

DIAMEDICA INC

ANNUAL INFORMATION FORM

Except as otherwise indicated, all information in the Annual Information Form is presented as at and for the year ended December 31, 2013

April 30, 2014

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CURRENCY AND OTHER MEASUREMENTS

Unless otherwise indicated, all references to "dollars" or the use of the symbol "$" are to Canadian dollars, and all references to "US dollars" or "US$" are to United States dollars. Unless otherwise indicated, all references in this annual information form to "the Company", "DiaMedica", "we", "us", or "our" refers to DiaMedica Inc.

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts, included in this annual information form ("**Annual Information Form**" or "**AIF**") regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements.

The Company's statements of "belief" in respect of our drug candidates are based primarily upon our results derived to date from our preclinical and clinical research and development program. We also use the term "demonstrated" in this AIF to describe certain findings that we make arising from our research and development including any preclinical and clinical studies that we have conducted to date.

The Company believes that it has a reasonable scientific basis upon which we have made such statements of "belief" or arrived at such findings. It is not possible, however, to predict, based upon *in vitro* and/or animal studies whether a new therapeutic agent or a second generation compound(s) will be proved to be safe and/or effective in humans and no conclusions should be drawn in that regard from what we state has been demonstrated by us to date. We cannot assure you that the particular results expected by us will occur.

There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements or statements of "belief", including the factors discussed under "Risk Factors" and in other sections of this AIF. These factors and the other cautionary statements made in this AIF should be read as being applicable to all related forward-looking statements and statements of "belief" wherever they appear in this AIF.

Any forward-looking statements and statements of "belief" represent our estimates only as of the date of this AIF and should not be relied upon as representing our estimates as of any subsequent date. Except as required by law, the Company does not assume any obligation to update any forward-looking statements or statements of "belief". We disclaim any intention or obligation to update or revise any forward-looking statements or statements of "belief", whether as a result of new information, future events or otherwise except as otherwise required by law. The forward-looking statements contained in this AIF include, but are not limited to, statements regarding our:

- intention to commercialize our products for the treatment of diabetes and potential additional indications;
- intention to develop any of our drugs either on our own or in partnership with others;
- intention to carry out trials on our products for the treatment of diabetes and potential additional indications, and intention to publish the results thereof;
- intention to obtain regulatory approval for our products;
- expectations with respect to the cost of the testing and commercialization of our products;
- sales and marketing strategy;
- expectations regarding any future financings;
- anticipated sources of revenue;
- ability to obtain the substantial capital required to fund research and operations;
- intentions regarding the protection of our intellectual property;
- business strategy; and
- intention with respect to dividends.

Such forward-looking statements involve known and unknown risks and uncertainties, including those referred to in this AIF or in any document incorporated by reference herein, which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks include, but are not limited to:

- our ability to successfully initiate or complete clinical studies on a timely basis;
- our ability to obtain, on satisfactory terms or at all, the capital required for product development, operations and marketing;
- our ability to attract patients to our clinical trials;
- general economic, business and market conditions;
- product development delays and other uncertainties related to new product development;
- our ability to attract and retain business partners and key personnel;
- our inability to either commercialize our products or to commercialize our products profitably;
- operating losses and the extent of any future losses;
- our ability to operate as a going concern:
- our inability to establish or manage manufacturing, development or marketing collaborations;
- delay of, or failure to obtain, necessary regulatory approvals and, ultimately, product launches;
- dependence on third parties for successful commercialization of our products;
- inability to obtain quantities of development product in sufficient quantity or at standards acceptable to complete studies;
- the risk of the termination or conversion to non-exclusive licenses or our inability to enforce our rights under our licenses;
- our ability to obtain patent protection and protect our intellectual property rights;
- commercialization limitations imposed by intellectual property rights owned or controlled by third parties;
- uncertainty related to intellectual property liability rights and liability claims asserted against us;
- uncertainty of recovery of advances to subsidiaries;
- impact of competitive products and pricing;
- future levels of government funding;
- our ability to meet all of the requirements and conditions for registering our Common Shares with the U.S. Securities and Exchange Commission; and
- other factors discussed under “Risk Factors”.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Events or circumstances could cause our actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. You should also carefully consider the matters discussed under “Risk Factors” in this AIF. We undertake no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as required by securities legislation.

USE OF MARKET AND INDUSTRY DATA

This AIF includes market and industry data that has been obtained from third party sources, including industry publications, as well as industry data prepared by the Company’s management on the basis of its knowledge of and experience in the industry in which the Company operates (including management’s estimates and assumptions relating to the industry based on that knowledge). Management’s knowledge of the industry has been developed through its experience and lengthy participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although believed to be reliable, the Company’s management has not independently verified any of the data from third party sources referred to in this AIF or ascertained the underlying economic assumptions relied upon by such sources.

CORPORATE STRUCTURE

Name, Address and Incorporation

The Company was incorporated under the name Diabex Inc. pursuant to *The Corporations Act* (Manitoba) by articles of incorporation dated January 21, 2000. The Company's articles were amended on October 6, 2000 to effect a share split on the basis of 35,307.6923 voting common shares ("Common Shares") for each issued and outstanding Common Share. The Company's articles were amended further on February 26, 2001 to change the name of the Company to DiaMedica Inc. The articles were amended further on March 14, 2005 to: (i) create an unlimited number of Class A Preferred Shares, and (ii) eliminate the Non-Voting Common, Class A, Class B, Class C and Class D shares of the Company. The articles were amended further on July 2, 2008 to: (i) delete the Class A Preferred Shares, and (ii) remove the restriction on share transfers (collectively, the "**Articles of Incorporation**").

DiaMedica's registered office is located at 1700 – 360 Main Street, Winnipeg, Manitoba, R3C 3Z3 and our head office is located at our wholly owned subsidiary DiaMedica USA Inc. located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota, USA 55447 (telephone 763-270-0603).

INTERCORPORATE RELATIONSHIPS

On June 30, 2010, the Company acquired all the outstanding shares of Sanomune Inc. ("Sanomune"), a private biotechnology company. Subsequently, Sanomune was dissolved and a Certificate of Dissolution was issued by the Director, Manitoba Companies Office, on April 14, 2011.

On August 31, 2007, DiaMedica Europe Limited was incorporated pursuant to the *Companies Act 1985 & 1989* of England and Wales. DiaMedica Europe Limited was formed to facilitate the performance of clinical studies in the European Union. DiaMedica Europe Limited was dissolved in the second quarter of 2011.

On May 15, 2012, DiaMedica USA Inc. ("DiaMedica USA") was incorporated pursuant to the General Corporation Law of the State of Delaware, United States. The registered office of DiaMedica USA is The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE, 19801, County of New Castle. The office address of DiaMedica USA is One Carlson Parkway, Suite 124 Minneapolis, MN 55447.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History[(1)]

	For the year ended **December 31, 2013**	For the year ended **December 31, 2012**	For the year ended **December 31, 2011**
Revenues	*nil*	*nil*	*nil*
Net Loss	($7,890,969)	($9,999,640)	($6,746,915)
Loss per Common Share	($0.14)	($0.20)	($0.15)
Total Assets	$3,094,372	$3,827,310	$6,459,677
Shareholders' Equity	$1,471,122	$2,253,057	$6,087,456

Notes:
(1) Amounts are reported under International Financial Reporting Standards.

RECENT PROGRAM DEVELOPMENTS

From January 1, 2011 to the date of this AIF

DM199 Program

T2D Therapeutic: Development Milestones

On January 8, 2014 we released results of our 16-day Phase 1 multiple ascending dose ("**MAD**") clinical trial of DM199 in healthy volunteers. DM199 was well-tolerated at all three dose levels and met the primary endpoints of safety and tolerability. DM199 also demonstrated a favorable pharmacokinetic ("**PK**") profile supporting the potential for weekly dosing. Based on the Phase 1 MAD clinical results, we initiated dosing in a Phase 2 clinical study in patients with T2D to evaluate the safety, tolerability and PK of two dose levels of DM199 and its pharmacodynamic effects on diabetes biomarkers including: the homeostatic model assessment for insulin resistance ("**HOMA2-IR**"), fasting glucose and plasma insulin, meal tolerance test, lipids, HbA_{1c} and other metabolic markers. The randomized, double-blinded, placebo-controlled study is expected to enroll 36 patients with T2D. The patients start with a one-month wash out of their diabetes medications and then are sequestered for the one-month study.

In September 2013, we successfully completed the second portion of our DM199 dose-escalation clinical trial of DM199 in T2D patients. The study achieved its primary clinical endpoints of demonstrating the safety, tolerability and sustained PK properties of DM199 at escalating doses, while the pharmacodynamic effects were consistent with an insulin sensitization mechanism of action for T2D. Insulin sensitizers lower a patient's blood sugar levels by increasing the body's response to insulin over time.

In August 2013, we completed enrollment of T2D patients for the second portion of the DM199 clinical trial. This second portion of the DM199 clinical trial was a randomized, placebo-controlled, double-blinded dose-escalation study in T2D patients to evaluate the acute safety, tolerability and PK properties of DM199 following three single escalating doses, as well as its pharmacodynamic effects on glucose control.

In June 2013, we successfully completed the first portion of the clinical trial: an acute escalating dose study of DM199 at multiple levels in healthy volunteers. Results from the study showed that DM199 was well-tolerated, with a favorable PK profile supporting potential once-weekly dosing.

In April 2013, we received regulatory approval in the Netherlands to commence a Phase 1/2 clinical trial for DM199, to evaluate the safety, tolerability, PK and efficacy of DM199 in 36 healthy volunteers and in 40 T2D patients. Data from this trial will also support future DM199 clinical trial regulatory filings for Type 1 Diabetes ("**T1D**"), T2D and for other potential indications. PRA International is the Contract Research Organization ("**CRO**") Conducting the Phase 1/ 2 clinical trial.

In January 2013, we successfully completed cGMP manufacturing of DM199 to be utilized in upcoming clinical trials. Additionally, we successfully completed glucagon-like-peptide toxicology studies in non-human primates and rat models, demonstrating DM199 to be safe and well-tolerated in repeated high dose administrations.

In Q1 2012, we submitted our pre-Investigational New Drug ("**pre-IND**") application with the U.S. Food and Drug Administration ("**FDA**") in preparation for an upcoming clinical trial with DM199. We have not submitted a pre-IND or an Investigational New Drug ("**IND**") application since this filing.

In December 2012, we reported that treatment with DM199 in a three-week study of Zucker Diabetic Fatty ("**ZDF**") rats demonstrated expected improvement in glucose control. In addition, there was a positive control of blood pressure. Specifically, a low dose of DM199 therapy led to a 1.6% improvement in HbA1c, and a 20 mm/Hg improvement in systolic blood pressure compared to untreated animal (controlled blood pressure). Ideally, next generation Type 2 diabetes ("**T2D**") therapeutics will provide glucose control and additional benefits to control T2D complications and co-morbidities, termed "glucose-plus". We believe DM199 potentially offers one of the most comprehensive "glucose-plus" profiles of any of the products currently on the market or in development. Animal studies to date show both glucose control and a positive profile for blood pressure and heart rate.

T1D Therapeutic: Development Milestones

We believe that our DM199 program represents a novel approach in the treatment of T1D, potentially targeting major aspects of the disease via immune therapy and improved glucose control. DM199's disease targeting therapy may therefore reduce the amount of exogenous insulin needed to control blood glucose and the long-term disease-associated complications.

Insulin only addresses the glucose control aspects of T1D. There is a clear unmet need to address T1D at an earlier stage with immune therapy. Immune therapy is intended to stop and/or slow the immune system response that attacks the insulin producing beta cells that causes T1D. We believe that DM199 has potential for addressing both the immune therapy and beta cell therapy of T1D.

In December 2011, the Sanford Project (a non-profit research group whose research goal is to cure T1D) in collaboration with DiaMedica announced compelling data on DM199 therapy for T1D. An in vivo study showed that chronic administration of DM199 to non-obese diabetic mice, resulted in a significant dose-dependent and dose-frequency dependent delay in the onset of T1D over an 18-week course of treatment, beginning at 6 weeks of age. Specifically, DM199 delayed the autoimmune attack on beta cells, preserved beta cell mass and increased C-peptide levels in the non-obese diabetic mice. Treatment with DM199 was well-tolerated throughout the study (18 weeks).

Details of these studies were presented at the International Diabetes Federation ("**IDF**") 21st biennial World Diabetes Congress (Dubai, United Arab Emirates) in December 2011, and at the American Diabetes Association's (ADA) 73rd Scientific Sessions, in June 2013.

In October 2012, we demonstrated that DM199 significantly lowered daily insulin needs when co-administered with basal long-acting insulin (Lantus®) in a preclinical diabetes study. The study confirmed DM199 alone lowers fasting glucose values ($p=0.000003$) in a diabetic model. During an oral glucose tolerance test, DM199 co-administered with basal long-acting insulin significantly reduced the spike in glucose levels immediately and well after a meal to near normal levels ($p=0.00002$), as measured by area under the curve glucose, with no evidence of hypoglycemia.

DM204 Program

T2D Therapeutic: Development milestones

In December 2011, we released results of head-to-head preclinical studies comparing DM204 with two marketed T2D drugs. In T2D rodent models, 3-week administration of DM204 showed significant amelioration of diabetes and associated complications compared to control:

- Glucose control - 2.6% improvement in HbA_{1c} (measure of blood glucose control)
- High blood pressure - 25 mm/Hg improvement

DM204 was well-tolerated and significantly outperformed the marketed T2D drugs sitagliptin (Januvia®) and exenatide (Byetta®) in the study. We presented our DM204 T2D preclinical data at the IDF 21st biennial World Diabetes Congress in Dubai, United Arab Emirates in December 2011.

In December 2011, DM204 demonstrated significant improvement in glucose utilization over the first-generation mouse antibody, as measured by an in vivo oral glucose tolerance test ("**OGTT**"). These results were presented at the American Diabetes Association's 72nd Scientific Sessions in Philadelphia, PA, in June 2012.

In April 2011, our preclinical studies with DM204 showed significant beneficial efficacy in a hyperinsulinemic euglycemic clamp model.

CORPORATE DEVELOPMENTS

2014 to the date of this AIF

On April 24, 2014, the Company amended and restated the warrant indenture governing the warrants issued in connection with the Early Warrant Exercise Incentive Program to extend the expiry date of such warrants from May 8, 2014 to February 8, 2015.

On April 22, 2014, the Company filed a preliminary short form prospectus with the securities regulatory authorities in each of British Columbia, Alberta, Manitoba and Ontario to qualify common shares for sale to the public in those jurisdictions. As at the date hereof the Company has not filed the final prospectus.

On April 7, 2014, the Company announced the appointment of John Savage as the Company's Chief Financial Officer. Mr. Savage has more than 17 years of experience working with publicly traded companies in the U.S.

On February 19, 2014, the Company announced it had filed a Registration Statement on Form 20-F to register its common shares with the United States Securities and Exchange Commission.

