No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, the ("1933 Act"), or any state securities laws and may not be offered or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from DiaMedica Inc. c/o 1700 – 360 Main Street, Winnipeg, Manitoba R3C 3Z3 or DiaMedica USA Inc. One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447 (telephone 763-710-4455), and are also available electronically at www.sedar.com.*

New Issue **December 13, 2013**

SHORT FORM PROSPECTUS

Offering of
2,778,000 Units ($2,500,200)

This short form prospectus (the "**Prospectus**") qualifies the distribution (the "**Offering**") of 2,778,000 units of securities (the "**Units**") in the capital of DiaMedica Inc. (the "**Company**" or "**DiaMedica**") at a price of $0.90 per Unit (the "**Offering Price**") pursuant to an agency agreement (the "**Agency Agreement**") dated December 13, 2013 between the Company and Jordan Capital Markets Inc. (the "**Agent**").

Each Unit will consist of one common share in the capital of the Company (each a "**Common Share**") and one half of one Common Share purchase warrant (each whole Common Share purchase warrant a "**Warrant**"), with each Warrant entitling the holder thereof to acquire a further Common Share at an exercise price of $1.10 per share until the second anniversary of the closing of the Offering (the "**Warrant Expiry Date**"). In the event the volume-weighted average trading price of the Common Shares on the TSX Venture Exchange (the "**TSX-V**") exceeds $1.60 per share for a period of 10 consecutive trading days following the closing of the Offering, the Company may, at its option, accelerate the Warrant Expiry Date by delivery of notice (a "**Warrant Acceleration Notice**") to the registered holders thereof and issuing a press release announcing such acceleration (a "**Warrant Acceleration Press Release**"), and, in such case, the Warrant Expiry Date shall be deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release. The Offering Price has been determined by negotiation between the Company and the Agent.

Price: $0.90 per Unit

	Price to the public[(1)(2)]	Agent's Fee[(1)(3)]	Net Proceeds to the Company[(1)(4)]
Per Unit	$0.90	$0.054	$0.846
Total	$2,500,200.00	$150,012.00	$2,350,188.00

Notes:

(1) The Company has granted to the Agent an option (the "**Agent's Option**"), exercisable in whole or in part at any time prior to the thirtieth (30th) day following the Closing Date (as defined below), to increase the number of Units offered hereunder by up to 15%, or up to 3,194,700 Units in the aggregate. If the Agent's Option is exercised in full, the price to the public, the Agent's Fee (as defined herein), and the net proceeds to the Company from the Offering (before deducting expenses of the Offering, estimated to be $220,000) will be $2,875,230, $172,513.80 and $2,702,716.20, respectively. A purchaser who acquires Common Shares and Warrants comprising the Units forming part of the Agent's over-allotment position acquires those Units under this Prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Agent's Option or secondary market purchases. This Prospectus also qualifies the grant of the Agent's Option and the distribution of the Common Shares and Warrants comprising the Units issuable upon exercise of the Agent's Option. See "Plan of Distribution".

(2) Of the Offering Price, the Company will allocate $0.89 to each Common Share and $0.01 to each half Warrant comprising the Units.

(3) The Company has agreed to pay the Agent a cash commission equal to 6% of gross proceeds of the Offering (the "**Agent's Fee**"). As additional compensation, the Company has agreed to grant to the Agent non-transferable options (the "**Compensation Options**") to acquire that number of Common Shares which is equal to 6% of the aggregate number of Units sold pursuant to the Offering, including any Units sold pursuant to the exercise of the Agent's Option, at the price of $0.90 per share for a period of 12 months after the Closing Date. This Prospectus also qualifies the distribution of the Compensation Options. See "Plan of Distribution".

(4) Before deducting expenses of the Offering, estimated to be $220,000, which will be paid by the Company out of the proceeds of the Offering.

Agent's Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Agent's Option	Option to increase the number of Units offered by up to 416,700 Units to a total of 3,194,700 Units	Any time prior to the thirtieth (30th) day following the Closing Date (as defined herein)	$0.90 per Unit
Compensation Options	Options to acquire 191,682 Common Shares[(1)]	Any time up to 12 months following the Closing Date	$0.90 per Common Share

Note:

(1) Assuming the full exercise of the Agent's Option.

The Common Shares are listed and posted for trading on the TSX-V under the symbol "DMA". On December 12, 2013, the last trading day on the TSX-V prior to the date of this Prospectus, the closing price of the Common Shares was $0.91. The Company has received conditional approval from the TSX-V to list the Common Shares distributed under this Prospectus, and the Common Shares issuable upon due exercise of the Warrants (the "**Warrant Shares**") and the Compensation Options (the "**Compensation Option Shares**"). Listing of the Common Shares, Warrant Shares and Compensation Option Shares is subject to the Company fulfilling all of the listing requirements of the TSX-V. **There is no market for the Warrants and the Company does not intend to make application to list the Warrants for trading on any exchange. As such, there is no market through which the Warrants may be sold and purchasers may not be able to resell Warrants purchased under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and**

availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation. See "Risk Factors".

The Units will be offered only in the Provinces of British Columbia, Alberta, Manitoba, and Ontario.

This Offering is not underwritten or guaranteed by any person. The Agent conditionally offers the Units, on a "commercially reasonable efforts" agency basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agent in accordance with the terms and conditions contained in the Agency Agreement and subject to the approval of certain legal matters on behalf of the Company by Fillmore Riley LLP, and on behalf of the Agent by Dentons Canada LLP. In accordance with and subject to applicable laws, the Agent may effect transactions that stabilize or maintain the market price of the Common Shares. See "Plan of Distribution".

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of the Offering (the "**Closing**") will take place on or about December 20, 2013, or such other date as may be agreed upon by the Company and the Agent (the "**Closing Date**"). Notwithstanding the foregoing and as further described below, the distribution of the Units will not continue for a period of more than 90 days after the date of the receipt for the final short form prospectus unless each of the subscribers who subscribed for Units within that period has consented to the continuation. During that period, funds received from subscriptions will be held in trust by the Agent pending receipt of subscriptions of 2,778,000 Units. If subscriptions for 2,778,000 Units have not been obtained within 90 days of the issuance of a receipt for the final short form prospectus, all subscription monies will be returned to subscribers without interest or deduction.

