



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2016 and 2015**



DiaMedica
THERAPEUTICS

Two Carlson Parkway, Suite 165
Minneapolis, Minnesota 55447
www.diamedica.com



KPMG LLP
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of DiaMedica Therapeutics Inc.

We have audited the accompanying consolidated financial statements of DiaMedica Therapeutics Inc., which comprise the consolidated statements of financial position as at December 31, 2016, December 31, 2015 and January 1, 2015, the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years ended December 31, 2016 and December 31, 2015, 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.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of DiaMedica Therapeutics Inc. as at December 31, 2016, December 31, 2015 and January 1, 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and December 31, 2015 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 Therapeutics Inc. has experienced operating losses and cash outflows from operations since incorporation and has an accumulated deficit of \$46.7 million at December 31, 2016. 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 significant doubt upon DiaMedica Therapeutic Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 27, 2017

Winnipeg, Canada

	Note	As at December 31, 2016 \$	As at December 31, 2015 \$	As at January 1, 2015 \$
ASSETS				
Current				
Cash		1,736,361	166,134	203,920
Amounts receivable	4	51,974	9,616	8,406
Prepaid expenses		65,222	32,918	53,876
Total current assets		1,853,557	208,668	266,202
Property and equipment	5	19,395	14,332	15,571
Total non-current assets		19,395	14,332	15,571
Total assets		1,872,952	223,000	281,773
LIABILITIES				
Current				
Accounts payable and accrued liabilities	6,8	626,966	1,033,462	1,811,660
Deferred revenue	7	-	33,116	-
Total current liabilities		626,966	1,066,578	1,811,660
Other liabilities	8	-	389,208	-
Total non-current liabilities		-	389,208	-
Total liabilities		626,966	1,455,786	1,811,660
EQUITY (DEFICIENCY)				
Share capital	9	40,993,676	36,374,849	35,177,774
Warrants	9	161,430	946,010	1,218,849
Contributed surplus	9	6,211,111	5,181,533	4,462,695
Deficit		(46,707,308)	(44,484,164)	(42,890,270)
Accumulated other comprehensive income		587,077	748,986	501,065
Total equity (deficiency)		1,245,986	(1,232,786)	(1,529,887)
Total liabilities and equity		1,872,952	223,000	281,773

Going concern (note 2(b))

Approved by the Board and authorized for issue on April 27, 2017:

(signed) Michael Giuffre, Director

(signed) James Parsons, Director

See accompanying notes to the consolidated financial statements

	Note	Year Ended December 31, 2016 \$	Year Ended December 31, 2015 \$
EXPENSES			
Research and development	11	1,763,415	979,030
General and administrative	12	718,045	467,768
		2,481,460	1,446,798
Finance costs (income)	13	(58,728)	136,658
Other income	7	(221,902)	(3,318)
Loss before income taxes		2,200,830	1,580,138
Income tax expense	10	22,314	13,756
Net loss for the year		2,223,144	1,593,894
OTHER COMPREHENSIVE LOSS (INCOME)			
Foreign currency translation adjustment	3(b)	161,909	(247,921)
Comprehensive loss for the year		2,385,053	1,345,973
Basic and diluted loss per common share		0.02	0.02

