**	1,736,361
Amounts receivable	4	**347,539**	51,974
Prepaid expenses		**58,285**	65,222
Total current assets		**1,936,051**	1,853,557
Property and equipment	5	**20,849**	19,395
Total non-current assets		**20,849**	19,395
Total assets		**1,956,900**	1,872,952
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	**1,018,849**	626,966
Total current liabilities		**1,018,849**	626,966
Warrant liability	7	**206,144**	-
Total non-current liabilities		**206,144**	-
Total liabilities		**1,224,993**	626,966
EQUITY			
Share capital	8	**42,723,157**	40,993,676
Warrants	8	**161,430**	161,430
Contributed surplus	8	**6,318,722**	6,211,111
Deficit		**(49,087,639)**	(46,707,308)
Accumulated other comprehensive income		**616,237**	587,077
Total equity		**731,907**	1,245,986
Total liabilities and equity		**1,956,900**	1,872,952

Going concern (note 2(b))

Approved by the Board and authorized for issue on August 29, 2017:

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

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA THERAPEUTICS INC.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Amounts in United States Dollars
(Unaudited)

	Note	3 Months Ended June 30, 2017 $	3 Months Ended June 30, 2016 As restated – note 2(c) $
EXPENSES			
Research and development	10	**912,674**	357,867
General and administrative	11	**186,169**	178,560
		1,098,843	536,427
Finance costs (income)	12	**21,986**	(17,331)
Other income		-	(9,387)
Gain on revaluation of warrant liability	7	**(58,925)**	-
Loss before income taxes		**1,061,904**	509,709
Income tax expense	9	**9,524**	3,589
Net loss for the period		**1,071,428**	513,298
OTHER COMPREHENSIVE LOSS (INCOME)			
Foreign currency translation adjustment		**(13,054)**	11,884
Comprehensive loss for the period		**1,058,374**	525,182
Basic and diluted loss per common share		**0.01**	0.00

	Note	6 Months Ended June 30, 2017 $	6 Months Ended June 30, 2016 As restated – note 2(c) $
EXPENSES			
Research and development	10	**2,069,664**	584,089
General and administrative	11	**321,733**	303,242
		2,391,397	887,331
Finance costs (income)	12	**30,166**	(30,306)
Other income		-	(18,479)
Gain on revaluation of warrant liability	7	**(58,925)**	-
Loss before income taxes		**2,362,638**	838,546
Income tax expense	9	**17,693**	6,447
Net loss for the period		**2,380,331**	844,993
OTHER COMPREHENSIVE LOSS (INCOME)			
Foreign currency translation adjustment		**(29,160)**	79,537
Comprehensive loss for the period		**2,351,171**	924,530
Basic and diluted loss per common share		**0.02**	0.02

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA THERAPEUTICS INC.
Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)
Amounts in United States Dollars
(Unaudited)

DiaMedica THERAPEUTICS

	Share capital		Warrants		Contributed	Accumulated Other Comprehensive		
	Number	Amount Restated note 2(c)	Number	Amount Restated note 2(c)	surplus Restated note 2(c)	Income (Loss) Restated note 2(c)	Deficit Restated note 2(c)	Total Restated note 2(c)
	#	$	#	$	$	$	$	$
	(note 8)		(note 8)					
Balance, January 1, 2016	82,275,430	36,374,849	14,373,237	946,010	5,181,533	748,986	(44,484,164)	(1,232,786)
Units issued, net of issue costs	4,687,500	355,365	2,343,750	139,385	-	-	-	494,750
Units issued, settlement of debt	50,000	7,890	-	-	-	-	-	7,890
Shares issued on exercise of warrants	3,319,050	601,536	(3,319,050)	(140,312)	-	-	-	461,224
Compensation warrants issued	-	-	218,300	22,044	-	-	-	22,044
Warrants expired	-	-	(6,328,587)	(660,386)	660,386	-	-	-
Share-based compensation	-	-	-	-	137,223	-	-	137,223
Foreign currency translation	-	-	-	-	-	(79,537)	-	(79,537)
Net loss for the period	-	-	-	-	-	-	(844,993)	(844,993)
Balance, June 30, 2016	**90,331,980**	**37,339,640**	**7,287,650**	**306,741**	**5,979,142**	**669,449**	**(45,329,157)**	**(1,034,185)**