The Offering will be conducted under the book-based system. A subscriber who purchases Units will receive only a customer confirmation from the registered dealer from or through whom Units are purchased and who is a CDS Clearing and Depository Services Inc. ("**CDS**") depository service participant (a "**CDS Participant**"). CDS will record the CDS Participants who hold the Common Shares and Warrants comprising the Units on behalf of owners who have purchased Units in accordance with the book-based system. No certificates will be issued for the Common Shares or the Warrants comprising the Units unless specifically requested. Such a request will need to be made through the CDS Participant through whom the beneficial interest in the securities is held at the time of the request.

Investing in the Units involves certain risks that should be considered by a prospective purchaser. The risk factors identified under the heading "Risk Factors" in this Prospectus and in other documents incorporated herein by reference should be carefully reviewed and evaluated by prospective purchasers before purchasing the Units being offered hereunder.

The Company's registered office is located at 1700 – 360 Main Street, Winnipeg, Manitoba, R3C 3Z3. The Company's head office is currently at the office of its wholly owned subsidiary DiaMedica USA Inc. located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447, *telephone* (763-710-4455), *website* www.diamedica.com.

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DEFINITIONS AND OTHER MATTERS

As used in this Prospectus, unless the context otherwise indicates, the terms “DiaMedica”, “Company”, “we”, “us” and “our” mean DiaMedica Inc.

This Prospectus includes references to trade names and trademarks of other companies, which trade names and trademarks are the property of their respective owners. Statistical information and other data relating to the pharmaceutical and biotechnology industry included in this Prospectus are derived from industry reports published by industry analysts, industry associations and/or independent consulting and data compilation organizations. Market data and industry forecasts used throughout this Prospectus were obtained from various publicly available sources. Although we believe that these independent sources are generally reliable, the accuracy and completeness of such information is not guaranteed and has not been independently verified.

In this Prospectus, unless otherwise noted, all dollar amounts are in Canadian dollars. References to “US dollars” are to the lawful currency of the United States of America.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fillmore Riley LLP, counsel to the Company, and Dentons Canada LLP, counsel to the Agent, provided the Common Shares are listed on a "designated stock exchange" as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") (which includes Tiers 1 and 2 of the TSX-V) on the Closing Date, the Common Shares will be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), a registered retirement income fund ("**RRIF**"), a registered disability savings plan, a deferred profit sharing plan, a registered education savings plan and a tax-free savings account ("**TFSA**") (collectively, "**Deferred Plans**").

Provided that the Common Shares are qualified investments for Deferred Plans as described above on the Closing Date, the Warrants will also be qualified investments on that date for any Deferred Plan provided that on that date neither the Company, nor any person with whom the Company does not deal with at arm’s length for purposes of the Tax Act, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, such Deferred Plan.

Notwithstanding that the Units may be a qualified investment for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or an annuitant under a RRSP or RRIF will be subject to a penalty tax on such Common Shares or Warrants, as the case may be, held by the TFSA, RRSP or RRIF, as the case may be, if such Common Shares or Warrants as the case may be, are a "prohibited investment" within the meaning of the Tax Act. The Common Shares and Warrants will generally be a "prohibited investment" if the holder of the TFSA or annuitant under the RRSP or RRIF, as the case may be, does not deal at arm’s length with the Company for purposes of the Tax Act or has a "significant interest", within the meaning of the Tax Act, in the Company or in a company, partnership or trust with which the Company does not deal at arm’s length for purposes of the Tax Act. The Department of Finance (Canada) released proposed amendments to the Tax Act on December 21, 2012 (the “**December 2012 Proposals**”), under which the Common Shares and Warrants would generally be a "prohibited investment" only where the holder or annuitant, as the case may be, does not deal at arm's length with the Company for purposes of the Tax Act or the holder or the annuitant, as the case may be, has a "significant interest" (within the meaning of the Tax Act) in the Company. In addition, under the December 2012 Proposals, the Common Shares and Warrants will not be a “prohibited investment” if they are “excluded property” for trusts governed by a TFSA, RRSP or RRIF, as that term is defined in the December 2012 Proposals. **Holders**

who intend to hold the Common Shares or Warrants in their TFSAs, RRSPs or RRIFs should consult their own tax advisors regarding their particular circumstances.

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts, included in this Prospectus 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 and our research and development program. We also use the term "demonstrated" in this Prospectus 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 Prospectus. These factors and the other cautionary statements made in this Prospectus should be read as being applicable to all related forward-looking statements and statements of "belief" wherever they appear in this Prospectus.

Any forward-looking statements and statements of "belief" represent our estimates only as of the date of this Prospectus and should not be relied upon as representing our estimates as of any subsequent date. 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 Prospectus 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 this or 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 Prospectus 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 profitably commercialize our products;
- 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 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; 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 Prospectus. Additional risk factors are described in our AIF and the MD&A which are incorporated by reference herein. 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.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Canada.

The following documents listed below and filed by DiaMedica with the appropriate securities commissions or similar regulatory authorities in British Columbia, Alberta, Manitoba and Ontario are specifically incorporated by reference into and form an integral part of this Prospectus:

a) our annual information form for the year ended December 31, 2012, as filed on SEDAR on December 3, 2013 (the "**AIF**");

b) our audited consolidated financial statements as at December 31, 2012 and December 31, 2011, and for the years ended December 31, 2012 and 2011 together with the notes thereto and the auditors' report thereon, as filed on SEDAR on April 30, 2013;

c) management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2012 and 2011, as filed on SEDAR on April 30, 2013 (the "**MD&A**");

d) our unaudited condensed consolidated interim financial statements for the three-month and nine-month periods ended September 30, 2013 and 2012, together with the notes thereto, as filed on SEDAR on November 28, 2013;

e) management's discussion and analysis of financial condition and results of operations for the three-month and nine-month periods ended September 30, 2013 and 2012, as filed on SEDAR on November 28, 2013;

f) the material change report of DiaMedica dated March 27, 2013 with respect to the completion of the short form prospectus offering of 5,111,175 Units for gross proceeds of $4,600,057.50 which closed on March 22, 2013 (the "**March Offering**");

g) the material change report of DiaMedica dated January 9, 2013 with respect to the appointment of Mark Robbins as the Company's Vice President Clinical and Regulatory Affairs and the issuance of stock options;

h) DiaMedica's management information circular dated November 6, 2013, for the annual and special meeting of shareholders to be held on December 16, 2013; and

i) the press release of DiaMedica dated February 22, 2013 regarding David Allan.

