A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in British Columbia, Alberta, Manitoba and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

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. The securities being offered under this short form prospectus 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, sold or delivered 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 the securities offered hereby 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 763-270-0603), and are also available electronically at www.sedar.com.*

New Issue **October 21, 2014**

PRELIMINARY SHORT FORM PROSPECTUS



Minimum Offering: $3,000,000 (●Units)
Maximum Offering: $6,000,000 (●Units)

This preliminary short form prospectus (this "**Prospectus**") qualifies the distribution (the "**Offering**") of a minimum (the "**Minimum Offering**") of ● units ("**Units**") in the capital of DiaMedica Inc. (the "**Company**" or "**DiaMedica**") and up to a maximum of ● Units at a price of ● per Unit (the "**Offering Price**"). Each Unit will consist of one common share in the capital of the Company (each a "**Common Share**") and a Common Share purchase warrant component (each whole Common Share purchase warrant, a "**Warrant**"), with each Warrant entitling the holder thereof to acquire a further Common Share (a "**Warrant Share**") at an exercise price of $● per Common Share until 5:00 p.m. (Toronto time) on the date that is ● months after the date of issuance (the "**Warrant Expiry Date**").

The Units are being offered pursuant to an agency agreement (the "**Agency Agreement**") dated ●, 2014 between the Company and Mackie Research Capital Corporation (the "**Lead Agent**") and Jordan Capital Markets Inc. (collectively, the "**Agents**"). The Offering Price has been determined by negotiation between the Company and the Agents, in the context of the market.

Price: $● per Unit

	Price to the public	Agents' Fee[(1)]	Net Proceeds to the Company[(2)]
Per Unit	$●	$●	$●
Minimum Offering	$3,000,000	$225,000	$2,775,000
Maximum Offering[(3)]	$6,000,000	$450,000	$5,550,000

Notes:

(1) The Company has agreed to pay the Agents a cash commission equal to 7.5% of gross proceeds of the Offering (the "**Agents' Fee**"). As additional compensation, the Company has agreed to grant to the Agents non-transferable options (the "**Compensation Options**") to acquire that number of Common Shares which is equal to 7.5% of the aggregate number of Units sold pursuant to the Offering, including any Units sold pursuant to the exercise of the Over-Allotment Option (as defined below) (the "**Compensation Option Shares**"), at the price of $● per share for a period of ● months after the Closing Date. This Prospectus also qualifies the distribution of the Compensation Options. See "Plan of Distribution".

(2) Before deducting expenses of the Offering, estimated to be $275,000, which will be paid by the Company out of the proceeds of the Offering.

(3) The Company has granted to the Agents an option (the "**Over-Allotment Option**"), exercisable in whole or in part at any time prior to 5:00 p.m. (Toronto time) on the 30th day following the Closing Date (as defined herein), to increase the number of Units offered hereunder by up to 15% of the Maximum Offering, or ● Units. If the Over-Allotment Option is exercised in full, the price to the public under the maximum offering of ● Units (the "**Maximum Offering**"), the Agents' Fee, and the net proceeds to the Company from the Offering (before deducting expenses of the Offering, estimated to be $275,000) will be $6,900,000, $517,500 and $6,382,500, respectively. A purchaser who acquires Common Shares and Warrants comprising the Units forming part of the Over-Allotment Option acquires those Units under this Prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares and Warrants comprising the Units issuable upon exercise of the Over-Allotment Option. See "Plan of Distribution".

Agents' Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	Option to increase the number of Units offered by up to ●Units to a total of ●Units	Any time prior to 5:00 p.m. (Toronto time) on the 30th day following the Closing Date	$● per Unit
Compensation Options	Options to acquire ● Common Shares in the case of the Minimum Offering and Options to acquire ● Common Shares in the case of the Maximum Offering[(1)]	Any time up to ● months following the date of issuance	$● per Common Share
Total Securities Under Option Issuable to Agents	● in the case of the Minimum Offering and ● in the case of the Maximum Offering	See above	See above

Note:

(1) Assuming the full exercise of the Over-Allotment Option in the case of the Maximum Offering.

The Common Shares are listed and posted for trading on the TSX-V under the symbol "DMA". On October 20, 2014, the last trading day on the TSX-V prior to the date of this Prospectus, the closing price of the Common Shares was $0.34. The Company has applied to the TSX-V to list the Common Shares forming part of the Units distributed under this Prospectus, the Warrant Shares and the Compensation Option Shares. Listing of the Common Shares, the 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 in the Provinces of British Columbia, Alberta, Manitoba, and Ontario. In addition, certain Units may be issued pursuant to transactions exempt from the registration requirements of the 1933 Act and in compliance with applicable state securities laws or in other jurisdictions under applicable exemptions and where there are no continuing obligations of the Company.

This Offering is not underwritten or guaranteed by any person. The Agents conditionally offer the Units, on a "best efforts" agency basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agents 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 Agents by Cassels Brock & Blackwell LLP. In accordance with and subject to applicable laws, the Agents 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. Provided that the Minimum Offering has been achieved, it is expected that initial closing of the Offering (the "**Closing**") will take place on or about November ●, 2014, or such other date as may be agreed upon by the Company and the Lead 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 Lead Agent pending receipt of subscriptions of the Minimum Offering. If subscriptions for the Minimum Offering 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, unless each of the subscribers who subscribed for the Units within such 90 day period has consented to the continuation of the Offering. Should Closing occur in respect of the Minimum Offering, one or more additional closings may occur until the earlier of the Maximum Offering being subscribed and the expiry of the aforementioned 90 day period. See "Plan of Distribution".

The Offering will be conducted under the book-based system. A subscriber who purchases Units, other than certain subscribers of the Units in the United States or that were offered the Units in the United States in accordance with the terms and conditions of the Agency Agreement, if any, 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. Except with respect to Units issued to, or for the account or benefit of, persons within the United States who are acquiring Units pursuant to a transaction exempt from the registration requirements of the 1933 Act, and in compliance with state securities laws, if any, which will be represented by individual certificates with applicable legends, no certificates will be issued for the Common Shares and 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 head office of its wholly owned subsidiary DiaMedica USA Inc. ("**DiaMedica USA**") located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447, *telephone* (763-710-4455), *website* www.diamedica.com.

TABLE OF CONTENTS

DEFINITIONS AND GENERAL MATTERS 1
ELIGIBILITY FOR INVESTMENT 1
FORWARD-LOOKING STATEMENTS 2
DOCUMENTS INCORPORATED BY REFERENCE 3
DIAMEDICA INC. 5
DESCRIPTION OF THE BUSINESS 5
RECENT DEVELOPMENTS 14
CONSOLIDATED CAPITALIZATION 16
USE OF PROCEEDS 16
PLAN OF DISTRIBUTION 20
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS 22
DESCRIPTION OF SECURITIES BEING DISTRIBUTED 26
TRADING PRICE AND VOLUME 28
INTEREST OF EXPERTS 28
RISK FACTORS 29
AUDITORS, TRANSFER AGENT AND REGISTRAR 30
LEGAL PROCEEDINGS 30
AGENT FOR SERVICE OF PROCESS 30
PURCHASERS' STATUTORY RIGHTS 31
CERTIFICATE OF THE COMPANY C-1
CERTIFICATE OF THE AGENT C-2

DEFINITIONS AND GENERAL MATTERS

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

Purchasers of Units should rely only on the information contained or incorporated by reference in this Prospectus. The Company has not authorized anyone to provide purchasers with different or additional information. If anyone provides purchasers with different or additional information, purchasers should not rely on it. The Company is not making an offer to sell or seeking an offer to buy the Units in any jurisdiction where the offer or sale is not permitted. Purchasers should assume that the information contained in this Prospectus or any document incorporated by reference herein is accurate only as of the date on the front of those documents and that information contained in any document incorporated by reference is accurate only as of the date of that document, regardless of the time of delivery of this Prospectus. The Company's business, financial condition, results of operations and prospects may have changed since those dates.