	Share capital		Warrants		Contributed	Accumulated Other Comprehensive		
	Number	Amount	Number	Amount	surplus	Income (Loss)	Deficit	Total
	#	$	#	$	$	$	$	$
Balance, January 1, 2017	110,520,960	40,993,676	2,562,050	161,430	6,211,111	587,077	(46,707,308)	1,245,986
Units issued, net of issue costs	10,526,315	1,717,968	-	-	-	-	-	1,717,968
Shares issued on exercise of options	60,000	11,513	-	-	(4,764)	-	-	6,749
Share-based compensation	-	-	-	-	112,375	-	-	112,375
Foreign currency translation	-	-	-	-	-	29,160	-	29,160
Net loss for the period	-	-	-	-	-	-	(2,380,331)	(2,380,331)
Balance, June 30, 2017	**121,107,275**	**42,723,157**	**2,562,050**	**161,430**	**6,318,722**	**616,237**	**(49,087,639)**	**731,907**

See accompanying notes to the condensed consolidated interim financial statements

DIAMEDICA THERAPEUTICS INC.
Condensed Consolidated Interim Statements of Cash Flows
Amounts in United States Dollars
(Unaudited)

	Note	6 Months Ended June 30, 2017 $	6 Months Ended June 30, 2016 As restated – note 2(c) $
OPERATING ACTIVITIES			
Net loss for the period		**(2,380,331)**	(844,993)
Adjustments for items not affecting cash			
Share-based compensation	8	**112,375**	137,223
Depreciation of property and equipment	5	**1,329**	558
Gain on sale of property and equipment	5	-	717
Interest expense		-	23,232
Gain on revaluation of warrant liability	7	**(58,925)**	-
Unrealized foreign exchange gain		**(23,855)**	(18,379)
Changes in non-cash working capital items			
Amounts receivable		**(295,565)**	(6,909)
Prepaid expenses		**6,937**	(1,104)
Accounts payable and accrued liabilities	6	**391,883**	(62,122)
Deferred revenue		-	(17,102)
Cash used in operating activities		**(2,246,152)**	(788,879)
FINANCING ACTIVITIES			
Units issued, net of cash issue costs	8	**1,983,037**	516,794
Issue of common shares on exercise of options	8	**6,749**	-
Issue of common shares on exercise of warrants	8	-	461,224
Cash provided by financing activities		**1,989,786**	978,018
INVESTING ACTIVITIES			
Acquisition of property and equipment	5	**(2,783)**	(2,179)
Cash provided by investing activities		**(2,783)**	(2,179)
Effects of foreign exchange on cash		**53,015**	10,135
Net increase (decrease) in cash during the period		**(259,149)**	186,960
Cash, beginning of the period		**1,736,361**	166,134
Cash, end of period		**1,530,227**	363,229
Supplemental cash flow information			
Common share purchase warrants issued as agents consideration	8	-	22,044

See accompanying notes to the condensed consolidated interim financial statements.

1. Corporate information

DiaMedica Therapeutics Inc. (formerly DiaMedica Inc.) (the "Company" or "DiaMedica") is a clinical-stage biopharmaceutical company that is developing innovative treatments where there is significant unmet clinical need or where no current therapies are available with a focus on neurological and kidney diseases.

The Company is a listed company incorporated under the *Canada Business Corporations Act* and domiciled in British Columbia, Canada, whose shares are publicly traded on the TSX Venture Exchange in Canada under the symbol "DMA" and the OTCQB in the United States ("U.S.") under the symbol "DMCAF". The Company's registered office is at 301 – 1665 Ellis Street, Kelowna, British Columbia V1Y 2B3. The Company's U.S. office is DiaMedica USA Inc., Two Carlson Parkway, Suite 260, Minneapolis, Minnesota 55447. The Company's Australian office is DiaMedica Australia Pty Ltd, 58 Gipps Street, Collingwood VIC 3066.