Any document of the type referred to in the preceding paragraph subsequently filed by us with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering shall be deemed to be incorporated by reference into the Prospectus. Additionally, any template version of "marketing materials" (as defined in National Instrument 41-101 *General Prospectus Requirements* ("**NI 41-101**")) for this Offering filed by DiaMedica with a securities commission or similar regulatory authority in any of the provinces or territories of Canada after the date of this Prospectus and prior to the termination of the distribution under the Offering shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it

modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute nor be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

DIAMEDICA INC.

DiaMedica was incorporated as Diabex Inc. pursuant to *The Corporations Act* (Manitoba) by articles of incorporation dated January 21, 2000. The Company's articles of incorporation were amended on: (1) October 6, 2000 to effect a share split on the basis of 35,307.6923 voting Common Shares for each issued and outstanding Common Share; (2) April 3, 2001 to change our name to DiaMedica Inc.; (3) March 14, 2005 to: (i) create an unlimited number of Class A Preferred Shares; and (ii) delete the Non-Voting Common, Class A, Class B, Class C and Class D shares in our capital; and (4) July 2, 2008 to: (i) delete the Class A Preferred Shares; and (ii) remove the restriction on share transfers (collectively, the "**Articles of Incorporation**").

The Company's registered office is located at 1700 – 360 Main Street, Winnipeg, Manitoba, R3C 3Z3. The Company's head office is currently at the office of its wholly owned subsidiary DiaMedica USA Inc. ("**DiaMedica USA**") located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447, www.diamedica.com.

On May 15, 2012, DiaMedica USA was incorporated pursuant to the General Corporation Law of the State of Delaware, United States. All of the issued and outstanding shares in the capital stock of DiaMedica USA are legally and beneficially owned by the Company. 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, Minnesota 55447.

OUR BUSINESS

DiaMedica Inc. 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. DiaMedica is also developing a novel monoclonal antibody, DM204 for the treatment of Type 2 diabetes, which is in preclinical development. The Company plans to continue to generate additional pre-clinical data for both DM199 and DM204 in other indications in which the mode of action of the novel molecules has been shown to, or is expected to, demonstrate activity.

DM199 Program

DiaMedica's lead product, DM199, is a recombinant human tissue kallikrein protein. DM199 increased whole body glucose utilization in animals using a hyperinsulemic euglycemic clamp model. Having completed cGMP manufacturing and IND-enabling toxicology studies for DM199 in early Q1-2013, the Company initiated a Phase I/II clinical trial in Q2-2013 to evaluate the safety, tolerability, pharmacokinetics ("**PK**") and efficacy of DM199 in 36 healthy volunteers and in 40 patients with Type 2 diabetes. The Company successfully completed acute escalating dosing of DM199 at multiple levels in healthy volunteers. Preliminary results from the first part of the study in 18 healthy volunteers show that

DM199 was well tolerated and demonstrated a favorable PK profile, supporting potential once weekly dosing. The Company has also completed the single ascending dose ("SAD") portion of the DM199 Phase I/II clinical study to evaluate the acute effects of escalating doses of DM199 in patients with Type 2 diabetes. The study achieved its primary clinical endpoints of demonstrating the safety, tolerability and sustained PK properties of DM199, while also suggesting an insulin sensitization mechanism of action for Type 2 diabetes.

The first segment of clinical testing in Type 2 diabetic patients was a randomized, double-blinded, placebo-controlled study which enrolled 10 Type 2 diabetic patients. The patients were dosed with either DM199 at three single ascending dose levels or placebo. DM199 was well-tolerated at all three dose levels by the diabetic patients with no dose limiting side effects. In addition, results from secondary endpoints of the clinical trial assessing glucose control were consistent with an insulin sensitization mechanism of action. Insulin sensitizers lower a patient's blood sugar levels by increasing the body's response to insulin over time. DM199 treated patients showed a signal in improving insulin sensitivity as measured by HOMA2-IR compared to control. HOMA2-IR levels in patients treated with DM199 resulted in stabilization in some patients and downward trend in the others while each placebo patient increased (worsened) HOMA2-IR levels suggesting the potential as an insulin sensitizer. Full results of the study will be published as part of the overall Phase I/II clinical trial.

In a separate study to the ongoing Phase I/II clinical trial, DiaMedica recently completed a Phase I PK study in 14 healthy volunteers which demonstrated DM199 has an extended half-life (time required to reduce concentration of drug in body by one-half) confirming earlier PK results. DM199 also had long half-life and similar PK profile in Type 2 diabetic patients.

The Company has now advanced into the chronic 16-day multiple ascending dose study in healthy volunteers, which will be followed shortly thereafter with a 28-day study in Type 2 diabetic patients.

DM204 Program

DM204 is a unique antibody targeted to the human receptor cell line. The Company is continuing to optimize the antibody selection and further define the pharmacological properties of DM204.

The Company's DM204 program is initially focused on Type 2 diabetes. DiaMedica believes that a monoclonal antibody with potent dual capabilities to reduce blood glucose and improve blood pressure control offers an attractive drug candidate for drug development. In a 3-week pre-clinical Zucker Diabetic Fatty (or ZDF) rat study, DM204 has significantly ameliorated diabetes and associated complications over control including a 2.6% improvement in glucose control as measured by HbA1c, a 25 mm/Hg improvement in blood pressure and a 24% improvement in total cholesterol.

Administration of DM204 was well tolerated over 3-weeks and significantly outperformed marketed Type 2 diabetes drugs sitagliptin (Januvia®) and exenatide (Byetta®) in the study.

In another pre-clinical study, DM204's activity was measured using a hyperinsulinemic euglycemic clamp model. Rats treated with a single dose of DM204 demonstrated a 291% increase in maximal glucose infusion rate ($p<0.0035$). This significant increase in glucose disposal was associated with a 160% overall average increase ($p<0.0066$) in the glucose infusion rate compared to control in order to maintain euglycemia. DM204 also showed positive results in two other Type 2 diabetes models.

RECENT DEVELOPMENTS

On November 11, 2013 DiaMedica granted options to purchase 100,000 common shares to its directors as part of its bi-annual stock option issuance. The options were issued at an exercise price of $0.86 per share. The options expire ten years from the date of the grant.

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 September 30, 2013, the Company announced positive results from the second portion of the DM199 Phase I/II clinical trial conducted in Type 2 diabetic patients. The study achieved its primary clinical endpoints of demonstrating the safety, tolerability and sustained PK properties of DM199, while also suggesting an insulin sensitization mechanism of action for Type 2 diabetes.