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 Cassels Brock & Blackwell LLP, counsel to the Agents, based on the provisions of the *Income Tax Act* (Canada) (the "**Tax Act**") and the regulations thereunder in force as of the date hereof, provided that the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which includes Tiers 1 and 2 of the TSX-V) on the date of issue, the Common Shares will, on the date of issue, be qualified investments under the current provisions of the Tax Act for trusts governed by registered retirement savings plans (each an "**RRSP**"), registered education savings plans, registered retirement income funds (each an "**RRIF**"), registered disability savings plans, deferred profit sharing plans and tax-free savings accounts (each a "**TFSA**", and together with an RRSP and RRIF, collectively, the "**Plans**"), all within the meaning of the Tax Act.

Provided that the Common Shares are qualified investments for the Plans, as described above on the Closing Date, the Warrants will also be qualified investments on that date for any 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 Plan.

Notwithstanding the foregoing, if the Common Shares or Warrants held by a TFSA, RRSP or RRIF are "prohibited investments" for purposes of the Tax Act, the holder of the TFSA or the annuitant of the RRSP or RRIF will be subject to a penalty tax as set out in the Tax Act. The Common Shares and Warrants will be a "prohibited investment" if the holder of a TFSA or the annuitant of an RRSP or RRIF, as the case may be: (i) does not deal at arm's length with the Company for purposes of the Tax Act; or (ii) has a "significant interest" (as defined for purposes of the prohibited investment rules in the Tax Act) in the Company. In addition, the Common Shares and Warrants will not be a "prohibited investment" if the Common Shares and Warrants are "excluded property", as defined for purposes of the prohibited investment rules in the Tax

Act, for a TFSA, RRSP or RRIF. Holders who intend to hold Common Shares or Warrants in a TFSA, RRSP or RRIF should consult their own tax advisors in this regard.

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 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, including, without limitation, the section headed "Use of Proceeds". These factors and the other cautionary statements made in this Prospectus, including in the documents incorporated by reference herein, 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;
- our ability to continue as a going concern;
- 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;
- anticipated cost savings;
- 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 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 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 United States Securities and Exchange Commission (the "**SEC**"); 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 (as defined herein) and the MD&A (as defined herein) 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) the annual information form of the Company dated April 30, 2014 for the year ended December 31, 2013 (the "**AIF**");

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

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

d) our unaudited condensed consolidated interim financial statements for the three-month and six-month periods ended June 30, 2014 and 2013, together with the notes thereto, as filed on SEDAR on August 28, 2014;

e) management's discussion and analysis of financial condition and results of operations for the for the three-month and six-month periods ended June 30, 2014 and 2013, as filed on SEDAR on August 28, 2014;

f) the material change report of DiaMedica dated August 6, 2014 in connection with renewal of DiaMedica's shareholder rights plan at the Meeting (as defined below), as filed on SEDAR on August 6, 2014;

g) the material change report of DiaMedica dated May 29, 2014 with respect to completion of a short form prospectus offering of 3,099,200 units (with each unit comprised of one common share and one half of one common share purchase warrant) for gross proceeds of $2,169,440 which closed on May 27, 2014, as filed on SEDAR on May 30, 2014;

h) the material change report of DiaMedica dated April 17, 2014 with respect to the appointment of Mr. John Savage as Chief Financial Officer of DiaMedica, as filed on SEDAR on April 17, 2014;

i) the material change report of DiaMedica dated January 3, 2014 with respect to the completion of the non-brokered private placement of 154,500 units (with each unit comprised of one common share and one half of one common share purchase warrant) for gross proceeds of $139,050 which closed on January 3, 2014 (the "**Non-Brokered Private Offering**"), as filed on SEDAR on January 3, 2014; and

j) DiaMedica's management information circular dated June 26, 2014, for the annual and special meeting of shareholders held on July 24, 2014 (the "**Meeting**").

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 this Prospectus, and prior to the termination of 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 at the head office of its wholly owned subsidiary DiaMedica USA located at One Carlson Parkway, Suite 124, Minneapolis, Minnesota 55447.

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.

DESCRIPTION OF THE BUSINESS

DiaMedica is a clinical stage biopharmaceutical company focused on the discovery and development of novel therapies to treat diabetes and kidney disease. DiaMedica's lead clinical product, DM199, is a recombinant human protein known as rhKLK1 that represents a novel approach to treating diabetes and kidney disease. We believe DM199 is a novel insulin sensitizer, vasodilator and improves kidney function. DiaMedica is also developing a novel monoclonal antibody ("**mAb**"), DM204, for the treatment of type 2 diabetes ("**T2D**"), which is in preclinical development. We believe DM204 is a novel sensitizer and vasodilator.

The Company seeks 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. We believe these partnerships would provide significant revenues that may 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.

Corporate Highlights

- **Novel Treatments For Diabetes and Kidney Disease:**

  DM199: Recombinant human tissue kallikrein-1 (KLK-1)
  - *Type 2 Diabetes – In clinical trial*
    - First in class novel insulin sensitizer
  - *Kidney disease – preparing for clinical trial*
    - First-in-class with new mechanism of action
    - Nobel Laureate, Prof. O. Smithies, acknowledges role of KLK-1 pathway in kidney disease (Kidney International 2012 vol. 81, 733-744)

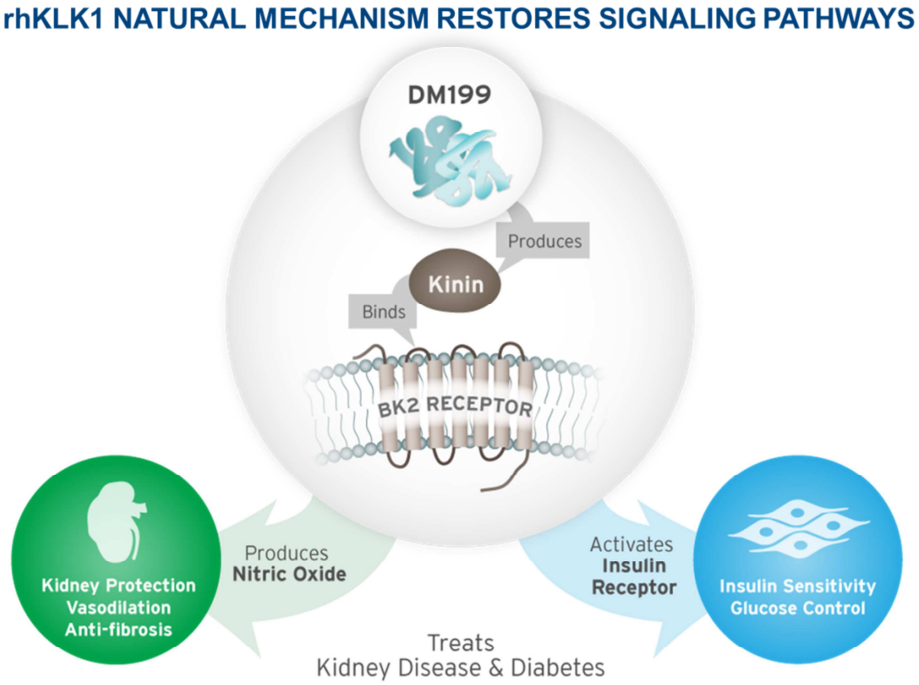
  DM204: mAb follow-on to DM199
  - Type 2 diabetes - Novel insulin sensitizer and vasodilator
    - In preclinical development

- **Filed Form 20-F with the SEC**. Registration of the Company's Common Shares with the SEC is dependent on the Company meeting certain requirements, some which may be delayed or never occur. As at the date hereof, all of the requirements have not been met.

DM199 Program

DiaMedica's lead product, DM199, is a recombinant human protein for the treatment of T2D and kidney disease. 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 of action:



Nitric Oxide vasodilation

- Increase eNOS (as defined herein) activity
- Could have beneficial cardiovascular ("**CV**") effects especially important for two year CV safety study

Nitric oxide is a naturally occurring gas produced by several endogenous enzymes one of which is endothelial nitric oxide synthetase ("**eNOS**"). Nitric oxide has several important physiological actions on heart and kidney function, most notably blood pressure. (Source: Klahr S., *The role of nitric oxide in hypertension and renal disease progression*. Nephrol Dial Transplant. (2001) 16 Suppl 1:60-2.)

