



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2017 and 2016**



DiaMedica
THERAPEUTICS

Two Carlson Parkway, Suite 260
Minneapolis, Minnesota 55447
www.diamedica.com



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

Telephone (204) 957-1770
Fax (204) 957-0808
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, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



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, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(b) in the consolidated financial statements which indicates that DiaMedica Therapeutics Inc. has experienced operating losses and cash outflows from operations since incorporation and has an accumulated deficit of \$50.9 million at December 31, 2017. 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 30, 2018

Winnipeg, Canada

	Note	As at December 31, 2017 \$	As at December 31, 2016 \$
ASSETS			
Current			
Cash		1,360,232	1,736,361
Amounts receivable	4	85,705	51,974
Prepaid expenses		63,772	65,222
Total current assets		1,509,709	1,853,557
Deposits	5	271,074	-
Property and equipment	6	37,483	19,395
Total non-current assets		308,557	19,395
Total assets		1,818,266	1,872,952
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7	913,424	626,966
Total current liabilities		913,424	626,966
Warrant liability	8	112,856	-
Total non-current liabilities		112,856	-
Total liabilities		1,026,280	626,966
EQUITY (DEFICIENCY)			
Share capital	9	44,336,310	40,993,676
Warrants	9	156,017	161,430
Contributed surplus	9	6,571,534	6,211,111
Deficit		(50,882,759)	(46,707,308)
Accumulated other comprehensive income		610,884	587,077
Total equity		791,986	1,245,986
Total liabilities and equity		1,818,266	1,872,952

Going concern (Note 2(b))

Approved by the Board and authorized for issue on April 30, 2018:

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

See accompanying notes to the consolidated financial statements

DIAMEDICA THERAPEUTICS INC.
Consolidated Statements of Loss and Comprehensive Loss
Amounts in United States Dollars



	Note	Year Ended December 31, 2017 \$	Year Ended December 31, 2016 \$
EXPENSES			
Research and development	11	3,271,110	1,763,415
General and administrative	12	900,079	718,045
		4,171,189	2,481,460
Finance (income) expense, net	13	63,574	(58,728)
Other income		-	(221,902)
Gain on revaluation of warrant liability, net	8	(93,604)	-
Loss before income taxes		4,141,159	2,200,830
Income tax expense	10	34,292	22,314
Net loss for the year		4,175,451	2,223,144
OTHER COMPREHENSIVE LOSS (INCOME)			
Foreign currency translation adjustment	3(b)	(23,807)	161,909
Comprehensive loss for the year		4,151,644	2,385,053
Basic and diluted loss per common share		0.04	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>Income (Loss)</u>	<u>\$</u>		
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>		<u>\$</u>	<u>\$</u>		
	(Note 9)		(Note 9)						
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 issuance costs	20,000,000	3,605,051	-	-	-	-	-	-	3,605,051
Units issued, net of issuance 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
Common shares issued on exercise of warrants	3,482,150	617,212	(3,482,150)	(146,432)	-	-	-	-	470,780
Compensation warrants issued	-	-	218,300	22,044	-	-	-	-	22,044
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 adjustment	-	-	-	-	-	(161,909)	-	-	(161,909)
Net loss for the year	-	-	-	-	-	-	(2,223,144)	(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	
Units issued, net of issuance costs	14,150,723	2,532,816	-	-	-	-	-	-	2,532,816
Common shares issued on exercise of derivative warrants	2,631,579	782,979	-	-	-	-	-	-	782,979
Common shares issued on exercises of warrants	50,000	15,326	(50,000)	(5,413)	-	-	-	-	9,913
Shares issued on exercise of options	60,000	11,513	-	-	(4,764)	-	-	-	6,749
Share-based compensation	-	-	-	-	365,187	-	-	-	365,187
Foreign currency translation adjustment	-	-	-	-	-	23,807	-	-	23,807
Net loss for the year	-	-	-	-	-	-	(4,175,451)	(4,175,451)	(4,175,451)
Balance, December 31, 2017	127,413,262	44,336,310	2,512,050	156,017	6,571,534	610,884	(50,882,759)	791,986	