The randomized, double-blinded, placebo-controlled study enrolled 10 Type 2 diabetic patients. The patients were dosed with either DM199 at three single ascending dose levels or placebo. DM199 was well-tolerated at all three dose levels by the diabetic patients with no dose limiting side effects. In addition, results from secondary endpoints of the clinical trial assessing glucose control were consistent with an insulin sensitization mechanism of action. Insulin sensitizers lower a patient's blood sugar levels by increasing the body’s response to insulin over time. Full results of the study will be published as part of the overall Phase I/II clinical trial.

In a separate study to the ongoing Phase I/II clinical trial, DiaMedica recently completed a Phase I PK study in 14 healthy volunteers demonstrated DM199 has an extended half-life (time required to reduce concentration of drug in body by one-half) confirming earlier PK results. DM199 also had long half-life and similar PK profile in Type 2 diabetic patients.

On June 26, 2013, DiaMedica granted options to purchase 525,000 common shares to certain officers and directors of DiaMedica at an exercise price of $1.07. The options expire ten years from the date of the grant.

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

[continued on next page]

CONSOLIDATED CAPITALIZATION

There have been no material changes in the equity or loan capitalization of the Company since September 30, 2013, the date of the Company's most recently filed financial statements. The following table sets forth the capitalization of the Company as at September 30, 2013 before giving effect to this Offering and after giving effect to this Offering.

(Unaudited)	**Balance** (as at Sept. 30, 2013, before giving effect to the Offering)	**Balance** (as at Sept. 30, 2013 after giving effect to the Offering) [2][3][4]
Shareholders' equity (deficiency)		
Common Shares and Warrants[1]	$34,580,287 (55,740,685 Common Shares and 3,944,944 Warrants)	$36,710,475 (58,518,685 Common Shares and 5,333,944 Warrants)
Contributed surplus	$3,998,202	$3,998,202
Deficit	$(38,040,202)	$(38,040,202)
Total Capitalization	$538,287	$2,668,475

Notes:

(1) As at September 30, 2013, the Company had outstanding options issued to officers, directors, employees and consultants, to purchase an aggregate of 4,943,000, Common Shares at exercise prices ranging from $0.42 to $1.70 per share. As at September 30, 2013, the Company had 74,556 outstanding deferred share units issued to senior management and its board of directors.

(2) Based on the issuance of 2,778,000 Units pursuant to the Offering for gross proceeds of $2,500,200.00, less the Agent's Fee of $150,012 and expenses of the Offering estimated to be $220,000, resulting in net proceeds of $2,130,188.

(3) Does not include Common Shares issuable upon exercise of the Compensation Options.

(4) Does not include the Agent's Option. If the Agent's Option is exercised in full, an additional 416,700 Units will be issued, and the aggregate gross proceeds of the Offering, Agent's Fee, estimated expenses of the Offering and the net proceeds we receive will be $2,875,230, $172,513.80, $220,000 and $2,482,716.20, respectively.

USE OF PROCEEDS

The net proceeds of the Offering, assuming the Agent's Option is not exercised, after payment of the Agent's Fee and after deduction of the expenses of the Offering (estimated to be $220,000), will be $2,130,188.

We are engaged in research and development activities, and to date we have not recorded any revenues from the sale of products. Consequently, we do not generate any operating income or cash flows from operations. To date, we have depended on equity capital to finance our activities. For the nine months ended September 30, 2013, we had negative operating cash flows from operating activities of $5,213,182. It is expected that losses will increase in the near term as we continue our product development efforts, enter clinical trials and seek regulatory approval for our products.

The net proceeds from the Offering are currently intended to be used for our research and development programs, our manufacturing activities in support of such research and development programs and for general and administrative purposes (which includes research and development salaries and overhead). The net proceeds of the Offering will be principally focused on the clinical development of DM199 for Type 1 diabetes, the completion of a Phase I/II clinical trial and additional preclinical indications and to further our manufacturing and preclinical development of DM204 for Type 2 diabetes in preparation for carrying out planned clinical studies and for working capital, general and administrative purposes. In addition the net proceeds from the Offering will also allow the Company to advance additional preclinical indications for DM199. We believe that our intended use of the net proceeds of the Offering is consistent with our stated business objectives and strategic goals of developing DM199 and DM204 for diabetes and other indications.

	Allocation of Net Proceeds
DM199 Phase II trial & additional preclinical indications	$1,272,155[(1)]
DM204 Preclinical development	$50,000
General Working Capital Purposes and General & Administrative Expenses	$808,033[(2)]
Total	$2,130,188[(3)]

Note:

(1) Results from the Phase II trial expected in the third quarter of 2014.

(2) This amount is currently anticipated to be the general working capital and general and administrative expenses of the Company from the closing of the Offering to the end of the second quarter of 2014.

(3) Assuming the Agent's Option is not exercised.

We intend to spend the funds available to us as stated above, however, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for us to achieve our stated business objectives. Our actual use of proceeds of the Offering may vary depending on our operating and capital needs from time to time and will be subject to the discretion of management.

The amounts and timing of expenditures could vary depending on, among other things, the progress of our research and development programs, regulatory approvals, technological advances, the commercial potential of products based on our technology, the status of competitive products and unexpected

expenses. Pending such expenditures, we intend to invest the funds in short-term, investment grade, interest-bearing securities, in government securities or in bank accounts. We cannot predict whether the proceeds invested will yield a favourable return.

We do not know whether any of our potential products 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 up to ten years and we may incur development costs prior to partnering the products for commercialization by others. In addition, we may encounter unforeseen difficulties or delays in commercializing our products.

Business objectives and milestones

Using our available funds, we expect to accomplish the following business objectives:

- Complete a Phase II clinical trial in Type 2 diabetic patients with DM199;
- Advance preclinical development of DM199 in other indications; and
- Continue pre-clinical development of DM204.