See accompanying notes to the consolidated financial statements

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



	<u>Share capital</u>		<u>Warrants</u>		<u>Contributed surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>				
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>				
	(note 9)		(note 9)					
Balance, January 1, 2015	62,025,430	35,177,774	6,916,966	1,218,849	4,462,695	501,065	(42,890,270)	(1,529,887)
Common shares issued, net of issue costs	6,000,000	425,500	-	-	-	-	-	425,500
Units issued, net of issue costs	14,250,000	771,575	9,375,000	252,255	-	-	-	1,023,830
Compensation warrants issued	-	-	902,150	55,460	-	-	-	55,460
Warrants expired	-	-	(2,820,879)	(580,554)	580,554	-	-	-
Share-based compensation	-	-	-	-	138,284	-	-	138,284
Foreign currency translation	-	-	-	-	-	247,921	-	247,921
Net loss for the year	-	-	-	-	-	-	(1,593,894)	(1,593,894)
Balance, December 31, 2015	82,275,430	36,374,849	14,373,237	946,010	5,181,533	748,986	(44,484,164)	(1,232,786)
Common shares issued, net of issue costs	20,000,000	3,605,051	-	-	-	-	-	3,605,051
Units issued, net of issue costs	4,687,500	355,365	2,343,750	139,385	-	-	-	494,750
Common shares issued, settlement of debt	50,000	7,890	-	-	-	-	-	7,890
Compensation warrants issued	-	-	218,300	22,044	-	-	-	22,044
Common shares issued, warrant exercise	3,482,150	617,212	(3,482,150)	(146,432)	-	-	-	470,780
Common shares issued, DSU redemption	25,880	33,309	-	-	(33,309)	-	-	-
Warrants expired	-	-	(10,891,087)	(799,577)	799,577	-	-	-
Share-based compensation	-	-	-	-	263,310	-	-	263,310
Foreign currency translation	-	-	-	-	-	(161,909)	-	(161,909)
Net loss for the year	-	-	-	-	-	-	(2,223,144)	(2,223,144)
Balance, December 31, 2016	110,520,960	40,993,676	2,562,050	161,430	6,211,111	587,077	(46,707,308)	1,245,986

See accompanying notes to the consolidated financial statements

	Note	Year Ended December 31, 2016 \$	Year Ended December 31, 2015 \$
OPERATING ACTIVITIES			
Net loss for the period		(2,223,144)	(1,593,894)
Adjustments for items not affecting cash			
Share-based compensation	9	263,310	138,284
Depreciation of property and equipment	5	2,196	4,543
Gain on sale of property and equipment		(366)	-
Research and development	8	-	(46,713)
Interest on other liabilities		48,375	43,738
Unrealized foreign exchange loss (gain) on other liabilities		(169,583)	136,316
Interest paid		(25,517)	(20,824)
Changes in non-cash working capital items			
Amounts receivable		(42,358)	(1,210)
Prepaid expenses		(32,304)	20,958
Accounts payable and accrued liabilities	6,8	(599,065)	(125,370)
Deferred revenue	7	(33,116)	33,116
Other liabilities	8	(211,607)	(152,277)
Cash used in operating activities		(3,023,179)	(1,563,333)
FINANCING ACTIVITIES			
Issue of common shares, net of cash issue costs	9	3,605,051	480,960
Units issued, net of cash issue costs	9	516,794	1,023,829
Issue of common shares on exercise of warrants, net of cash issue costs	9	470,780	-
Cash provided by financing activities		4,592,625	1,504,789
INVESTING ACTIVITIES			
Acquisition of property and equipment, net of disposals	5	(6,893)	(3,304)
Cash used in investing activities		(6,893)	(3,304)
Effects of foreign exchange on cash		7,674	24,062
Net increase (decrease) in cash during the year		1,570,227	(37,786)
Cash, beginning of the year		166,134	203,920
Cash, end of year		1,736,361	166,134
Supplemental cash flow information			
Common share purchase warrants issued as agent's consideration	9	22,044	55,460

See accompanying notes to the consolidated 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 165, 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

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, 2017, 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.

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 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 \$46.7 million as at December 31, 2016. 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 consolidated 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

The Company’s functional currency is Canadian dollars (“CAD\$”). The Company has retroactively changed its presentation currency to the United States dollar (“USD\$”) from CAD\$. The change is detailed in Note 3(b).

(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 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 subsidiaries, DiaMedica USA Inc. and DiaMedica Australia Pty Ltd. 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 subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The financial statements of the 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. DiaMedica Australia Pty Ltd was incorporated on July 11, 2016. All intercompany transactions and balances have been eliminated.

(b) Foreign currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the CAD\$. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

During the fourth quarter of 2016, the Company has adopted the USD\$ as the presentation currency for the consolidated entity to better reflect the total business activities of its entities and improves 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\$). In making this change to the USD\$ presentation currency, the Company followed the guidelines in IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years presented have been translated to the new USD\$ presentation currency whereby assets and liabilities have been translated from their functional currency at the closing exchange rate in effect at the end of each consolidated statement of financial position date; 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. 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). In addition to the comparative financial statements, the Company has presented a third statement of financial position as at January 1, 2015. The historic translation had an impact of \$501,065 as accumulated other comprehensive income as at January 1, 2015.