See accompanying notes to the consolidated financial statements

	Note	Year Ended December 31, 2017 \$	Year Ended December 31, 2016 \$
OPERATING ACTIVITIES			
Net loss for the year		(4,175,451)	(2,223,144)
Adjustments for items not affecting cash			
Share-based compensation	9	365,187	263,310
Gain on revaluation of warrant liability, net	8	(93,604)	-
Depreciation of property and equipment	6	3,343	2,196
Unrealized foreign exchange gain		(43,618)	(169,583)
Gain on sale of property and equipment		-	(366)
Interest expense on other liabilities		-	48,375
Interest paid		-	(25,517)
Changes in non-cash working capital items			
Amounts receivable		(33,731)	(42,358)
Prepaid expenses		1,450	(32,304)
Deposit	5	(271,074)	-
Accounts payable and accrued liabilities	7	286,458	(599,065)
Deferred revenue		-	(33,116)
Other liabilities	7	-	(211,607)
Cash used in operating activities		(3,961,040)	(3,023,179)
FINANCING ACTIVITIES			
Units issued, net of cash issuance costs	9	2,916,992	516,794
Issue of common shares on exercise of warrants	9	615,176	470,780
Issue of common shares on exercise of options	9	6,749	-
Issue of common shares, net of cash issuance costs	9	-	3,605,051
Cash provided by financing activities		3,538,917	4,592,625
INVESTING ACTIVITIES			
Acquisition of property and equipment, net of disposals	6	(21,431)	(6,893)
Cash used in investing activities		(21,431)	(6,893)
Effects of foreign exchange on cash		67,425	7,674
Net increase (decrease) in cash during the year		(376,129)	1,570,227
Cash, beginning of the year		1,736,361	166,134
Cash, end of year		1,360,232	1,736,361
Supplemental cash flow information			
Common share purchase warrants issued as agent's consideration	9	-	22,044

See accompanying notes to the consolidated financial statements.

1. Corporate information

DiaMedica Therapeutics 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

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 30, 2018, the date the Board of Directors approved the financial statements.

(b) Basis of measurement and going concern

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

These consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. There are material uncertainties that cast significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since incorporation and has an accumulated deficit of \$50.9 million as at December 31, 2017. The Company’s cash resources at December 31, 2017 are not sufficient for the next twelve months of planned operations; additional funding will be required to continue the Company’s research and development and other operating activities as it has not reached successful commercialization of its product. These circumstances cast significant doubt as to the ability of the Company to continue as a going concern and hence the appropriateness 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.

After the balance sheet date, the Company successfully raised additional cash (Note 19). During March 2018, the Company completed a brokered and non-brokered private placement of 26,489,284 units at a price of \$0.245 per unit for aggregate gross proceeds of approximately \$6.3 million (CAD\$8.3 million). During February 2018, 2,425,125 common shares were issued on the exercise of warrants for gross proceeds of approximately \$483,000 (CAD\$606,000).

However, notwithstanding the additional cash raised after the balance sheet date, the Company’s future operations are expected to continue to be dependent upon its ability to secure additional funds, negotiate license agreements with partners and/or generate product revenues in order to fully execute its business plan. 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\$"). During the year ended December 31, 2016, the Company retroactively changed its presentation currency to the United States dollar ("USD\$") from CAD\$. (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 dollar is the functional currency that represents the economic effects of the underlying transactions, events and conditions and various other factors including the currency of historical and future expenditures and the currency in which funds from financing activities are mostly generated by the Company. A change in the functional currency occurs only when there is a material change in the underlying transactions, events and condition. A change in functional currency could result in material differences in the amounts recorded in the consolidated statement of loss and comprehensive loss for foreign exchange gains and losses.

Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation, warrants and warrant liability 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 behaviors, and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments, warrants and warrant liability.

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 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 applied the change retrospectively. In accordance with IAS 21, the financial statements have been translated to the 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 and presented as "Accumulated other comprehensive income," a separate component of equity.

(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 when they have 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 impairment losses, if any. The Company has classified cash, amounts receivable and deposits 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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. The Company has issued warrants that are considered to be derivative liabilities due to the warrants being exercisable in a currency (USD\$) other than the Company's functional currency (CAD\$). Accordingly, the warrants are recognized at fair value through profit and loss and measured at fair value at each reporting date, with changes in fair value included in the consolidated statement of loss and comprehensive loss for the applicable reporting period.