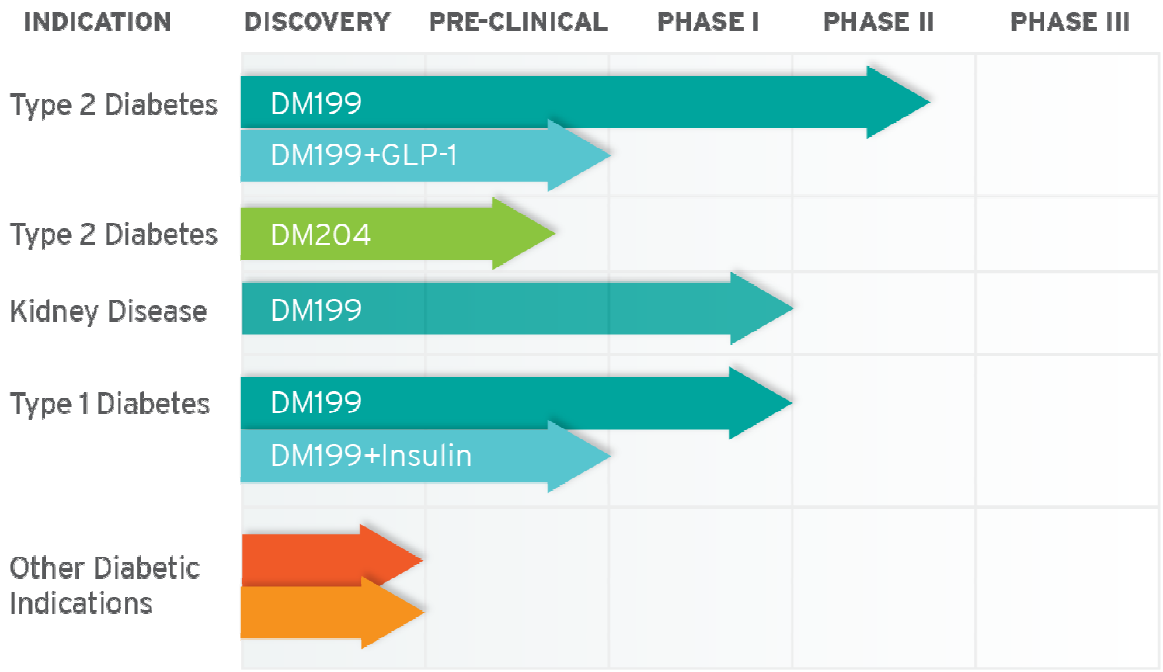
We anticipate these objectives will be ongoing.

The primary milestone for the Company is completion of the Phase II clinical trial with DM199. We expect completion of this milestone to be in the third quarter of 2014. We expect the net proceeds from the Offering will allow us to achieve this milestone and will allow us to advance additional preclinical indications for DM199 in preparation for a Phase II clinical trial with DM199 in diabetic kidney disease patients in 2014. We expect that the net proceeds will allow us to also continue preclinical development of DM204 along with providing the Company with additional working capital which it is expected will carry the Company into the summer of 2014.

Following completion of the Phase II clinical trial the Company will continue to seek commercialization partnerships and other strategic initiatives to conduct Phase III trials (see "*Commercialization Partnerships and Other Strategic Initiatives*" in the AIF). There is a risk that favourable results will not be achieved. See *"Risk Factors"*.

[continued on next page]

The following chart outlines our current product pipeline:



See "Business of the Corporation – Summary of Diabetes Product Pipeline" in our AIF for additional information.

Use of Proceeds Variance Analysis – March 2013 Offering

The following table shows the expected allocation of net proceeds from the March Offering as set out in the Company's short form prospectus dated March 14, 2013 (the "**March 2013 Prospectus**"), and the actual use of net proceeds from the period April 1, 2013 through September 30, 2013.

	Allocation of Net Proceeds from the March 2013 Prospectus	**Actual Allocation of Net Proceeds from April 1, 2013 through Sept. 30, 2013**	**Variance**
DM199 Phase I/II trial & additional preclinical indications	$2,000,000.00	$1,127,845.00	$872,155.00
DM204 Clonal Selection & Primate Study	$150,000.00	$368,565.00	($218,565.00)
General Working Capital Purposes and General & Administrative Expenses	$1,320,046.50	$1,091,929.00[1]	$228,117.50
Total	**$3,470,046.50**	**$2,588,339.00**	**$881,707.50**

Note:
1) Includes research and development salaries of $708,112.

Variance Analysis

DM199 clinical activity is proceeding as expected with completion of the acute escalating dosing of DM199 at multiple levels in healthy volunteers and the acute effects of escalating doses of DM199 in patients with Type 2 diabetes. We observed a longer drug half-life and conducted an additional unplanned animal study and Phase I pharmacokinetic study in 14 patients to confirm these observations and to establish a dosing regimen for future studies. Since September 30, 2013, DM199 advanced into the chronic 16-day multiple ascending dose (MAD) study in healthy volunteers (now completed and awaiting results), which will be followed in Q1 2014 with a 28-day study in Type 2 diabetic patients.

DM204 costs were higher than the allocation estimated in the March 2013 Prospectus. These costs were incurred primarily from cash-on-hand at March 31, 2013 which allowed completion of a number of preclinical development studies and initial clonal work. The Company has not yet initiated a primate study and therefore the full $150,000 of expenses anticipated for DM204 have not been incurred to date.

General working capital uses includes primarily personnel and personnel-related costs and they are being incurred as anticipated. Research and development salaries are included in research and development expenses in the consolidated financial statements.

The unspent amount of $881,707.50 is included in the Company's cash and cash equivalents balance as at September 30, 2013.

PLAN OF DISTRIBUTION

The net proceeds of the Offering, after payment of the Agent's Fee and after deduction of the expenses of the Offering (estimated to be $220,000), will be $2,130,188. Pursuant to the Agency Agreement, the Agent has agreed to act as agent to offer the Units at the Offering Price in the provinces of Alberta, British Columbia, Manitoba and Ontario on a "commercially reasonable efforts" agency basis, subject to prior sale, if, as and when issued by us, in accordance with the terms and conditions of the Agency Agreement and subject to the approval of certain legal matters on our behalf by Fillmore Riley LLP and on behalf of the Agent by Dentons Canada LLP.

The Offering Price was determined by negotiation between the Company and the Agent.

The obligations of the Agent under the Agency Agreement may be terminated at any time in the Agent's sole discretion on the basis of its assessment of the state of the financial markets and on the occurrence of certain stated events. While the Agent has agreed to use its commercially reasonable efforts to sell the Units, the Agent is not obligated to purchase Units that are not sold. Under the Agency Agreement, we have agreed to pay the Agent a cash commission equal to 6% of the gross proceeds of the Offering being an aggregate fee of $150,012. As additional compensation, we have agreed to grant the Compensation Options to the Agent to acquire that number of Common Shares which is equal to 6% of the aggregate number of Units sold pursuant to the Offering, including any Units sold pursuant to the exercise of the Agent's Option, being an aggregate of 191,682 Units (assuming the exercise in full of the Agent's Option) at the price of $0.90 per share for a period of 12 months after the Closing Date. We have also agreed to indemnify the Agent and its affiliates and each of their respective directors, officers, employees, agents and shareholders from and against certain liabilities and expenses and to contribute to payments that the Agent may be required to make in respect thereto. The Agent has reserved the right to offer selling group participation in the Offering to other registered dealers. Any fees payable to members of such selling group will be paid by the Agent out of the Agent's Fee.