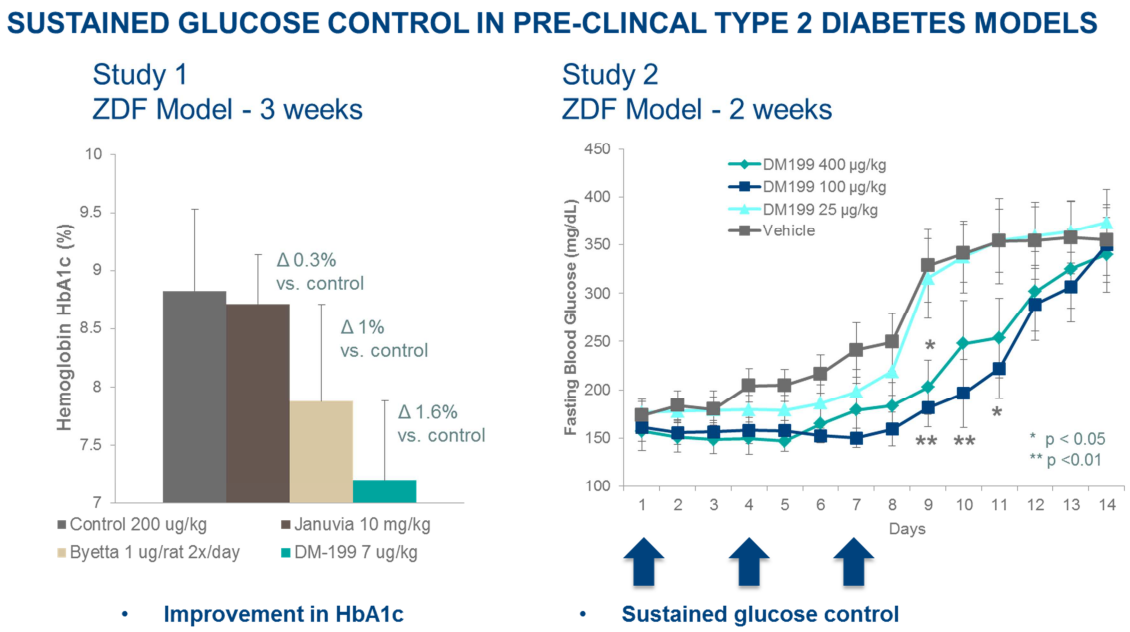
Insulin sensitization

- Insulin signaling pathway via GLUT4 translocation

One of the most important ways the body clears glucose is via GLUT4. GLUT4 is an important sugar transport protein whose activity is controlled by insulin. Specifically when cells are stimulated with insulin, GLUT4 moves to the surface of the cell and is able to bring glucose into the cell. The more sensitive cells are to insulin the greater the level of GLUT4 at their surface. (Source: Cook SA et al. (2005) *Nature Clinical Practice Cardiovas Medicine*. 2: 252-260.)

The following is a summary of preclinical results of DM199 in two and three week Zucker diabetic fatty ("**ZDF**") rat models that demonstrated sustained glucose control.

Favourable Preclinical Diabetes Data



- **Improvement in HbA1c**
- **Sustained glucose control**

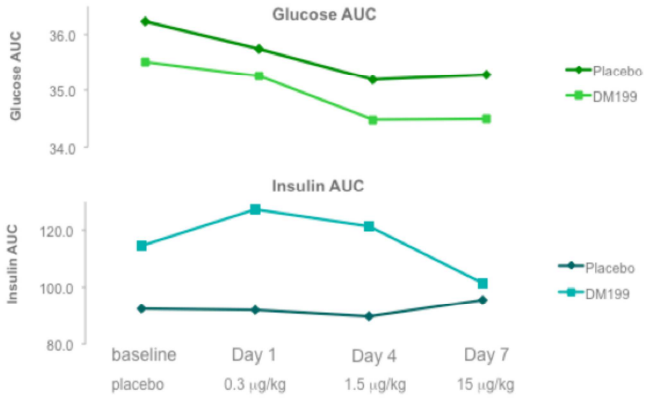
The Company has successfully conducted three double-blinded, placebo-controlled Phase I clinical trials in 50 healthy volunteers consisting of single ascending, multiple ascending and pharmacokinetic ("**PK**") dosing studies. Results in healthy volunteers show that DM199 was safe and well tolerated. A maximum tolerated dose was established, as DM199 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 (Time max approximately 24 hr. & Time ½ approximately 60 hr.). The dose limiting tolerability was orthostatic hypotension at 50 µg/kg dose level greater than three times anticipated efficacious dosing levels and 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. Following a 14 day washout period, the patients were dosed with either DM199 at three single ascending dose levels or placebo over an 8-day period. Results indicate that DM199 was safe and 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 the above trials support chronic dosing and proof-of-concept studies of DM199 for T2D, and potentially, future clinical studies for treatment of diabetic kidney disease.

The Company has just completed a Phase 2 clinical trial in 36 T2D patients who were sequestered over a 28-day period. The double-blinded, placebo-controlled clinical study consisted of 12 patients on placebo, 12 patients at low doses of DM199 (3 µg/kg) and 12 patients at high doses of DM199 (15 µg/kg). 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, with the first patient being dosed in January of 2014. Monitoring by way of the meal tolerance test and 7-point glucose profile is conducted the day prior to the trial, 14 days into the trial, and at the conclusion of the 28 day trial. The primary endpoints of the study were to evaluate the safety, tolerability and pharmacokinetics of two dose levels of DM199. Secondary endpoints included evaluating the effects of DM199 on diabetes biomarkers including: fasting glucose, insulin and C-peptide; meal tolerance test; HOMA2-IR; HbA1c; lipids and other metabolic markers. Results from the Phase 2 study are expected in the fourth quarter of 2014.

DM204 Program

The Company is also developing a mAb, DM204, targeted to the bradykinin receptor B2 ("**BKR2**") as a follow on to DM199 for the treatment of T2D and cardiovascular disease. The Company is continuing to optimize the antibody selection and further define the pharmacological properties of DM204.

Monoclonal Antibody targeted to BK2R

- Superior glucose control
- Blood pressure control
- Total cholesterol improvement
- Approximately 1x month administration

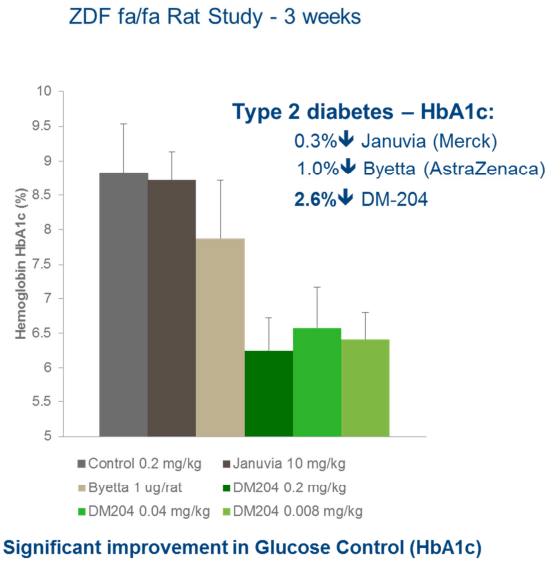
Status

- Preclinical development

[continued on next page]

DM204: Preclinical Efficacy

The following table shows improved glucose control in preclinical studies DM204.



We plan to continue preclinical work on DM204 and consider moving forward the development with manufacturing and toxicology studies.