On January 3, 2014, the Company announced the completion of a non-brokered private placement of 154,500 units at a price of $0.90 per unit for aggregate gross proceeds of approximately $139,000. Each unit was comprised of one common share in the capital stock of the Company and one half of one common share purchase warrant with each whole warrant entitling the holder thereof to acquire an additional common share until December 23, 2015 at a price of $1.10 per share.

2013

On December 23, 2013, the Company announced the completion of a short form prospectus offering under which it issued a total of 2,888,910 units at a price of $0.90 per unit for aggregate gross proceeds of approximately $2.6 million. Each unit was comprised of one common share in the capital stock of the Company and one half of one common share purchase warrant with each whole warrant entitling the holder thereof to acquire an additional common share until December 23, 2015 at a price of $1.10 per share.

On October 30, 2013, the Company announced that Elsevier Business Intelligence has named clinical drug DM199 as one of the *Top Cardiovascular/Metabolic Projects to Watch*. The Top 10 list is selected by an independent panel each year to highlight compounds that address a large, unmet market, strong science and a diversity of indications. Other criteria include the potential for new opportunities beyond initial indications, multi-level partnering opportunities and a strong company behind the compound. Companies selected in the Top Cardiovascular/Metabolic Projects to Watch were screened against strict criteria and are considered the most attractive cardiovascular/metabolic opportunities in the industry.

On March 22, 2013, the Company announced the completion of a short form prospectus offering under which it issued a total of 5,111,175 units at a price of $0.90 per unit for aggregate gross proceeds of approximately $4.6 million. Each unit was comprised of one common share in the capital stock of the Company and one half of one common share purchase warrant with each whole warrant entitling the holder thereof to acquire an additional common share until March 22, 2016 at a price of $1.10 per share.

On February 22, 2013 the Company announced the resignation of David Allan from the board of directors.

In January 2013, DiaMedica announced that Mark Robbins, Ph.D., J.D., joined as Vice President, Clinical and Regulatory Affairs to oversee DiaMedica's clinical programs. Dr. Robbins has over 30 years of experience in biopharmaceutical drug development with broad therapeutic experience in endocrine/metabolic, cardiology, neurology, dermatology, and oncology. Dr. Robbins has developed and successfully implemented regulatory/clinical strategies leading to 11 successful NDA/BLA approvals.

2012

In November 2012, DiaMedica established its U.S. headquarters by opening an office in Minneapolis, Minnesota through its wholly owned subsidiary DiaMedica USA Inc. in order to take advantage of, among other things, the strong life sciences community and talented workforce in Minneapolis.

On September 11, 2012, the Company announced that it received gross proceeds of $1,706,325 pursuant to the completion of the early exercise warrant incentive program as previously announced on August 3, 2012, and the full exercise of associated outstanding broker warrants. The early exercise program resulted in the exercise of 878,800 July 2011 warrants at $1.50 per share for $1,318,200, representing 88% of the outstanding July 2011 warrants, and 100% of the 310,500 July 2011 broker warrants for $388,125.

On August 28, 2012 the Company announced that it has retained Cooley LLP ("**Cooley**") and Bill Christiansen, Ph.D., a partner in the Cooley, Patent and Patent Counseling & Prosecution practice group, as its primary legal counsel for intellectual property and legal advisor for partnering. Cooley is working closely with DiaMedica to expand the Company's patent portfolio, including recent freedom to operate and patentability analysis. They also will provide corporate representation to DiaMedica with regards to the company's ongoing partnership discussions.

On August 3, 2012 the Company announced that in accordance with the terms of the warrant indenture for the $1.50 warrants issued on July 22, 2011, the Company will provide the required written notice to holders of such warrants that the expiry date has been accelerated to the close of business September 7, 2012. Under the terms of the warrant indenture, if the 10-day volume weighted average trading price of the common shares of DiaMedica on the TSX Venture Exchange exceeds $2.00, then the expiry date of the warrant may be accelerated. Any warrants not exercised prior to the accelerated expiry date and time will expire without any further action being taken.

On May 8, 2012, the Company reported that it had received gross proceeds of $3,166,800 pursuant to the Early Warrant Exercise Incentive Program (as defined below).

In April 2012, the Company received conditional approval from the TSX Venture Exchange for an incentive program (the "**Early Warrant Exercise Incentive Program**") to encourage the early exercise of the 3,105,000 warrants, with an exercise price of $1.50 per common share, that were previously issued in connection with DiaMedica's short form prospectus offering on July 22nd, 2011 (the "Original Warrants").

In February 2012, DiaMedica was named as one of the TSX Venture Top 50 ® companies for 2012, an annual ranking of Canada's emerging publicly traded companies. TSX Venture 50 companies were chosen, with equal weighting assigned to each of the following criteria: share price appreciation, trading volume, market capitalization growth and analyst coverage.

2011

On October 27, 2011, the Company announced the appointment of Dr. Paul Burn to DiaMedica's Scientific Advisory Board. Dr. Burn currently serves as the Broin Chair and Director for The Sanford Project, an emerging translational research center focused on identifying and delivering a cure for T1D. He also holds an appointment as Professor of Pediatrics at the Sanford School of Medicine of The University of South Dakota. Dr. Burn is a highly regarded key opinion leader having previously served in senior positions at the Juvenile Diabetes Research Foundation, Bayer Health Care, Eli Lilly, Monsanto/Pharmacia, and at Hoffman-La Roche. Dr. Burn's business expertise includes establishing and leading alliances with strategic partners, licensing of compounds and facilitating over 50 clinical trials.

In October 2011, the Company's products under development for the treatment of diabetes, DM199 and DM204, were selected by Windhover Information as one of the 2011 Top 10 Most Interesting Cardiovascular/Metabolic Projects to Watch for strategic partnerships. An independent committee assembled by Windhover Information, a division of Elsevier Business Intelligence, was responsible for selecting both programs into the Top 10 Most Interesting Cardiovascular/Metabolic Projects to Watch.

On August 3, 2011, the Company announced the appointment of John M. Amatruda, M.D. to the Company's Scientific Advisory Board. Dr. Amatruda is a world leader in diabetes drug development and was the former Senior Vice President and Franchise Head for Diabetes and Obesity at Merck Research Laboratories where he lead the development and regulatory approvals of Januvia™ and Janumet™ – the first compounds in the dipeptidyl peptidase-4 ("**DPP4**") inhibitor class for T2D.

On July 22, 2011, the Company completed a prospectus offering of 3,105,000 units at a price of $1.25 per unit, for aggregate gross proceeds to the Company of $3,881,250.

On September 22, 2011 at the annual general meeting, the shareholders approved a shareholder rights 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. The additional time allows the board of directors the opportunity 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 Company did not adopt the plan in response to any specific proposal to acquire control of the Company, nor was it aware of any such effort. The plan will expire at the close of the Company's annual meeting of shareholders in 2014. The shareholders also approved amendments to the Company's stock option plan and approved a deferred share unit plan.

Significant Acquisitions

No significant acquisitions were completed in the financial year ended December 31, 2013, nor have any been completed from the end of such financial year to the date hereof.

Trends

The pharmaceutical and biotechnology industry is challenged by increasing competition, downward pressure on drug pricing, increased drug development costs, regulatory approval times and shortened drug product life cycles. In order to compete in this industry, companies must consider ways to decrease the time and cost for developing products.

The success of the Corporation is dependent on bringing its products to market, obtaining the necessary regulatory approvals and achieving profitable operations in the future. The continuation of its research and development activities and the commercialization of its products are dependent on the Corporation's ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities, operations, and partnerships. It is not possible to predict either the outcome of future research and development programs or the Corporation's ability to fund these programs going forward.

The Corporation continues to be focused on increasing shareholder value by advancing the development of two products:

- DM199 Program – a recombinant human tissue kallikrein-1 ("**rhKLK1**") protein with an initial focus on T2D and diabetic kidney disease; and

- DM204 Program – a monoclonal antibody ("**mAb**") for the treatment of T2D and hypertension.

BUSINESS OF THE CORPORATION

Market sizes appearing in this AIF are estimates of potential markets only. The Company makes no claim that such figures represent sales figures actually anticipated should the Company successfully develop and receive approval for any of its product candidates.

Overview

DiaMedica is a clinical stage biopharmaceutical company focused on the discovery and development of novel therapies to treat diabetes and the complications associated with diabetes. DiaMedica's lead clinical stage compound, DM199, is a recombinant human protein known as rhKLK1 that represents a novel approach to treating diabetes and associated complications. DM199 is a novel insulin sensitizer, vasodilator and may improve kidney function. DiaMedica also is developing a novel mAb, DM204 for the treatment of T2D, which is in preclinical development. DM204 is a novel insulin sensitizer and vasodilator. In addition, DiaMedica is developing a chronic kidney disease diagnostic called DMDx. DMDx is an assay to detect levels of the tissue kallikrein-1 protein ("KLK-1") in urine and is intended to predict the rate of kidney disease progression.

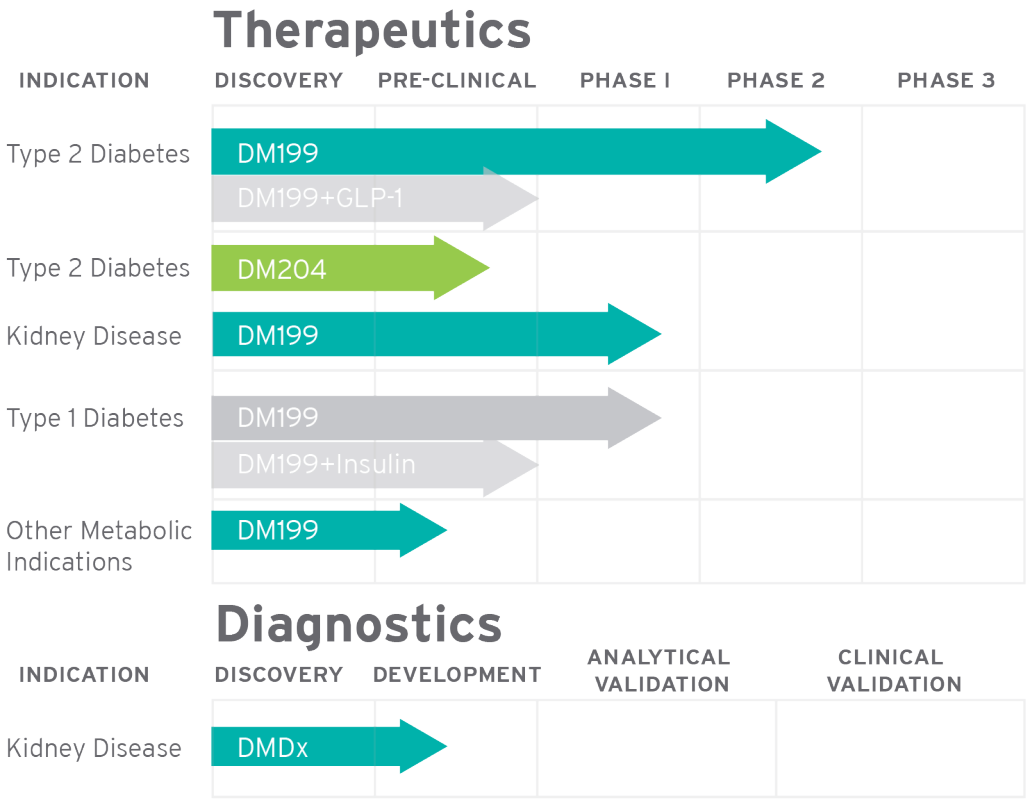
We seek to maximize shareholder value by advancing early-stage therapeutic agents to clinical testing and validation, with the goal of establishing late-stage development and commercialization partnerships with major pharmaceutical companies. These partnerships would provide significant revenues that include an upfront licensing fee, research and development funding, milestone-dependent payments and royalties on co-developed therapeutic products. Our growth strategy aims to expand our product pipeline of innovative therapeutics for diabetes and co-morbidities, and the extension of our technologies to other disease indications.

With over 25 million diabetic patients in the U.S. (Source: National Diabetes Fact Sheet, 2011, Centers for Disease Control) and 382 million diabetic patients globally, diabetes is one of the most challenging health problems of the 21st century (Source: International Diabetes Federation, 2013). The major complications of chronic diabetes include hypertension, heart disease and stroke, kidney disease, neuropathies, and blindness.

T2D primarily is a disease of inappropriate glucose control, where the body's cells do not respond properly to the insulin-promoted uptake of glucose from the blood (insulin resistance). As a result, Type 2 diabetic patients struggle with glucose control and hyperglycemia (as measured by HbA_{1c} - an indicator of how well blood glucose levels have been controlled over several months). T2D is prevalent in approximately 90% of all diabetic patients. T1D results from an auto-immune event where the body's immune cells attack and deplete pancreatic beta-cells, which are the primary source for secreted insulin. T1D is prevalent in approximately 5-10% of all diabetic patients.

Product Pipeline

The following chart outlines our current product pipeline:

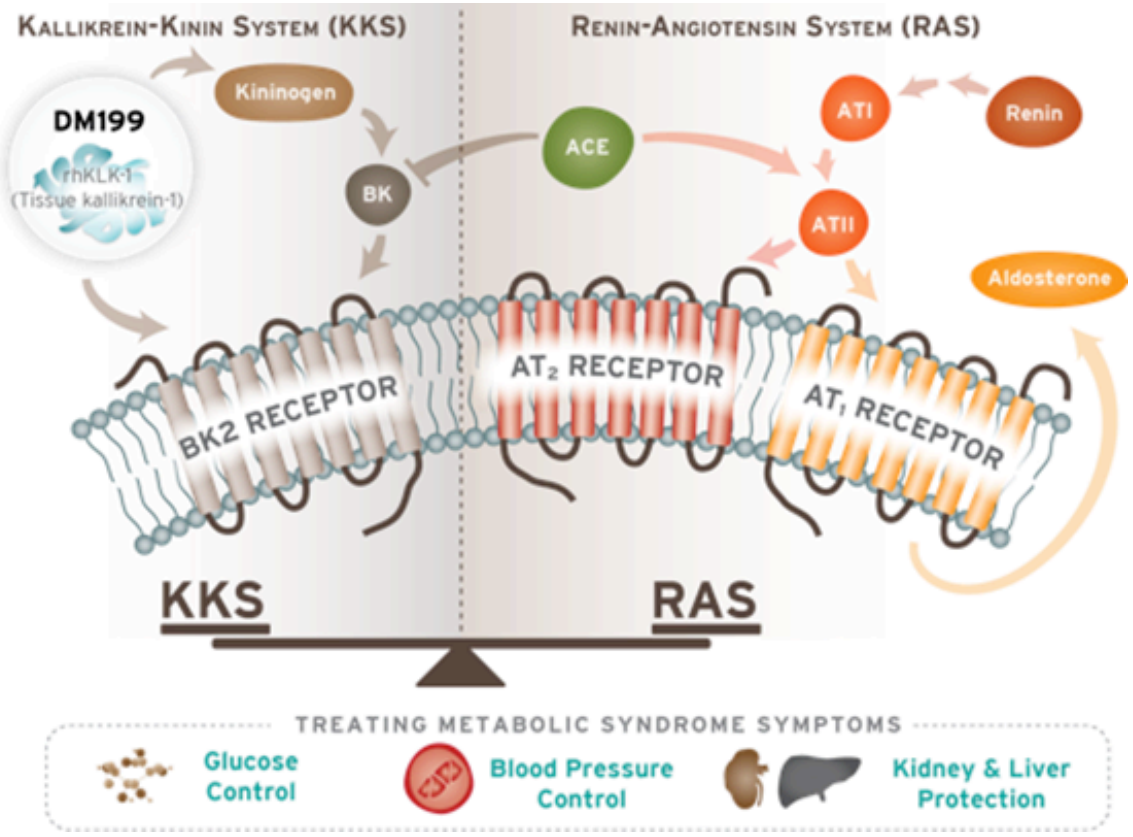


*Note that the grey highlighted bars are future priority programs

To date, the Company's primary focus has been on, and the majority of its resources have been directed toward, advancing its lead asset, DM199, into a clinical stage trial. Subject to availability of future resources, the Company intends to build out its product portfolio by continuing to advance DM199, while cultivating other existing assets, as well as developing or acquiring new assets.