We have granted the Agent the Agent's Option, exercisable in whole or in part at any time prior to the thirtieth (30th) day following the Closing Date, to increase the number of Units offered hereunder by up to 15% of the Offering, or 416,700 Units. If the Agent's Option is exercised in full, the price to the public, the Agent's Fee, and the net proceeds to the Company (before deducting expenses of the Offering, estimated to be $220,000) will be $2,875,230, $172,513.80 and $2,482,716.20, respectively. A purchaser who acquires Common Shares and Warrants comprising the Units forming part of the Agent's over-allotment position acquires those Units under this Prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Agent's Option or secondary market purchases. This Prospectus also qualifies the grant of the Agent's Option and the distribution of the Common Shares and Warrants comprising the Units issuable upon exercise of the Agent's Option.

We have been advised by the Agent that, in connection with the Offering, the Agent may affect transactions to stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about December 20, 2013 or such other date as may be agreed upon by us and the Agent. Notwithstanding the foregoing and as further described below, the distribution of the Units will not continue for a period of more than 90 days after the date of the receipt for the final short form prospectus unless each of the subscribers who subscribed for Units within that period has consented to the continuation. During that period, funds received from subscriptions will be held in trust by the Agent pending receipt of subscriptions equal to 2,778,000 Units. If subscriptions for 2,778,000 Units have not been obtained within 90 days of the issuance of a receipt for the final short form prospectus, all subscription monies will be returned to subscribers without interest or deduction.

The Offering will be conducted under the book-based system. A subscriber who purchases Units will receive only a customer confirmation from the registered dealer from or through whom Units are purchased and who is a CDS Participant. CDS will record the CDS Participants who hold the Common Shares and Warrants comprising the Units on behalf of owners who have purchased Units in accordance with the book-based system. No certificates will be issued for the Common Shares or the Warrants comprising the Units unless specifically requested. Such a request will need to be made through the CDS Participant through whom the beneficial interest in the securities are held at the time of the request.

Pursuant to the terms of the Agency Agreement, we have agreed not to offer or issue, or enter into an agreement to offer or issue, or announce any intention to offer or issue, any of our securities or any securities convertible or exchangeable into our securities (other than stock options granted pursuant to our stock option plan or securities issuable upon the exercise of the currently outstanding stock options or convertible securities) for a period of 90 days following the Closing Date of the Offering without the prior written consent of the Agent, such consent not to be unreasonably withheld.

The Common Shares and Warrants comprising the Units have not been and will not be registered under the 1933 Act or any state securities laws and may not be offered or sold within the United States, except in certain transactions exempt from the registration requirements of the 1933 Act, and in compliance with applicable state securities laws. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Units in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance an exemption from such registration requirements.

We have received conditional approval from the TSX-V to list the Common Shares distributed under this Prospectus, and the Warrant Shares and Compensation Option Shares issuable upon due exercise of the Warrants and Compensation Options, respectively. Listing of the Common Shares, Warrant Shares and Compensation Option Shares is subject to our fulfilling all of the listing requirements of the TSX-V. **There is no market for the Warrants and we do not intend to make application to list the Warrants for trading on any exchange. As such, there is no market through which the Warrants may be sold and purchasers may not be able to resell Warrants purchased under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and available of trading price, the liquidity of the Warrants and the extent of issuer regulation. See "Risk Factors".**

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fillmore Riley LLP, counsel to the Company, and Dentons Canada LLP, counsel to the Agent, the following is, at the date hereof, a summary of the principal Canadian federal income tax considerations applicable to a subscriber who acquires Units pursuant to the Offering and who, for purposes of the Tax Act and at all relevant times, is or is deemed to be a resident of Canada, deals at arm's length with and is not affiliated with the Company, and will acquire and hold the Common Shares and Warrants (the "**Securities**") as capital property. Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain subscribers to whom the Common Shares might not constitute capital property may, in certain circumstances, be entitled to have such securities treated as capital property by making an irrevocable election permitted by subsection 39(4) of the Tax Act. This election does not apply to the Warrants. Subscribers should consult their own tax advisors regarding this election.

This summary is not applicable to a subscriber: (i) that is a "financial institution" or a "specified financial institution", as defined in the Tax Act; (ii) an interest in which would be a "tax shelter investment", as defined in the Tax Act; or (iii) that has made a functional currency reporting election under the Tax Act.
This summary is based upon the provisions of the Tax Act and the regulations thereunder (the "**Regulations**") in force as of the date hereof, all specific proposals to amend the Tax Act and the Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and counsels' understanding of the current published administrative practices of the Canada Revenue Agency ("**CRA**"). This summary assumes that the Proposed Amendments will be enacted in the form proposed. No assurance can be given that the Proposed Amendments will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law or in the administrative or assessing practices of the CRA, whether by legislative, governmental or judicial decision or action (which may be effective retroactively), nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any subscriber who purchases Securities pursuant to the Offering, and no representations with respect to the income tax consequences to such subscribers are made. Consequently, subscribers purchasing Securities pursuant to the Offering should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring the Securities pursuant to this Offering, having regard to their particular circumstances.

Allocation of Purchase Price

The Common Share and half Warrant comprising each Unit are separate properties and accordingly, subscribers will be required to allocate the purchase price paid for each Unit between the Common Share and the half Warrant on a reasonable basis in order to determine their respective costs for purposes of the Tax Act. The amounts allocated to a Common Share and a half Warrant, respectively, must be averaged with the adjusted cost base of all other common shares and warrants to acquire common shares of the Company, respectively, held by the subscriber as capital property, to determine the adjusted cost base of all such Common Shares and Warrants to the subscriber.

As determined by the Company, $0.89 of the issue price of each Unit is allocated as consideration for the issue of each Common Share and $0.01 for each half Warrant comprising such Unit. Although the Company believes such allocation is reasonable, such allocation will not be binding on the CRA and counsel express no opinion as to such allocation. A successful challenge of such allocation by the CRA will affect the adjusted cost base of the Common Shares and the Warrants comprising the Units and could therefore affect a subscriber's tax treatment.