T2D: Background

- One of the largest markets in health care
- T2D: insulin resistance resulting in inefficient glucose control
- There are approximately 382 million diabetic patients in the world. Of those patients, 90% have T2D (Source: IDF Diabetes Atlas, 6th edn. 2013)
- The market for diabetes drugs was approximately $35 billion in 2011 and forecasted to increase to $58 billion in 2018 (Source: Standard & Poor's 2012)
- Greater than 50% of T2D patients in the United States 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)

Kidney Disease Market

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

- 40% of diabetes patients will develop diabetic kidney disease (Source: Reutens, AT. Clin N Am 2013: 97(1-18))
- 5-10 million diabetic kidney disease patients in the United States alone (Source: National Chronic Kidney Disease Fact Sheet 2013, CDC DDT)
- Limited treatments available and current treatments limited to anti-hypertensive medications
- The chronic kidney disease market, of which diabetic kidney disease is a subset, is expected to be $11.7B in 2022 (Source: Decision Resources, January 28, 2014)
- DM199 is positioned to treat Diabetic Kidney Disease

Rationale for DM199 for Kidney Disease

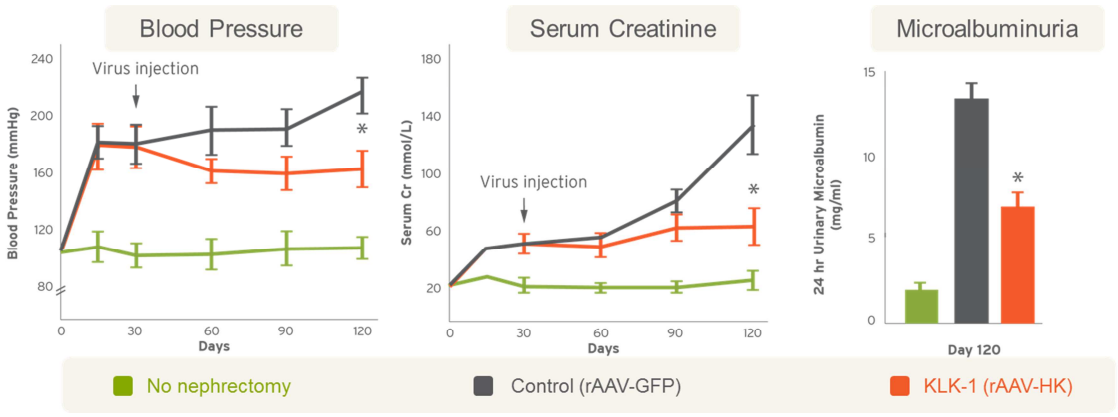
The most commonly used treatment for diabetic kidney disease is angiotensin-converting-enzyme ("**ACE**") inhibitors which relax and widen the blood vessels (also known as vasodilation) thereby lowering blood pressure. ACE inhibitors use a similar mechanism as that used by DM199. Other research has found the following:

- Dr. O. Smithies, a Nobel Laureate, has published research suggesting KKS plays a protective role in diabetic nephropathy (Source: Tomita H et al., Kid. Int. (2012), 81, 733-44)
- 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 the Company believes that KLK-1 urinary levels are potentially correlated with the severity of kidney disease)
- Knockout BK2R mice demonstrate higher levels of kidney fibrosis in models of diabetic nephropathy or kidney injury (Source: Tomita H, Sanford RB, Smithies O, Kakoki M. *The kallikrein-kinin system in disbetic nephropathy.* Kidney Int. (2012) 81:733-44.)

DM199 for Kidney Disease

KLK1 in kidney disease

- 5/6 nephrectomy animal model with KLK-1 gene therapy treatment
  - Stabilized kidney function as measured by significant improvements in:
    - Blood pressure, serum creatinine & microalbuminuria vs. untreated control
- Dr. O. Smithies, acknowledges role of KLK1 pathway in kidney disease
  - Source: Kidney Int.(2012) 81: 733-744
- KLK-1 levels potentially correlated with severity of kidney disease
  - Source: (Immunopharmacology, (1999), 44:183-192)



(Hum. Gene Ther. (2008) 19:318-330)

We are planning a Phase 2 proof-of-concept trial in 100-150 patients over a three to six month treatment period to determine the following clinical endpoint: kidney function biomarkers. The timing of the foregoing Phase 2 clinical trial will depend on a number of factors including available funds. While we believe the foregoing in connection with gene therapy and replacement of KLK-1 with DM199, such results are untested and investors should not draw conclusions based on such beliefs until the results of the Phase 2 clinical trial have been received.

Acute Kidney Injury ("AKI") Market

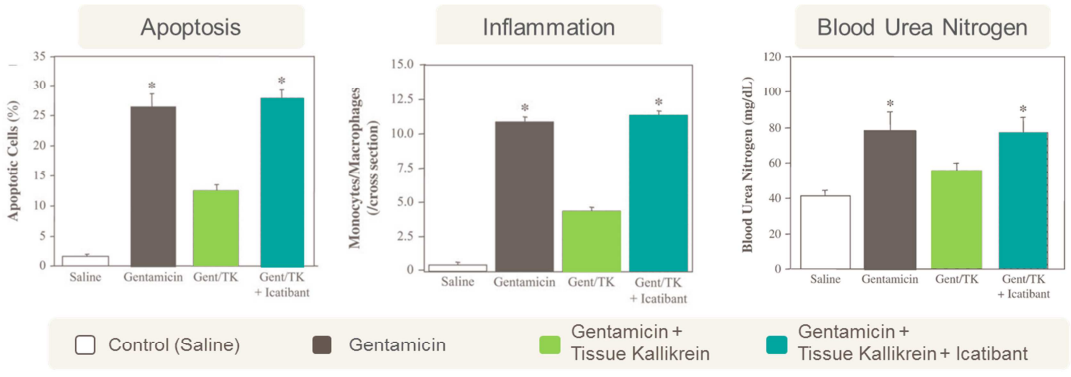
The following is a summary of the AKI market:

- 10 million new patients worldwide yearly with 15-60% mortality rate in different patient populations (Source: U.S. Government, 2013: http://www.sbir.gov/sbirsearch/detail/677804)
- 45% of all critical care patients develop AKI (Source: National Kidney Foundation website)
- Limited treatment available and management limited to prophylactic & supportive care
- The AKI market is approximately $4.7B, which represents the approximate aggregated cost of nearly 500,000 hospital stays (Source: Torio CM et al., *Healthcare Cost & Utilization Project (*2011))
- AKI is a major unmet medical need

Rationale for DM199 for AKI

Efficacy in Preclinical Model of Acute Kidney Injury

Third party literature has demonstrated that tissue kallikrein-1 and the kallikrein-kinin system plays an important role in normal health of the kidneys, and a protective role against AKI. Tissue kallikrein-1 appears to increase blood flow, and preventing cellular oxidative stress, inflammation and apoptosis within the kidneys. In a rat model of AKI, gentamicin (antibiotic) was administered to induce renal dysfunction, cell-death & inflammation. Tissue kallikrein-1 protein intravenous infusion reduces apoptotic (cell-death) events, oxidative stress, cytokines and inflammatory cell infiltration and restores kidney function as measured by blood urea nitrogen. The therapeutic effects of tissue kallikrein-1 were blocked by Icatibant (HOE140), a bradykinin 2 receptor antagonist. These results suggest the nephroprotective properties of tissue kallikrein-1 making DM199 potentially well suited to treating AKI.



(Toxicol. Sci. (2008) 102(2): 433-443)

Outlook for the Next 12 Months

Positioned for significant valuation inflection points

- DM199 Clinical Trials

    - Type 2 diabetes - complete
    - Endothelial function, cardiovascular & kidney - initiate & complete
    - Kidney disease - initiate
- DM199 Indication expansion
- Form 20-F filed. Registration of the Company's Common Shares with the SEC is dependent on the Company meeting certain requirements, some which may be delayed or never occur. As at the date hereof, all of the requirements have not been met.
- Ongoing partnering discussions

DM199 Target Product Profile vs. GLP-1 for Diabetes

It is expected that use of GLP-1s 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 (rKLK1)	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*

DM199 is a full spectrum metabolic syndrome treatment

* Market Leaders – Victoza® & Byetta®

DiaMedica Patent Summary

DiaMedica has broad intellectual property protection that includes a variety of patents and patent applications. The following is a summary of our primary patents. For a further discussion of our patents see the AIF under the heading "Intellectual Property".