2. Basis of presentation

(a) Statement of compliance

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

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The board of directors approved the unaudited condensed consolidated interim financial statements on August 29, 2017. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company's audited annual consolidated financial statements for the year ending December 31, 2017, could result in a restatement of these unaudited condensed consolidated interim financial statements.

(b) Basis of measurement and going concern

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

These unaudited condensed consolidated interim financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities and commitments as they come due for the foreseeable future. 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 and has an accumulated deficit of $49.1 million as at June 30, 2017. 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. These circumstances cast significant doubt as to the ability of the Company to continue as a going concern and hence the appropriateness ultimately of the use of accounting principles applicable to a going concern. The Company is actively pursuing additional financing to further develop the Company's scientific initiatives.

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, raising additional capital on favorable terms or that these or 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

During the fourth quarter of 2016, the Company adopted the United States dollar (USD$) as the presentation currency for the consolidated entity to better reflect the total business activities of its entities and improve investors' ability to compare the Company's total financial results with other publicly traded businesses in the Company's industry (most of which are based in the United States and report in USD$). The unaudited condensed consolidated interim financial statements are presented in US dollars and prior year comparable information is restated to reflect the change in presentation currency. There were no changes to the measurement basis of the financial statement line items as a result of the change in presentation currency.

In accordance with IAS 21, the financial statements for all periods presented have been translated to the new USD$ presentation currency whereby assets and liabilities have been translated from their functional currency at the exchange rate in effect at the close of each consolidated statement of financial position date (0.7513 as at June 30, 2017 and 0.7687 as at June 30, 2016); income and expenses for each consolidated statement of loss and comprehensive loss were translated at the average exchange rate in effect during each reporting period and equity transactions were translated at historic rates during the period incurred. The average exchange rate used to translate the statements of comprehensive income and loss is 0.7522 for the three and six-month period ended June 30, 2017 and 0.7509 for the three and six-month period ended June 30, 2016. All resulting exchange differences have been recognized in other comprehensive loss (income) and accumulated as a separate component of equity (foreign currency translation disclosed as accumulated other comprehensive income on the consolidated statement of financial position).

(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 the Company. The Canadian functional currency was determined by assessing the currency that mainly influences costs and the currency in which the Company 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, 2016 and have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements, except as noted below. The statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016.

Warrant liability

The Company has issued warrants that are denominated in US dollars, and as the Company's functional currency is the Canadian dollar, the warrants are considered a derivative financial instrument. Accordingly, the warrants are recognized as a financial liability measured at fair value through profit and loss. At each reporting date, the Company records the changes in the fair value in the consolidated statement of loss and comprehensive loss for the applicable reporting period.

New standards and interpretations adopted

IAS 7, *Disclosure Initiative* ("IAS 7")

Amendments to IAS 7 require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The adoption of these amendments were not material to these condensed consolidated interim financial statements.

New standards and interpretations not yet effective

IFRS 2, *Share Based Payments* ("IFRS 2")

The amendments to IFRS 2 provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The extent of the impact of adoption of the amendments on the unaudited condensed consolidated interim financial statements has not yet been determined.

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

IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement* establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The extent of the impact of adoption of the amendments on the unaudited condensed consolidated interim financial statements has not yet been determined.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 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 extent of the impact of adoption of the standard on the unaudited condensed consolidated interim financial statements has not yet been determined.

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

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 on the unaudited condensed consolidated interim financial statements has not yet been determined.