Common Shares

Dividends

Dividends received or deemed to be received on the Common Shares (included in a Unit or acquired upon the exercise of a Warrant) by a subscriber who is an individual other than certain trusts will be included in computing the subscriber's income and will generally be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations. A dividend will be eligible for the enhanced gross-up and dividend tax credit if the recipient receives written notice from the Company designating the dividend as an "eligible dividend" (within the meaning of the Tax Act). There may be limitations on the ability of the Company to designate dividends as eligible dividends. Taxable dividends received by an individual (and certain trusts) may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Dividends received or deemed to be received on Common Shares (included in a Unit or acquired upon the exercise of a Warrant) by a subscriber that is a corporation will be included in the corporation's income and will generally be deductible in computing its taxable income. Certain corporations, including "private corporations" or "subject corporations" (as such terms are defined in the Tax Act) may be liable to pay a refundable tax under Part IV of the Tax Act, at the rate of 33⅓% of the dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing taxable income.

Disposition of Common Shares and Warrants

A subscriber who disposes of or is deemed to dispose of Common Shares (included in a Unit or acquired upon the exercise of a Warrant), other than to the Company or in a tax deferred transaction, or a Warrant (other than a disposition arising on the exercise or expiry of a Warrant, discussed below), will generally realize a capital gain (or sustain a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the subscriber's adjusted cost base thereof and any reasonable costs of disposition. See "Taxation of Capital Gains and Capital Losses" for the tax treatment of capital gains and capital losses.

Taxation of Capital Gains and Capital Losses

Generally, a subscriber is required to include in computing its income for a taxation year one-half of the amount of any capital gain (the "**taxable capital gain**"). A subscriber must deduct one-half of the amount of any capital loss (the "**allowable capital loss**") realized in a taxation year against taxable capital gains realized by the subscriber in such year, subject to and in accordance with rules contained in the Tax Act. Any allowable capital losses in excess of taxable capital gains for the year of disposition generally may be carried back up to three taxation years or carried forward indefinitely and deducted against taxable capital gains in such other years to the extent and under the circumstances described in the Tax Act.

Any capital loss resulting from the disposition of Common Shares may, in certain circumstances, be reduced by the amount of dividends previously received or deemed to be received on Common Shares, to the extent and under the circumstances described in the Tax Act.

Capital gains realized by a subscriber who is an individual or trust, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act.

A subscriber that is a "Canadian-controlled private corporation" (as defined in the Tax Act), may be liable to pay an additional refundable tax of 6⅔% on its aggregate investment income, which includes amounts in respect of taxable capital gains.

Warrants

Exercise or Expiry of Warrants

A subscriber will not realize a gain or loss upon the exercise of a Warrant. The subscriber's cost of Common Shares acquired by exercising Warrants will be equal to the aggregate of the subscriber's adjusted cost base of the Warrants exercised plus the exercise price paid for the Common Shares. The subscriber's adjusted cost base of the Common Shares so acquired will be determined by averaging the cost of those Common Shares with the adjusted cost base (determined immediately before the acquisition of the Common Shares) of all other common shares (including those included in the Units and those acquired upon the exercise of Warrants included in the Units) held as capital property by such subscriber at the time of acquisition.

In the event of the expiry of an unexercised Warrant, the subscriber will realize a capital loss equal to the subscriber's adjusted cost base of such Warrant. See "Taxation of Capital Gains and Capital Losses" for the tax treatment of capital gains and capital losses.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Common Shares

We are authorized, under our Articles of Incorporation, as amended, to issue an unlimited number of Common Shares. As of the date hereof, a total of 55,765,685 Common Shares were issued and outstanding.

Each Common Share carries one vote at all general meetings of our shareholders whether ordinary or special, and may participate in any dividends declared by the directors of the Company. The Common Shares carry the right to receive a proportionate share of our assets available for distribution to the holders

of our shares upon liquidation, dissolution or winding up of the Company. The Common Shares do not have any special liquidation, pre-emptive or conversion rights.

Warrants

Each Warrant will entitle the holder thereof to acquire one Warrant Share at an exercise price of $1.10 per share until the Warrant Expiry Date. In the event the volume-weighted average trading price of the Common Shares on the TSX-V exceeds $1.60 per share for a period of 10 consecutive trading days following the closing of the Offering, we may, at our option, accelerate the Warrant Expiry Date by delivery of a Warrant Acceleration Notice to the holders thereof and issuing a Warrant Acceleration Press Release, and, in such case, the Warrant Expiry Date shall deemed to be the 30th day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to Warrant holders; and (ii) the date of issuance of the Warrant Acceleration Press Release.

The Warrants will be issued under an indenture (the "**Warrant Indenture**") to be entered into on the Closing Date between the Company and CST Trust Company, as trustee and warrant agent thereunder (the "**Trustee**"). We will appoint the principal transfer offices of the Trustee in Calgary, Alberta and Toronto, Ontario as the location at which the Warrants may be surrendered for exercise or transfer.

The Warrant Indenture will, among other things, include provisions for adjustments in the class, number and price of the Common Shares to be issued upon exercise of the Warrants upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares, or the amalgamation of the Company. No adjustment in the exercise price of the Warrants or the number of Common Shares issuable upon the exercise of the Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change such exercise price by at least 1% or the number of Common Shares issuable upon exercise by at least one one-hundredth of a Common Share. No fractional Common Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

The Company and the Trustee, may, from time to time, without the consent of the holders of Warrants, amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which is defined in the Warrant Indenture as a resolution either: (1) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of Common Shares which may be acquired upon the exercise of all the then outstanding Warrants and passed by the affirmative vote of holders of Warrants entitled to acquire not less than 66⅔% of the aggregate number of Common Shares which may be acquired upon the exercise of all the then outstanding Warrants represented at the meeting; or (2) instruments in writing signed by the holders of Warrants representing not less than 66⅔% of the aggregate number of Common Shares which may be acquired upon the exercise of all the then outstanding Warrants.

The foregoing discussion of the material terms and provisions of the Warrants is qualified in its entirety by reference to the detailed provisions of the Warrant Indenture.

PRIOR SALES

The following table summarizes the issuances of Common Shares, as well as the issuance of securities exercisable for Common Shares in the 12 month period prior to the date hereof.