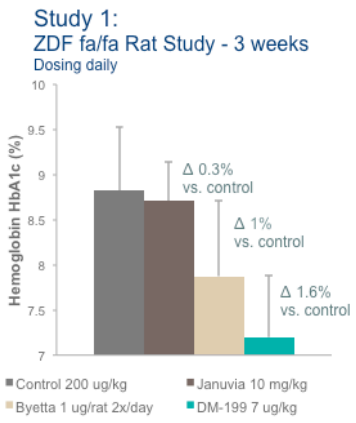
DM199 Program

DiaMedica's lead product, DM199, is a recombinant human protein for the treatment of T1D and T2D and their complications. We believe that the ability of DM199 to restore and improve blood glucose control may improve a patient's quality of life by decreasing glucose fluctuations resulting in reduced risk of long-term complications of diabetes. We believe DM199 has the potential to treat multiple aspects of metabolic syndrome, which is a disorder of energy utilization and storage which increases the risk of diabetes. The following is a diagram showing the DM199 mechanism for treating metabolic syndrome:

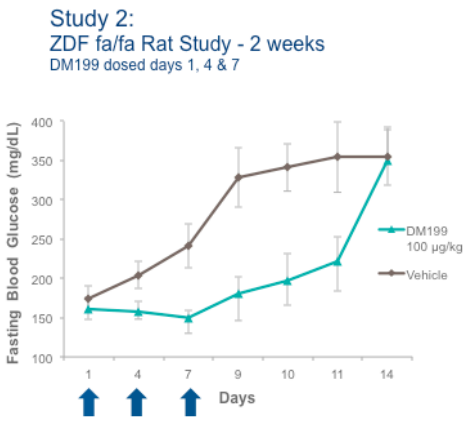


One of the contributing factors to metabolic syndrome is the imbalance of the RAS system (shown above). As showing the foregoing diagram, DM199 counter balances the RAS system through the KKS System.

The following is a summary of preclinical results of DM199 in two and three week ZDF Rat models that demonstrated sustained glucose control.



Improvement in HbA1c



Sustained glucose control

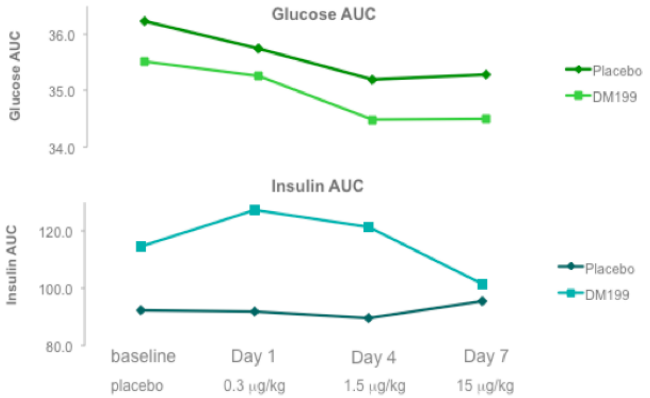
We have successfully conducted three Phase 1 clinical trials in 50 healthy volunteers consisting of single ascending, multiple ascending and PK dosing studies. Results in healthy volunteers show that DM199 was well-tolerated and demonstrated a favorable PK profile with extended half-life (time required to reduce concentration of drug in body by one-half), supporting potential once weekly dosing. The dose limiting tolerability was orthostatic hypotension at dose levels greater than anticipated efficacious dosing levels and is consistent with the DM199 mechanism of action.

DiaMedica has also successfully completed a Phase 1b in T2D patients. The randomized, double-blinded, placebo-controlled study enrolled ten T2D patients. The patients were dosed with either DM199 at three single ascending dose levels or placebo over an 8-day period. DM199 was well-tolerated at all three dose levels by the diabetic patients with no dose limiting side effects. Specifically, patients at study baseline had mild to moderate diabetes as measured by HbA_{1c} (glycated hemoglobin) levels of approximately 7%. Fasted insulin levels with placebo patients were 9.8 µU/mL and with DM199 patients were 14 µU/mL at baseline.

PATIENT BASELINE DIABETIC DEMOGRAPHICS

	Placebo (N=3)	DM199 (N=7)
HbA1c (%)	**6.9** (6.6-7.2)	**7.0** (6.5-8.8)
HOMA2-IR	1.2 (1.0-1.5)	1.9 (1.1-3.2)
Fasting Glucose (mmol/L)	9.1 (8.7-9.4)	9.1 (7.4-13.0)
Fasting Insulin (µU/mL)	**9.8** (8.6-12.1)	**14.0** (8.9-22.7)

This indicates that the seven patients randomized to DM199 treatment initially had higher fasting insulin levels as a group than the three patients randomized to placebo. The higher fasting insulin levels at baseline in the DM199 treated patients corresponded with a generally higher post-prandial insulin area under the curve ("**AUC**") compared with placebo treated patients. At the end of the 8-day study, the post-prandial insulin AUC levels following a meal were generally similar in DM199 treated patients and placebo patients (see diagram below). The baseline homeostatic model assessment for insulin resistance ("HOMA2-IR") levels were slightly higher in DM199 treated patients compared to placebo. HOMA2-IR is a measurement of insulin resistance, reflecting the body's inability to effectively process glucose leading to hyperglycemia (high blood glucose). Specifically, over the 8-day period, HOMA2-IR levels appear to improve or stabilize in the seven DM199 treated patients and decline in the 3 placebo treated patients. These results will have to be further validated in additional clinical trials.



Collectively, data from our Phase 1 trials support further proof-of-concept studies of DM199 for T2D, and potentially, future clinical studies for treatment of kidney disease and T1D.

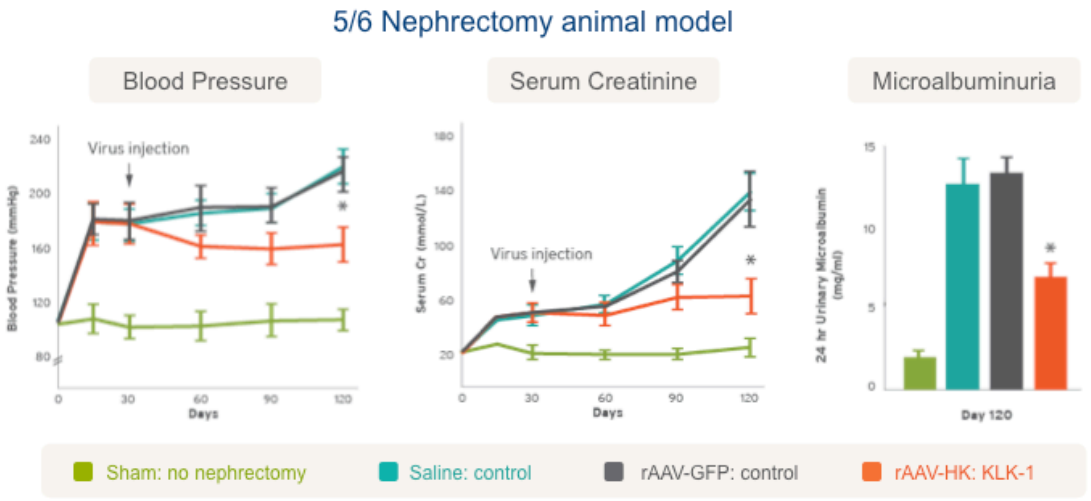
We are currently conducting a Phase 2 clinical trial in 36 T2D patients who are sequestered over a 28-day period. The clinical study consists of 12 patients on placebo, 12 patients on low dose DM199 and 12 patients on high dose DM199. The foregoing trial commenced with a 28-day washout of diabetic medications followed by a 28-day treatment with either a high or a low dose of DM199 or placebo. The primary clinical endpoint of this clinical trial is safety, tolerability and PK and the secondary clinical endpoints measures changes in insulin and/or glucose levels. Results from the Phase 2 study are expected in 2014.

Rationale for DM199 for Diabetic Kidney Disease

The most commonly used treatments for diabetic kidney disease are angiotensin-converting-enzyme ("**ACE**") inhibitors which relax and dilate the blood vessels (also known as vasodilation) thereby lowering blood pressure. ACE inhibitors use a similar mechanism as that used by DM199. We believe that:

- Using KLK-1 gene therapy for renal function improves blood pressure, creatinine and microalbuminuria (Source: Hum. Gene Ther. (2008) 19:318-330) (see the diagram below)

- DM199 may replace KLK-1 (as previously discussed we believe that KLK-1 urinary levels are potentially correlated with the severity of kidney disease)



We are planning a Phase 2 proof-of-concept trial in up to 150 patients over a 3-6 month treatment period to determine the improvement in kidney function biomarkers. The timing of the foregoing Phase 2 clinical trial will depend on a number of factors including available funds. While positive results were observed in animal models with KLK1 gene therapy, such results are clinically untested and investors should not draw conclusions based on such beliefs until the results of the Phase 2 clinical trial have been received.

DM199 Target Product Profile vs. GLP-1

It is expected that use of glucagon-like-peptide-1 ("**GLP-1**") in the treatment of T2D will see rapid growth for the foreseeable future. We believe that DM199 will be the next breakthrough beyond GLP-1s. The target product profile represented by the table below for DM199 represents our beliefs based upon preclinical studies and published literature in animal and *in vitro* models. The target product profile is clinically untested and investors should not draw conclusions based on such beliefs until results of future clinical trials have been received.

Target Product Profile	DM199 (rhKLK1)	GLP-1 Analog
Primary Mechanism	Insulin Sensitizer	Insulin Secretagogue
Glucose Control	✓	✓
Blood Pressure Control	✓	×
Kidney Protection	✓	×
Endothelial Function	✓	×
Weight loss	TBD	✓ (minor)
Dosing	1x weekly s.c. (subcutaneous)	2x daily – 1x weekly s.c.
# Competing Products	0 (first-in-class)	≥ 26*

* Market Leaders – Victoza® & Byetta®

Type 1 Diabetes

DiaMedica believes that its DM199 program represents a novel approach in the treatment of T1D potentially targeting major aspects of the disease via improved glucose control and immune therapy. DM199 therapy may reduce the amount of exogenous insulin needed to control blood glucose and the long-term disease associated complications of T1D.

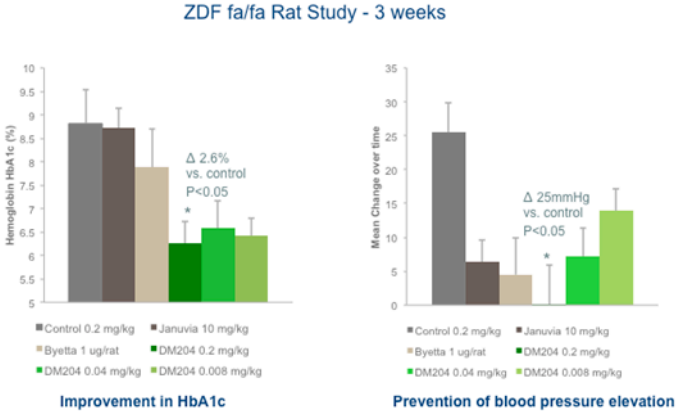
DM199 has demonstrated a statistically significant effect in lowering daily insulin needs when co-administered with basal long-acting insulin (Lantus®) in a preclinical diabetes study. The study confirmed DM199 alone lowers fasting glucose values in a diabetic model. During an oral glucose tolerance test, DM199 co-administered with basal long-acting insulin significantly reduced the spike in glucose levels immediately and well after a meal to near normal levels, as measured by glucose AUC. No evidence of hypoglycemia was observed. The results from this study suggest DM199 co-administered with basal long-acting insulin may reduce the need for short-acting insulin around meals while improving glucose control in diabetic patients.

DiaMedica and the Sanford Project (a non-profit research group whose research goal is to cure T1D) completed a study involving DM199 treatment of T1D in the NOD mouse model. DM199 administration to NOD mice diminished the autoimmune attack and insulitis. DM199 showed a significant dose-dependent and dose-frequency-dependent delay in the onset of T1D over the 18-week course of treatment (beginning at 6 weeks of age). Treatment with DM199 also resulted in increased regulatory T cell ("**Tregs**") levels that appeared to correlate with delay in T1D.

To date, the Company's primary focus has been on, and the majority of its resources have been directed toward, advancing its lead asset, DM199, into clinical stage trials for T2D and associated complications. Subject to availability of future resources, the Company may advance DM199 for treatment of T1D and associated complications.

DM204 Program

We are also developing DM204, a monoclonal antibody ("**mAb**") targeted and designed to activate the bradykinin receptor B2 ("**BKR2**"), for the treatment of T2D and cardiovascular disease. We are continuing to optimize the antibody selection and further define the pharmacological properties of DM204. In preclinical studies DM204 improved glucose control and prevented an increase in blood pressure.



We plan to continue to generate additional preclinical data for DM204 to demonstrate pharmacological activity. We plan to continue preclinical work on DM204 and may consider moving forward the development with manufacturing and toxicology studies in 2014/2015.

High blood pressure (hypertension) is a primary risk associated with T2D, with approximately 70% of Type 2 diabetics at increased risk of stroke and cardiovascular disease as a result of having high blood pressure. In our ZDF diabetic rat studies, animals treated with DM204 demonstrated no increase in blood pressure, whereas the control treated rats demonstrated a 25 mmHg increase in blood pressure over the 21 day time course of the study.

DMDx

Current kidney disease diagnosis relies primarily on estimated glomerular filtration rate ("**eGFR**") for determining the stage of the disease. The eGFR is used to classify the stage of kidney disease. There is no diagnostic tool available that can predict the rate of kidney disease progression from onset of kidney disease to end stage renal disease. Urinary KLK1 levels may potentially correlate with the severity of kidney disease. DMDx is an assay that will be used to detect KLK1 levels in urine and potentially predict the rate of kidney disease progression. If urinary KLK1 correlates to stage of disease it will assist us in identifying patients likely to respond to DM199 treatment. We plan to validate DMDx as a kidney disease diagnostic assay in 2014. Following assay validation, we will be conducting screening of patient samples with kidney disease at different disease stages.