(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 does not have any financial assets 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 cash and 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 and 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 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 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.

The costs of servicing the Company's patents are expensed as incurred.

(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 decreased 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.

Investment tax credits

The Company is eligible to receive certain refundable investment tax credits, which are earned as a result of qualifying research and development expenditures and are recognized when the expenditures are made and their realization is reasonably assured. They are applied to reduce research and development expense in the year recognized.

(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 adopted

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 consolidated financial statements. The adoption of the amendments was not material to these consolidated financial statements.

(m) New standards and interpretations not yet effective

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 Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. Early application is permitted. The extent of the impact of adoption of the amendments has not yet been determined.

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 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 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 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 has not yet been determined.

4. Amounts receivable

	December 31, 2016	December 31, 2015
	\$	\$
Other receivables	-	379
Sales taxes receivable	51,974	9,237
	51,974	9,616

5. Property and equipment

	Computer and office equipment \$
Cost	
Balance, December 31, 2014	29,903
Additions	7,010
Disposals	(1,608)
Balance, December 31, 2015	35,305
Additions	8,393
Disposals	(1,500)
Balance, December 31, 2016	42,198
Accumulated depreciation	
Balance, December 31, 2014	16,850
Depreciation	4,123
Balance, December 31, 2015	20,973
Disposals	(366)
Depreciation	2,196
Balance, December 31, 2016	22,803
Net carrying amounts	
December 31, 2015	14,332
December 31, 2016	19,395

6. Accounts payable and accrued liabilities

	December 31, 2016	December 31, 2015
	\$	\$
Trade and other payables (note 8)	326,627	674,148
Accrued liabilities	245,333	220,712
Due to related parties (note 15)	55,006	138,602
	626,966	1,033,462

7. Deferred revenue

In the fourth quarter of 2015, the Company received a non-refundable upfront payment of \$39,099 (CAD\$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 recorded the payment as deferred revenue and recognized it in other income over the twelve-month exclusivity period. In accordance with the agreement, the Company sold its patent and technology rights of its DM-71 product for type 2 diabetes to the third party during the year ended December 31, 2016 for an additional \$188,594 (CAD\$250,000) and a royalty stream linked to future sales.

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 has paid the vendor €381,860 which was interest bearing at a 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 was measured at amortized cost at the end of each reporting period and accreted to its face value using the market interest rate of 6%. Under the terms of the agreement, these payment terms were accelerated and are now due. The deferred payments are unsecured.

The liability as at December 31, 2016 and December 31, 2015 and reflecting payments made are as follows:

	December 31, 2016	December 31, 2016	December 31, 2015	December 31, 2015
	€	\$	€	\$
Amounts due in 2016	-	-	250,494	272,014
Amounts due in 2017	189,961	200,459	379,922	412,561
	189,961	200,459	630,416	684,575
Less unrecognized interest	-	-	(30,368)	(32,977)
Total principle and interest	189,961	200,459	600,048	651,598
Amounts were recorded in financial statements as follows:				
Included in accounts payable and accrued liabilities	(189,961)	(200,459)	(241,631)	(262,390)
Other liabilities	-	-	358,417	389,208

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 year ended December 31, 2016

On September 8, 2016, the Company completed the second tranche of a non-brokered private placement of 15,000,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$3,000,000 (\$2,614,282 net of issue costs).

On August 22, 2016, the Company completed the first tranche of a non-brokered private placement of 5,000,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$1,000,000 (\$990,769 net of issue costs).

On April 22, 2016, the Company issued 50,000 common shares for settlement of a debt to a vendor at an issue price of CAD\$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 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 year ended December 31, 2016, 25,880 common shares were issued on the redemption of deferred share units and 3,482,150 common shares were issued on the exercise of warrants for gross proceeds of \$617,212, and 10,891,087 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 CAD\$0.10 per share for aggregate gross proceeds of approximately \$472,086 and \$425,500 net of issue costs (CAD\$600,000 and CAD\$554,205 respectively). 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 CAD\$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 CAD\$0.10 per unit for aggregate gross proceeds of approximately \$796,611 and \$719,929 net of issue costs (CAD\$975,000 and CAD\$922,094 respectively). 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 CAD\$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 CAD\$0.10 prior to expiry on June 19, 2016.