4. Amounts receivable

	June 30, 2017	December 31, 2016
	$	$
Tax credits receivable	**234,279**	-
Sales taxes receivable	**113,260**	51,974
	347,539	51,974

Tax credits receivable are for a research and development tax offset program established by the Australian Tax Office for eligible research and development activities. The Company recognized $234,279 of tax credits in the three months ended June 30, 2017 related to this incentive program following acceptance by the Australian Tax Office of the Company's fiscal 2016 claim. The Company has not recognized tax credits at June 30, 2017 in its financial statements in accordance with the Company's accounting policies.

5. Property and equipment

	Computer and office equipment $
Cost	
Balance, December 31, 2015	35,305
Additions	8,393
Disposals	(1,500)
Balance, December 31, 2016	42,198
Additions	2,783
Balance, June 30, 2017	44,981
Accumulated depreciation	
Balance, December 31, 2015	20,973
Disposals	(366)
Depreciation	2,196
Balance, December 31, 2016	22,803
Depreciation	1,329
Balance, June 30, 2017	24,132
Net carrying amounts	
December 31, 2016	19,395
June 30, 2017	20,849

6. Accounts payable and accrued liabilities

	June 30, 2017 $	December 31, 2016 $
Trade and other payables	**553,517**	326,627
Accrued liabilities	**389,671**	245,333
Due to related parties (note 14)	**75,661**	55,006
	1,018,849	626,966

7. Warrant liability

	Warrants #	$
Balance as at December 31, 2016	-	-
Issued in private placement (note 8)	**5,263,158**	265,069
Gain on revaluation of warrant liability		(58,925)
Balance as at June 30, 2017	**5,263,158**	206,144

On April 17, 2017, the Company completed a non-brokered private placement of 10,526,315 units with each unit consisting of one common share and one half of one common share purchase warrant. As the warrants are denominated in US dollars, and the Company's functional currency is the Canadian dollar, the warrants are recognized as a financial liability measured at fair value through profit and loss. The Company allocated $1,717,968 of the net proceeds to common shares and the balance of $265,069 to the warrant liability (note 8). The fair value of the warrants was determined using a barrier option pricing model with the following assumptions: expected volatility of 92%, risk-free interest rate of 0.73%, expected life of 2 years and an exchange

rate of 1.3289.

At June 30, 2017, the warrant liability was revalued to $206,144. The fair value of the warrant liability was determined using a barrier option pricing model with the following assumptions: expected volatility of 85%, risk-free interest rate of 1.04%, expected life of 1.8 years and an exchange rate of 1.2977. Accordingly, the Company recorded a revaluation of the warrant liability of $58,925.

8. 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, 2017

On April 17, 2017, the Company completed a non-brokered private placement of 10,526,315 units at a price of $0.19 per unit for aggregate gross proceeds of approximately $2,000,000 and $1,983,037 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 $0.23 at any time prior to expiry on April 17, 2019. Warrants are subject to early expiry, at the option of the Company, if on any date the volume-weighted average closing trading price of the common shares on any recognized Canadian stock exchange equals or exceeds $0.30 for a period of 10 consecutive trading days.

The $0.19 unit issue price was allocated to common shares in the amount of $0.16 per common share and the unit warrants were allocated a price of $0.03 per half-warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, $1,717,968 was allocated to common shares and $265,069 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. As the warrants are denominated in US dollars, and the Company's functional currency is the Canadian dollar, the warrants are recognized as a financial liability measured at fair value through profit and loss (note 7).

During the six months ended June 30, 2017, 60,000 common shares were issued on the exercise of options for gross proceeds of $6,749.

Common shares issued – for the six months ended June 30, 2016

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 CAD$0.16 per unit for aggregate gross proceeds of approximately $445,544 and $409,160 net of issue costs (CAD$610,000 and CAD$560,188 respectively). 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 CAD$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 CAD$0.25 prior to expiry on February 18, 2018.