Regulatory Process

Regulatory Approval

Securing final regulatory approval for the manufacture and sale of human therapeutic products in the US, Europe, Canada and other commercial territories, is a long and costly process that is controlled by that particular territory's national regulatory agency. The national regulatory agency in Canada is Health Canada, in the US it is the Food and Drug Administration ("FDA"), and in Europe it is the European Medicines Agency or EMA. Other national regulatory agencies have similar regulatory approval processes, but each national regulatory agency has its own approval processes. Approval in either Canada or the US does not assure approval by other national regulatory agencies, although often test results from one country may be used in applications for regulatory approval in another country.

Prior to obtaining final regulatory approval to market a drug product, every national regulatory agency has a variety of statutes and regulations, which govern the principal development activities. These laws require controlled research and testing of products, government review and approval of a submission containing preclinical and clinical data establishing the safety and efficacy of the product for each use sought, approval of manufacturing facilities including adherence to good manufacturing practices ("**GMP**") during production and storage, and control of marketing activities, including advertising, labeling and pricing approval.

None of our products have been completely developed or tested and, therefore, we are not yet in a position to seek final regulatory approval to market any of our products.

US Approval Process

In the US, the FDA, a federal government agency, is responsible for the drug approval process. The FDA's mission is to ensure that all medications on the market are safe and effective. The FDA's approval process examines potential drugs; only those that meet strict requirements are approved.

The US food and drug regulations require licensing of manufacturing facilities, carefully controlled research and testing of products, governmental review and approval of test results prior to marketing of therapeutic products, and adherence to GMP, as defined by each licensing jurisdiction, during production.
The drug approval process begins with the discovery of a potential drug. Pharmaceutical companies then test the drug extensively. A description of the different stages in the drug approval process in the US follows.

Stage 1: Preclinical Research. After an experimental drug is discovered, research is conducted to help determine its potential for treating or curing an illness. This is called preclinical research. Animal studies are conducted to determine if there are any harmful effects of the drug and to help understand how the drug works.

Information from these experiments is submitted to the FDA in an IND. The FDA reviews information in an IND Application and decides if the drug is safe to study in humans.

Stage 2: Clinical Research. In Stage 2, the experimental drug is studied in humans. The studies are known as clinical trials. Clinical trials are carefully designed and controlled experiments in which the experimental drug is administered to patients to test its safety and to determine the effectiveness of an experimental drug. The four general phases of clinical research are described below.

Phase 1 Clinical Studies. Phase 1 clinical studies are generally conducted with healthy volunteers who are not taking other medicines; patients with the illness that the drug will treat are not tested at this stage. Ultimately, Phase 1 studies demonstrate how an experimental drug affects the body of a healthy individual. Phase 1 consists of a series of small studies consisting of "tens" of volunteers. Tests are done on each volunteer throughout the study to see how the person's body processes, responds to and is affected by the drug. Low doses and high doses of the drug are usually studied, resulting in the determination of the safe dosage range in volunteers by the end of Phase 1. This information will determine whether the drug proceeds to Phase 2.

Phase 2 Clinical Studies. Phase 2 clinical studies are conducted in order to determine how an experimental drug affects people who have the disease to be treated. Phase 2 usually consists of a limited number of studies that help determine the drug's short-term safety, side effects and general effectiveness. The studies in Phase 2 often are controlled investigations, involving comparison between the experimental drug and a placebo, or between the experimental drug and an existing drug. Information gathered in Phase 2 studies will determine whether the drug proceeds to Phase 3.

Phase 3 Clinical Studies. Phase 3 clinical studies are expanded controlled and uncontrolled trials that are used to more fully investigate the safety and effectiveness of the drug. These trials differ from Phase 2 trials because a larger number of patients are studied (sometimes in the thousands) and because the studies are usually of longer duration. As well, Phase 3 studies can include patients who have more than one illness and are taking medications in addition to the experimental drug used in the study. Therefore, the patients in Phase 3 studies more closely reflect the general population. The information from Phase 3 forms the basis for most of the drug's initial labeling, which will guide physicians on how to use the drug.

Phase 4 Clinical Studies. Phase 4 clinical studies are conducted after a drug is approved. Companies often conduct Phase 4 studies to more fully understand how their drug compares to other drugs. Also, the FDA may require additional studies after the drug is approved. FDA-required Phase 4 studies often investigate the drug in specific types of patients that may not have been included in the Phase 3 studies. FDA-required Phase 4 studies also can involve very large numbers of patients to further assess the drug's safety.

Stage 3: FDA Review for Approval. Following Phase 3, the pharmaceutical company prepares reports of all studies conducted on the drug and a complete dossier on the manufacturing of the product and submits the reports to the FDA in a New Drug Application ("NDA"). The FDA reviews the information in the NDA to determine if the drug is safe and effective for its intended use. Occasionally, the FDA will ask experts for their opinion of the drug. If the FDA determines that the drug is safe and effective, the drug will be approved.

Stage 4: Marketing. After the FDA has approved the experimental drug, the pharmaceutical company can make it available to physicians and their patients. A company also may continue to conduct research to discover new uses for the drug. Each time a new use for a drug is discovered, the drug once again is subject to the entire FDA approval process before it can be marketed for that purpose.

European Approval Process

The European Medicines Agency is roughly parallel to the U.S. FDA in terms of the drug approval process and the strict requirements. The EMA was set up in 1995 in an attempt to harmonize (but not replace) the work of existing national medicine regulatory bodies in individual European countries. As with the FDA, the EMA drug review and approval process follows different stages from preclinical testing through clinical testing in Phase 1, 2 and 3. There also are some differences between the FDA and EMA review process, and specifically the review process in individual European countries. Such differences may allow certain drug products to be tested in patients at an earlier stage of development.

Diabetes and Insulin Market

Diabetes Overview

Diabetes is a disease in which the body does not produce or properly use insulin. Insulin is a hormone released from beta cells located in islets of the pancreas that is needed to help control blood sugar levels, and determines which energy source (carbohydrates or fats) are used to fuel daily life. There are primarily two forms of diabetes; T1D and T2D.

T1D develops when the body's own immune system destroys beta cells, which are the only cells in the body that produce insulin, a hormone that regulates the body's blood sugar. To survive, people with T1D must have insulin delivered by injection or pump in order to lower their blood glucose levels. T1D accounts for 5-10% of all diagnosed cases of diabetes.

T2D begins as insulin resistance, a disorder in which the body's cells do not respond to insulin properly. As the need for insulin increases, the pancreas can become exhausted and gradually loses its ability to produce insulin. Current treatments for T2D include lifestyle changes, anti-diabetic medications, and insulin therapy.

Under chronic conditions, poor control of blood glucose levels in diabetics has been shown to result in severe long-term complications, leading ultimately, to death. According to the U.S. Centers for Disease Control ("**CDC**"), the major complications associated with diabetes include:

- Heart disease and stroke;
- High blood pressure;
- Blindness due to retinopathy, a condition manifested by damage to the retina;
- Nephropathy (kidney disease);
- Neuropathy, a condition where there is damage to the nervous system;
- Amputations due to peripheral vascular disease; and
- Periodontal disease.

Diabetes Market Overview

The following is a summary of the diabetes market:

- There are approximately 382 million diabetic patients in the world. Of those patients, 90% have T2D (Source: IDF Diabetes Atlas, 6th edn. 2013).
- In 2013, there were 5.1 million deaths due to diabetes and health care spending on diabetes reached US$548 billion (Source: IDF Diabetes Atlas, 6th edn. 2013).
- In 2010, UnitedHealth Group estimated more than half of Americans will have diabetes or pre-diabetes over the next 10 years, costing the US healthcare system US$ 3.35 trillion.
- In a 2011 fact sheet issued by the CDC, it was reported that 8.3% of the total US population currently has T2D, and over 25% of those aged 65 and over have the disease.
- The market for diabetes drugs was approximately USD$35 billion in 2011 and forecasted to increase to USD$58 billion in 2018 (Source: Standard & Poor's 2012)
- Great than 50% of T2D patients in the U.S. and European Union do not achieve a sufficient glycemic control target (Source: Adelphi Disease Specific Program DSP III+IV)
- Approximately 11% of all healthcare expenditures are related to diabetes for ages 20-79 (Source: IDF Diabetes Atlas, 6th edn 2013)

The following is a summary of the diabetic kidney disease market:

- 40% of diabetes patients have diabetic kidney disease (Source: Reutens, AT. Clin N Am 2013: 97(1-18))
- 5-10 million diabetic kidney disease patients in the United States (Source: National Chronic Kidney Disease Fact Sheet 2013, CDC DDT)
- GLP-1 agonists + other diabetic medications contraindicated for kidney disease (Source: Swiss Med Wkly. 2012 Sep 13;142:w13629)
- It can cost up to $100,000 for kidney dialysis per patient, with a substantial impact on a patient's quality of life (Source: 2013 USRDS Annual Data Report)

Diabetic Kidney Disease Market

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Competition

Current treatment for T1D today is almost exclusively limited to insulin therapy to treat the symptoms of the disease, not the underlying cause or long-term complications. Global sales of insulin, the only FDA-approved treatment for T1D, have grown by over 400% in the last 10 years and are expected to reach $15 billion in revenue in 2011 (IMS Health, 2010). Insulin treatment is not a cure, and people with T1D generally have their life expectancy reduced by up to 15 years. The abnormally high blood glucose levels wreak havoc on the body over time resulting in long-term medical problems such as nephropathy, retinopathy, neuropathy, and cardiovascular diseases.

There are several classes of non-insulin drugs that are currently approved by the FDA to treat T2D; the current therapeutic landscape is summarized in the table below.

Marketed T2D Drug Classes (Non-insulin)

Class	Mechanism	Drugs
Biguanides	Insulin sensitizer	Metformin
Sulfonylureas	Increase insulin secretion	Glyburide, Glipizide, Glimepiride
Alpha-glucosidase inhibitors	Decrease hydrolysis of complex carbohydrates	Acarbose (Precose®), Miglitol (Glyset®)
Meglitinides	Increase insulin secretion	Repaglinide (Prandin®), Nateglinide (Starlix®)
TZDs and other PPAR or dual PPAR insulin sensitizers	Activate PPAR (insulin sensitizer)	Pioglitazone (Actos®), Rosiglitazone (Avandia®)
Incretin mimetics/GLP-1 receptor agonists	Increase insulin secretion	Exenatide (Byetta®), Liraglutide (Victoza®
DPP4 inhibitors	Inhibits GLP-1 degradation	Sitagliptin (Januvia®), Saxagliptin (Onglyza®)
Sodium-glucose transporter ("**SGLT**") inhibitors	Inhibit glucose reabsorption in kidney	Canagliflozin (Invokana®), Dapagliflozin (Farxiga®), Ipragliflozin, Tofogliflozin, Empagliflozin

The current standard of care includes generic drugs such as Metformin and various Sulfonylureas, and other patent-protected classes such as thiazolidinediones ("**TZDs**"), GLP-1 receptor agonists and DPP4 inhibitors, often administered in combination. These treatments either improve the body's sensitivity to insulin or increase insulin secretion from pancreatic beta cells to help lower blood glucose. In addition, it appears that a large portion of the T2D population (approximately two-thirds) eventually fail to control their diabetes with these drugs (as determined by $HbA_{1c} > 7\%$). HbA_{1c} is an indicator of how well blood glucose levels have been controlled over several months. Furthermore, patients with T2D can progress to a point where they are no longer able to produce insulin thus requiring insulin injections to lower blood sugar, similar to treatment for T1D. As such, there is an ongoing need to develop new, safe drug treatments to complement or even replace those currently available.

The following are forecasts of the market size of the leading Diabetes drugs (all references are to $USD):

- Metformin (Glucophage, Glucophage XR, Glumetza, Fortamet, Riomet) – approximately $1 billion (Source: 2018 Forecast, Datamonitor, 2012)
- SGLT Inihibitors - $1.5 billion (Source: 2018 Forecast Datamonitor, 2012)
- TZDs - $1.2 billion (Source: 2018 Forecast, Datamonitor, 2012)
- DPP4 - $7.5 billion (Source: 2018 Forecast, Datamonitor, 2012)
- GLP-1 - $7.3 billion (Source: 2020 Forecast, Barclays, 2020)
- GLP-1 – sales in 2013 – approximately $2.5 billion in 2013 (Source: 2013, AstraZenaca and NovoNordisk 2013 financial statements)

Competitive T2D Drug Therapy Market

Our DM199 will be a subcutaneously injectable therapeutic with a primary indication for maintaining blood glucose control in patients with T2D. DM199 will compete against other injectable medicaments indicated for glucose control in T2D, specifically incretin mimetics (i.e. GLP-1) receptor agonists. DM199 may have additional benefits in addition to glucose control, specifically; DM199 may also treat or prevent hypertension, diabetic nephropathy and other complications associated with diabetes.

To our knowledge, some of the largest industry participants in the market for T2D therapeutics are Novo Nordisk A/S, Pfizer Inc., Eli Lilly and Company, Merck & Co., Takeda Pharmaceutical Company Limited and AstraZeneca UK Limited. There are a number of marketed drugs, experimental drugs and drug combinations, which may compete with our potential drugs. The following summary is not necessarily an exhaustive list of such competing therapeutic treatments.

Oral Medications:

Biguanides, for example Metformin, are oral drugs used to control blood glucose, mainly by inhibiting glucose release by the liver, in early stage T2D patients. Biguanides are used to treat early stage diabetic patients (standard first line therapy). Most patients become resistant to biguanides as their diabetes advances and are treated with other diabetes drugs. DM199 and DM204 would be used in combination with biguanides or in T2D patients that are resistant/non-responsive to or can no longer tolerate biguanides.

Sulfonylureas, for example Glyburide, are also oral drugs used to control blood glucose, mainly functioning by improving insulin release from the pancreas in early stage T2D patients. Sulfonylureas are used to treat early stage diabetic patients (first or second line therapy). Most patients become resistant to sulfonylureas as their disease advances and are treated with other follow-on diabetes drugs. DM199 and DM204 would be used in combination with biguanides or in T2D patients that are resistant/non-responsive to or can no longer tolerate sulfonylureas.

Alpha-glucosidase inhibitors are glucose controlling drugs (first, secondary or third line therapy) that inhibit digestion of carbohydrates into glucose. These drugs therefore will block amount of glucose absorbed into the body after a meal, but do not control the glucose released from the liver or improve insulin resistance in T2D diabetic patients. DM199 and DM204 are expected to improve blood glucose control and improve insulin resistance.

Meglitinides function via a mechanism similar to sulfonylurea drugs and our drugs have the same advantages over this class of drugs as over sulfonylureas.