The CAD\$0.10 unit issue price was allocated to common shares in the amount of CAD\$0.08 per common share and the unit warrants were allocated a price of CAD\$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, \$547,772 (CAD\$701,547) was allocated to common shares and \$172,157 (CAD\$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 CAD\$0.10 per unit for aggregate gross proceeds of approximately \$337,686 and \$303,901 net of issue costs (CAD\$450,000 and CAD\$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 CAD\$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 CAD\$0.10 prior to expiry on November 25, 2016.

The CAD\$0.10 unit issue price was allocated to common shares in the amount of CAD\$0.07 per common share and the unit warrants were allocated a price of CAD\$0.03 per warrant. The costs of the issue were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, \$223,803 (CAD\$307,622) was allocated to common shares and \$80,098 (CAD\$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.

During the year ended December 31, 2015, 2,820,879 warrants expired unexercised.

(c) Weighted average number of shares

The weighted average number of shares for the year ended December 31, 2016 was 94,715,025 (2015 – 72,494,608). 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 December 31, 2016:

Expiry Date	Exercise Price CAD\$	Warrants #
February 18, 2018	\$0.25	2,054,550
February 25, 2018	\$0.25	507,500
		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 years ended December 31, 2016, a total of 375,000 units were issued (2015 – nil) in the amount of \$53,167 (2015 – nil) for payment of directors’ fees. The Company has reserved for issuance up to 2,000,000 common shares under the 2012 DSU Plan and 423,676 DSUs (2015 – 74,556) were outstanding as at December 31, 2016.

(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 year ended December 31, 2016 and 2015 were as follows:

	2016 Number of Options	2016 Weighted average exercise price in CAD\$	2015 Number of Options	2015 Weighted average exercise price in CAD\$
Balance, beginning of year	6,412,000	\$0.49	5,153,000	\$1.01
Granted	2,775,000	\$0.24	4,404,000	\$0.14
Expired/cancelled	(480,000)	\$0.72	(1,170,000)	\$1.04
Forfeited	(150,000)	\$1.31	(1,975,000)	\$0.73
Balance, end of year	8,557,000	\$0.38	6,412,000	\$0.49
Options exercisable, end of year	4,041,833	\$0.58	1,899,167	\$1.26

For the year ended December 31, 2016, 500,000 (2015 – 1,250,000) options were granted to non-employees for services. The weighted average grant date fair value of these options was CAD\$0.07 (2015 – CAD\$0.12).

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, 2016:

Range of exercise prices in CAD\$	Stock options outstanding			Stock options exercisable	
	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	8.7years	\$0.10	1,058,333	\$0.10
\$0.14-\$0.16	3,304,000	7.2years	\$0.15	1,205,500	\$0.15
\$0.17-\$0.48	2,525,000	8.9years	\$0.25	187,500	\$0.17
\$0.49-\$1.11	653,000	4.8years	\$0.96	615,500	\$0.97
\$1.12-\$1.70	975,000	3.0years	\$1.46	975,000	\$1.46
	8,557,000	7.2years	\$0.38	4,041,833	\$0.58

The following table reflects stock options outstanding at December 31, 2015:

Range of exercise prices in CAD\$	Stock options outstanding			Stock options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price in CAD\$	Exercisable number	Weighted average exercise price in CAD\$
\$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 fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2016	December 31, 2015
Expected option life	4.6 years	4.4 years
Risk free interest rate	0.8%	0.8%
Dividend yield	<i>nil</i>	<i>nil</i>
Expected volatility	113%	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.

During the year ended December 31, 2016, the Company issued 2,725,000 (2015 – 4,404,000) stock options with a fair value of \$290,862 (2015 – \$349,375). The weighted average grant-date fair value of the stock options granted during the year ended December 31, 2016 was CAD\$0.14 (2015 – CAD\$0.14).