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 as other financial liabilities.

Derecognition

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

Equity

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

(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.

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	Straight-line over 3 to 10 years

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.

Patents

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 it 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.

(i) 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 collectability is reasonably assured. They are applied to reduce research and development expense in the year recognized.

(j) 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 re-measured each vesting and reporting date until fully vested.

(k) 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, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(l) Loss per share

Basic 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.

(m) New standards and interpretations adopted

IAS 7, Statement of Cash Flows ("IAS 7")

Effective for years beginning on or after January 1, 2017, IAS 7 was amended to 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. Adoption of this amendment did not have a material impact on the consolidated financial statements.

(n) 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 Company does not expect the amendments to have a material impact on the consolidated financial statements.

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. The Company is in the process of evaluating the impact that the amendments may have on the consolidated financial statements.

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. Entities can apply one of two transition methods: retrospective or modified retrospective. Retrospective application requires applying the new guidance to each prior reporting period presented whereas the modified retrospective approach results in the cumulative effect, if any, of adoption being recognized at the date of initial application. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company will adopt this accounting standard on January 1, 2018 using the modified retrospective approach. The Company is currently in the process of evaluating the impact of this standard. The standard is not expected

to have a significant impact on the consolidated financial statements of the Company as there are currently no product sales or significant sources of revenue.

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, 2017	December 31, 2016
	\$	\$
Sales taxes receivable	85,705	51,974
	85,705	51,974

5. Deposits

	December 31, 2017	December 31, 2016
	\$	\$
Advances to vendors	271,074	-
	271,074	-

The Company has advanced funds to a vendor engaged to support the performance of the REMEDY Phase 2 clinical trial. The funds advanced will be held, interest free, by this vendor until the completion of the trial and applied to final trial invoices or refunded. This deposit is classified as non-current as the trial is not expected to be completed during 2018.

6. 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	21,431
Disposals	-
Balance, December 31, 2017	63,629

	Computer and office equipment \$
Accumulated depreciation	
Balance, December 31, 2015	20,973
Depreciation	2,196
Disposals	(366)
Balance, December 31, 2016	22,803
Depreciation	3,343
Balance, December 31, 2017	26,146
Net carrying amounts	
December 31, 2016	19,395
December 31, 2017	37,483

7. Accounts payable and accrued liabilities

	December 31, 2017 \$	December 31, 2016 \$
Trade and other payables	636,484	326,627
Accrued liabilities	229,156	245,333
Due to related parties (Note 15)	47,784	55,006
	913,424	626,966

8. Warrant liability

	Warrants #	Warrants \$
Balance as at December 31, 2016	-	-
Issued in private placement April 2017 (Note 9)	5,263,158	267,283
Loss on revaluation of warrant liability prior to exercise	-	88,149
Reclassification to share capital on exercise of warrants	(2,631,579)	(177,716)
Reclassification to gain on revaluation of warrant liability on expiration of warrants	(2,631,579)	(177,716)
Issued in private placement December 2017 (Note 9)	1,812,204	116,893
Gain on revaluation of warrant liability	-	(4,037)
Balance as at December 31, 2017	1,812,204	112,856

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. 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.

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 with changes recognized in profit and loss. The Company allocated \$1,715,754 of the net proceeds to common shares and the balance of \$267,283 to the warrant liability (Note 9). 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%, and expected life of 2 years.

On October 27, 2017, after the early expiry provision of the warrants was triggered, the warrant holder exercised 2,631,579 warrants for gross proceeds of \$605,263 and allowed the remaining 2,631,579 warrants to expire. At October 27, 2017, the warrant liability was revalued to \$355,432. The fair value of the warrant liability was determined using a barrier option pricing model with the following assumptions: expected volatility of 79%, risk-free interest rate of 1.41%, and expected life of 1.5 years. Accordingly, the Company recorded a cumulative loss on revaluation of the warrant liability of \$88,149 prior to the exercise of the warrants. The warrant liability associated with the warrants exercised, \$177,716, was reclassified to share capital. The warrant liability associated with the warrants which expired, \$177,716, was reclassified to gain on revaluation of warrant liability.