PPARγ insulin sensitizers, for example thiazolidinediones ("**TZDs**"), bind and activate the gamma peroxisome proliferator-activated receptors ("**PPARγ**"). TZD's are primarily used as second or third line therapies in T2D. Many of TZD's have been withdrawn or have restricted use due to increased risk of drug-induced hepatitis (Rezulin®), bladder cancer (Actos®) or cardiovascular events (Avandia®). Dual PPAR agonists, both the alpha and gamma PPAR isoforms, are being developed for glucose control, diabetic dyslipidemia and hypertriglyceridemia. Saroglitazar was the first dual PPAR agonist to be approved for clinical use. This class of drugs functions in part through the same pathway as TZD's (PPARγ) and may thus have similar side effects. DM199 and DM204 are also expected to be insulin sensitizers but function via a different pathway not involving PPAR and thus not have the same side effects.

DPP4 inhibitors are inhibitors of dipeptidyl peptidase 4 enzyme, (DPP4), and the first agent of the class - sitagliptin - was approved by the FDA in 2006. DPP4 inhibitors are used to control blood glucose levels in T2D. The mechanism of DPP4 inhibitors is to increase incretin levels (GLP-1 and GIP) by preventing their break down by the DPP4 enzyme. Incretins inhibit glucagon release, which in turn increases insulin secretion, decreases gastric emptying, and decreases blood glucose levels. DPP4 inhibitors are typically used as second and third line therapies in the treatment of T2D.

Sodium-Glucose Linked Transporter 2 (SGLT2) inhibitors (such as Farxiga ® and Invokana ®) block the reabsorption of glucose by kidneys, resulting in increased glucose in urine. This recently approved class of drugs are small molecule inhibitors, and the specificity and long-term side effects of this drug are not fully realized. Side effects reported to date with this class of drugs includes cardiovascular problems and increased LDL cholesterol and urinary tract infections. This drug class is likely positioned as a second line therapy.

Injectables:

GLP-1 receptor agonists (such as Byetta® and Victoza®) are administered by subcutaneous injection to control blood glucose by improving insulin release from the pancreas. GLP-1 receptor agonists are protein peptide based drugs referred to as "incretin memtics" designed to mirror the activity of gastrointestinal hormone GLP-1 that is reduced in T2D. GLP-1 receptor agonists are usually administered after oral medications fail (third line therapy). GLP-1 receptor agonists cause insulin secretion only when blood glucose levels are high, effectively lowering post-meal blood glucose spikes without increasing the risk for hypoglycemia.The majority of these T2D drugs in clinical development are reportedly being designed to improve upon existing therapies. Using a "best-in-class" approach, these "me-too" products are intended to improve PK or reduce side effects. In contrast, our products are novel, "first-in-class" therapeutics that appear to function via a different mechanism compared to the currently marketed products and medicines under development.

See the Competition section under "risks related to our business and our industry" for further information.

Business Strategy

Our goal is to use our patented and licensed technologies to establish the Company as a leader in the development and commercialization of therapeutic treatments for diabetes and related diseases. The Company also intends to explore other uses for our patented and licensed technologies, such as the development of therapies for the treatment of a broader set of conditions.

Clinical Development Collaborations

We plan to advance our lead drug candidates through Phase 1 and Phase 2 clinical trials as appropriate to create shareholder value by establishing their clinical and commercial potential as therapies for diabetes. We will consider opportunities for negotiating the terms of corporate partnerships during the drug's development program. As we develop our lead drug candidates, we intend to work with third party clinical research organizations ("**CROs**") to perform and manage clinical trials. We intend to supplement our in-house clinical and regulatory capabilities in the design and implementation of clinical trials by entering into partnerships with external consultants, collaborators and CRO's.

Commercialization Partnerships and Other Strategic Initiatives

We intend to seek corporate partnerships or other strategic initiatives with established pharmaceutical and biotechnology companies to continue the development of our technologies through later stage clinical trials. We plan to enter into agreements with such pharmaceutical and biotechnology companies to conduct Phase 3 trials, file the appropriate NDA and ultimately market and sell the drug products we develop. We believe this will eliminate the need for us to raise the significant capital required to perform the large multi-centre pivotal trials required for regulatory approval of our drug candidates and to build the resources necessary to market prescription pharmaceuticals and thereby mitigate the risks inherent in late-stage clinical drug development. We are under confidentiality agreements with numerous pharmaceutical firms and have ongoing discussions and correspondence, including proposed terms, regarding partnering and other strategic initiatives in connection with licencing some or all of our products, however, such discussions and other correspondence have not yet resulted in any binding agreements and there is no assurance that they ever will. Additionally, there is no assurance that we will secure the type of partnership or strategic initiative discussed above.

Strategic Technology Partnerships

We intend to seek partnerships to out-license our existing technologies to others for additional potential indications and uses that may be validated or discovered in the future. These partnerships would enhance the value of our intellectual property and allow for the development of these additional indications without the need to acquire the resources needed for in-house development.

Financial Strategy

To maintain our pipeline development as well as capitalizing on opportunities to expand the pipeline, the Company will seek to raise additional funds through:

(i) The issuance of equity of the Company; and/or
(ii) Establishment of partnership agreements or acquisition with pharmaceutical, biopharmaceutical and/or biotechnology companies for products and technologies under development by DiaMedica.

Intellectual Property

DiaMedica's patent portfolio includes 15 patent families comprising approximately 13 issued patents, 54 pending applications and three PCT applications that are owned by us, and three in-licensed patents, which include claims for composition of matter, methods of use, diagnosis and drug combinations. For our DM199 program, this includes nine patent families consisting of one issued and 44 pending applications and two PCT applications that are directed to composition of matter, formulations, glycoforms, administration and methods of use. For our DM204 product candidate, the Company owns eight applications with claims to composition of matter and methods of use.

The following is a summary of some of our patents.

Composition of Matter:	• DM199: Glycosylation & sialic acid content – novel structure (2033) • DM204: Complimentary determining regions for binding to BKR2 (2031)
Method of Use	• DM199 subcutaneous delivery with improved PK profile (2033) • DM199: For treatment of various metabolic disorders (2030-2033)
Combination Products	• DM199 combined with GLP-1 analog, insulin and other diabetic medications (2027-2031)
Freedom to Operate DM199 & DM204	As at the date hereof we have not detected or are aware of any third party patents that could block commercialization.

For a summary of license agreements whereby we licence certain intellectual property please see "Material Contracts".

DM199 Program

The DM199 patent families protect composition of matter including glycoforms, formulations, methods of administration, and a variety of therapeutic and diagnostic approaches pertaining to metabolic disorders including diabetes. All intellectual property associated with development, manufacturing and testing of DM199 in disease models is owned exclusively by the Company. We currently have patent applications for the use of DM199 for several indications. The Company recognizes many third party patents claim techniques used in the development and manufacture of recombinant proteins, and we have endeavoured to use manufacturing technologies that are free of third party patents. Additionally, for manufacture of DM199 we have licensed an expression system and cell line with proven GMP and regulatory support, and are contracting with a contract manufacturing organization ("**CMO**") with proven GMP experience in manufacturing of recombinant proteins for clinical trials.

DM204 Program

DiaMedica is the exclusive owner of all intellectual property rights related to the development, manufacturing and testing of the antibody DM204. The Company has filed a PCT patent application with claims to DM204, composition of matter and use of DM204 to treat diabetes, hypertension, myocardial infarction and stroke, and other indications.

General

DiaMedica views patents and other means of intellectual property protection as essential to the Company's core business by translating DiaMedica's innovations into tangible property and protecting the Company's proprietary technology from infringement by competitors. To that end, patents frequently are reviewed and continue to be sought in relation to those components or concepts of the Company's preclinical and clinical products to ensure a high level of protection is obtained. DiaMedica's strategy, where possible, is to file patent applications to protect its products, as well as methods of manufacturing, administering and using the products. Prior art searches of both patent and scientific databases are performed to determine novelty, inventiveness and freedom-to-operate. The Company requires all employees, consultants, and parties to collaborative research agreements to execute confidentiality agreements upon the commencement of employment, consulting relationships or a collaboration with the Company. These agreements require that all confidential information developed or made known during the course of the engagement with DiaMedica is to be kept confidential. DiaMedica also maintains agreements with scientific staff and all parties contracted in a scientific capacity, providing that all inventions resulting from work performed for DiaMedica, using DiaMedica's property, or relating to DiaMedica's business and conceived or completed during the period covered by the agreement are the exclusive property of DiaMedica.

Reorganizations

On August 31, 2007, the Company incorporated DiaMedica Europe Limited pursuant to the *Companies Act 1985 & 1989* of England and Wales, as a wholly-owned subsidiary of the Company. DiaMedica Europe Limited was dissolved in the second quarter of 2011.

On June 30, 2010, the Company acquired all the outstanding shares of Sanomune, a private biotechnology company. Subsequently, Sanomune was dissolved and a Certificate of Dissolution was issued by the Director, Manitoba Companies Office, on April 14, 2011. As part of the dissolution of Sanomune all of its assets were transferred to DiaMedica.

Management

Rick Pauls, MBA
Chairman, President and CEO

Mr. Rick Pauls was appointed President and CEO of DiaMedica in July 2009 and has been Chairman of the board of directors since 2008. Mr. Pauls previously was the Managing Director of CentreStone Ventures Inc., an early stage life sciences venture capital fund. Prior to CentreStone, he was with Centara Corporation, another early stage venture capital fund. Before this, Mr. Pauls specialized in asset-backed securitization and structured finance with General Motors Acceptance Corporation in Minnesota. He received his Bachelor of Arts in Economics from the University of Manitoba and his M.B.A. in Finance from the University of North Dakota.

John Savage, CPA (Inactive)
Chief Financial Officer

Mr. Savage was appointed Chief Financial Officer in April 2014 and has more than 17 years of experience working with US-based publicly traded companies. Prior to joining DiaMedica, Mr. Savage was Director of Corporate Accounting at UnitedHealth Group, a diversified health care company, where he also was involved in the Diabetes Prevention and Control Alliance. Previously, Mr. Savage was with Best Buy and Golf Galaxy, where he held increasingly progressive responsibilities. He began his career with Deloitte & Touche LLP. Mr. Savage graduated *Summa Cum Laude* from the University of St. Thomas with a Bachelor of Arts degree in Business Administration. He maintains an inactive CPA license in the state of Minnesota.

Mark Robbins, Ph.D., JD
Vice President, Clinical and Regulatory Affairs

Dr. Robbins has over 30 years of experience in biopharmaceutical drug development. He developed and successfully implemented regulatory/clinical strategies leading to 11 successful NDA/BLA approvals in various therapeutic areas including endocrine/metabolic, cardiology, neurology, dermatology, and oncology. Dr. Robbins spent 15 years with Upsher-Smith Laboratories, advancing to Executive Vice President, Legal, Scientific and Technical Operations, and Chief Scientific Officer, where he oversaw the clinical and regulatory strategies for several drugs ranging from R&D to manufacturing and Phase 1 to Phase 3. Prior to this, Dr. Robbins was President and COO of Certus International, a Contract Research Organization, overseeing the clinical and regulatory development programs for pharmaceutical and biotechnology companies. Previous to this role, Dr. Robbins spent 13 years at Mallinckrodt Group, Inc., advancing to Director of Medical Affairs. Dr. Robbins is a Diplomate of the American Board of Toxicology and obtained Regulatory Affairs Certification.

Mark Williams, Ph.D.
Vice President of Research

Dr. Williams earned his Ph.D. at the University of Alberta in the laboratory of Dr. Lorne Tyrrell, who discovered Lamivudine®, for the treatment of Hepatitis B. Dr. Williams was the co-founder of Sanomune, a company focused on neurological and autoimmune disorders. He is an inventor on more than 10 patents and has been awarded several research grants. He has overseen the approval of five Phase 2 clinical trials in therapeutic areas ranging from diabetes and Alzheimer's disease, to rheumatoid arthritis. Three of these products have successfully completed Phase 2 clinical trials.

Dennis D. Kim, MD, MBA
Consulting Chief Medical Officer

Dr. Kim is a board-certified endocrinologist and a founding member/Principal of MetaCon, Inc. Dr. Kim previously served in a variety of senior executive positions in the biopharmaceutical industry including Senior Vice President of Medical Affairs at Orexigen Therapeutics a public biotech company focused on obesity pharmacotherapy, Vice President, Medical Affairs and Chief Medical Officer of EnteroMedics, Inc, and various senior management positions at Amylin Pharmaceuticals, Inc. over 7 years, including Executive Director of Corporate Strategy and the program medical lead for development and commercialization of Byetta® (exenatide) for treatment of T2D. Dr. Kim completed his fellowship in Endocrinology/Metabolism at University of California, San Diego (UCSD) during which time he investigated the pathophysiology of diabetes and metabolic syndrome. He is extensively published in top peer-reviewed medical and scientific journals with over 50 publications to his name. Dr. Kim also received an MBA degree with honors from UCSD Rady School of Management. He continues to provide medical care to patients as a Clinical Assistant Professor of Medicine at UCSD.

James Parsons, CPA (Canada) CA
Vice-President, Finance

Mr. Parsons joined DiaMedica in October 2010 with an extensive background in the life sciences industry and over 20 years of financial management experience. Prior to joining DiaMedica, Mr. Parsons was the Chief Financial Officer and Corporate Secretary for Amorfix Life Sciences Ltd. where his responsibilities included finance, administration, contract management, and corporate governance. Mr. Parsons has been a CFO in the life sciences industry since 2000 with early-stage to late-clinical stage biotechnology companies across many diagnostic and therapeutic areas. He is also currently the Chief Financial Officer of Stem Cell Therapeutics Corp since August 2011. Mr. Parsons has a Master of Accounting degree from the University of Waterloo.

Board of Directors

Michael Giuffre, M.D.

As a Clinical Professor of Cardiac Sciences and Pediatrics at the University of Calgary, Dr. Giuffre maintains a portfolio of clinical practice, cardiovascular research, and university teaching. He maintains on-going involvement in both health care administration, and in the biotechnology business sector. Dr. Giuffre is Past President of the Calgary and Area Physicians Association ("**CAPA**") and a past representative to the board of the Calgary Health Region. Dr Giuffre holds a BSc in cellular and microbial biology, an MD and an MBA. His Canadian Royal College board certified specialties include Pediatrics, Pediatric Cardiology and a subspecialty in Pediatric Electrophysiology. As a biotechnology consultant, Dr. Giuffre has been involved with RedSky Inc. (acquired by Research in Motion), MDMI, and MedMira Inc. He is currently on the boards of IC2E Inc and FoodChek Inc. He serves on the Medical Advisory Board of the SADS Foundation and on the boards of Unicef Canada and the Alberta Medical Association. He is also an MD-MP contact for the Canadian Medical Association. Dr. Giuffre has recently received a Certified and Registered Appointment by the American Academy of Cardiology, "Distinguished Fellow of the American Academy of Cardiology," and in 2005 was awarded "Physician of the Year" by the Calgary Medical Society.

Rick Pauls (chairman)

Mr. Pauls biography is under the heading "*Management*".