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 year ended December 31, 2016 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, 2016	December 31, 2015
	\$	\$
Non-capital losses carried forward	6,916,591	6,052,523
Research and development expenditures	697,639	674,438
Share issue costs	190,795	156,460
Intangible assets and other	211,189	241,070
Property and equipment	663	641
	8,016,877	7,125,132

- (b) As at December 31, 2016, the company has available research and development expenditures for income purposes of approximately \$3,075,758 (2015 – \$2,973,342), which may be carried forward indefinitely to reduce future years' taxable income.
- (c) As at December 31, 2016, the company has non-capital income tax loss carry-forwards of approximately \$25,618,104 (2015 – \$22,416,751), available to reduce future years' taxable income with expiry dates ranging from 2027 to 2036.

- (d) As at December 31, 2016, the company has approximately \$491,800 (2015 – \$475,424) for non-refundable Federal investment tax credits available to offset future income taxes with expiry dates ranging from 2020 to 2034.
- (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:

	2016	2015
	\$	\$
Statutory income tax rate	27.0%	27.0%
Income tax recovery based on statutory rate	(594,224)	(426,637)
Stock-based compensation	70,052	37,436
Share issue costs	(87,608)	(40,538)
Other	(257,651)	78,146
Change in unrecognized temporary difference	891,745	365,349
Income tax expense	22,314	13,756

11. Research and development

Components of research and development expenses for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
	\$	\$
Research and development programs, excluding the below	1,159,412	415,703
Salaries, fees, and short-term benefits	514,673	459,568
Share-based compensation	87,119	99,216
Depreciation of property and equipment	2,211	4,543
	1,763,415	979,030

12. General and Administrative

Components of general and administrative expenses for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
	\$	\$
General and administrative, excluding the below	436,522	359,467
Salaries, fees, and short-term benefits	103,849	68,865
Share-based compensation	177,674	39,436
	718,045	467,768

13. Finance costs (income)

Finance costs (income) for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
	\$	\$
Interest expense	48,375	43,738
Interest income	(1,729)	(1,922)
Bank charges	4,292	4,829
Net foreign currency loss (gain)	(109,666)	90,013
	(58,728)	136,658

14. Commitments and contingencies

As at December 31, 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 \$368,721 over the next 12 months, \$25,520 from 13-24 months, and \$10,811 from 25 to 36 months. These contracts relate to preclinical, clinical, and development activities including with the clinical research organizations in connection with their agreement to conduct the bridging study and with the leasing company for DiaMedica's U.S. office. The Company's largest commitment is with the clinical site for its Phase I bridging study. As at December 31, 2016, the Company has future commitments totaling \$147,791 (AUD\$204,442) 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 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 years ended December 31, 2016 and 2015 was as follows:

	2016	2015
	\$	\$
Salaries, fees, and short-term benefits	523,041	430,898
Share-based compensation	134,626	35,761
	657,667	466,659

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, 2016, the key management personnel control 3.0% (2015 – 4.1%) 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. Operating segment

The Company has a single operating segment, the discovery and development of innovative treatments where there is no significant unmet clinical need or where no current therapies are available with a focus on neurological and kidney diseases. The majority of the Company's operations and employees are in the United States, while the intellectual property resides in Canada. All non-current assets of \$19,395 (2015 – \$14,332) are held in the United States.

17. 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.

18. 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, 2016, 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 depositing its money in immediately callable investments. 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 savings accounts which have a variable rate of interest.

(ii) Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates of its U.S. and Australian subsidiaries. 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.

Currency risk as at December 31, 2016 were as follows:

	USD\$	AUD\$	EUR €
Cash	1,270,385	227,572	-
Accounts payable & accrued liabilities	(143,822)	(166,430)	(189,961)
Net exposure	1,126,563	61,142	(189,961)
Net exposure in CAD\$	1,512,636	59,351	(269,156)
10% change in foreign exchange in USD\$	112,656	4,420	(20,046)

Currency risk as at December 31, 2015 were as follows:

	USD\$	AUD\$	EUR €
Cash	138,285	-	-
Accounts payable & accrued liabilities	(259,881)	-	(642,120)
Net exposure	(121,596)	-	(642,120)
Net exposure in CAD\$	(168,289)	-	(965,042)
10% change in foreign exchange in USD\$	(12,160)	-	(69,728)

19. Events after the balance sheet date

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 proceeds of approximately \$2,000,000. Each unit consists 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 \$0.23 at any time prior to expiry on April 17, 2019. 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 \$0.30 per common share for any 10 consecutive trading days.