Date	Securities	Number of Securities	Price per Security
January 9, 2013	Issuance of Stock Options[(1)]	200,000	Nil
March 22, 2013	Issuance of Units with each Unit comprised of one Common Share and one half of one Common Share Purchase Warrant[(2)]	5,111,175 Common Shares 2,555,587 Warrants	$0.90 per Unit
March 22, 2013	Issuance of broker warrants[(2)]	357,782	Nil
June 21, 2013	Exercise of Stock Options[(3)]	71,042	32,500 @ $0.70 10,417 @ $0.42 28,125 @ $0.68
June 25, 2013	Issuance of Stock Options[(1)]	848,000	Nil
August 29, 2013	Exercise of broker warrants[(4)]	13,800	$0.90
September 6, 2013	Exercise of warrants[(5)]	5,000	$1.10
September 9, 2013	Exercise of broker warrants[(4)]	1,125	$0.90
September 11, 2013	Exercise of warrants[(5)]	4,100	$1.10
October 15, 2013	Exercise of stock options[(3)]	25,000	$0.70
November 11, 2013	Issuance of Stock Options[(1)]	100,000	Nil

Notes:

(1) Issued pursuant to DiaMedica's stock option plan.

(2) Issued in connection with the March Offering.

(3) Exercised pursuant to DiaMedica's stock option plan.

(4) Exercised pursuant to the March Offering Broker Warrants (as defined below). Pursuant to the March Offering, 357,782 broker warrants were issued (the "**March Offering Broker Warrants**"). Such warrants were exercisable at any time on or prior to March 22, 2014 at an exercise price of $0.90 in accordance with the certificate evidencing same.

(5) Exercised in accordance with the terms of a warrant indenture between DiaMedica and the Trustee dated March 22, 2013.

TRADING PRICE AND VOLUME

The Common Shares are listed and posted for trading on the TSX-V under the symbol "DMA". The following table sets out the market price range and trading volumes of the Common Shares on the TSX-V for the periods indicated.

Month	High	Low	Volume
December 1 – December 12, 2013	$0.96	$0.85	444,025
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
December 2012	$1.31	$0.79	513,309

INTEREST OF EXPERTS

The experts who are named as having prepared or certified a report, valuation, statement or opinion in this Prospectus, either directly or in a document incorporated by reference herein, and whose profession or business gives authority to the report, valuation, statement or opinion made by the expert, are Fillmore Riley LLP, Dentons Canada LLP, and KPMG LLP, Chartered Accountants, Winnipeg, Manitoba ("**KPMG**"). As of the date hereof, the partners and associates of Fillmore Riley LLP, as a group, and the partners and associates of Dentons Canada LLP, as a group, beneficially hold, directly or indirectly less than 1% of the outstanding Common Shares and hold no other securities of the Company.

KPMG 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.

RISK FACTORS

An investment in the Company's securities involves a high degree of risk and should be considered speculative. An investment in the Common Shares should only be undertaken by those persons who can afford the total loss of their investment. You should carefully consider the risks and uncertainties described below, as well as other information contained in this Prospectus and incorporated by reference in this Prospectus and, in particular, the risk factors set out under the heading "Risk Factors" in the AIF which include risks related to: Clinical Trials and Product Development, Regulatory Matters, Additional Financing Requirements and Access to Capital, the Company's Stage of Development, Competition, Dependence on Key Personnel, Patents and Proprietary Rights, Third-Party Intellectual Property Infringement Claims, Lack of Product Revenues; History of Operating Losses; Significant Doubt About the Ability to Continue as a Going Concern, and the risk factors set out under the heading "Risk Factors" in the MD&A including risks related to: Credit Risk, Liquidity Risk and Market Risk. If any of such risks occur, our business, financial condition and results of operations could be seriously harmed and you could lose all or part of your investment.

Market for Warrants

There is currently no market through which the Warrants may be sold and purchasers may not be able to resell Warrants purchased under this Prospectus. There can be no assurance that an active trading market will develop for the Warrants after completion of the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders of Common Shares to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors, including without limitation, those set out under the heading "*Forward-Looking Statements*". In addition, the market price for securities in the stock markets can experience significant price and trading fluctuations. These fluctuations can result in volatility in the market prices of securities that is often unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

In addition to the foregoing, fluctuations in the market price of the Common Shares can significantly affect the value of the Warrants, and such fluctuations may render the Warrants valueless in the event that the market price of the Common Shares is below the exercise price on the expiry date of the Warrants.

Risks and Uncertainties of Current Economic Conditions and Lack of Revenues

To date, the Company has primarily relied on equity financing to fund its working capital requirements and drug development activities. A substantial amount of additional capital is needed to develop the Company's products to a point where they may be commercially sold. The Company's future operations are dependent upon its ability to generate product sales, negotiate collaboration or license agreements, obtain research grant funding, defer expenditures, or pursue other strategic alternatives, and/or secure additional funds. While the Company is 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 favourable terms or obtained at all. The Company's ability to continue as a going concern is dependent on its ability to continue obtaining sufficient funds to conduct its research and development, and to successfully commercialize its products. There is substantial doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since incorporation, its cash resources are not sufficient for the next 12 months of planned operations, and it has not reached successful commercialization of its products.

Use of Proceeds

The Company currently intends to allocate the proceeds received from the Offering as described under the heading "*Use of Proceeds*" in this Prospectus. However, management will have discretion in the actual application of the proceeds, and may elect to allocate proceeds differently from that described under the heading "*Use of Proceeds*" if it is believed it would be in the best interests of the Company to do so as circumstances change. The failure by management to apply these funds effectively could have a material adverse effect on the business of the Company.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are KPMG LLP, Chartered Accountants, Suite 2000, One Lombard Place, Winnipeg, Manitoba, R3B 0X3. The transfer agent and registrar for the Common Shares is CST Trust Company at its principal offices in Calgary, Alberta. Canadian Stock Transfer Company acts as administrative agent for CST Trust Company.

LEGAL PROCEEDINGS

There are no outstanding legal proceedings material to the Company to which the Company is a party or in respect of which any of its properties are subject, nor are there any such proceedings known to the Company to be contemplated.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE COMPANY

Dated: December 13, 2013

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Manitoba and Ontario.

DIAMEDICA INC.

"Rick Pauls"	*"James Parsons"*
Rick Pauls President, Chief Executive Officer & Chairman	James Parsons Vice-President, Finance (acting in the capacity of Chief Financial Officer)

On behalf of the Board of Directors of DiaMedica Inc.

"Dawson Reimer"	*"Thomas Wellner"*
Dawson Reimer Director	Thomas Wellner Director

CERTIFICATE OF THE AGENT

Dated: December 13, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Manitoba and Ontario.

JORDAN CAPITAL MARKETS INC.

"Stephen Mullie"
Stephen Mullie