The CAD$0.16 unit issue price was allocated to common shares in the amount of CAD$0.12 per common share and the unit warrants were allocated a price of CAD$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, $294,597 (CAD$403,335) was allocated to common shares and $114,563 (CAD$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 CAD$0.16 per unit for aggregate gross proceeds of approximately $101,710 and $85,590 net of issue costs (CAD$140,000 and CAD$117,810 respectively). 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 CAD$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 CAD$0.25 prior to expiry on February 25, 2018.

The CAD$0.16 unit issue price was allocated to common shares in the amount of CAD$0.11 per common share and the unit warrants were allocated a price of CAD$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, $60,768 (CAD$83,645) was allocated to common shares and $24,822 (CAD$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 $461,224, and 6,328,587 warrants expired unexercised.

(c) Weighted average number of shares

The weighted average number of shares for the three and six months ended June 30, 2017 was 119,140,821 and 114,857,354 respectively (2016 – 87,794,038 and 86,114,280 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 (excluding the warrants classified as the warrant liability), the exercise prices, and the total on exercise of the warrants as at June 30, 2017:

Expiry Date	Warrants #	Exercise Price $
February 18, 2018	2,054,550	CAD$0.25
February 25, 2018	507,500	CAD$0.25
	2,562,050	

(e) Shareholder rights plan

The Company adopted a shareholder rights plan agreement (the "Plan"). 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 is set to expire at 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 (20%) 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 (50%) 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 sixty (60) days. If at the end of sixty (60) days at least 50 percent (50%) 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 ten (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 2012 Deferred Share Unit Plan (the "2012 DSU Plan") promotes greater alignment of long-term interests between non-executive directors and executive officers of the Company and its shareholders through the issuance of deferred share units ("DSUs"). Since the value of a DSU increases or decreases with the market price of the common shares, DSUs reflect a philosophy of aligning the interests of directors and executive officers by tying compensation to share price performance. For the six months ended June 30, 2017, no units were issued (2016 – nil). The Company has reserved for issuance up to 2,000,000 common shares under the 2012 DSU Plan and as at June 30, 2017, 423,676 DSUs (June 30, 2016 – 74,556) were outstanding.

(g) Stock option plan

The Company has adopted a stock option plan as approved by the shareholders on October 23, 2015. The stock option plan reserves 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.

The following table reflects changes in the number of options outstanding during the six months ended June 30, 2017 and 2016 were as follows:

	2017 Number of Options	**2017 Weighted average exercise price in CAD$**	2016 Number of Options	2016 Weighted average exercise price in CAD$
Balance, beginning of period	**8,557,000**	**$0.38**	6,412,000	$0.49
Granted	**2,552,689**	**$0.31**	500,000	$0.16
Exercised	**(60,000)**	**$0.15**	-	-
Expired/cancelled	**(1,125,000)**	**$0.81**	(380,000)	$1.35
Forfeited	**(324,000)**	**$0.15**	-	-
Balance, end of period	**9,600,689**	**$0.32**	6,532,000	$0.42
Options exercisable, end of period	**3,890,690**	**$0.42**	3,353,666	$0.66

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 June 30, 2017:

	Stock options outstanding			Stock options exercisable	
Range of exercise prices in CAD$	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price in CAD$	Exercisable number	Weighted average exercise price in CAD$
$0.10-$0.13	1,100,000	8.2 years	$0.10	1,075,000	$0.10
$0.14-$0.16	2,670,000	8.4 years	$0.15	1,335,000	$0.15
$0.17-$0.26	2,689,355	9.5 years	$0.26	476,856	$0.26
$0.27-$0.51	2,138,334	10.0 years	$0.32	13,334	$0.27
$0.52-$1.70	1,003,000	5.4 years	$1.21	990,500	$1.22
	9,600,689	8.7 years	$0.32	3,890,690	$0.42

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, 2017	June 30, 2016
Expected option life	**4.5 years**	4.6 years
Risk free interest rate	**1.1%**	0.6%
Dividend yield	***nil***	*nil*
Expected volatility	**118%**	115%

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 six months ended June 30, 2017, the Company issued 2,552,689 (2016 – 500,000) stock options with a fair value of CAD$609,692 (2016 – CAD$33,406). The weighted average grant-date fair value of the stock options granted during the six months ended June 30, 2017 was CAD$0.24 (2016 – CAD$0.07*)*.