On December 18, 2017, the Company completed a non-brokered private placement of 3,624,408 units with each unit consisting 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 \$0.35 at any time prior to expiry on December 19, 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 \$0.60 for a period of 21 consecutive trading days

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 with changes recognized in profit and loss. The Company allocated \$817,062 of the net proceeds to common shares and the balance of \$116,893 to the warrant liability (Note 9). The fair value of the warrants was determined using a barrier option pricing model with the following assumptions: expected volatility of 84%, risk-free interest rate of 1.56%, and expected life of 2 years.

At December 31, 2017, the warrant liability was revalued to \$112,856. The fair value of the warrant liability was determined using a barrier option pricing model with the following assumptions: expected volatility of 82%, risk-free interest rate of 1.67%, and expected life of 2 years. Accordingly, the Company recorded a gain on revaluation of the warrant liability of \$4,037 at December 31, 2017.

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, if any, 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, 2017

On December 18, 2017, the Company completed a non-brokered private placement of 3,624,408 units at a price of \$0.26 (CAD\$0.335) per unit for aggregate gross proceeds of approximately \$944,000, \$934,000 net of issuance costs. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.35 at any time prior to expiry on December 19, 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 \$0.60 for a period of 21 consecutive trading days.

The \$0.26 unit issue price was allocated first to the warrants as a financial liability and the remainder to the common shares. As a result, the unit warrants were allocated a price of \$0.03 per half-warrant and the remaining amount of \$0.23, was allocated to each common share. The costs of the issuance were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, \$817,062 was allocated to common shares and

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\$116,893 to the unit warrants, net of issuance costs. Assumptions used to determine the value of the unit warrants were: dividend yield 0%; risk-free interest rate 1.56%; expected volatility 84%; and average expected life of 2 years. 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 with changes recognized in profit and loss (Note 8).

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 issuance costs. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$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 first to the warrants as a financial liability and the remainder to the common shares. As a result, the unit warrants were allocated a price of \$0.03 per half-warrant and the remaining amount of \$0.16, was allocated to each common share. The costs of the issuance were allocated on a pro rata basis to the common shares and unit warrants. Accordingly, \$1,715,754 was allocated to common shares and \$267,283 to the unit warrants, net of issuance 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 2 years. 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 with changes recognized in profit and loss (Note 8).

During the year ended December 31, 2017, 50,000 common shares were issued on the exercise of warrants for gross proceeds of \$9,913 and 60,000 common shares were issued on the exercise of options for gross proceeds of \$6,749.

(c) 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 issuance 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 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 issuance 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 issuance 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 issuance 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 2 years.

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 (\$409,160 net of issuance 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 issuance 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 issuance 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 2 years.

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.

(d) Weighted average number of shares

The weighted average number of shares for the year ended December 31, 2017 was 118,715,801 (2016 – 94,715,025). 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.

(e) 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, 2017:

Expiry Date	Exercise Price CAD\$	Warrants #
February 18, 2018	\$0.25	2,039,550
February 25, 2018	\$0.25	472,500
		2,512,050

(f) 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 was renewed at the Company's annual meeting of shareholders in December 2017 and is set to expire at the close of the Company's annual meeting of shareholders in 2020.

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.

(g) 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 DSUs 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 year ended December 31, 2017, no units were issued (2016 – 375,000) in the amount of *nil* (2016 – \$53,167) 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 (2016 – 423,676) were outstanding at December 31, 2017.

(h) Stock option plan

DiaMedica has adopted a Stock Option Plan where the board of directors may from time to time, in their discretion, and in accordance with the TSX-V requirements, grant to directors, officers, management company employees, investor relations consultants and Consultants (as such terms are used in the Stock Option Plan) to DiaMedica, non-transferable options to purchase Common Shares. The shareholders approved the adoption of a stock option plan on September 22, 2011, and as amended and restated on October 23, 2015 and December 21, 2017, 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 2012 DSU Plan. Options granted vest at various rates and have terms of up to 10 years.