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 Type 2 Diabetes (2030) • DM199: For treatment of Type 1 Diabetes (2032) • DM199 for treatment of chronic kidney disease including DKD (2033) • DM199 for treatment of NAFLD and NASH (2034) • DM204 for Type 2 Diabetes and various other diseases (2031)
Combination Products	• DM199+GLP-1 analog (2027) • DM199+Insulin (2033) • DM204+diabetes medications (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.

RECENT DEVELOPMENTS

On September 16, 2014 DiaMedica terminated the license agreement with the University of Manitoba dated October 1, 2005 referenced in the AIF (the "**License Agreement**"). DiaMedica terminated the License Agreement and abandoned the associated patent cases. The patents and patent applications cover the use of DM199 for type 1 diabetes, an indication the Company is no longer planning to pursue. Additionally, the patents are set to expire in 2021 and DiaMedica could not receive licensure prior to the expiration in 2021.

On July 24, 2014 at the Meeting, the shareholders of DiaMedica approved resolutions to: (i) continue DiaMedica under the *Canada Business Corporations Act* (as at the date hereof, the board of directors of DiaMedica has not exercised the authority given by the shareholders to continue as aforesaid and DiaMedica remains a Manitoba corporation); (ii) to give the board of directors of DiaMedica the power by resolution to consolidate DiaMedica's share capital on the basis of a ratio of one post-consolidation Common Share for each two to ten outstanding pre-consolidation Common Shares (as at the date hereof the board of directors of DiaMedica has not exercised the authority given by the shareholders to complete the consolidation of DiaMedica's share capital); (iii) make certain amendments to the by-laws of DiaMedica to clarify that the Company may issue its securities in uncertificated form; and (iv) renew the shareholder rights plan of DiaMedica.

On July 10, 2014, the Company announced the promotion of Dr. Mark Robbins to Executive Vice President.

On July 7, 2014, we announced the appointment of Richard Pilnik as Chairman of the board of directors. Mr. Pilnik will replace Rick Pauls as Chairman. Mr. Pauls will continue as President & CEO and a member of the board of directors. In connection with the appointment, the Company issued Mr. Pilnik 150,000 stock options in accordance with the stock option plan at an exercise price of $0.69 and a term of 10 years.

On June 5, 2014, the Company provided a development update on its lead product candidates, DM199 and DM204. The Company also announced its plans to expand the clinical testing of DM199 in diabetic kidney disease patients while also developing DMDx, a companion diagnostic *in vitro* assay for kidney disease.

On June 3, 2014, the Company announced the appointment of Dr. Ralph A. DeFronzo to its Scientific Advisory Board. Dr. DeFronzo is a Professor of Medicine and Chief of the Diabetes Division at the University of Texas Health Science Center and the Deputy Director of the Texas Diabetes Institute. Dr. DeFronzo has won numerous awards for his work.

On May 27, 2014, DiaMedica completed an offering of units for gross proceeds of $2,169,440 (the "**May Offering**").

On April 24, 2014, DiaMedica amended the expiry date of 1,055,600 warrants from May 8, 2014 to February 8, 2015. The aforementioned warrants were issued pursuant to an early exercise program which was completed in May of 2012.

On April 7, 2014, DiaMedica announced the appointment of Mr. John Savage, CPA (inactive) as the Company's Chief Financial Officer. Mr. Savage has seventeen years of experience working with public companies previously with UnitedHealth Group, Best Buy and Golf Galaxy.

On February 19, 2014, DiaMedica announced that it had filed a registration statement on Form 20-F to register its Common Shares with the SEC. Registration of the Company's Common Shares with the SEC is dependent on the Company meeting certain requirements, some which may be delayed or never occur. As at the date hereof, all of the requirements have not been met.

[continued on next page]

CONSOLIDATED CAPITALIZATION

There have been no material changes in the equity or loan capitalization of the Company, on a consolidated basis, since June 30, 2014, the date of the Company's most recently filed financial statements other than as shown below.

(Unaudited)	**Balance** (as at June 30, 2014, before giving effect to any increase in equity capitalization)	**Balance** (as at June 30, 2014 after giving effect to the Minimum Offering)[2][4][5]	**Balance** (as at June 30, 2014 after giving effect to the Maximum Offering)[3][4][5][6]
Shareholders' equity (deficiency)			
Common Shares and Warrants[1]	$38,757,222 (62,025,430 Common Shares and 7,084,376 Warrants)	$● (● Common Shares and ● Warrants)	$● (● Common Shares and ● Warrants)
Contributed surplus	$4,413,167	$4,413,167	$4,413,167
Deficit	$(43,078,524)	$(43,078,524)	$(43,078,524)
Total Capitalization	91,865	$●	$●

Notes:

(1) As at June 30, 2014, the Company had outstanding options issued to officers, directors, employees and consultants, to purchase an aggregate of 5,063,000 Common Shares at exercise prices ranging from $0.42 to $1.70 per Common Share. As at June 30, 2014, the Company had 74,556 outstanding deferred share units issued to senior management and its board of directors.

(2) Based on the issuance of ● Units pursuant to the Minimum Offering for gross proceeds of $3 million, less the Agents' Fee of $225,000 and expenses of the Offering estimated to be $275,000, resulting in net proceeds of $2,500,000.

(3) Based on the issuance of ● Units pursuant to the Maximum Offering for gross proceeds of $6 million, less the Agents' Fee of $450,000 and expenses of the Offering estimated to be $275,000, resulting in net proceeds of $5,275,000.

(4) Does not include Compensation Option Shares.

(5) As at the date hereof, the Company had outstanding ● warrants to purchase Common Shares.

(6) Does not include the Over-Allotment Option. If the Over-Allotment Option is exercised in full, an additional ● Units will be issued, and aggregate gross proceeds of the Offering, Agents' Fee, estimated expenses of the Offering and the net proceeds we receive will be $6,900,000, $517,500, $275,000 and $6,107,500, respectively.

USE OF PROCEEDS

Assuming gross proceeds of $3 million pursuant to the Minimum Offering, and gross proceeds of $6 million pursuant to the Maximum Offering, the Company estimates that it will receive net proceeds of approximately $2,500,000 pursuant to the Minimum Offering, and $5,275,000 pursuant to the Maximum Offering, after payment of the Agents' Fee and after deduction of the expenses of the Offering (estimated to be $275,000).

DiaMedica is engaged in research and development activities, and to date it has not recorded any revenues from the sale of products. Consequently, it does not generate any operating income or cash flows from operations. It has an accumulated deficit, based on its consolidated financial statements, since its inception through June 30, 2014 of over $43 million. It is expected that losses will increase in the near term as the Company continues its product development efforts, enter clinical trials and seek regulatory approval for its products. To date, it has depended on equity capital to finance its activities. Its future operations are dependent upon its ability to generate product revenues, negotiate license agreements with partners, and/or secure additional funds.

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, we had a working capital deficiency as of June 30, 2014, our cash resources are not sufficient for the next twelve months of planned operations, additional funding will be required in order to continue our research and

development and other operating activities and we have not reached successful commercialization of our products. Based on our cash position at June 30, 2014, which does not include any proceeds from this Offering, we do not believe we will have enough cash on hand to sustain operations beyond the beginning of November 2014 unless further funds have been raised or we receive funds in connection with a commercialization partnership or strategic initiative. There can be no assurance that we will be successful in commercializing our products, entering into strategic agreements with partners, or raising additional capital on favourable terms or at all. If we cannot secure additional financing on favourable terms or at all, generate product revenues and/or negotiate license agreements with upfront payments, we will have to consider additional strategic alternatives which may include, among other strategies, cost curtailments, delays of product development expenditures, exploring the monetization of certain intangible assets, as well as seeking to outlicense and/or divest assets through a merger, sale or liquidation of the Company.

The net proceeds from the Offering currently are intended to be used principally to satisfy all remaining contractual obligations of the Phase II study of DM199 in patients with T2D and for general and administrative purposes (which includes research and development salaries and overhead). Depending on the amount raised, and the results from the Phase II study, the Company may initiate a larger Phase II trial in patients with T2D with different primary endpoints, perform preclinical studies in an attempt to potentially identify additional indications and uses for DM199, as well as for working capital, general and administrative purposes. The Company believes that its intended use of the net proceeds of the Offering is consistent with its stated business objectives and strategic goals of developing treatments for diabetes and related indications.