9. 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 three and six months ended June 30, 2017 and 2016 represents estimated taxes expense in the United States.

10. Research and development

Components of research and development expenses for the three months ended June 30, 2017 and 2016 were as follows:

	2017 $	2016 As restated – note 2(c) $
Research and development programs, excluding the below	**798,352**	215,967
Salaries, fees, and short-term benefits	**309,455**	119,136
Share-based compensation	**31,580**	21,409
Depreciation of property and equipment	**1,967**	1,355
Government assistance	**(228,680)**	-
	912,674	357,867

Components of research and development expenses for the six months ended June 30, 2017 and 2016 were as follows:

	2017 $	2016 As restated – note 2(c) $
Research and development programs, excluding the below	**1,735,043**	311,440
Salaries, fees, and short-term benefits	**501,938**	219,577
Share-based compensation	**60,034**	52,100
Depreciation of property and equipment	**1,329**	972
Government assistance	**(228,680)**	-
	2,069,664	584,089

11. General and Administrative

Components of general and administrative expenses for the three months ended June 30, 2017 and 2016 were as follows:

	2017 $	2016 As restated – note 2(c) $
General and administrative, excluding the below	**104,627**	116,114
Salaries, fees, and short-term benefits	**46,290**	21,964
Share-based compensation	**35,252**	40,482
	186,169	178,560

Components of general and administrative expenses for the six months ended June 30, 2017 and 2016 were as follows:

	2017	2016
		As restated – note 2(c)
	$	$
General and administrative, excluding the below	**162,504**	171,758
Salaries, fees, and short-term benefits	**106,888**	46,361
Share-based compensation	**52,341**	85,123
	321,733	303,242

12. Finance costs (income)

Finance costs (income) for the three months ended June 30, 2017 and 2016 was as follows:

	2017	2016
		As restated – note 2(c)
	$	$
Interest expense	-	6,991
Interest income	**(1,073)**	(261)
Bank charges	**949**	1,383
Net foreign currency loss (gain)	**22,110**	(25,444)
	21,986	(17,331)

Finance costs (income) for the six months ended June 30, 2017 and 2016 was as follows:

	2017	2016
		As restated – note 2(c)
	$	$
Interest expense	-	23,232
Interest income	**(2,243)**	(558)
Bank charges	**1,856**	2,187
Net foreign currency loss (gain)	**30,553**	(55,167)
	30,166	(30,306)

13. Commitments and contingencies

As at June 30, 2017 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 $55,124 over the next 12 months and $62,793 from 13-24 months. The Company has renewed its commitment with the leasing company for DiaMedica's U.S. office. As at June 30, 2017, the Company has future commitments totaling $329,384 over five years 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 unaudited condensed consolidated interim financial statements with respect to these indemnification obligations.

14. Related parties

The Company has two subsidiaries, DiaMedica USA Inc. and DiaMedica Australia Pty Ltd. All intercompany balances have been eliminated.

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, 2017 and 2016 was as follows:

	2017	2016 As restated – note 2(c)
	$	$
Salaries, fees, and short-term benefits	**273,004**	103,773
Share-based compensation	**56,337**	41,018
	329,341	144,791

Compensation for key management personnel of the Company for the six months ended June 30, 2017 and 2016 was as follows:

	2017	2016 As restated – note 2(c)
	$	$
Salaries, fees, and short-term benefits	**447,965**	191,563
Share-based compensation	**95,306**	89,910
	543,271	281,473

Executive officers and directors participate in the stock option plan and certain officers participate in the Company's health plan. As at June 30, 2017, the key management personnel control 2.8% (December 31, 2016 – 3.0%) 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 vacation, expense reimbursement, and directors' fees. There have been no guarantees provided or received for any related party receivables or payables.