Changes in the number of options outstanding during the years ended December 31, 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 year	8,557,000	\$0.38	6,412,000	\$0.49
Granted	2,552,689	\$0.31	2,775,000	\$0.24
Exercised	(60,000)	\$0.15	-	-
Expired/cancelled	(1,449,000)	\$0.66	(480,000)	\$0.72
Forfeited	-	-	(150,000)	\$1.31
Balance, end of year	9,600,689	\$0.32	8,557,000	\$0.38
Options exercisable, end of year	5,264,857	\$0.37	4,041,833	\$0.58

For the year ended December 31, 2017, 177,689 (2016 – 500,000) options were granted to non-employees for

services. The weighted average grant date fair value of these options was CAD\$0.20 (2016 – CAD\$0.07).

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, 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	7.7 years	\$0.10	1,091,667	\$0.10
\$0.14-\$0.16	2,670,000	7.9 years	\$0.15	1,780,000	\$0.15
\$0.17-\$0.26	2,689,355	9.0 years	\$0.26	1,022,688	\$0.26
\$0.27-\$0.51	2,138,334	9.5 years	\$0.32	367,502	\$0.32
\$0.52-\$1.70	1,003,000	4.9 years	\$1.21	1,003,000	\$1.21
	9,600,689	8.7 years	\$0.32	5,264,857	\$0.37

The following table reflects stock options outstanding at December 31, 2016:

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	8.7 years	\$0.10	1,058,333	\$0.10
\$0.14-\$0.16	3,304,000	7.2 years	\$0.15	1,205,500	\$0.15
\$0.17-\$0.48	2,525,000	8.9 years	\$0.25	187,500	\$0.17
\$0.49-\$1.11	653,000	4.8 years	\$0.96	615,500	\$0.97
	8,557,000	7.2 years	\$0.38	4,041,833	\$0.58

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

	2017	2016
Expected option life	4.5 years	4.6 years
Risk free interest rate	1.1%	0.8%
Dividend yield	nil	nil
Expected volatility	118%	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, 2017, the Company issued 2,552,689 (2016 – 2,775,000) stock options with

a fair value of \$609,692 (2016 – \$290,862). The weighted average grant-date fair value of the stock options granted during the year ended December 31, 2017 was CAD\$0.24 (2016 – 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, 2017 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:

	2017	2016
	\$	\$
Non-capital losses carried forward	8,084,558	6,916,591
Research and development expenditures	886,808	697,639
Share issue costs	116,926	190,795
Patents and other	280,200	211,189
Property and equipment	-	663
	9,368,492	8,016,877

- (b) As at December 31, 2017, the company has available research and development expenditures for income purposes of approximately \$3,284,474 (2016 – \$3,075,758), which may be carried forward indefinitely to reduce future years’ taxable income.
- (c) As at December 31, 2017, the Company has non-capital income tax loss carry-forwards of approximately \$29,942,806 (2016 – \$25,618,104), available to reduce future years’ taxable income with expiry dates ranging from 2026 to 2037.
- (d) As at December 31, 2017, the Company has approximately \$525,172 (2016 – \$491,800) 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 year to the income tax expense is as follows:

	2017	2016
	\$	\$
Statutory income tax rate	27.0%	27.0%
Income tax recovery based on statutory rate	(1,118,113)	(594,224)
Stock-based compensation	102,897	70,052
Gain on revaluation of warrant liability	(26,499)	-
Australian research and development incentive	315,845	-
Share issue costs	(94,381)	(87,608)
Other	(497,072)	(257,651)
Change in unrecognized temporary differences	1,351,615	891,745
Income tax expense	34,292	22,314

11. Research and development

Components of research and development expenses for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
	\$	\$
Research and development programs, excluding the below	2,271,109	1,159,412
Salaries, fees, and short-term benefits	1,000,781	514,673
Share-based compensation	226,422	87,119
Depreciation of property and equipment	3,507	2,211
Government assistance	(230,709)	-
	3,271,110	1,763,415

12. General and administrative

Components of general and administrative expenses for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
	\$	\$
General and administrative, excluding the below	492,798	436,522
Salaries, fees, and short-term benefits	268,516	103,849
Share-based compensation	138,765	177,674
	900,079	718,045

13. Finance costs (income)

Finance costs (income) for the years ended December 31, 2017 and 2016 was as follows:

	2017	2016
	\$	\$
Interest expense	-	48,375
Interest income	(3,806)	(1,729)
Bank charges	4,770	4,292
Net foreign currency (gain) loss	62,610	(109,666)
	63,574	(58,728)