The Company plans to use the net proceeds as follows:

	Approximate Allocation of Net Proceeds assuming Minimum Offering	**Approximate Allocation of Net Proceeds assuming Maximum Offering**
DM199 – T2D		
Phase II Clinical Trial	$1,000,000 [(1)]	$1,000,000 [(1)]
Start formulation and toxicology in preparation for Phase IIb clinical trial	$200,000	$700,000
DM199 – Safety and Clinical Pharmacology		
Endothelial function clinical trial	$Nil	$1,000,000
Initiate drug interaction with ACEi clinical trial	$Nil	$200,000
Initiate pharmacokinetic study in patients with renal dysfunction	$Nil	$200,000
General Working Capital Purposes and General & Administrative Expenses	$1,300,000	$2,175,000
Total	$2,500,000 [(2)]	$5,275,000 [(2)]

Notes:

(1) The Phase II clinical trial was completed in September of 2014, and the Company expects to receive results from the trial in the fourth quarter of 2014. Assuming only the Minimum Offering is completed, the Company believes it would have sufficient resources to satisfy the remaining contractual obligations of the trial, including the preparation of draft and final reports by the contract research organization ("CRO") that conducted the Phase II clinical trial. The final payment to the CRO is expected to be in February of 2015. If the Maximum Offering is completed, the Company believes it will have sufficient resources to satisfy all remaining obligations associated with the Phase II clinical trial, as well as initiating and/or completing a series of other trials.

(2) Assuming the Over-Allotment Option is not exercised.

The Company intends to spend the funds available to it as stated above, however, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for it to achieve its stated business objectives. Actual use of proceeds of the Offering may vary depending on

the Company's 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 the Company's 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, the Company intends to invest the funds in short-term, investment grade, interest-bearing securities, in government securities or in bank accounts. The Company cannot predict whether the proceeds invested will yield a favourable return.

The Company does not know whether any of its 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 it is currently developing are not expected to be commercially viable for up to ten years and the Company may incur development costs prior to partnering the products for commercialization by others. In addition, the Company may encounter unforeseen difficulties or delays in commercializing our products.

Business objectives and milestones

The Company expects to use its available funds and funds raised pursuant to the Offering for the following business objectives:

- completion of, and payment for, a Phase II clinical study with its lead indication, DM199, in patients with T2D to evaluate the safety, tolerability and pharmacokinetics of two dose levels of DM199 and its primary endpoint of safety, tolerability and PK along with secondary clinical endpoints of diabetes biomarkers including: HOMA2-IR, fasting glucose and plasma insulin, meal tolerance test, lipids, HbA_{1c} and other metabolic markers; and

- commence additional pre-clinical studies following funding of the Offering.

The Company anticipates these objectives will be ongoing.

The primary milestone for the Company is paying for all of the remaining costs of the Phase II clinical trial with DM199 described above. Following completion of the Phase II clinical study, the Company will obtain the formal research results from the third party service provider conducting the research, which it expects in the fourth quarter of 2014. The Company has remaining Phase II study contractual obligations totaling approximately $1,000,000. According to the terms of the contract with the CRO, the remaining amount owed becomes due in four equal milestone payments beginning in November 2014 through February 2015.

If only the Minimum Offering is completed, the Company:

- anticipates that, together with current cash on hand, it will have available funds of approximately $• as at the Closing Date;
- will pay out of such available funds:
    - approximately $1,000,000 to the third party service provider that conducted the Phase II trial; and
    - the balance for general working capital purposes;
- has agreed with certain directors and employees that it will defer approximately $• currently payable to them;
- believes it can, if necessary, reduce its monthly cash burn rate to approximately $200,000; and
- has determined it will not have enough cash on hand to sustain operations beyond the end of February of 2015 unless further funds have been raised or the Company receives funds in connection with a commercialization partnership or strategic initiative as described below.

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

The following chart outlines the Company's current product pipeline:



Use of Proceeds Variance Analysis –December Offering and May Offering

The following table shows the estimated allocation of net proceeds from the offering of units completed by the Company on December 16, 2013 for gross proceeds of $2,600,019 (the "**December Offering**") and the net proceeds from the May Offering and the actual use of net proceeds for the period commencing January 1, 2014 through June 30, 2014. **The amounts contained below and the paragraph that follows under the heading "Variance Analysis" have not been audited.**

	Estimated Allocation of Net Proceeds from the December Offering	**Estimated Allocation of Net Proceeds from the May Offering**	**Actual Allocation of Net Proceeds from January 1, 2014 through June 30, 2014**	**Variance**
DM199				
Phase II trial & additional preclinical indications	$1,272,155	$1,315,000	$1,777,176	$809,979
DM204				
Preclinical development	50,000	$Nil	$86,147	($36,147)
General Working Capital Purposes and General & Administrative Expenses	$808,033	$378,310	$1,436,724[(1)]	($250,381)
Total	**$2,130,188**	**$1,693,310**	**$3,300,047**	**$523,451**

Note:

(1) General working capital amount of $1,436,724 includes research and development salaries and benefits of $600,473.

Variance Analysis

Through the first six months of 2014, the actual allocation of net proceeds on DM199 for the Phase II trial and additional preclinical indications was less than the original estimated allocation of the December Offering and May Offering by approximately $800,000 primarily due to timing of payments. The Company had anticipated the Phase II study would have been complete by August 2014; however, due to unanticipated delays by the contract research organization in recruiting the final cohort of patients into the trial, the completion of the study occurred in September of 2014. The payments to the CRO conducting the trial are based on the achievement of various contract milestones. Due to the delay in recruiting, and therefore completing the trial, the timing of the Company's payments also have been extended. In addition, the Company deferred the pursuit of additional preclinical studies for DM199 in support of additional indications.

General working capital uses include primarily personnel and personnel-related costs. Research and development salaries are included in research and development expenses in the consolidated financial statements. Through the first six months of 2014, the actual allocation of net proceeds on general working capital purposes and general and administrative expenses was more than the original estimated allocation of the December Offering and May Offering by approximately $250,000 driven primarily by investor relations costs and professional expenses associated with capital markets transactions, including the application to register the Common Shares with the SEC.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as agents to offer • Units, in the case of the Minimum Offering, and • Units, in the case of the Maximum Offering, at the Offering Price in the provinces of Alberta, British Columbia, Manitoba and Ontario, and such other jurisdictions outside of Canada, on an exempt basis, as the Agents and the Company may agree, on a "best 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 Agents by Cassels Brock & Blackwell LLP.

The Offering Price was determined by negotiation between the Company and the Agents, in the context of the market.

The obligations of the Agents under the Agency Agreement may be terminated at any time in the Agents' 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 Agents have agreed to use its best efforts to sell the Units, the Agents are not obligated to purchase Units that are not sold. Under the Agency Agreement, the Company has agreed to pay the Agents a cash commission equal to 7.5% of the gross proceeds of the Offering being an aggregate fee of $225,000 in the case of the Minimum Offering and $450,000 in the case of the Maximum Offering. As additional compensation, the Company has agreed to grant the Compensation Options to the Agents to acquire that number of Compensation Option Shares which is equal to 7.5% of the aggregate number of Units sold pursuant to the Offering, including any Units sold pursuant to the exercise of the Over-Allotment Option, being an aggregate of ● Units in the case of the Minimum Offering and ● Units in the case of the Maximum Offering (assuming the exercise in full of the Over-Allotment Option) at the price of $● per share for a period of ● months after the date of issue. The Company has also agreed to indemnify the Agents and their respective 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 Agents may be required to make in respect thereto. The Agents have 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 Agents out of the Agents' Fee payable to such Agent.