Richard Pilnik

Mr. Pilnik served in several leadership positions during his 25-year career at Eli Lilly and Company. Most recently at Eli Lilly, Mr. Pilnik served as Group Vice President and Chief Marketing Officer, where he was directly responsible for commercial strategy, market research and medical marketing. Prior to that, Mr. Pilnik served as President of Eli Lilly Europe, Middle East and Africa and the Commonwealth of the Independent States, a regional organization of former Soviet Republics, where he oversaw 50 countries and positioned Eli Lilly as the fastest growing pharmaceutical company in the region. Mr. Pilnik also held several marketing and sales management positions in the United States, Europe and Latin America during his tenure at Eli Lilly. Mr. Pilnik serves as President of Innovex, the commercial group of Quintiles Transnational Corp. Innovex is a global pioneer in pharmaceutical services and sits on the board of directors of Elan Corporation, a successful pharmaceutical company with research, development and commercial activities directed towards neurodegenerative disease, including Alzheimer's and Parkinson's disease. Mr. Pilnik holds a B.A. in economics from Duke University and an MBA from the Kellogg School of Management at Northwestern University.

Dawson Reimer

Mr. Reimer was promoted to the President and Chief Operating Officer of Medicure in July 2011, having served in the capacity of Vice President, Operations since June 2004. Mr. Reimer has overseen most aspects of Medicure's business including product development and all facets of the company's commercial sales and marketing operations. Mr. Reimer is an advisor to CentreStone Ventures Inc., has consulted with a number of public and private life science companies, and currently serves as Chair of the Life Science Association of Manitoba. Mr. Reimer holds a Master's Degree in Economic Development from the University of Waterloo.

Thomas Wellner

Mr. Wellner is Chief Executive Officer of Revera Inc., a leading Canadian provider of accommodation, care and services for seniors. Mr. Wellner was co-Chief Executive Officer of LifeLabs LP ("**LifeLabs**"), Canada's largest laboratory services company, where he was responsible for leading the integration of CML HealthCare Inc. ("**CML**") into LifeLabs' organization until February 17, 2014. Prior to LifeLabs, Mr. Wellner was President and Chief Executive Officer of CML from February 2012 to October 2013, where he led the company through a strategic re-assessment prior to its merger with LifeLabs. Mr. Wellner was President and Chief Executive Officer of Therapure Biopharma Inc., a contract manufacturing and biopharmaceutical development company, from April 2008 to May 2011. Previously, he spent 20 years with Eli Lilly & Company in a variety of senior operational and strategic leadership roles in Canada, China, United States, Latin America, Europe, and the United Kingdom. Mr. Wellner currently sits on the boards of DiaMedica Inc. (TSX:DMA), Cipher Pharmaceuticals (TSX: DND), FreshBooks, Inc. (private) and Atlantic Healthcare Plc (private). He is also a board member of Life Sciences Ontario. Mr. Wellner is a graduate of Queen's University (B.Sc. Hons. Life Sciences).

Scientific Advisors

John Amatruda, MD

Dr. John Amatruda is a senior pharmaceutical research executive, and the former Senior Vice President and Franchise Head for Diabetes and Obesity at Merck Research Laboratories. Under Dr. Amatruda's leadership, the development program and regulatory approvals of Januvia™ and Janumet™, the first compounds in the important class of DPP-IV inhibitors for T2D, were initiated and completed. He was also a member of the Research Management Committee and acting Therapeutic Area Head for Cardiovascular Disease while at Merck. More recently, Dr. Amatruda was on the Scientific Advisory Board of Marcadia Biotech Inc., a preclinical stage T2D / obesity company that was acquired by Roche Holding Ltd., of Basel, Switzerland in December, 2010. In addition to his tenure at Merck, Dr. Amatruda started and ran a drug discovery group at Bayer Corp where he served as Vice President and Therapeutic Area Research Head for Metabolic Disorders research, as well as a Professor of Medicine Adjunct at Yale University School of Medicine. He is board certified in internal medicine, endocrinology and metabolism and has a proven track record in academics and pharmaceutical discovery research and development, including several novel candidate compounds, Investigational New Drugs ("**INDs**"), translational studies, development programs and four NDAs. Dr. Amatruda is an author on over 150 papers, abstracts, reviews and book chapters, primarily in the areas of insulin action in vitro systems and in clinical diabetes and obesity. He graduated from Yale University, received his MD degree from the Medical College of Wisconsin and did his internship and residency in Internal Medicine and Fellowship in Endocrinology and Metabolism at The Johns Hopkins Hospital.

Paul Burn, Ph.D. | Director of The Sanford Project and Professor of Pediatrics, Sanford School of Medicine of the University of South Dakota.

Dr. Burn recently retired as the Broin Chair and Director for The Sanford Project, an emerging translational research center focused on identifying and delivering a cure for T1D. He also holds an appointment as Professor of Pediatrics at the Sanford School of Medicine of The University of South Dakota. Prior to the appointment at Sanford Health, Dr. Burn served in the position of Senior Vice President of Research & Development at the Juvenile Diabetes Research Foundation. Dr. Burn gained international industry R&D experience as Director of Metabolic Research & Development at Bayer Health Care; at Eli Lilly & Company where he held the position of Director of Endocrine Research & Clinical Investigation; as Vice President of Research & Development at Monsanto/Pharmacia; and at Hoffman-La Roche as the Global Head for the Metabolic Diseases Therapeutic Area and as Vice President of Biotechnology. Dr. Burn's business expertise includes establishing and leading alliances with strategic partners and in- and out-licensing of compounds and projects. In addition, he has facilitated a portfolio of 52 clinical trials, served as a consultant to several major pharmaceutical companies and has streamlined the programs of acquired or merged companies.

Alan Cherrington, Ph.D.

Dr. Cherrington currently holds Professorships in both the Department of Molecular Physiology & Biophysics and in the Department of Medicine at Vanderbilt University. He is also the Associate Director of the Diabetes Research and Training Center. Dr. Cherrington served as Chairman of the Molecular Physiology and Biophysics Department from 1998-2007 and was president of the American Diabetes Association in 2004-05. He currently holds the Jacquelyn A. Turner and Dr. Dorothy J. Turner Chair in Diabetes Research. Dr. Cherrington has been the recipient of numerous awards, including two awards presented by the American Diabetes Association: the Lilly Award for Outstanding Scientific Achievement and the Frederick Banting Award for Career Scientific Achievement. He has also received the David Rumbough Award for scientific achievement from the Juvenile Diabetes Research Foundation. Dr. Cherrington's work over the years has defined the effects of various hormonal and neuronal factors on liver glucose metabolism in the normal and diabetic state. Specifically, he has characterized the effects of insulin, glucagon, cortisol, epinephrine, and norepinephrine on the rates of hepatic glycogenolysis and gluconeogenesis in vivo. He has also studied the response of the liver to glucose ingestion and has shown that postprandial glycogen deposition is dependent not only on the availability of glucose and insulin, but equally on an additional "portal glucose" signal. Dr. Cherrington has significantly advanced our understanding of the way in which hormones and neural mediators regulate the ability of the liver to supply glucose in times of need and to store it in times of plenty. Dr. Cherrington received his undergraduate degree in Biology from the University of New Brunswick in 1967 and his PhD in Physiology from the University of Toronto, where he worked with Dr. Mladen Vranic, in 1973. He then undertook postgraduate training with Dr. Rollo Park at the Vanderbilt University School of Medicine.

Daniel Porte Jr., MD

Dr. Porte is Professor of Medicine at the University of California San Diego, Emeritus Professor of Medicine at the University of Washington and past president of the American Diabetes Association. He has served as an advisor to the NIH including service on the National Institute of Diabetes and Digestive and Kidney Diseases council and published extensively over his career. Among his 350+ publications, Dr. Porte is best known for his contributions to our understanding of the regulation of the endocrine pancreas and its role in T2D and obesity, as well as studies of the importance of hyperglycemia to the neuropathic complications of diabetes. Dr. Porte's present interests include the mechanism for the regulation of the alpha cells secretion of glucagon by the central nervous system, in addition to pancreatic beta cell-related hormones and neuropeptides. Further interests extend to the role of insulin in brain function, glucose homeostasis and body weight regulation and the physiology of the incretin hormones in plasma glucose control and diabetes therapy. Dr. Porte received his M.D. from the University of Chicago Medical School (with Honors) and completed his residency at the VA Hospital and UC San Francisco Moffitt Hospital.

Specialized Skills and Knowledge

The Company believes that investing in human capital is fundamental to its continued growth and success. The Company has six full-time employees and one part-time employee and uses experienced consultants and advisors who possess the skills and knowledge that the Company requires to implement its current strategy. However, as the Company further develops its products or identifies new product opportunities it may need to retain additional qualified senior officers and key personnel. The Company's success will be dependent to a large degree on its ability to retain the services of its existing senior officers and to retain additional qualified personnel in the future.

RISK FACTORS

An investment in our securities involves a high degree of risk and should be considered as speculative. An investment in our common shares should only be undertaken by those persons who can afford the total loss of their investment. You should consider carefully the risks and uncertainties described below, as well as other information contained in this AIF. The risks and uncertainties below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we believe to be immaterial may also affect our business adversely. If any of the following risks occur, our business, financial condition and results of operations could be harmed seriously and you could lose all or part of your investment. Further, if we fail to meet the expectations of the public market in any given period, the market price of our common shares could decline.

RISKS AND UNCERTAINTY

We operate in a highly competitive environment that involves significant risks and uncertainties, some of which are outside of our control. We are subject to risks inherent in the biotechnology industry, including:

Risks Related to our Business and our Industry

Uncertainties Related to Clinical Trials and Product Development

Before obtaining regulatory clearance for the commercial sale of any of our products under development, we must demonstrate through preclinical studies and clinical trials that the potential product is safe and efficacious for use in humans for each target indication. The results from preclinical studies and early clinical trials may not be predictive of results that will be obtained in large clinical trials, and there can be no assurance that our clinical trials will demonstrate sufficient safety and efficacy necessary to obtain the requisite regulatory approvals or will result in marketable products. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of a product under development could delay or prevent regulatory clearance of the potential product and would have a material adverse effect on our success. Any drug is likely to produce some toxicity or undesirable side effects in animals and in humans when administered at sufficiently high doses and/or for sufficiently long periods of time. There can be no assurance that unacceptable toxicity or side effects will not occur at any dose level at any time in the course of human clinical trials of our potential products. The appearance of any such unacceptable toxicity or side effects in clinical trials could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our product candidates and could ultimately prevent their clearance by the United States Food and Drug Administration ("FDA") or other regulatory authorities, for any or all targeted indications. Even after being cleared by the FDA or other regulatory authorities, a product may later be shown to be unsafe or not to have its purported effect, thereby preventing its widespread use or requiring withdrawal from the market. There can be no assurance that any of our products or product candidates will be safe when administered to patients.

The rate of completion of our clinical trials will be dependent upon, among other factors, the rate of patient enrolment. Patient enrolment is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of parties to clinical sites and the eligibility criteria for the study. Delays in planned patient enrolment may result in increased costs, delays or termination of clinical trials, which could have a material adverse effect on our success.

In addition, we rely on third parties to assist us in overseeing and monitoring the clinical trials, which may result in delays in completing clinical trials, or the trials not being completed at all, if such third parties fail to perform under their agreements with us or fail to meet regulatory standards in the performance of their obligations under such agreements. There can be no assurance that we will be able to submit a new drug application as scheduled if clinical trials are completed or that any such applications will be reviewed and cleared by the FDA or other regulatory authority in a timely manner or at all.

Risks Related to Regulatory Matters

Potential investors should be aware of the risks, problems, delays, expenses and difficulties which we may encounter in light of the extensive regulatory environment within which our business is carried out. Numerous statutes and regulations govern the manufacture and sale of non-therapeutic and human therapeutic products in the United States, Canada and other countries that are the intended markets for our products and product candidates. Such legislation and regulation governs the approval of manufacturing facilities, the testing procedures and controlled research that must be carried out and the preclinical and clinical data that must be collected prior to marketing approval. Our research and development efforts, as well as any future clinical trials, and the manufacturing and marketing of any products we may develop, will be subject to and restricted by such extensive regulation.

The process of obtaining necessary regulatory approvals is lengthy, expensive and uncertain. We or our collaborators may fail to obtain the necessary approvals to commence or continue clinical testing or to manufacture or market our potential products in reasonable time frames, if at all. In addition, governmental authorities in the United States, or other countries may enact regulatory reforms or restrictions on the development of new therapies that could adversely affect the regulatory environment in which we operate or the development of any products we may develop.

Completing clinical testing and obtaining required approvals is expected to take several years and to require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period of time, if at all. Furthermore, clinical trials may be delayed or suspended at any time by us or by the various regulatory authorities if it is determined at any time that the subjects or patients are being exposed to unacceptable risks.

Any failure or delay in obtaining regulatory approvals would adversely affect our ability to utilize our technology and would therefore adversely affect our operations. Furthermore, no assurance can be given that our product candidates will prove to be safe and effective in clinical trials or that they will receive the requisite regulatory approval. Moreover, any regulatory approval of a drug which is eventually obtained may be granted with specific limitations on the indicated uses for which that drug may be marketed. Furthermore, product approvals may be withdrawn if problems occur following initial marketing or if compliance with regulatory standards is not maintained.

In addition, we rely to some extent on the availability of certain agents that are currently marketed by other firms. Such agents may become unavailable as a result of failing to meet regulatory requirements.

Additional Financing Requirements and Access to Capital

We require significant additional funds for further research and development, planned clinical trials, and the regulatory approval process. We may raise additional funds for the aforementioned purposes through public or private equity or debt financing which may be dilutive, or through collaborations with other biotechnology companies, or financing from other sources may be undertaken. It is possible that financing will not be available or, if available, may not be on favorable terms. The availability of financing will be affected by the results of scientific and clinical research, the ability to attain regulatory approvals, market acceptance of our products, the state of the capital markets generally with particular reference to pharmaceutical, biotechnology and medical companies, the status of strategic alliance agreements, and other relevant commercial considerations. If adequate funding is not available, we may be required to delay, reduce, or eliminate one or more of our product development programs or obtain funds through corporate partners or others who may require us to relinquish significant rights to product candidates or obtain funds on less favorable terms than we would otherwise accept.

Rapid Technological Change

The industry in which we operate is characterized by rapid and substantial technological change. There can be no assurance that developments by others will not render our products or technologies non-competitive or that we will be able to keep pace with technological developments. Our competitors may have developed or may be developing technologies which could become the basis for competitive products. Some of these products may prove to be more effective and less costly than our products.

Partnerships for Development and Commercialization of Technology

We may need, but be unable, to obtain partners to support our development efforts and to commercialize our technology. Equity and/or debt financings alone may not be sufficient to fund the cost of developing our products, and we may need to rely on our ability to reach partnering arrangements to provide financial support for our discovery and development efforts.

In addition, in order to successfully develop and commercialize our technology, we may need to enter into a wide variety of arrangements with corporate sponsors, pharmaceutical companies, universities, research groups and others. While we have had previous research contracts, we may enter into additional arrangements with other contract research organizations. We may fail to obtain any such agreements on terms acceptable to us or at all. Even if we enter into these arrangements, we may not be able to satisfy our obligations under them or renew or replace them after their original terms expire. Furthermore, arrangements of this nature may require us to grant certain rights to third parties, including exclusive marketing rights to one or more products, may require us to issue securities to our collaborators or may contain other terms that are burdensome to us. If any of our collaborators terminate their relationship with us or fail to perform their obligations in a timely manner, the development or commercialization of our technology and potential products may be adversely affected.