14. Commitments and contingencies

In the normal course of business, the Company incurs obligations to make future payments as it executes its business plan. As of December 31, 2017, the Company estimates that its outstanding commitments including research and development contracts and other commitments, that are known and committed, are approximately \$2.2 million over the next 12 months and approximately \$700,000 in the following 12 months. These contracts relate to preclinical, clinical, and development activities, including the clinical research organization conducting the Phase II clinical trial for acute ischemic stroke. These commitments are subject to significant change and the ultimate amounts due may be materially different as these obligations are affected by, among other factors, the number and pace of patients enrolled, the number of clinical study sites, amount of time to complete study enrollments and the time required to finalize the analysis and reporting of study results. These are generally

cancelable upon 30 days notice, with the Company's obligation then limited to costs incurred up to that date. The Company has renewed its commitment with the leasing company for DiaMedica's U.S. office for a term through August 2022. As at December 31, 2017, the Company has future commitments totaling approximately \$305,000 over the remainder of the lease of which \$62,000 is due over the next 12 months.

The Company has entered into a research, development, and license agreements whereby the Company receives research services and rights to proprietary technologies. Milestone and royalty payments that may become due under this agreement with such payments dependent upon, 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 have no limits. 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.

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, 2017 and 2016 was as follows:

	2017	2016
	\$	\$
Salaries, fees, and short-term benefits	792,206	523,041
Share-based compensation	319,503	134,626
	1,111,708	657,667

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, 2017, the key management personnel control 2.6% (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 7 relate to accrued bonuses, vacation payable, and accounts payable. There have been no guarantees provided or received for any related party receivables or payables.

16. Operating segment

The Company has a single operating segment, the discovery and development of 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 majority of the Company's operations and employees are in the United States, while the

intellectual property resides in Canada. Non-current assets of \$37,483 (2016 – \$19,395) are held in the United States and \$271,074 (2016 – *nil*) are held in Australia.

17. Management of capital

The Company defines its capital as share capital, 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, deposits, accounts payable and accrued liabilities and warrant liability. As at December 31, 2017, there were no significant differences between the carrying values of cash, amounts receivable, deposits and accounts payable and accrued liabilities and their estimated fair values due to their short-term nature. The fair value of the warrant liability is estimated using the barrier option pricing model incorporating various inputs including the underlying valuation and discount rate (Note 8).

Financial instruments recorded at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The warrant liability is measured at Level 2 of the fair value hierarchy.

Risk

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the 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 Company's accounts payable and accrued liabilities generally 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, 2017 were as follows:

	USD\$	AUD\$
Cash	252,172	350,599
Accounts payable and accrued liabilities	(213,296)	(439,029)
Net exposure	38,876	(88,430)
Net exposure in CAD\$	48,879	(86,882)
10% change in foreign exchange in USD\$	3,888	(6,910)

19. Events after the balance sheet date

On March 29, 2018, the Company completed, in two tranches, a brokered and non-brokered private placement of 26,489,284 units at a price of \$0.245(CAD\$0.31) per unit for aggregate gross proceeds of approximately \$6.3 million (CAD\$8.3 million). 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 \$0.35 at any time prior to expiry on March 19, 2020 and March 29, 2020 for Tranche 1 and Tranche 2, respectively. The warrants are subject to early expiry under certain conditions. 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 \$0.60 per common share for any 21 consecutive trading days. In connection with this offering, the Company paid aggregate finder's fees of approximately \$384,000 and issued an aggregate of 1,610,174 compensation warrants. Each compensation warrant entitles the holder to purchase one common share at \$0.245 for a period of 2 years from the closing of this offering, subject to acceleration on the same terms as the common share purchase warrants.

DIAMEDICA THERAPEUTICS INC.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

Amounts in United States Dollars



During February 2018, 2,425,125 common shares were issued on the exercise of warrants for gross proceeds of approximately \$483,000 (CAD\$606,000).

On April 17, 2018, the Compensation Committee of the Board of Directors awarded 3,336,000 stock options to various officers, directors and employees of the Company. The options were issued at CAD\$0.56 per share, the closing price of the Company's common stock on the date of grant, and have a ten-year term.