The Company has granted the Agents the Over-Allotment Option, exercisable in whole or in part at any time prior to 5:00 p.m. (Toronto time) on the 30th day following the Closing Date, to increase the number of Units offered hereunder by up to 15% of the Maximum Offering, or ● Units. If the Over-Allotment Option is exercised in full under the Maximum Offering, the price to the public, the Agents' Fee, and the

net proceeds to the Company (before deducting expenses of the Offering, estimated to be $275,000) will be $6,900,000, $517,500 and $6,382,500, respectively. A purchaser who acquires Common Shares and Warrants comprising the Units forming part of the Over-Allotment Option acquires those Units under this Prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares and Warrants comprising the Units issuable upon exercise of the Over-Allotment Option.

The Company has been advised by the Agents that, in connection with the Offering, the Agents may effect 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 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. Provided that the Minimum Offering has been achieved, it is expected that initial closing of the Offering will take place on the Closing Date or such other date as may be agreed upon by the Company and the Agents. Until such time as a closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held in trust, pending closing of the Minimum Offering. 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 Lead Agent pending receipt of subscriptions of the Minimum Offering. If subscriptions for the Minimum Offering 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, unless each of the subscribers who subscribed for the Units within such 90 day period has consented to the continuation of the Offering. Should Closing occur in respect of the Minimum Offering, one or more additional closings may occur until the earlier of the Maximum Offering being subscribed and the expiry of the aforementioned 90 day period.

The Offering will be conducted under the book-based system. A subscriber who purchases Units, other than certain subscribers of the Units in the United States or that were offered the Units in the United States in accordance with the Agency Agreement, if any, 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. Except with respect to certain Units issued to, or for the account or benefit of, persons within the United States who are acquiring Common Shares and Warrants comprising the Units pursuant to a transaction exempt from the registration requirements of the 1933 Act and in compliance with state securities laws, if any, which will be represented by individual certificates with applicable legends, no certificates will be issued for the Common Shares or the Warrants 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, the Company has agreed not to offer, nor to announce the offering of, nor to make any agreement to issue any additional equity or debt securities or securities convertible or exercisable into equity or debt securities of the Company (other than (i) for purposes of the Deferred Share Unit Plan of the Company or the Stock Option Plan of the Company, as each currently exists as at the date of the Agency Agreement, respectively, or (ii) with respect to securities outstanding as at the date hereof that are convertible or exchangeable into shares (or securities convertible into or exchangeable for shares), or (iii) in connection with any acquisition(s)) for a period commencing on the date of the Agency Agreement and expiring 90 days after Closing, without the prior written consent of the Agents, such consent not to be unreasonably withheld.

The Units and the Common Shares and Warrants comprising the Units have not been registered under the 1933 Act or any state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, persons 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 applied to the TSX-V to list the Common Shares forming part of the Units distributed under this Prospectus, and the Warrant Shares and the Compensation Option Shares issuable upon due exercise of the Warrants and the Compensation Options, respectively. Listing of the Common Shares forming part of the Units, the Warrant Shares and the 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 Cassels Brock & Blackwell LLP, counsel to the Agents, 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 deals at arm's length with and is not affiliated with the Company, and will acquire and hold the Common Shares and Warrants comprising the Units (the "**Securities**") as capital property (a "**Holder**"). 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.

This summary is not applicable to a Holder: (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; (iii) that has made a functional currency reporting election under the Tax Act; (iv) that enters into a "derivative forward agreement", within the meaning of the Tax Act in respect of the Common Shares; (v) that is a corporation resident in Canada that is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of Common Shares, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in the Tax Act; or (vi) that is a tax exempt entity under subsection 149(1) of the Tax Act. Such Holders should consult their own tax advisors.

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 counsel's 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 Holder who purchases Securities pursuant to the Offering, and no representations with respect to the income tax consequences to such Holders are made. Consequently, Holders 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 Warrant component comprising each Unit are separate properties and accordingly, Holders will be required to allocate the purchase price paid for each Unit between the Common Share and the Warrant component on a reasonable basis in order to determine their respective costs for purposes of the Tax Act. The amount allocated to a Common Share, must be averaged with the adjusted cost base of all other Common Shares held by the Holder as capital property, to determine the adjusted cost base of all such Common Shares to the Holder.

As determined by the Company, $• of the issue price of each Unit will be allocated as consideration for the issue of each Common Share and $• for the Warrant component 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 Holder's tax treatment.

Exercise of Warrants

A Holder will not realize a gain or loss upon the exercise of a Warrant. The Holder's cost of Common Shares acquired by exercising Warrants will be equal to the aggregate of the Holder's adjusted cost base of the Warrants exercised plus the exercise price paid for the Common Shares. The Holder'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 Holder at the time of acquisition.

Holders Resident in Canada

This section of the summary applies to a Holder who, at all relevant times, is, or is deemed to be, resident in Canada for the purposes of the Tax Act (a "**Resident Holder**").

Certain Resident Holders to whom the Common Shares might not constitute capital property may, in certain circumstances, be entitled to have such Common Shares 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. Holders should consult their own tax advisors regarding this election.

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 Resident Holder who is an individual other than certain trusts will be included in computing the Resident Holder'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 Company designates the dividend as an "eligible dividend" in accordance with the provisions 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 the Common Shares by a Resident Holder 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 $33^{1}/_{3}$% 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. This refundable tax generally will be refunded to a Resident Holder that is a corporation at the rate of $1.00 for every $3.00 of taxable dividends paid to its shareholders whether it is a private corporation or subject corporation.

Disposition of Common Shares and Warrants

A Resident Holder 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 on a purchase of cancellation by the Company, or a Warrant (other than a disposition arising on the exercise or expiry of a Warrant, as 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 Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. If the Resident Holder is a corporation, any capital loss arising on the disposition or deemed disposition of a Common Share may, in certain circumstances, be reduced by the amount of any dividends previously received or deemed to have been previously received on the Common Share. Similar rules may apply to reduce any capital loss in respect of the disposition or deemed disposition of Common Shares held by a trust or partnership of which a corporation, partnership or trust is a member or beneficiary. Resident Holders to whom these rules may be relevant should consult their own tax advisors. 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 Resident Holder 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 Resident Holder 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 Resident Holder 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 Resident Holder who is an individual or trust, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act.

A Resident Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act), may be liable to pay an additional refundable tax of $6^{2}/_{3}$% on its aggregate investment income, which includes amounts in respect of taxable capital gains.

Expiry of Warrants

In the event of the expiry of an unexercised Warrant, the Resident Holder will realize a capital loss equal to the Resident Holder'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.

Holders Not Resident in Canada

The following section applies to subscribers who, at all relevant times, for the purposes of the Tax Act, (i) are not, and are not deemed to be, resident in Canada; and (ii) do not, and are not deemed to, use or hold Common Shares or Warrants in carrying on a business in Canada (a "**Non-Resident Holder"**). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere or an "authorized foreign bank" as defined in the Tax Act. Such Non-Resident Holders should consult their own tax advisors.

Dividends

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder on the Common Shares will generally be subject to Canadian withholding tax at the rate of 25%, subject to reduction under the provisions of an applicable income tax treaty or convention. In the case of a Non-Resident Holder who is a resident of the United States and entitled to benefits under the Canada-United States Income Tax Convention (1980), as amended, the rate of withholding tax on such dividends will generally be reduced to 15%. This rate is further reduced to 5% in the case of a Non-Resident Holder that is the beneficial owner of the dividends and that is a company that owns beneficially at least 10% of the voting stock of the Company.

Dispositions of Common Shares and Warrants

A Non-Resident Holder who disposes of or is deemed to have disposed of a Common Share or a Warrant will not be subject to income tax under the Tax Act in respect of any capital gain realized thereon unless, at the time of disposition, the Common Share or the Warrant, as the case may be, is, or is deemed to be, "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder, and the gain is not exempt from tax pursuant to the terms of an applicable income tax treaty or convention.