Clinical Trials Outside of the United States

The ongoing Phase 1/2 clinical trials are being conducted in the Netherlands with PRA International under EMA regulatory authority. While the study is being conducted in accordance with international regulatory standards including compliance with Good Clinical Practice ("GCP") regulations and International Committee on Harmonization ("ICH") guidelines, there is a risk that the FDA may not accept the results in support of filing an Investigational New Drug ("IND") application.

Uncertainties Related to Forecasts

Our expectations regarding the success of our product candidates and our business are based on forecasts which may include the commencement and completion of clinical trials and anticipated regulatory approval which may not be realized. The actual timing of these events can vary dramatically due to factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing capacity and marketing infrastructure sufficient to commercialize our biopharmaceutical products. There can be no assurance that clinical trials involving our products will be successfully completed, that we will make regulatory submissions or receive regulatory approvals as forecasted or that we will be able to adhere to our current schedule. The failure to do so could have a material adverse effect on us.

Competition

Technological competition is intense in the industry in which we operate, and in particular in the market for therapeutic products to treat and diagnose T1D and T2D. Competition comes from pharmaceutical companies, biotechnology companies and universities as well as companies that participate in each of the non-pharmaceuticals markets we may attempt to address with our products. Many of our competitors have substantially greater financial and technical resources, more extensive research and development capabilities and greater marketing, distribution, production and human resources than we do. Moreover, competitors may develop products more quickly than us and may obtain regulatory approval for such products more rapidly than we do. Products and processes which are more effective than those that we intend to develop may be developed by our competitors. Research and development by others may render our technology products or processes non-competitive or obsolete.

Competitive products on the market and/or in development include the following:

- Sulfonylureas;
- Metformin;
- Insulins (injectable and inhaled versions);
- TZDs and other PPAR or non-PPAR insulin sensitizers;

- Glinides;
- DPP-IV inhibitors;
- Incretin mimetics/GLP-1 receptor agonists;
- Alpha-glucosidase inhibitors; and
- Sodium-glucose transporter-2 (SGLT-2) inhibitors.

Unproven Market

Notwithstanding the estimated market potential for our products and product candidates, no assurance can be given that our projections and assumptions will prove to be correct owing to, in particular, competition from existing or new products and the yet to be established clinical viability of our identified drug candidates.

Management of Growth

Engagement of a clinical trial and future pipeline development has placed, and is expected to continue to place, a significant strain on our managerial, operational and technical resources. We expect operating expenses and staffing levels to increase in the future. To manage our growth, we must expand our operational and technical capabilities and our employee base while effectively administering multiple relationships with various third parties. There can be no assurance that we will be able to manage our expanding operations effectively. Any failure to implement cohesive management and operating systems, add resources on a cost-effective basis or properly manage our expansion could have a material adverse effect on our business and results of operations.

Dependence on Key Personnel

We depend on our management personnel. The loss of services of one or more of such persons could adversely affect our operations. It is necessary for us to continue to implement and improve our management systems and to continue to recruit and train new employees in order to manage our growth effectively. While we have been able to attract and retain skilled and experienced personnel in the past, no assurance can be given that we will be able to do so in the future.

Supply of Raw Materials

We have selected manufacturers that we believe comply with Current Good Manufacturing Practices, ("cGMP") and other applicable regulatory standards. Although the manufacturers are experienced, no assurance can be given that sufficient quantities for on-going studies and for future clinical trials will be produced, or produced on terms that are acceptable to us.

Systems Failures

Despite the implementation of security measures, our internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failure. Any system failure, accident or security breach that causes interruptions in our operations could result in a material disruption of our drug discovery programs. To the extent that any disruption or security breach results in a loss or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we may incur liability as a result, our drug discovery programs may be adversely affected and the further development of our product candidates may be delayed. In addition, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

Effect of Insurers' Willingness to Pay for Products and Our Ability to Become Profitable

Since health care insurers and other organizations may not pay for any products that we may develop or may impose limits on reimbursements, our ability to become profitable could be reduced. In both domestic and foreign markets, sales of potential products are likely to depend in part upon the availability and amounts of reimbursement from third party health care payor organizations, including government agencies, private health care insurers and other health care payors, such as health maintenance organizations and self-insured employee plans. There is considerable pressure to reduce the cost of therapeutic products, and government and other third party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which marketing approval has not been granted. Significant uncertainty exists as to the reimbursement status of newly approved health care products or novel therapies. We can give no assurance that reimbursement will be provided by such payors at all or without substantial delay or, if such reimbursement is provided, that the approved reimbursement amounts will be sufficient to enable us to sell products we may develop on a profitable basis. Changes in reimbursement policies could also adversely affect the willingness of pharmaceutical companies to collaborate with us on the development of our product candidates. In certain markets, pricing or profitability of prescription pharmaceuticals is subject to government control.

Potential Product Liability

A risk of product liability claims and related negative publicity is inherent in the development of human therapeutics and other products. Product liability insurance is expensive, its availability is limited, and it may not be offered on terms acceptable to us, if at all. The commercialization of our potential products could be inhibited or prevented by an inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims. A product liability claim against us or the withdrawal of a product from the market could have a material adverse effect upon us and our financial condition. To protect against potential product liability risks, we have €450,000 per occurrence, €3.5 million clinical trial insurance and €6.5 million product liability insurance coverage.

Foreign Currency Risk

A portion of our expenditures are in US dollars and euros and, therefore, we are subject to foreign currency fluctuations which may, from time to time, impact our financial position and results of operations.

Risks Related to Intellectual Property

Patents and Proprietary Rights

We believe that patents and other proprietary rights are important to our business. Our policy is to file patent applications to protect technology, inventions and improvements that may be important to the development of our business. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We plan to enforce our issued patents and our rights to proprietary information and technology. We review third-party patents and patent applications, both to refine our own patent strategy and to identify useful licensing opportunities.

We have a number of patents, patent applications and rights to patents related to our compounds, products and technology, but we cannot be certain that they will be enforceable or provide adequate protection or that pending patent applications will result in issued patents.

Our success depends, in part, on our ability to secure and protect our intellectual property rights and to operate without infringing on the proprietary rights of others or having third parties circumvent the rights owned or licensed by us. Applications for patents on key technologies, composition of matter and therapeutic uses of DM199 and DM204 have been filed or will be filed in the United States, Europe and other jurisdictions, and have been exclusively assigned to us. Such patent applications are being actively pursued and include the use of DM199 for treatment of diabetes, rheumatoid arthritis, and neurological disorders. Our DM199 patent applications include composition of matter and use patents, if all issued as patents, will expire between 2022 and 2032. Patent applications for DM204 include composition of matter and use patents. Our DM204 patent applications, if issued as patents, will expire in 2031. We have also secured a license agreement and intellectual property rights agreement with the University of Manitoba.

To the extent that development, manufacturing and testing of our products is performed by third party contractors, such work is performed pursuant to fee for service contracts. Under the contracts, all intellectual property, technology know-how and trade secrets arising under such agreements are our exclusive property, and must be kept confidential by the contractors. It is not possible for us to be certain that we have obtained from the contractors all necessary rights to such technologies. Disputes may arise as to the scope of the contract, or possible breach of contract. No assurance can be given that our contracts would be enforceable or would be upheld by a court.

The patent positions of pharmaceutical and biotechnology firms, ourselves included, are uncertain and involve complex questions of law and fact for which important legal issues remain unresolved. Therefore, it is not clear whether our pending patent applications will result in the issuance of patents or whether we will develop additional proprietary products which are patentable. Part of our strategy is based on our ability to secure a patent position to protect our technology. There is no assurance that we will be successful in this approach and failure to secure patent protection may have a material adverse effect upon us and our financial condition. Also, we may fail in our attempt to commercialize products using currently patented or licensed technology without having to license additional patents. Moreover, it is not clear whether the patents issued or to be issued will provide us with any competitive advantages or if any such patents will be the target of challenges by third parties, whether the patents of others will interfere with our ability to market our products or whether third parties will circumvent our patents by means of alternate processes. Furthermore, it is possible for others to develop products which have the same effect as our products or technologies on an independent basis or to design around technologies patented by us. Patent applications relating to or affecting our business may have been filed by pharmaceutical or biotechnology companies or academic institutions. We have not detected any third party patents that could interfere with our current projects. Such applications may conflict with our technologies or patent applications and such conflict could reduce the scope of patent protection which we could otherwise obtain or even lead to the rejection of our patent applications. There is no assurance that we can enter into licensing arrangements on reasonable commercial terms, or develop or obtain alternative technology in respect of patents issued to third parties that incidentally cover our products or production technologies. Any inability to secure licenses or alternative technology could result in delays in the introduction of some of our products or even lead to us being prevented from pursuing the development, manufacture or sale of certain products. Moreover, we could potentially incur substantial legal costs in defending legal actions which allege patent infringement, or by initiating patent infringement suits against others. It is not possible for us to be certain that we are the creator of inventions covered by pending patent applications or that we were the first to invent or file patent applications for any such inventions. While we have used commercially reasonable efforts to obtain assignments of intellectual property from all individuals who may have created materials on our behalf (including with respect to inventions covered by our patent and pending patent applications), it is not possible for us to be certain that we have obtained all necessary rights to such materials. No assurance can be given that our patents, if issued, would be upheld by a court, or that a competitor's technology or product would be found to infringe on our patents. Moreover, much of our technology know-how that is not patentable may constitute trade secrets. Therefore, we require our employees, consultants, advisors and collaborators to enter into confidentiality agreements either as stand-alone agreements or as part of their consulting contracts. However, no assurance can be given that such agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of confidential information. Also, while we have used commercially reasonable efforts to obtain executed copies of such agreements from all employees, consultants, advisors and collaborators, no assurance can be given that executed copies of all such agreements have been obtained.

Costs Stemming from Defense Against Third-Party Intellectual Property Infringement Claims

Third parties may claim that we are using their proprietary information without authorization. Third parties may also have or obtain patents and may claim that technologies licensed to or used by us infringe their patents. If we are required to defend patent infringement actions brought by third parties, or if we sue to protect our own patent rights or otherwise to protect our proprietary information and to prevent its disclosure, we may be required to pay substantial litigation costs and managerial attention may be diverted from business operations even if the outcome is in our favor. In addition, any legal action that seeks damages or an injunction to stop us from carrying on our commercial activities relating to the affected technologies could subject us to monetary liability and require us or any third party licensors to obtain a license to continue to use the affected technologies. We cannot predict whether we would prevail in any of these types of actions or that any required license would be available on commercially acceptable terms or at all. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources.

Risks Related to the Early Stage of our Products and our Company

Stage of Development

We have compounds in various stages of development. Prior to commercialization of any potential product, significant additional investments will be necessary to complete the development of any of our products. Preclinical and clinical trial work must be completed before some of our other products could be ready for use within the market that we have identified. We may fail to develop any products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products. Competitors may develop alternative products and methodologies to treat and diagnose T2D and T2D and this could reduce our competitive advantages. We do not know whether any of our potential product development efforts will prove to be effective, meet applicable regulatory standards, obtain the requisite regulatory approvals, be capable of being manufactured at a reasonable cost or successfully marketed. The products or processes we are currently developing are not expected to be commercially viable for several years and we may encounter unforeseen difficulties or delays in commercializing our products. In addition, our products may cause undesirable side effects. Results of early preclinical research may not be indicative of the results that will be obtained in later stages of preclinical or clinical research. If regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would have limited ability to commercialize our products, and our business and results of operations would be harmed. If we do succeed in developing products, we will face many potential obstacles such as the need to develop or obtain manufacturing, marketing and distribution capabilities.

Lack of Product Revenues; History of Operating Losses; Substantial Doubt About the Ability to Continue as a Going Concern

As of the date of this AIF, we have not recorded any revenues from the sale of products. We have an accumulated deficit, based on our consolidated financial statements, since our inception through December 31, 2013 of over $39 million. Losses are expected to increase in the near term as we continue our product development efforts, enter clinical trials and seek regulatory approval for the sale of our products. Operating losses are expected to be incurred until such time as product sales, royalty payments, licensing fees and/or milestone payments are sufficient to generate revenues to fund our continuing operations. We are unable to predict the extent of any future losses or when we will become profitable, if ever. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis. There is substantial doubt about the appropriateness of the use of the going concern assumption because we have experienced operating losses and cash outflows from operations since incorporation, our cash resources are not sufficient for the next twelve months of planned operations, and we have not reached successful commercialization of our products.

Risks and Uncertainties of Current Economic Conditions

To date, we have primarily relied on equity financing to fund our working capital requirements and drug development activities. A substantial amount of additional capital is needed to develop our products to a point where they may be commercially sold. Our future operations are dependent upon our ability to generate product sales, negotiate collaboration or license agreements, obtain research grant funding, defer expenditures, or other strategic alternatives, and/or secure additional funds. While we are striving to achieve these plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favorable terms or obtained at all. Our ability to continue as a going concern is dependent on our ability to continue obtaining sufficient funds to conduct our research and development, and to successfully commercialize our products. See Liquidity and Capital Resources section below.

Risks Related to the Company's Common Shares

Share Price Volatility

A number of factors could influence the volatility in the trading price of our common shares, including changes in the economy or in the financial markets, industry related developments, and the impact of changes in our operations. Our quarterly losses may vary because of expenses we incur related to future research including the timing of costs for manufacturing and initiating and completing preclinical and clinical trials. Each of these factors could lead to increased volatility in the market price of our common shares. In addition, the market prices of the securities of our competitors may also lead to fluctuations in the trading price of our common shares.

Dividends

We have not declared or paid any cash dividends on our common shares to date. The payment of dividends in the future will be dependent on our earnings and financial condition and on such other factors as our board of directors considers appropriate. Unless and until we pay dividends, shareholders may not receive a return on their shares. There is no present intention by our board of directors to pay dividends on our common shares.

Dilution

You may experience future dilution due to additional future equity financing events by the Company. If outstanding options, warrants or deferred share units of the Company are exercised into common shares, you will experience additional dilution.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares without par value. As at the date hereof, 58,926,230 common shares of the Company were issued and outstanding, and 5,317,832 common share purchase warrants were outstanding at a weighted average exercise price of $1.19.

As at the date hereof, the Company had 5,218,000 stock options outstanding to purchase common shares. The terms and conditions of such stock options are contained in the Company's stock option plan (the "Stock Option Plan"). A summary of the some of the relevant parts of the Stock Option Plan are below under the heading "*Stock Option Plan*". A copy of the Stock Option Plan can be found on SEDAR at www.sedar.com.

As at the date hereof, the Company had issued 74,556 deferred share units. The terms and conditions of such deferred share units are contained in the Company's Deferred Share Units Plan (the "DSU Plan"). A summary of the some of the relevant parts of the DSU Plan are below under the heading "*Deferred Share Units Plan*". A copy of the DSU Plan can be found on SEDAR at www.sedar.com.

Common Shares

Each common share carries one vote at all meetings of DiaMedica whether ordinary or special, and may participate in any dividends declared by the directors of DiaMedica. The common shares carry the right to receive a proportionate share of DiaMedica's assets available for distribution to the holders of DiaMedica shares upon liquidation, dissolution or winding up of DiaMedica. The common shares do not have any special liquidation, pre-emptive or conversion rights.

Shareholder Rights Plan

The shareholders of the Company approved the adoption of a shareholder rights plan agreement (the "Plan") on September 22, 2011. The Plan is designed to provide adequate time for the Board of Directors and the shareholders to assess an unsolicited takeover bid for DiaMedica, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, and to provide shareholders with an equal opportunity to participate in a takeover bid and receive full and fair value for their Common Shares. The Company is not adopting the Plan in response to any specific proposal to acquire control of the Company, nor is it aware of any such effort. The Plan will expire at the close of the Company's annual meeting of shareholders in 2014.

The rights issued under the Plan initially will attach to and trade with the Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. The rights will become exercisable only when a person, including any party related to it, acquires or attempts to acquire 20 percent or more of the outstanding Common Shares without complying with the "Permitted Bid" provisions of the Plan or without approval of the Board of Directors. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase Common Shares at a 50 percent discount to the market price at the time.

Under the Plan, a Permitted Bid is a bid made to all holders of the Common Shares and which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50 percent of the outstanding Common Shares, other than those owned by the offeror and certain related parties have been tendered, the offeror may take up and pay for the Common Shares but must extend the bid for a further 10 days to allow other shareholders to tender.

The issuance of Common Shares upon the exercise of the rights is subject to receipt of certain regulatory approvals.

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 number of common shares reserved for issuance under the Stock Option Plan is 7,000,000 and the maximum period during which an option may be exercised is 10 years.

The number of Common Shares reserved for issuance to any individual director, officer, management company employee or Consultant will not exceed five percent (5%) of the issued and outstanding Common Shares on a yearly basis (calculated on a non-diluted basis).

Options may be exercised no later than 120 days following cessation of the optionee's position with DiaMedica, provided that if the cessation of office, employment, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. The Stock Option Plan provides that, for an investor relations consultant, no option shall be exercisable for a period exceeding twelve (12) months from the date the option is granted, with no more than 1/4 of the options vesting in any three month period. Any option granted to an investor relations consultant expires 30 days after the date that such person ceases to carry on investor relations activities on behalf of DiaMedica. Options granted under the Stock Option Plan must have an exercise price per Common Share that is greater than or equal to the "discounted market price" of the Common Shares (as determined under the policies of the TSX-V) at the time of the grant.

The foregoing is a summary only, and is qualified in its entirety by the terms and conditions of the Stock Option Plan.

Deferred Share Units Plan

The shareholders of the Company approved the adoption of a deferred share units plan on September 22, 2011 as amended and restated on October 31, 2012 (the "DSU Plan") reserving for issuance up to 2,000,000 common shares under the DSU Plan. The purpose of the DSU Plan is to provide an alternative form of compensation to satisfy payments in lieu of salary, annual and special bonuses payable to senior officers and Directors and to satisfy fees that may be payable to directors for acting as directors of the Corporation. The foregoing is a summary only, and is qualified in its entirety by the terms and conditions of the DSU Plan.

DIVIDENDS

There are no restrictions in DiaMedica's articles or elsewhere which would prevent DiaMedica paying dividends. No dividends have been declared or paid on our common shares in the last three fiscal years, and it is not expected that dividends will be declared or paid in the immediate or foreseeable future. The policy of the Board of Directors of the Company is to reinvest all available funds in operations. The Board of Directors will reassess this policy from time to time. Any decision to pay dividends on our common shares will be made by the Board of Directors based on the assessment of, among other factors, earnings, capital requirements and the operating and financial condition of the Company.

MARKET FOR SECURITIES

The Company's outstanding common shares are listed and posted for trading on the TSXV under the trading symbol "DMA"

Trading History

Month	High	Low	Volume
December 2013	$0.96	$0.82	751,126
November 2013	$1.00	$0.77	527,339
October 2013	$1.27	$0.86	849,801
September 2013	$1.49	$1.25	900,170
August 2013	$1.35	$1.01	874,775
July 2013	$1.06	$0.89	706,145
June 2013	$1.20	$0.96	819,883
May 2013	$1.38	$0.86	942,552
April 2013	$0.92	$0.75	564,174
March 2013	$1.03	$0.82	677,048
February 2013	$1.25	$0.84	857,352
January 2013	$1.34	$0.81	966,917

Prior Sales

On January 22, 2014, the agent in connection with the December 2013 Offering (as defined below) exercised its option to sell an additional 31,000 units pursuant to the December 2013 Offering at a sale price of $0.90 per unit resulting in gross proceeds of $27,900.

On January 3, 2014, the Company completed a non-brokered private placement of 154,500 units at a price of $0.90 per unit for aggregate gross proceeds of $139,050. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on December 23, 2015. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 9,270 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $1.10 prior to expiry on January 3, 2015.

On December 23, 2013, the Company completed a prospectus offering of 2,888,910 units at a price of $0.90 per unit, for aggregate gross proceeds to the Company of $2,600,019 (the "December 2013 Offering"). Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on December 23, 2015. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 173,335 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on December 23, 2014.

On March 22, 2013, the Company completed a prospectus offering of 5,111,175 units at a price of $0.90 per unit, for aggregate gross proceeds to the Company of $4,600,058. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.10 at any time prior to expiry on March 22, 2016. The warrant expiry date can be accelerated at the option of the Company, in the event that the volume-weighted average trading price of the Company's common shares exceeds $1.60 per common share for any 10 consecutive trading days. In connection with the financing, the Company issued 357,782 compensation warrants. Each compensation warrant entitles the holder to acquire one common share at an exercise price of $0.90 prior to expiry on March 22, 2014. In third quarter of 2013, 24,025 warrants were exercised for gross proceeds of $23,442.

DiaMedica also has 1,055,600 warrants issued and outstanding which were issued on May 8, 2012 in connection with the Early Warrant Exercise Incentive Program (the "Incentive Warrants"). Each Incentive Warrant is exercisable for a period of 24 months from May 8, 2012 (the "Incentive Warrant Exercise Date") at an exercise price of $1.60 (as amended, see below). In the event the volume-weighted average trading price of the Common Shares on the TSX-V (or such other exchange as DiaMedica's common shares may be listed on) exceeds $3.00 per share for a period of 10 consecutive trading days following May 8, 2012, DiaMedica may, at its option, accelerate the Incentive Warrant Expiry Date by delivery of notice (an "Incentive Warrant Acceleration Notice") to the holders of Incentive Warrants and issuing a press release announcing such acceleration (an "Incentive Warrant Acceleration Press Release"), and, in such case, the Incentive Warrant Exercise Date shall be deemed to be the 30th day following the later of: (i) the date on which the Incentive Warrant Acceleration Notice is sent to holders of Incentive Warrants; and (ii) the date of issuance of the Incentive Warrant Acceleration Press Release. In July 2013, the Company amended the exercise price of the 1,055,600 outstanding May 8, 2014 warrants from $2.50 to $1.60.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Designation of Class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class
Common Shares	nil[(1)]	n/a

Notes:
(1) In accordance with the terms of the share exchange agreement on the acquisition of Sanomune Inc. on June 30, 2010, the Sanomune shareholders placed 1,640,916 DiaMedica common shares received in exchange for Sanomune common shares into escrow for a period of three years following closing which were released in six semi-annual instalments. The initial release of these shares in escrow was December 30, 2010 with the last release from escrow on June 30, 2013. As at the date of this AIF no common shares remain in escrow.

DIRECTORS AND OFFICERS

Name and Occupation

Name, Present Office Held and Municipality of Residence	Director Since	Principal Occupation and Occupation During the Past Five (5) Years
David Allan Toronto, ON, Canada *Director* [(1) (3)]	March 2007 to Feb 22, 2013	Mr. Allan was the Chairman of biopharmaceutical company YM BioSciences Inc., from 1998 to its sale in 2013, and was CEO to October 2010. Mr. Allan is also Chairman of Stem Cell Therapeutics Corporation since June 28, 2011.
Michael Giuffre Calgary, AB, Canada *Director*[(2)]	August 2010	Clinical Professor of cardiac sciences and pediatrics, faculty of Medicine, University of Calgary since 2009, Associate Professor since 1995. Currently President elect Alberta Medical Association, board member since 1995. Pediatric cardiologist at Alberta Children's Hospital since June 1990.
Rick Pauls Minneapolis, MN, US *CEO and Director,* *Chair*	April 2005	Chairman, President and CEO of DiaMedica Inc., since July 31, 2009. From 2002 until the beginning of 2010, he was the Managing Director of CentreStone Ventures Inc., a life sciences venture capital fund. Mr. Pauls also sits on the board of LED Medical Diagnostics Inc.
Richard Pilnik Indianapolis, IN, USA *Director* [(2)]	January 2009	President of Quintiles Commercial Solutions since April 2009. In 2008, he retired after 25 years with Eli Lilly & Co. where his most recent positions were group Vice President and Chief Marketing Officer. He currently sits on the board of the Duke University Fuqua School of Business and Elan Pharmaceuticals.
Dawson Reimer Winnipeg, MB, Canada *Director* [(1)]	September 2011	Advisor to CentreStone Ventures Limited Partnership Fund. He is the President and Chief Operating Officer at Medicure Inc. where he has been employed since 2001.
Thomas Wellner Toronto, ON, Canada *Director* [(1)(2)]	April 2008	Mr. Wellner is Chief Executive Officer of Revera Inc. Previously, he was Co-Chief Executive Officer of LifeLabs LP from October 2013 to February 2014; President and CEO of CML HealthCare Inc., from February 2012 to October 2013; and President and CEO of Therapure Biopharma Inc. from April 2008 until May 2011. Mr. Wellner also sits on the boards of Cipher Pharmaceuticals, FreshBooks, Inc., Atlantic Healthcare Plc and Life Sciences Ontario.
Dennis D. Kim, M.D. San Diego, CA, US Consulting Chief Medical Officer	n/a	Dr. Kim was appointed Chief Medical Officer in April, 2013. He is a Principal of MetaCon, Inc. Previously, Sr. VP of Medical Affairs, Orexigen Therapeutics, and Vice President, Medical Affairs and Chief Medical Officer of EnteroMedics, Inc.

James Parsons, CPA (Canada), CA Mississauga, ON, Canada Vice-President, Finance	n/a	Mr. Parsons was appointed Vice President, Finance in October 2010. He was previously CFO of Amorfix Life Sciences Ltd. from 2006 to 2010. Mr. Parsons is also CFO of Stem Cell Therapeutics Corp since August 2011.
John Savage, CPA (Inactive Prior Lake, MN, US Chief Financial Officer	n/a	Mr. Savage was appointed Chief Financial Officer in April 2014. He was previously Director of Corporate Accounting at United Health Group, a diversified health care company.
Mark Robbins, PhD Orono, MN, US Vice-President, Clinical and Regulatory Affairs	n/a	Dr. Robbins was appointed Vice President, Clinical and Regulatory Affairs of DiaMedica in December 2012. From 2008 to 2011 Dr. Robbins was Vice President, Legal, Scientific and Technical Operations at Upsher-Smith Labs and from 2011 to 2012 operated Kodiak Strategic Consultants, LLC, a clinical and regulatory consulting business.
Mark Williams, PhD Plymouth, MN, US Vice-President, Research	n/a	Dr. Williams was appointed Vice President, Research of DiaMedica in June 2010. Dr. Williams has worked with DiaMedica since 2005.

Notes:
(1) Member of the Audit Committee.
(2) Member of the Governance and Compensation Committee.
(3) Mr. Allan resigned as a director on February 22, 2013

The term of office of directors expires annually at the time of the Company's annual meeting. The directors of the Company were elected at the annual meeting of shareholders on December 16, 2013. The term of officers expires at the discretion of the directors of the Company.

The directors and executive officers of DiaMedica, as a group, own or exercise control and direction over 1,084,246 common shares, being approximately 2% of the issued common shares on a non-diluted basis as at the date hereof.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the best of the Company's knowledge, no director or executive officer of the Company, is, as at the date hereof or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company:

(a) that was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company, or

(b) that was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days, issued after that person ceased to be a director, chief executive officer or chief financial officer of the relevant company that resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company.

To the best of the Company's knowledge, none of its directors, executive officers or a shareholder holding sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as at the date hereof or has been, within the 10 years before the date hereof, a director or executive officer of any company, that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

To the best of the Company's knowledge, none of its directors, executive officers or a shareholder holding sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Other than as disclosed herein, there are no existing or potential material conflicts of interest between the Company (or a subsidiary of the Company) and any director or officer of the Company (or a subsidiary of the Company).

There are potential conflicts of interest to which the directors and officers will be subject in connection with the operations. In particular, certain of the directors are involved in managerial and/or director positions with other companies whose operations may, from time to time, be in direct competition with the Company's operations or with entities which may, from time to time, provide financing to, or make equity investments in, the Company's competitors.

Conflicts, if any, will be subject to the procedures and remedies available under *The Corporations Act* (Manitoba). *The Corporations Act* (Manitoba) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by *The Corporations Act* (Manitoba).

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings or regulatory actions to which DiaMedica is or was a party to or of which any of its property is or was the subject of during the fiscal year ended December 31, 2013.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices in Toronto, Ontario.

The warrant agent for outstanding warrants is CST Trust Company at its principal offices in Calgary, Alberta.

MATERIAL CONTRACTS

Contracts entered into by DiaMedica within the last financial year or before the last financial year and are still in effect which are required to be filed pursuant to applicable securities laws, are as follows:

1. A License Agreement with the University of Manitoba whereby the Company was granted an exclusive license to research and develop, promote, sell, market and to sublicense specified subject matter and intellectual properties as defined in the agreement. The Company is required to pay a royalty of a stipulated percentage of net sales. The license is for a period of the longer of ten years or to the expiration of the last patent granted.

2. A Share Exchange Agreement dated February 18, 2010 among Sanomune shareholders, Sanomune Inc. and DiaMedica Inc., whereby DiaMedica acquired all of the issued and outstanding shares of Sanomune Inc. This agreement included the placing into escrow of 1,640,916 DiaMedica common shares received in exchange for Sanomune common shares for a period of three years following closing, such common shares will be released in six semi-annual instalments. The final release of common shares occurred in the summer of 2013.

3. The Stock Option Plan for DiaMedica.

4. The Deferred Share Unit Plan for DiaMedica.

5. The Shareholder Rights Plan for DiaMedica.

INTEREST OF EXPERTS

KPMG LLP, Chartered Accountants, Winnipeg, Manitoba are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Manitoba.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, securities authorized for issuance under equity compensation plans, is contained in our management proxy circular for our annual meeting of shareholders held on December 16, 2013. Additional financial information is provided in our audited financial statements and MD&A for our most recent year-end and quarter-end. The foregoing financial information and additional information about the Company is available on SEDAR at www.sedar.com under the Company name.