Provided the Common Shares are listed on a "designated stock exchange" (which currently includes Tiers 1 and 2 of the TSX-V), the Common Shares and Warrants generally will not constitute taxable Canadian property of a Non-Resident Holder at the time of disposition unless at any time during the 60-month period immediately preceding the disposition: (a) one or any combination of (i) the Non-Resident Holder, (ii) persons with whom the Non-Resident Holder did not deal at arm's length, or (iii) pursuant to the Proposed Amendments, partnerships in which the Non-Resident Holder or a person with whom the Non-Resident Holder did not deal at arm's length held a membership interest directly or indirectly through one or more partnerships, owned 25% or more of the issued shares of any class or series of the capital stock of the Company; and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, "Canadian resource properties" (as defined in the Tax Act), "timber resource properties" (as defined in the Tax Act) or an option in respect of, an interest in, or for civil law a right in, any such property, whether or not such property exists. The Common Shares or Warrants may also be deemed to be taxable Canadian property of a Non-Resident Holder in certain circumstances. In the event that a Common Share or Warrant constitutes taxable Canadian property of a Non-Resident Holder and any capital gain that would be realized on the disposition thereof is not exempt from tax pursuant to the terms of an applicable income tax treaty or convention, the income tax consequences discussed under the headings "Holders Resident in Canada Disposition of Common Shares and Warrants and Taxation of Capital Gains and Capital Losses" would generally apply to the Non-Resident Holder.

Non-Resident Holders whose Common Shares or Warrants are taxable Canadian property should consult their own tax advisors.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Common Shares

The Company is authorized, under its Articles of Incorporation, as amended, to issue an unlimited number of Common Shares. As of the date hereof, a total of 62,025,430 Common Shares were issued and outstanding.

Each Common Share carries one vote at all general meetings of 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 the Company's assets available for distribution to the holders of the Company's shares upon liquidation, dissolution or winding up of the Company. The Common Shares do not have any special liquidation, pre-emptive or conversion rights.

At the Meeting on July 24, 2014, the shareholders of DiaMedica approved a resolution to give the board of directors of DiaMedica the power by resolution to consolidate DiaMedica's share capital on the basis of a ratio of one post-consolidation Common Share for each two to ten outstanding pre-consolidation Common Shares. As at the date hereof, the board of directors of DiaMedica has not exercised the authority given by the shareholders to complete the consolidation of DiaMedica's share capital.

Warrants

Each Warrant will entitle the holder thereof to acquire one Warrant Share at an exercise price of $● per share until 5:00 p.m. (Toronto time) on the Warrant Expiry Date. In the event the volume-weighted average trading price of the Common Shares on the TSX-V exceeds $● 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 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 5:00 p.m. (Toronto time) on 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 Computershare Trust Company of Canada, as trustee and warrant agent thereunder (the "**Trustee**"). The Company will appoint the principal transfer offices of the Trustee in 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 20% 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
September 9, 2013	Exercise of broker warrants[(1)]	1,125	$0.90
September 11, 2013	Exercise of warrants[(2)]	4,100	$1.10
October 15, 2013	Exercise of Stock Options[(3)]	25,000	$0.70
November 11, 2013	Issuance of Stock Options[(4)]	100,000	Nil
December 23, 2013	Issuance of units with each unit comprised of one Common Share and one half of one Common Share Purchase Warrant[(5)]	2,888,910 Common Shares 1,444,455 Warrants	$0.90 per unit
December 23, 2013	Issuance of broker warrants[(5)]	173,335	Nil
January 3, 2014	Issuance of units with each unit comprised of one Common Share and one half of one Common Share Purchase Warrant[(6)]	154,500 Common Shares 77,250 Warrants	$0.90 per unit
January 3, 2014	Issuance of broker warrants[(6)]	9,270	Nil
January 30, 2014	Issuance of units with each unit comprised of one Common Share and one half of one Common Share Purchase Warrant[(7)]	31,000 Common Shares 15,500 Warrants	$0.90 per unit
January 30, 2014	Issuance of broker warrants[(7)]	1,860	Nil
April 7, 2014	Issuance of Stock Options[(4)]	200,000	Nil
May 27, 2014	Issuance of units with each unit comprised of one Common Share and one half of one Common Share Purchase Warrant[(8)]	3,099,200 Common Shares 1,549,600 Warrants	0.90 per unit
May 27, 2014	Issuance of broker warrants[(8)]	216,944	Nil
July 7, 2014	Issuance of Stock Options[(4)]	150,000	Nil

Notes:

(1) Exercised pursuant to the March Offering Broker Warrants (as defined below). Pursuant to a March 22, 2013 offering of units for gross proceeds of $4,600,057, a total of 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.

(2) Exercised in accordance with the terms of a warrant indenture between DiaMedica and CST Trust Company dated March 22, 2013.

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

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

(5) Issued in connection with the December Offering.

(6) Issued in connection with a non-brokered private placement of 154,500 units (with each unit comprised of one common share and one half of one common share purchase warrant) for gross proceeds of $139,050 which closed on January 3, 2014.

(7) Issued in connection with the partial exercise of the over-allotment option in connection with the December Offering.

(8) Issued in connection with the May Offering.

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 aggregate trading volumes of the Common Shares on the TSX-V for the periods indicated.

Month	High	Low	Aggregate Volume
Oct. 1-20, 2014	$0.45	$0.32	302,673
September 2014	$0.60	$0.36	612,796
August 2014	$0.66	$0.49	274,400
July 2014	$0.74	$0.58	378,937
June 2014	$0.80	$0.54	571,067
May 2014	$0.78	$0.60	409,143
April 2014	$0.89	$0.71	415,408
March 2014	$1.10	$0.84	1,191,368
February 2014	$0.94	$0.75	429,462
January 2014	$0.95	$0.80	542,037
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

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, Cassels Brock & Blackwell LLP, and KPMG LLP, Winnipeg, Manitoba ("**KPMG**"). As of the date hereof, the partners and associates of Fillmore Riley LLP, as a group, and the designated professionals of Cassels Brock & Blackwell 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 Units involves a high degree of risk and should be considered speculative. An investment in the Units should only be undertaken by those persons who can afford the total loss of their investment. Potential investors 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.

Phase 2 Results – DM199

In the fourth quarter of 2014, DiaMedica will receive the results of the Phase 2 clinical trial in connection with DM199 as previously discussed herein from the third party that conducted the Phase 2 clinical trial. Such clinical trials have an uncertain outcome, and if such clinical trials do not show the Company's drugs to be sufficiently safe and efficacious, it could negatively impact the Company's development and commercialization and, as a result, materially affect its business, financial condition and results of operations. See "*Risks and Uncertainty – Risks Related to our Business and our Industry – Uncertainties Related to Clinical Trials and Product Development*" in the AIF for the risks associated with clinical trials.

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 Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

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.

AGENT FOR SERVICE OF PROCESS

Each of Rick Pauls, Richard Pilnik and John Savage reside outside of Canada and DiaMedica does not maintain an office in Canada (DiaMedica is currently working out of the office of its wholly owned subsidiary DiaMedica USA) and have therefore appointed the following agent for service of process:

Name of Person or Company	Name and Address of Agent
Rick Pauls, Chief Executive Officer and Director	Fillmore Riley LLP 1700 – 360 Main Street, Winnipeg, Manitoba, Canada R3C 3Z3
Richard Pilnik, Chairman of the Board and Director	
John Savage, Chief Financial Officer	
DiaMedica Inc.	

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, irrespective of the determination at a later date of the purchase price of the securities distributed. 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 adviser.

In an offering of Warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the Warrant is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon the exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

CERTIFICATE OF THE COMPANY

Dated: October 21, 2014

This short form prospectus, together with the documents incorporated in this prospectus 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"	*"John Savage"*
Rick Pauls	John Savage
President & Chief Executive Officer	Chief Financial Officer

On behalf of the Board of Directors of DiaMedica Inc.

"Richard Pilnik"	*"Dawson Reimer"*
Richard Pilnik	Dawson Reimer
Chairman of the Board and Director	Director

CERTIFICATE OF THE AGENTS

Dated: October 21, 2014

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.

MACKIE RESEARCH CAPITAL CORPORATION

"*Paul Rajchgod*"
Paul Rajchgod

JORDAN CAPITAL MARKETS INC.

"*Stephen Mullie*"
Stephen Mullie